

# THE NEPAL HARTERED COUNTANT

Journal of the Institute of Chartered Accountants of Nepal





# जग्गा किन्न वा भैपरी आउने व्यक्तिगत खर्च सिमिलको व्यक्तिगत धितो कर्जाले सजिलै टर्छ ।



सिभिल बैंकको व्यक्तिगत धितो कर्जा लिएर तपाई पनि जग्गा जिमन किन्न, विदेश भ्रमण तथा अन्य भैपरी आउने खर्चहरुको सिजलै व्यवस्था गर्न सक्नु हुनेछ ।

समृद्धिको लागि सिभिल बैंक

थप जानकारीका लागि नजिकैको शाखा कार्यालयमा सम्पर्क गर्नुहोला।

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Thinking forward Moving forward

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# Editorial

Welcome to this edition of the Nepal Chartered Accountant Journal of the Institute of Chartered Accountants of Nepal (ICAN) for the last quarter of April – June 2018 of fiscal year 2017/18. The ICAN feels proud to continue to provide timely and efficient communication avenue with its stakeholders through the publication of this journal. It is available in the website of the Institute also. The Journal tries to publish good quality of articles, literature, current issues, policy analysis etc. relevant to professional interest. The Journal of the Institute also reports to keep the readers abreast of the key affairs and notifications of the Institute. Altogether we published 28 articles in our four issues of the Journal in 2017/18.

The Institute always encourages to its members to contribute their views, knowledge, experience and perspective on the matters pertaining to the profession. These issues brought out some recent development mainly in the areas of accounting, auditing, economy, management, taxation, information technology etc. in the country and global arena. Apart from the Journal the Institute is offering E- News through mail and publishing Khabar Patra (Nepali language). All these communications are the Institute's effective medium in providing information, updating and explaining its members and stakeholders about development at the Institute and new perspectives on national and international best practice in the accounting profession.

The Editorial Board has its editorial policy in order to ensure the quality of the articles. This policy specifies to review sentence structure, grammatical errors, length of article, format, linkage between title and text, referencing etc. to maintain the quality of the article. We also review the articles before publication to avoid the act of copying or borrowing some ones ideas which is protected by copyright laws and without referencing by using plagiarism technique.

The Institute also gives 3 CPE credit hours to the members for each article and letter of appreciation is given to the best article of the year based on the evaluation criteria in the Annual day of the Institute. Each article published in the Journal is paid as remuneration as token of the contribution of author. As you know publication of Journal in hardcopy is costly but many of the corporate sector entities are sponsoring us by providing advertisements which helps meeting the expenses to some extent.

We would like to take this opportunity to thank all the contributors and writers of articles published in all four editions of last year of 7<sup>th</sup> Council of the Institute. We would like to encourage them to continue writing articles for future editions of the journal and at the same time invite others to create an interest in writing articles for the journal. The Editorial Board always welcomes the feedback, comments and suggestions on how to further improve our journal. We also appreciate the business entities that sponsored the Journal by providing advertisements for Journal.





#### Dear Professional Colleagues,

The tenure of the 7<sup>th</sup> Council and my one year term as President of the Institute will come to an end by the mid of July 2018. In this valedictory message as President, I wish to highlight my journey with the Institute. While taking the baton of the Institute, I had promised to initiate some new tasks which I had also outlined in my communication in our Journal of September 2017 issue. I am proud to report that we have accomplished most of those planned activities successfully. Some of the tasks are in the implementation process, will ultimately be addressed and completed in the 8<sup>th</sup> Council i.e. under the suitable guidance and able\ leadership of the next President. I take this opportunity to share the summary of key performance highlights and results accomplished during my Presidential tenure although all happenings of the Institute have been communicated through our Journal, E-News Service and other mediums.

#### Election of 8th Council

I'm glad to inform you that the election of the 8th Council was held successfully in June 2018 and the election of the President and Vice President for 1st term was concluded on 13th July 2018. I heartily congratulate my colleagues CA Jagannath Upadhyay and CA Krishna Prasad Acharya for being elected as the President and Vice President respectively for the first term of 8th Council. I would like to congratulate and welcome newly elected council members 8th Council of the Institute. I am confident that the 8th Council will be able to take our Institute to a new height of excellence and the profession will flourish further. I must thank newly elected President for his pivotal role as my true partner in all measures of the professional strength-building at ICAN during this year as Vice President.

#### International Relation and Global Positioning

Changes in the global arena have resulted in greater need of cooperation and collaboration with international and regional professional accounting organizations with respect to mutual recognition, sharing knowledge, experience and capacity building etc. for the development of the accounting profession in the country.

SAFA Events with International Conferences: Continuing our participation at international and regional sphere, the Institute successfully hosted three (3) SAFA events in August 2017, January-February 2018 and May 2018 in Kathmandu These SAFA events were coincided with Role of Professional Accountants in Economic Development and Sustainability and CFO International Conference themed on Evolving Economic Environment -Challenges & way forward respectively.

CAPA Events with International Conferences: For the first time, the Institute hosted Confederation of Asian and Pacific Accountants (CAPA) events with Annual General Meeting/members meeting and various committee meetings in May 2018 along with a full day International Public Sector Conference on "Public Sector

Financial Management: Enhanced Accountability and Transparency" with PEFA Secretariat in association with CAPA.

It is a great honor for us to host *three* SAFA events in span of nine months and a *historic* CAPA event in Nepal. All these events have certainly proved ICAN's active role and presence in international arena and enhanced the reputation of ICAN.I appreciate our secretariat who worked very hard organizing these events.

#### MOUs and Participation in International events

Our active participation in IFAC, CAPA and SAFA events that offered opportunities for bilateral meeting with the officials and delegates of various organization have helped in fresh impetus to bilateral and multilateral cooperation and explore new opportunities with the international, regional PAOs.

MOU with ICAI: Memorandum of Understanding with The Institute of Chartered Accountants of India was signed in August 2017 for strengthening relationship and mutual cooperation in the presence of Prime Ministers of Nepal and India. Mutual Recognition with ICAI has been in progress for which course mapping has already been completed.

MOU with CIFPA: Continuing our efforts of opening new professional avenues for members and strengthening public financial management in Nepal, we have entered into a Memorandum of Understanding with the Chartered Institute of Public Finance and Accountancy (CIPFA), an UK based only professional accountancy body in the world exclusively dedicated to Public Finance in January 2018. This arrangement allows CA members and B&C class RA members of the Institute for membership of CIFPA.

MRA with CAANZ: Mutual Recognition Agreement with Chartered Accountants Australia and New Zealand was signed in March 2018. This reciprocal membership arrangement with global accounting body has certainly proved our standings in the international area.

Strategic Meetings with AICPA and ICAEW: We have had meetings with Association of International Certified Professional Accountants - USA for possible cooperation in accounting profession and assisting members residing in the USA. Similarly, several meetings have been held with Institute of Chartered Accountants in England and Wales on twinning arrangements, quality assurance and other technical cooperation between two institutes.

SAFA Quiz and Elocution Contest: For the first time, the Institute hosted SAFA Quiz and Elocution Contest

on 30 January 2018 in Kathmandu in the presence of delegates from SAFA, IFAC, IAESB, CAPA and other PAOs. Students from SAFA member bodies participated in the Contest. I'm pleased to inform you that students from ICAN came first in SAFA Quiz Contest.

SAFA Best Presented Annual Reports Awards and SAARC Anniversary for Corporate Governance Disclosure Ceremony, 2016: As part of SAFA events, the Institute hosted SAFA Best Presented Annual Reports Awards and SAARC Anniversary for Corporate Governance Disclosure Ceremony, 2016 on 31st January 2018 in Kathmandu.

Overseas Chapters: It is a matter of pride that after continued efforts to mark international presence of ICAN brand and to support our members residing overseas, the Institute has opened its *First* Foreign Chapter in Australia and Second in United State of America in March 2018. The main purpose of such Chapter is to facilitate members by arranging regular meetings, exchange of information, acting as a bridge between the members and the Institute, conducting CPD and other matters of professional interest etc.

#### Institutional Development and Sustainability

Capacity building is a key to the growth and sustainability of every organization without which no organization will be able to discharge its functions effectively. During my tenure we tried to offer the best possible services to the members, students and stakeholders by strengthening the institute's administrative mechanism.

Appointment of ED and Technical Staff: This year the Council focused in building its executive team at the Institute. New Executive Director was appointed in September 2018 for a term of four years. Similarly the Institute appointed three Chartered Accountants at a senior management level in October 2018. These appointments have been useful in improving internal governance and technical capacity of the Institute.

Amendment in Rules: The Rules of the Institute has been amended twice. Rule 25(1) related to number of Article Trainees, Rule 53 relating to threshold of audit amount and Rule 65(ka) to include Vice President as well for making his COP inactive (on hold) during his tenure.

Improvement in Institute facilities: This year few facilities at the Institute have been improved. To name the few: the main entrance gate has been changed, installation of ATM machine at the main gate, installing new server for IT and back up, replacing the signage of the institute, refurbishing student library

and fence and parking area. Refurbishment of ground floor with new look has been approved but could not be completed.

Promoting ICAN Brand: Our utmost focus during the year has been promoting the ICAN brand. Accountancy day celebration, walkathon, education fair, various programs at different locations of the country have been organized. With the support of local government, road in front of our head office (from Kanibahal Sinchahity to Ring Road) has been named as ICAN Marg. Facilities at the Head Office building have been redesigned to accommodate more services and give a better look with the new signage of the Institute. Promoting ICAN through an advertisement (TVC) has been initiated.

Online Payment Facility introduced: ICAN has introduced online payment facility for making payment by members to renew their membership without visiting ICAN. This online payment facility has extended the scope of making payment of dues online by the members whether residing in any part of the Country or Abroad. The facility of online payment of fees will be available to students as well.

ICAN Website, ICAN App, Knowledge Portal and Research Initiative: ICAN Website has been redesigned to make it more users friendly and accommodate more information in it for the benefit of members, students and others. Launching the ICAN App and ICAN knowledge Portal has been at the final stage..

#### Partner in Nation Building / Creating Value

MOU with PEFA Secretariat/ Government of Nepal: Our continued efforts to make ICAN as part of Nepal's Public Financial Management Reform Strategy/ Program (PFMRP)-II under multi donor trust fund (MDTF) to strengthen public financial management in Nepal, have been finally acknowledged. I'm pleased to inform you that I have signed MOU with PEFA Secretariat /GoN on 15th July 2018 for the support of NPR 75.50 million under various activities including implementation of NFRS, revision of CA syllabus, strengthening ICAN including quality assurance and monitoring of profession, support to revise academic curriculum of university and higher secondary level to incorporate NFRS NSA etc and support for PFM training and qualifications. I am confident that this initiative will take the Institute and contribution of accounting profession to new heights and give opportunity to work closely with government authorities and universities.

Strengthening relationship with Government Authorities: Institute tried its best to engage more and maintain strong ties with Government authorities,

regulators such as OAG/N, MOF, FCGO, IRD, CRO, NRB, SEBON, IB along with circles of other stakeholders. In this connection, the Institute paid courtesy visits, held various meetings and attended the programs organized by these organizations as well as meeting with universities and donor partners. Activities and roles of the Institute were briefed and discussed various matters encompassed with the accounting profession.

Institute has been very active in providing inputs in relation to fiscal, taxation and financial management matters. PFM Unit has been established within the institute to focus on PFM related activities.

Public Financial Management (PFM) related activities: Strengthening public financial management has been one of the priorities of the Government. The Institute organized two events on public financial management jointly with PEFA Secretariat in February 2018 and May 2018. PFM conference was inaugurated by Hon'ble Finance Minister and deliberated / attended by Secretaries and senior officials of the Government. As the country has moved to Federal structure, professionals have more roles to play. This type of programs has helped enhancing the role of Professionals in public financial management. These programs were supported by the World Bank/Nepal.

Meeting with Inland Revenue Department (IRD): Several meetings with Director General and senior officials of IRD have held to discuss the matters like data sharing related to renewal of audit licenses and audit threshold of ICAN members, compulsory signature of auditor in the Tax Audit Return Form, VAT Return lodgment through our members, attestation of Excise and Custom Certificate by ICAN members etc.

Monitoring the profession: Monitoring the profession has been another focus of the Institute. Several monitoring and awareness programs on the professional standards and ethics, members' responsibilities, expectations from the members etc have been organized throughout the country. Practice Monitoring Cell has been set up and various actions have been taken to control unauthorized and malpractices from non members.

#### **Quality Assurance Review**

Quality Assurance Board produces Guidelines and Manual: The Quality Assurance Board of the Institute has released Quality Assurance Review Guidelines and Manuals for reviewing and monitoring of audit practices conducted by members. This guideline was long awaited for carrying out QA review. Institute has also established a separate Practice Monitoring Unit for monitoring purposes. It is expected that this initiative

will not only assist the Board by providing proper procedures but also will be basis for sustainability of quality reviews of profession.

Quality Assurance Interaction Programs: The Quality Assurance Board (QAB) organized several interaction programs on Quality Assurance Review (QAR) with regulatory /government authorities, Past presidents and practicing units to share the initiatives, developments in quality review process and obtain the feedback and suggestions.

Quality Assurance Review of listed Company auditors: In order to make QAR gradually mandatory, the Board has developed policy and procedure to this effect reviewing audit firm of listed companies in first stage, thereby extending to auditors of public interest entities and all other auditors. This initiative will help maintaining the service quality of the members and further enhance the public confidence on the accounting profession.

Renewal of MOU with ADB: The Institute has renewed MoU with Asian Development Bank for the support extended on Audit Quality Assurance System till June 2019 with the recommendation ICAEW.

#### Members Services and Professional Development

As part of Institute's commitment to members, the Institute has been constantly seeking ways to improve its services to support its members.

New Members Induction Ceremony: I am happy to inform that the number of membership of the Institute has been growing steadily. During 2017/18, 172 new memberships have been granted pursuant to Section 16(3) of Nepal Chartered Accountants Act, 1997. From this year, we have introduced a system of recognizing new members. Accordingly Induction Ceremony was held in May 2018 to welcome new members of the Institute.

Launching of E-News: A new initiative was taken, by launching the "E-News", a fortnightly (1st day of the Nepalese and Gregorian calendar month) dispatch of news of the Institute through e-mail to its members, students and other stakeholders effective from 1st January 2018. E-News initiatives is to serve an overview of institute's activities and timely update members and students on recent policy changes as well as developments in the field of Auditing, Accounting, Professional Standards, Legislation and the Economy.

Branch Audit of Commercial Banks and attestation services: The concept of mandatory branch audit of banks has been raised by the Institute for last several years. Continuing the efforts of the Institute, this year again, the Institute had strongly raised these matters with Nepal Rastra Bank. The suggestions have been taken positively and following provisions have been incorporated in the Monetary Policy - 2075/76 that relates to the accounting profession:

- Audit of bigger branches of commercial banks, identified based on the deposit liabilities, credit lending and assets
- Certification of Current Assets and Liabilities of the borrower by independent third party for the loans of commercial overdraft nature above NRs 250 million

This will further create new avenues to our members by widening their scope which will grow with pace of growth in banking industry and ultimately enhance public faith in the profession. The Institute will coordinate with Nepal Rastra Bank to help preparing detailed guidelines on Audit of Bank Branches and other provisions relating to the accounting profession.

Professional Development Activities: Institute has maintained its best efforts to facilitate and promote the professional development of members for effectively manage key areas of business, controls, CPEs, financial and regulatory obligations etc. In this connection, workshops, seminars and CPE programs were executed. However, implementation of webinar options is in progress despite our efforts of its launching. I hope new leadership will give continuity to offer this service to the members.

Capacity Development Training: Various capacity development trainings on Data Analytics, NFRS for SMEs etc were conducted in various locations of the country through RA Members Capacity Development Committee. Several CPE programs have been conducted throughout the year as per the CPE calendar published.

Member Benefit Program: Institute has launched new service as "Member Benefit Program" as an affinity program offered to the members. Under this program, the member's benefits are issued and provided by our third -party service provider and not by the Institute. The service provider will offer a special rate or type of service to our members with an added advantage and matter of prestigious recognition to our members which may not be available to general public. In this connection, the Institute has entered into an agreement with Nabil Bank Limited for providing

Credit Card service offer to ICAN members at no annual subscription where conditions are met.

**Benevolent Fund activated:** Long awaited need of Benevolent Fund for members has been made operative by contributing Rs.0.5 million this year by opening a bank account for the welfare of the members. I appeal our members to voluntarily to contribute to the Fund for the cause of fraternity.

Nepal Standard on Auditing 2018 pronounced: The Institute has pronounced new Nepal Standards on Auditing (NSA) 2018 as developed by Auditing Standard Board of Nepal which is prepared based on the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements (2016-17 Editions) of International Auditing and Assurance Standards Board (IAASB). These standards shall be effective from 17 July 2019 except NSA 701.

Code of Ethics and Guidelines: We have always maintained and taken initiatives that help to better regulate the profession so as to protect the public interest as well as uphold public trust towards our profession. Accordingly, institute has revised Code of Ethics for Professional Accountants and issued specific three guidelines as supplementary to Code of Ethics to be made effective from 17 July 2018. These guidelines are Guidelines on Marketing Professional Services by Professional Accountants in Public Practice, Guidelines on Networks and Network Firms and Guidelines on Custody of Clients Money/Assets.

#### Initiative for Academic Development

New Students Orientation program: As part of our new initiative, Institute has launched new program called "new students orientation program" for newly enrolled CAP I students to bring together to know about the institute, facilities available, CA program and to connect each other. This program has been very much effective and successful to achieve the desired outcome and promote the brand ICAN. These programs have been organized in Kathmandu as well as in branches.

Revision of CA Syllabus: As part of our plan to redesign, strengthen the training and professional qualification (PQ) to produce high quality accountants with skills and knowledge which will have wider international recognition, I am happy to inform the Council has approved new CA Syllabus for all three levels based on the recommendations of ICAEW under the twinning arrangement with them. The 16-subjects syllabus for all three levels namely Foundation, Application and Advisory levels has been approved by the Council in

June 2018. This milestone decision for new syllabus will be implemented by the Institute in few months time complying with financial rules of the Institute. We are hopeful the new syllabus will be available for students of Foundation level from June 2019.

Career counseling to Students: Various career counseling programs have been organized throughout the country including partnership with *Nepal Spell Bee* to reach students of year 12 across the country.

Scholarships to Merit holder Students: The Institute awards various Scholarships to merit holders and students from weaker sections every year on the basis of approved criteria. *This year* the scholarship criteria have been revised by setting aside 20% scholarship to merit holders in order to attract meritorious students. Likewise fee concession/exemption for different categories of students has also been revised.

Grand CA Education Fair: The Institute in association with coaching centers accredited by it organized a Grand CA Education Fair on 14 May 2018 in Kathmandu aiming to motivate prospective students about Chartered Accountancy (CA) profession and to show how CA profession can be a great career path and to be a successful business leader. Detailed information and explanation about the courses, entry requirements, admission procedures, scholarships, national and international career opportunities available to CA were imparted to the students and parents.

Accountancy Education Day Celebration: For the first time, the Institute marked "Accountancy Education Day" on 10 November 2017 by organizing different events and activities (including interaction program, walkathon program) in Kathmandu and at its Branches in order to widely spread a message about the significance of accountancy education.

**Interaction Program on CA Education:** The Institute organized an interaction program on 27 April 2018 with principals and account faculties of over 50 schools and colleges to impart information on CA education.

ICAN Quiz and Elocution Contest: In order to motivate students towards the focused study of financial reporting standards and to develop the future speakers for the profession, for the first time, the Institute organized ICAN Quiz and Elocution Contest, amongst the students of CAP III level on 12<sup>th</sup> January, 2018 in Kathmandu. National winners represented the Institute in SAFA Quiz and Elocution contest held on 30<sup>th</sup> January 2018.

ICAN Commerce Olympiad: As a new initiative, the Institute organized ICAN Commerce Olympiad, a nationwide competition amongst the students of secondary level and higher secondary level on 10th January, 2018. This test measures the concept understanding ability of students and focuses on commerce talent search and interest towards commerce education amongst the young students.

International CA Students' Conference: The Institute supported 1st International CA Students Conference organized by Nepal Chartered Accountants Students Association in Kathmandu on March 17, 2018 with the theme "Lead the Profession, Lead the Nation".

Students' facilities: The Institute has upgraded existing Library to make it more convenient and modern. Information Technology (IT) training facilities have been installed at the institute to provide mandatory IT training at the Institute premise. Information /help desk facility for students has been arranged along with the career counseling. Online payment facility has been introduced for payment of fees and charges.

#### Acknowledgement

As you are aware, as per the Rule/Decision of the Institute, I became the first President to surrender my COP that forbade me from engaging as an audit practitioner. As per the spirit of this provision to

engage comprehensively in the affairs of the Institute, I tried utmost and with all sincerity to make positive contribution in betterment of the Institute. In-spite of my best efforts, some tasks could not be accomplished as expected mainly due to limited time period. I believe that such matters will be taken up by new Council.

Itake this opportunity to express my thanks to the Council members and members of the various committees for being with me at the fore of the profession with their vision and ideas in all our initiatives. I must thank our past Presidents of the Institute for readily coming forward whenever requested and for their suggestions and advice. Let me also thank all members, students, Government and regulating authorities as well as entire stakeholders for their continued support. Last but not the least; I wish to thank management team and all employees of the Institute, led by Executive Director CA Sanjay Sinha for their sincerity, efforts and contributions.

Although this is my last formal Page as President of the Institute, I will keep contributing to the Institute as a proactive member of the profession and will remain dedicated to the welfare of our profession.

Best wishes,

CA. Prakash Jung Thapa
President

# Profile of Newly Elected President & Vice President



Newly Elected
President

CA. Jagannath Upadhyay (Niraula)



Newly E<mark>le</mark>cted Vice Pre<mark>s</mark>ident CA. Krishna Pr<mark>asad Acharya</mark>

Jagannath Upadhyay is a practicing chartered accountant for the last 2 decades in Nepal. He has been elected to the Council member of Institute of Chartered Accountants of Nepal (ICAN) for the year 2015/16-2017/18 and 2018/19-2020/21. He had performed his responsibility as a Vice President of the Institute for a year 2017/18. Currently he is an elected President of ICAN. He has been contributing to the CA education in Nepal continuously and carries a vast experience of teaching accountancy to the different levels of Chartered Accountancy Course & training to various accountants, Government and non-Government organizations. He is a Board Member of SEBON.

As a Council Member, he has exceptionally served the ICAN and the accountancy profession as Chairman of the Disciplinary Committee, Audit Committee and Monitoring Committee. He has been also appointed as a member of Quality Assurance Board of Nepal for 2015/16-2017/18. Besides, CA. Upadhyay, has also effectively served the cause of accountancy profession as a member of Ethical Committee, Disciplinary Committee, Capacity Development Committee and Editorial Committee of ICAN.

CA. Krishna Prasad Acharya is an elected Council Member for the year 2018/19 -2020/21 and elected Vice President of the Institute for the year 2018/19. He was also a council member for the year 2009/12. He has obtained CA degree from the Institute of Chartered Accountants of India (ICAI) in 2003 and has been a member of the Institute of Chartered Accountants of Nepal (ICAN) from 2003. He holds Masters of Philosophy in Management. He has performed his responsibility as member of Disciplinary Committee and Audit Committee of ICAN in 2009/10. Currently he is a member of Quality Assurance Board.

He was an Administrator/CEO of Employees Provident Fund from 2012 to 2017. Before this he was appointed as an Administrator and occupied the different senior positions in Employees Provident Fund. Furthermore, he was a CEO of United Insurance Co Ltd. and General Manager/CEO at NIDC (Financial Institutions) Ltd. before he joined in the job he was in audit practice. He has also served as Board member in different organizations.



#### THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL

#### Conference on

## "Governance for National Prosperity"

Time	Program	Resource Person	
9:00 am- 9:30 am	Registration and Tea / Coffee		
9:30 am-10:00 am	Opening Remarks by CA. Prakash Jung Thapa, President, ICAN		
	First Session	n	
10:00 am-11:30 am	Non-Compliance with Laws and Regulations (NOCLAR) - Ethical Guidelines for Professional Accountants	Chairman: CA. K. K. Singh, Past President, ICAN Paper Presenter: CA. Nanda Kishor Sharma, Former Chairman Auditing Standards Board, Nepa	
Second Session			
11:30 am-01:00 pm	Objectives and Priorities of Federal Budget, 2075/076	Chairman: Mr. Sishir Dhungana, Revenue Secretary, Ministry of Finance Paper Presenter: CA. Sudarshan Raj Pandey, Past President, ICAN	
1 pm-1:45 pm Lunch			
	Third Session (Panel D	Discussion)	
1:45 pm-3:15 pm	Corporate Governance : Challenges & Way Forward	Chairman/Moderator: CA. Prakash Jung Thapa, President, ICAN Panelists: • Mr. Chintamani Siwakoti, Dy Governor, Nepal Rastra Bank • Dr. Rewat Bahadur Karki, Chairman, Securities Board of Nepal • Mr. Chiranjibi Chapagain, Chairman, Insurance Board	
3:15 pm- 3:30 pm			
3:30 pm- 5:30 pm	National Best Presented Annual Reports (F/y 2016/17) Award Distribution Ceremony Oath Taking Ceremony - Newly Elected Council Members, President and Vice-President		
6:00 pm onwards	Dinner with C	ultural Program	

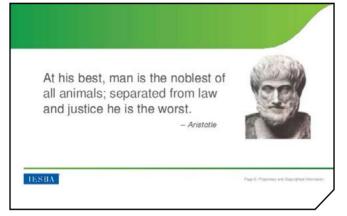
# NOCLAR - Ethical Guidelines for Professional Accountants

CA. Nanda Kishor Sharma



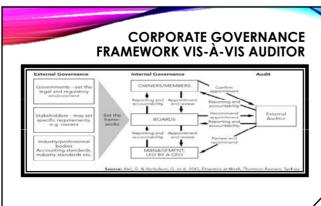
#### **DISCLAIMER & ACKNOWLEDGEMENT**

- •The slides are not intended to be exhaustive and reference to the IESBA Code itself should always be made.
- •This set of slides does not amend or override the IESBA Code, the text of which alone is authoritative.
- Reference was made to the materials published by IFAC/IESBA and other professional bodies while preparing these slides.



#### **TOPICS**

- •Corporate Governance Framework vis-àvis Auditor
- •I/NSA 250
- •GENESIS
- •HISTORY
- •NOCLAR STANDARDS



#### I/NSA 250: CONTEXT

- The effect on FSs of laws and regulations varies considerably.
- Those laws and regulations to which an entity is subject constitute the legal and regulatory framework.
- Some have a direct effect on the FSs in that they determine the reported amounts and disclosures in an entity's FSs (e.g. BFIs, Tax, etc.).
- Others are to be complied with by management or set the provisions under which the entity is allowed to conduct its business but do not have a direct effect on an entity's FSs (e.g. license terms, environmental safety).

#### I/NSA 250: REQUIREMENT

- Management, with the oversight of TCWG, is responsible to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's FSs.
- On an audit of FSs, the auditor takes into account the applicable legal and regulatory framework in determining material misstatement of the FSs due to non-compliance with laws and regulations.

#### I/NSA 250: AUDITOR'S RESPONSIBILITY

- Direct: to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations.
- Indirect: to undertake specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the FSs or to avoid material penalties
- Maintain professional skepticism throughout the audit, may have additional responsibilities under law, regulation or relevant ethical requirements
- Responding to/communicating identified or suspected non-compliance
- Documentation of identified or suspected non-compliance





#### HISTORY: THE IESBA

- Noted that the professional accountant has a prima facie ethical responsibility not to turn a blind eye to the matter and recognized that such a situation could often be difficult and stressful for the PA.
- Approved a project in 2010 to develop enhancements to the IESBA Code to help guide PA in dealing with circumstances when NOCLAR is identified or suspected, and in deciding how best to act in the public interest in these circumstances.



#### **NOCLAR STANDARDS**



Standard unanimously approved April 2016
• Effective July 15, 2017

• The IAASB believes that it is in the public interest that its International Standards and the IESBA Code are able to operate mutually and without confusion due to the many jurisdictions that have adopted both.

#### THE IESBA: RELEVANT SECTION

Section 225 Responding to Non-Compliance with Laws and Regulations
Section 360 Responding to Non-Compliance with Laws and Regulations
Consequential and Conforming Changes to Other Sections of the Code.

Section 100
Section 140
Section 150
Section 210
Section 270

#### THE IESBA: RELEVANT SECTION

Section 225 Responding to Non-Compliance with Laws and Regulations
Section 360 Responding to Non-Compliance with Laws and Regulations
Consequential and Conforming Changes to Other Sections of the Code.
Section 100.....

Section	100
Section	140
Section	150
	210
Section	270

#### **NOCLAR DEFINITION**

- Any act of omission or commission, intentional or unintentional, committed by a client or employer, including by management or by others working for or under the direction of the client or employer, which is contrary to prevailing laws or regulations.
- •The laws and regulations covered, violations of which are acts of NOCLAR, are those that directly affect the client's or the employing organization's FSs or its business in a material or fundamental way.

#### **ROLE V/S CONFIDENTIALITY**

- When should a PA override duty of confidentiality and disclose NOCLAR to an appropriate authority?
- •Balances acting in public interest v/s principle of confidentiality.





#### **REQUIRED OF AUDITORS**

- Raise the identified or suspected NOCLAR with management/TCWG
- Fulfill professional responsibilities
- Determine if further action is needed
- Imminent breach
- Document, among other matters, courses of action considered, judgments made, and decisions taken

#### **REQUIRED OF SENIOR-LEVEL PAIBS**

- •Overarching expectations (A renewed emphasis on tone at the top)
- Fulfill professional responsibilities
- •Determine if further action is needed
- •Imminent breach
- Documentation is encouraged

#### REQUIRED OF OTHER PAS IN PUBLIC PRACTICE AND OTHER PAIBS

- PAs in public practice other than auditors (communication with group/network/audit engagement partner)
- Consider whether further action is needed in the public interest
- Disclosing the matter to an appropriate authority even if not required by law
- $\bullet$  Withdrawing from the engagement and client relationship
- In exceptional circumstances, may immediately disclose the matter to an appropriate authority if imminent breach of a law or regulation that would cause substantial harm to stakeholders
- Escalate the identified or suspected NOCLAR to the immediate superior or next higher level of authority; or
- Use established internal whistle-blowing mechanism
- Documentation is encouraged for both PAs in public practice other than auditors, and PAIBs who are not senior PAIBs

#### FRAMEWORK OBJECTIVES -ALL PAS (1)

- •Comply with fundamental principles:
  - -Integrity
  - -Professional behavior



#### FRAMEWORK OBJECTIVES -ALL PAS (2)

- Through alerting management/ TCWG, seek to:
- Enable them rectify, remediate or Mitigate consequences of NOCLAR, or
- Deter commission of NOCLAR
- Take such further action as may be appropriate in public interest



#### PROTECTION FOR STAKEHOLDERS AND GENERAL PUBLIC

PAs to take a proactive role in responding to NOCLAR, which can lead to:

- an earlier response by management or TCWG, thereby mitigating adverse consequences for stakeholders and the general public
- deterring potential NOCLAR, thereby helping to lower rates of NOCLAR for the greater benefit of business and society
- timelier intervention from public authorities on reports of potential NOCLAR from PAs in appropriate circumstances, thereby mitigating any adverse consequences for stakeholders and the general public

#### **SCOPE - ALL PAS**

- Laws and regulations with direct effect on material amounts/disclosures in the financial statements
- Other laws and regulations that may be fundamental to entity's business and operations
- Personal misconduct and clearly inconsequential matters excluded

## ENHANCED ROLE AND VALUE OF THE ACCOUNTANCY PROFESSION

- Enables the profession to play a greater role in the fight against significant NOCLAR, such as financial fraud, money laundering, and corruption
- •Enhances the profession's reputation as a guardrail for trustworthy organizations and a healthy global financial system

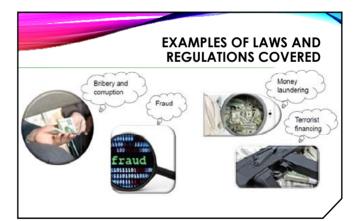
#### **RESPONSES**

- Assess appropriateness of responseDetermine if further action needed
- Must apply third party test

in public interest

- Disclose to appropriate authority
  (even if not required by law or regulation)
   Withdraw from engagement and client
- Withdraw from engagement and clie relationship (where permitted by law or regulation)
- communicate it to group engagement Partner OR vice versa





# EXAMPLES OF LAWS AND REGULATIONS COVERED Financial products and services 23 MILLION POLICIES MILLION POLICIES Tax laws Tax laws

#### **DOCUMENTATION**

- Required for auditors
- How management/TCWG have responded to the matter
- Courses of action considered, judgments made and decisions taken
- How responsibility to act in public interest has been met
- Encouraged for other PAs



#### **CONCLUSION**

It provides proportional requirements for members to follow depending on the professional activity or service they provide, and clarifies that withdrawing from the engagement and professional relationship or resigning from the employing organisation are not substitutes for the other actions that are required under NOCLAR (paras 225.30, 360.26).

#### CONCLUSION

Auditors shall endeavor to carry forward the legacy of Trust, Excellence and Integrity.



# मूल प्रशिक्षकले एक पटकमा राख्न पाउने पंजीकृत परीक्षार्थीको संख्या सम्बन्धी सूचना

नेपाल सरकार, (मा. मन्त्रीस्तर) को मिति २०७४।१२।१९ गतेको निर्णयानुसार नेपाल चार्टर्ड एकाउन्टेन्ट्स नियमावली, २०६१ मा भएको क्रमशः सातौं संशोधनबाट पंजीकृत परीक्षार्थी सम्बन्धी संशोधन भएको छ। नियम २५(१) ले तोके अनुसार मूल प्रशिक्षकले एक पटकमा राख्न पाउने पंजीकृत परीक्षार्थीको संख्या २०७४।१२।१९ गते देखिनै लागु हुने गरी निम्नानुसार संशोधन भएकोले सम्बन्धित सबैको जानकारीको लागि यो सूचना प्रकाशित गरिएको छ।

क) ३ बर्ष अवधि पूरा भएकोमा ३ जनासम्म

ख) ५ वर्ष अवधि परा भएकोमा ५ जनासम्म

ग) ७ वर्ष अवधि पूरा भएकोमा ७ जनासम्म

घ) १० वर्ष अवधि परा भएकोमा १० जनासम्म

ङ) १५ वर्ष अवधि पूरा भएकोमा १२ जनासम्म

## Federal Budget 2075/76 Objectives and **Priorities**

**Total** 

CA. Sudarshan Raj Pandey

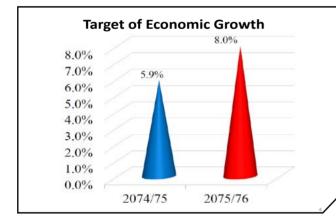
#### Objective of Federal Budget, 2075/76

- to end extreme poverty, impoverishment and backwardness
- to achieve rapid economic and human development
- to build a prosperous, strong, self-reliant and socialismoriented economy

#### Priorities of Federal Budget, 2075/76

- Promotion of sectors that can create jobs and employment opportunities,
- Accelerated human development,
- Use of capital/technology to achieve sustainable, broad, equitable and high economic growth,
- Development of basic and modern physical infrastructure, to accelerate the pace of building modern Nepal,
- Reconstruction of structures damaged by earthquakes and floods, and

**Expenditure Plan** 



#### NRs. Billion **Particulars** 75/76 74/75 Application of Fund 1. Current Expenditure 845.45 803.54 314.00 2. Capital Expenditure

#### 335.17 3. Financial Management 155.72 140.28 **Total** 1,315.17 1,278.99 **Source of Fund** 1. Revenue 831.32 730.06 58.82 87.16 2. Foreign Grant 425.03 461.77 3. Borrowings 1,315.17 1,278.99

#### **Expenditure Plan and Economic Growth Target** Mismatch???

- Federal Budget Plans for NRs. 1,315.17 Billions to spend in FY 2075/76 compared to NRs. 1,278.99 Billions in previous year,
- Target of economic growth of the current budget is 8.0% compared to 5.9% of previous budget,

How the gap is covered?

- · Expenditure Plan of Provincial Government including their own resources
- · Expenditure Plan of Local Government including their own resources

Important Features of Finance Bill, 2075

#### Abolitions of Health Service Charges and Exemption of Value Added Tax in Health Services

- The Government had abolished Health Service Charges (HSC) on health services provided in Nepal for FY 2075/76. HSC at the rate of 5% was applicable in FY 2074/75.
- Similarly Health Service is included in Annexure 1 (VAT exempt items), group 5 (Sec 27 of Finance Bill).
- Both VAT and HSC are exempt in health services from FY 2075/76 until further amendment. Service is included in Annexure 1 of VAT Act, which shall come into effect on 15<sup>th</sup> of Jestah 2075 (see note below)

#### Note:

 Health Service Charge for the FY 2074/75 is chargeable @5% as per Finance Act 2074 (2017 AD) and hence health service provider not registered for VAT should continue collecting HSC @ 5% till Ashadend 2075 (July 16, 2018).

#### **Introduction of Health Hazard Tax**

 The Government had introduced Health Hazard Tax (HHT) at the rate of Rs. 0.25 per stick of cigarette, bindi, cigar (imported or locally produced) and Rs. 25 per KG of kahanesurti, khaini, autkha, paanmasala with effect from Jestha 15, 2075

#### **Introduction of Road Construction Charges:**

- Road Construction Charges (upto 10% value in the case of fourwheeler and upto Rs. 200,000 in the case of two-wheeler) is introduced, which collected at the time of registration of vehicle.
- The charge is applicable from FY 2075/76.

#### **Changes in Telecommunication Service Charge:**

- Telecommunication Service Charge (TSC) is increased from 11% to 13% for FY 2075/76.
- Waiver of TSC on data service (internet service) available till FY 2074/75 has been abolished from FY 2075/76.

#### Waiver of Additional Charges, Charges, Interest and Penalty (For Natural Person)

- Natural person and failed to submit tax return of FY 2072/73 and/or returns prior to this, submits tax return for the FY 2071/72 and FY 2072/73 along with applicable tax amount along with applicable tax within Poush-end 2075 (mid-January 2019) will get waiver of charges and interest thereon.
- There shall be no demand for tax, charges and interest related to earlier year(s) if the natural person complied the above provision.
- Taxes, charges and interest shall be collected from the person not complying the above provision.

#### Note:

 This facility is available only to the natural person already having PAN

#### Special Provision of Waiver of VAT for Canteen & Hostel Operated by Educational Institute & Brokerage Service Charges of Stock Broker

 Canteen, hostel services operated by private educational institutions for the purpose of such institutions and VAT on brokerage service charge of stock broker related to earlier years and unpaid VAT and penalty, additional charges and interest thereon assessed by the concerned tax office is waived with immediate effect (15<sup>th</sup> Jestha 2075).

#### Note:

- Canteen and hostel facility being operated by other person are subject to VAT.
- Assessed but unpaid VAT and penalty, additional charges and interest thereon is waived but if the amount is already paid, the same will not be refunded.

#### **Education Service Charges**

- The Government had increased Education Service Charges (ESC) from 2% from 1% on payment of education fee remitted outside Nepal with effect from Jestha 15, 2075
- ESC on education fees provided in Nepal is not applicable for the FY 2075/76.

#### Note:

 Education Service Charge for the FY 2074/75 is chargeable @1% as per Finance Act 2074 (2017 AD) and hence education service provider in Nepal should continue collecting ESC @ 1% till Ashadend 2075 (July 16, 2018).

#### Waiver of Charges & Interest for Coming under Tax Net

- If a person who was having taxable income but failed to submit tax return for the earlier years obtains PAN and submits tax returns for the FY 2071/72, 2072/73 and 2073/74 along with applicable tax within Poush-end 2075 will get waiver of charges and interest thereon.
- There shall be no demand for tax, charges and interest related to earlier year(s) if the person complied the above provision.
- Taxes, charges and interest shall be collected from the person not complying the above provision.

#### Note:

 This facility is available to all person (including natural person and entity) having taxable income but not yet REGISTERED for tax. Person registered for tax (having PAN) does not get benefit under this section.

#### Waiver of Additional Charges, Charges, Interest & Penalty

- A person registered for VAT and failed to submit VAT return up to Ashad 2074 will get waiver of additional charges, charges, interest and penalty upon submission of VAT return till Ashad 2074 along with applicable tax by Poush-end 2075.
- VAT registration of the person will be cancelled if such fails to submitted VAT return till Ashad 2071 as specified above.
- Charges for non/delay submission VAT will be waived where VAT registration is cancelled in accordance with above provision.
- Record of recoverable other than charges related to non/delay in submission shall be maintained.

#### Note:

- This facility is available to all person (natural person and entity) registered for VAT.
- On failure to comply, taxes (VAT), penalty, interest and additional charges will not be waived even after deregistration by IRD.

# Special Provision of Waiver of Tax, Penalty, Additional Charges, Charges and Interest to Social Organization (NGO)

Where social organizations registered under Society Registration
Act submit income tax return related FY 2074/75 within Poushend 2075; there shall be waiver of submission of all kind of
returns, tax, penalty, additional charges, charges and interest
thereon related to earlier year(s).

The Nepal Chartered Accountant | June 2018

#### **Key Changes in Value Added Tax, 2052** by Finance Bill, 2075

#### Section 8(2): Reverse VAT

• Reverse VAT to be paid at the time of receipt of service or on payment, whichever is earlier

• Earlier, reverse VAT was paid at the time of payment of such service charge

#### Section 10: Registration

Mandatory registration for certain business

- · Bricks manufacturing industry, trading and distribution of wine and alcohol respectively, software business, trekking, rafting, ultra-light flight, paragliding, tourist transport, crusher, soil mine, slate and stone industry
- Hardware business, sanitary, furniture, fixture, furnishing, automobiles, motor parts, electronics, marble, educational consultancy, discotheque, health club, massage therapy, beauty parlor, catering service, party palace business, parking service, dry cleaners using machinery, restaurant (with bar), ice-cream industry, color-lab, boutique, tailoring business with shirting and suiting materials, supplier of uniforms to educational and/or health institution or other entity in metropolitan city, sub-metropolitan city, municipality or any other area prescribed by IRD.

#### Changes in Annex 1 (Included in Exemption)

- · Health service
- Import of plastic granules for making packing material for saline manufacturer on recommendation from DDA
- Canteen and Hostel services provided by educational institutions for self-purpose
- Certain petroleum products are included in VAT exempt list
- Service provided by GON, Provincial Government and Local Authority are included in VAT exempt list
- Money Transfer, Capital Market, Security Market, Merchant Banking Business, Commodity Future Market, Stock and Commodity Broker Business are also included in VAT exempt list
- Bus with seating capacity 30 or more used for public school upon recommendation from Ministry of Education

#### Section 29: Penalty

#### **Penalty for Software Vendor**

 Person providing electronic billing system non-complying the Electronic Billing Regulation will be subject to penalty of Rs. 500,000/

Note: Previously this penalty was applicable only to the taxpayer

#### Penalty for Issuing Invoice without Delivery of Goods and/or Services

Person issuing VAT invoice without delivery of goods and/or service will be fined at the rate of 50% of invoice

Note: Newly introduced provision to penalize the issuer of fake invoice

#### Changes in Annex 1 (Removed from Exemption)

- Bone meal and fish meal (dust) under section 25 of Custom Tariff removed from exempt list
- Lead Battery used for Safa Tempo, Certain ancillary goods like, solar lead DC light-bulbs (under group 11 Aa). However, Lead Battery used for Safa Tempo used by domestic industry is not removed from zero VAT rate (Annexure 2)
- Wood used for match stick, dhoop and tyre tube. Floor. mustard oil, vegetable ghee and other processed edible oil, Dairy products, Domestic Tea Industry, Cupper/bronze metal industry preparing goods from west products, Domestic cloth industry, Mobile, Domestic sugar industry

#### 3.0 M to Rs. 1.0 M

Non-Business Chargeable Asset (Sec 2.r):

Reduction in the limit of non-business chargeable asset from Rs.

#### Rent (Sec 2.af):

• The definition of rent excluded the rent paid to natural person except related to proprietorship business

Note: The rental income of natural person is under the jurisdiction of local authority.

#### Exemption (Sec 10):

· Security Exchange Board is removed from the list of tax exempt organization

Note: This requires withholding taxes on payment of service charges/interest, etc. which are subject to WHT under chapter 17

#### **Key Changes in Income Tax Act, 2058** by Finance Bill, 2075

#### Concession (Sec 11):

- Concession available to taxpayer revised in line with new Society Registration Act, SEZ Act and Industrial Enterprises Act
- Special industry and IT industry employing certain number of Nepali Citizen to get concession in applicable tax
- Mining, petroleum/gas research and drilling industry shall get 100% tax exemption for first 7 years and 50% for next 3 years from the date of commencement of operation if such operation is commenced by 2080 Chaitra end. [Earlier operation date was 2075 Chaitra end]

...... Contd.

#### Concession (Sec 11) ... contd...:

- Micro industry shall get tax get full concession on tax for five years from the date of start of business or operation. If such industry is operated by female entrepreneur full concession on tax is available for additional two years.
- Source of income shall not be asked till Chitra-end 2076 where investment is made in infrastructure sector like, hydropower project of national interest, international airport, tunnel road, highway, railways and manufacturing industry (other than tobacco, alcohol related industry) engaging 300 or more domestic employee and consuming 50% or more domestic raw material. [Note: earlier this facility was available till Chaitra-end 2075]

#### Note:

 Tax concessional available for special industry, agro-based industry and tourism industry for employee only Nepali Citizens (not less than 100) has been abolished

#### Withholding Tax Provision (Chapter 17)

- Payment of retirement amount from ARF (which noncontributory) is excluded from "payment from ARF" and hence the same is subject to WHT @15% u/s 88(1)
- WHT NOT required in the case of payment of rent to natural person other than related to business
- Transportation service is subject to WHT @ 2.5%
- WHT requires on payment for preparing question paper and examining answer sheet @15%
- Commission paid to non-resident insurance company is subject to WHT @1.5%
- Construction exceeding Rs. 5.0 Mil through consumer committee is subject to WHT @1.5%

#### Charges for Non-submission of Returns (Sec.117)

- Charges for non-submission financial statement within three months from the end of FY applicable to tax exempt entity removed [previously 0.1% per annum on total receipt was chargeable]
- WHT return not submitted within the prescribed time is subject to charge @2.5% [previously 1.5%] per annum chargeable for a month and part thereof.

#### Concession (Sec 11) ... contd...:

- Any private company with paid-up capital Rs. 500 Mil or more converts into a public limited and company and commence operation accordingly will get 10% concession in applicable tax rate from the date of conversion. However, a company that is required to be operated as a public limited company under Company Act 2006 shall not get this concession. [Note – Listing in stock exchange may not be mandatory].
- Domestic tea production and processing industry, dairy industry carrying business of milk products and fabric industry shall get 50% concession on applicable tax on income from sale of own product.
- Community hospital gets rebate of 20% on tax.

...... Contd.

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#### Special provision for merger (Sec 47A):

- Entities intending merger shall submit letter of intent to the Department within end of 2076 Ashad (earlier 2075 Ashad).
- Entities submit letter of intent for merger shall conclude the process of merger within end of 2077 Ashad (earlier 2076 Ashad)

#### Payment from ARF (Sec 65.1)

 Contribution made by the taxpayer consider as "payment from ARF"

Note: Any non-contributory amount (i.e., not included in the income of the person); like, gratuity, leave encashment, etc. deposited by the employer and not included in the income of employee is not consider as payment from ARF. And hence WHT on payment of these amount will not be considered as "payment of ARF" and 15% WHT as per Sec 88(1) shall apply.

## Withholding Tax Provision (Chapter 17).. Contd.. Change in Final Withholding Tax

- Meeting fee less than Rs. 20,000 [earlier there was no limit] per sitting, payment for preparing question paper and checking answer sheet [earlier this was not subject to WHT]
- Payment to natural person towards vehicle hiring charge or transportation charge other than related to business (proprietary firm)

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#### **Tax Rate for Natural Person**

Particulars	FY 2075/76 (2018/19)		
Particulars	Amount of Income	Rate	
a. First:			
For Individual	Up to Rs. 350,000	* 1%	
For Couple	Up to Rs. 400,000	* 1%	
b. Next	Up to Rs. 100,000	10%	
c. Next	Up to Rs. 200,000	20%	
d. Next			
For Individual	Up to Rs. 1,350,000	30%	
For Couple	Up to Rs. 1,300,000	30%	
e. Next	Above Rs. 2,000,000	** 36%	

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#### Conference on Governance for National Prosperity

#### Tax Rate for Natural Person ... Cont.:

- \* 1% Social Service Tax is applicable to natural person having income from employment. Natural person having proprietorship firm, pension income and person participating in contribution based pension is not subject to SST. [Note, where a person contributes in "Contributory Pension Scheme" does not require payment of SST. This is new concept and encourage contribution in Pension Scheme.
- \*\* 20% surcharge on tax is applicable where the taxable income of a natural person exceeds Rs. 2,000,000. Accordingly the effective tax rate becomes 36% if the taxable income of a natural person exceeds Rs. 2,000,000 till FY 2075/76.
- Natural person can reduce lower of premium on investment insurance (life insurance) paid or Rs. 25,000 from taxable income, sec 1(12). Previously this limit was Rs. 20,000. Premium for health insurance remained unchanged; that is lower of health insurance premium paid to resident insurance company or Rs. 20,000 is available for reduction in taxable income, sec 1(16)

#### **Change in Tax Rate Entity:**

Tax rate of 30% applicable to following entities carrying following business:

- Telecommunication and internet,
- · Money transfer,
- · Capital market business,
- · Securities,
- · Merchant Banking Business,
- · Security and Commodity Broker

Annual Tax on Natural Person Owning Vehicle for Rental Purpose,			
Type of Vehicle	FY 2075/76	FY 2074/75	
(1) Car, Jeep, Van, Microbus	Rs. 4,000.00	Rs. 2,400.00	
	to 7,000.00		
(2) Mini Truck, Minibus, Water tanker	Rs. 6,000.00	Rs. 3,000.00	
(3) Mini Tripper	Rs. 7,000.00	Not Provided	
(4) Truck and Bus	Rs. 8,000.00	Rs. 3,000.00	
(5) Equipment like, Dozer, Excavator,	Rs. 12,000.00	Not Provided	
Loader, Crane			
(6) Oil tanker, Gas Bullet, Tipper	Rs. 12,000.00	Not Provided	
(7) Tractor	Rs. 2,000.00	Rs. 1,000.00	
(8) Power Tiller	Rs. 1,500.00	Rs. 1,000.00	
(9) Auto-rickshaw, Three-wheeler,	Rs. 2,000.00	Rs. 1,550.00	
Tempo			
		/	

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## Changes in Continuing Professional Education Guideline

The Council of the Institute has approved amendments in the existing Continuing Professional Education (CPE) Guideline which is in line with the provisions outlined in the International Education Standard for Professional Accountants (Continuing Professional Development) issued by the International Federation of Accountants (IFAC). Since, ICAN being one of the active members of IFAC has to follow the guidelines prescribed by IFAC. The changes made in the CPE Guideline shall be effective from 1st Shrawan 2075, whereas for the renewal of 2075/76 existing provisions of the CPE Guideline will apply.

The synopsis of major changes made in the CPE Guideline has been listed as follows:

- a) Chartered Accountant members and 'B' and 'C' class Registered Auditor (RA) members in practice are required to obtain at least 30 credit hours of CPE for each financial year and further required to obtain at least 120 CPE credit hours (at least 90 hours verifiable and maximum 30 hours non verifiable) for each block of three financial years.
- b) Similarly 'D' class Registered Auditor members in practice are required to obtain at least 20 CPE credit hours for each financial year and further required to obtain at least 90 CPE credit hours (at least 60 hours verifiable and maximum 30 hours non verifiable) for each block of three financial years.
- c) All other members who are not in practice are required to obtain at least 15 CPE credit hours for each financial year. Further such members are required to obtain at least 60 CPE credit hours (at least 45 hours verifiable and maximum 15 hours non verifiable) for each block of three financial years.

- d) A member not in practice who has attained the age of 65 years is not required to obtain CPE hours (previously, requirement of CPE hours was waived for all member who has attained the age of 65 years).
- e) Those members who were in practice and whose COP has not been renewed and if they want to apply for/ renew their COP, they require/need to obtain at least 30 CPE credit hours for Chartered Accountants and B and C Class RA members and 20 CPE credit hours for C and D class RA members to obtain COP from the Institute as specified above in point number (a) and (b).
- f) Those members who are not in practice and whose name has been removed from the membership register and want to restore their name need to obtain at least 15 CPE credit hours to continue their membership.
- g) The CPE hours granted for Council Members, Board Members and Committee members has been reviewed.
- The CPE hours granted for participation in various conferences, seminars, articles/book publication, extra academic and professional degrees and preparation of CPE materials has been reviewed.
- Similarly, Accounting Technicians under the Rule 53Ka of Nepal Chartered Accountants Rule 2061 are required to obtain at least 20 CPE credit hours for each financial year and further required to obtain at least 90 CPE credit hours (at least 60 hours verifiable and maximum 30 hours non verifiable) for each block of three financial years.

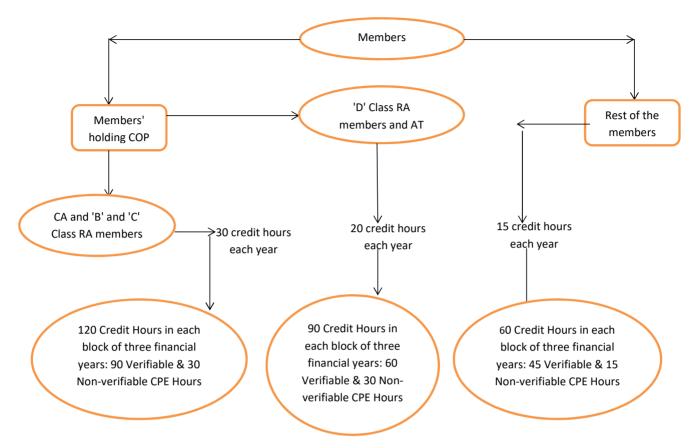


Figure: Minimum CPE hour requirement for each block of three financial years

#### Note:

- a. The annual requirement of CPE credit hours by members shall be at least 80% verifiable CPE credit hours.
- b. Members in practice providing assurance services to co-operatives, schools and NGOs are required to obtain at least 5% of CPE credit hours in each such sector.

**Verifiable hour** refers to activities relevant to current or future work, with clear learning objectives or outcomes which help in the development of professional competency, that has proof of attendance or participation of the activity, for example certificates attending formal courses or conference, meetings, in house training, evidence of writing articles or papers, books etc.

**Non Verifiable hour** refers to activities that do not have any evidence to corroborate the hours to be claimed. This could include non -formal activities such as reading of technical, professional, financial or business literature, self-study and research etc. Such activities shall be current and will contribute to increase professional competency. ■

# Nepal Financial Reporting Standard- NFRS 12 An Overview of Disclosure of Interest in Other Entities

NFRS 12 requires disclosures of the significant judgments and assumptions that an entity has made in determining the nature of its interest in another entity or arrangement. It also contains extensive disclosure requirements for subsidiaries, joint arrangements and associates and unconsolidated structured entities.



The Objective of this NFRS is to require and entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with its interests in other entities, and the effects of those interests on its financial position, financial performance and cash flows. In this article, I have stated the provision of NFRS 12 and tried to describe how the disclosure is to be made in Notes to Accounts, through some examples.



- A) The significant judgments and assumptions it has made in determining the nature of its interest in another entity or arrangement, and in determining the type of joint arrangement in which it has an interest.
- b) Information about its interests in:

- (i) Subsidiaries
- (ii) Joint arrangements and associates
- (iii) Structured entities that are not controlled by the entity

# Why this Standard, is there no disclosure in

NFRS10 - Consolidated Financial Statements,

NFRS 11 - Joint Arrangements and

NAS 28 - Investment in Associates??????

Let us check whether there is disclosure in those standards or not...... The answer is: No there is not.



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So, this Standard presents the disclosure requirement for above standards as well as of structured entities.

# Definition of the Terms (which we are going to read in this NFRS frequently)

Subsidiaries - An entity that is controlled by another entity (NFRS10).

Joint Arrangement - A joint arrangement is an arrangement of which two or more parties have joint control (NFRS 11).

Associate - An associate is an entity over which the investor has significant influence (NAS 28).

Structured entities - An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements (NFRS 12).

#### D. Conceptual Understanding

#### 1. Objective

The objective of this NFRS is to require an entity to disclose information that enables users of its financial statements to evaluate:

The nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows.

#### 2. Clarification

This NFRS requires an entity to disclose:

The significant judgments and assumptions it has made in determining the nature of its interest in another entity or arrangement, and in determining the type of joint arrangement in which it has an interest; and

Information about its interests in subsidiaries, joint arrangements and associates and structured entities that are not controlled by the entity.

#### 3. Applicability

This NFRS shall be applied by an entity that has an interest in any of the following:

- Subsidiaries
- Joint arrangements (i.e. joint operations or joint

ventures)

- Associates
- Unconsolidated structured entities

#### **Elaboration of Concept**

NFRS 12 requires disclosures of the significant judgments and assumptions that an entity has made in determining the nature of its interest in another entity or arrangement. It also contains extensive disclosure requirements for subsidiaries, joint arrangements and associates and unconsolidated structured entities.

The significant judgments and assumptions include those made by the entity when changes in facts and circumstances are such that conclusion about whether it has control, joint control or significant influence changes during the reporting period.

An entity shall disclose information about significant judgments and assumptions it has made (and changes to those judgments and assumptions) in determining:

- that it has control of another entity, i.e. an investee as described in paragraphs 5 and 6 of NFRS 10 Consolidated Financial Statements;
- that it has joint control of an arrangement or significant influence over another entity; and
- the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

In addition to above, an entity shall disclose, for example, significant judgments and assumptions made in determining that:

- it does not control another entity even though it holds more than half of the voting rights of the other entity.
- it controls another entity even though it holds less than half of the voting rights of the other entity.
- it is an agent or a principal.
- it does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity.
- it has significant influence even though it holds less than 20 per cent of the voting rights of another entity.

# Example of disclosure of significant judgments and assumptions

#### **Himalayas Group Limited**

Notes to the consolidated financial statements for the year ended 15 July 2017

E. Significant judgments and assumptions

#### E.1. Control over Gorkha Limited:

It was concluded that Gorkha Limited is a subsidiary of Himalayas Limited even though Himalayas Limited only has 48% voting rights and ownership interests in Gorkha Limited. The remaining 52% is widely held by thousands of unrelated shareholders. An assessment of control was performed by Himalayas Limited based on whether Himalayas Limited has the practical ability to direct the relevant activities unilaterally. In making their judgment, the relative size and dispersion of other vote holders, potential voting rights held by them or others, rights from other contractual arrangements were considered. After the assessment, Himalayas Limited concluded that they had a dominant voting interest to direct the relevant activities of Gorkha Limited and it would take a number of vote holders to outvote Himalayas Limited therefore Himalayas Limited has control over Gorkha Limited.

#### Interest in Subsidiaries

An entity shall disclose information that enables users of its consolidated financial statements

#### a) to understand:

- the composition of the group; and
- the interest that non-controlling interests have in the group's activities and cash flows (paragraph 12); and

#### b) to evaluate:

- the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group (paragraph 13);
- the nature of, and changes in, the risks associated with its interests in consolidated structured entities (paragraphs 14-17);
- the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control (paragraph 18); and
- · the consequences of losing control of a subsidiary

during the reporting period (paragraph 19).

An entity shall disclose for each of its subsidiaries that have non-controlling interests that are material to the reporting entity:

- The name of the subsidiary.
- The principal place of business and country of incorporation of the subsidiary.
- The proportion of ownership interests held by noncontrolling interests.
- The proportion of voting rights held by noncontrolling interests, if different from the proportion of ownership interests held.
- The profit or loss allocated to non-controlling interests of the subsidiary during the reporting period.
- Accumulated non-controlling interests of the subsidiary at the end of the reporting period Summarized financial information about the subsidiary

# Example of Disclosure of Interest in Subsidiaries

Flora Group Limited

Notes to the consolidated financial statements for the year ended 15 July 2017

F. Subsidiaries

#### F.1 Composition of the group

Name of subsidiary	Principal activity	Place of operation	Proportion of ownership interests	Wholly or non wholly owned subsidiary
Oak limited	Distribution of toy	Japan	70%	Non- wholly owned
Pine limited	Manuf- acturer of toy	France	100%	Wholly owned
Teak Limited	Retail of toy	England	60%	Non- wholly owned
Willow Limited	Manuf- acturer of toy	Australia	100%	Wholly owned

Details of non-wholly owned subsidiaries that have a material non-controlling interest are disclosed in note F.2.

F.2 Details of non-wholly owned subsidiaries that have material non-controlling interests

Name of subsidiary	Proportion of ownership interests held by non-controlling interests	Profit(loss) allocated to non- controlling interest	Accumulated non- controlling interest
Oak Limited	30%	1,234,000	10,234,000
Teak Limited	40%	600,000	6,543,000
Total			16,777,000

# A. Interests in Joint arrangements and associates:-

An entity shall disclose information that enables users of its financial statements to evaluate:

- A. the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 21 and 22); and
- B. the nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 23).

Nature, extent and financial effects of an entity's interests in joint arrangements and associates.

#### Example of disclosure of Joint venture:-

Extract of notes to the consolidated financial statements for the year ended 15 July 2017

- G. Joint venture
- G.1 Details of material joint venture (Jointly Limited)

Summarized financial information of the material joint venture has been set out below. The summarized financial information shown represents amounts from the joint venture's financial statements that were prepared in accordance with NFRS.

Current assets	1,234,000
Non-current assets	11,111,000
Current liabilities	567,000
Non-current liabilities	5,432,000
The following amounts have been incluamounts above	ıded in the
Cash and cash equivalents	500,000
Current financial liabilities	20,000
Non-current financial liabilities	4,321,000
Revenue	5,432,000
Profit or loss from continuing operations	987,000
Profit or loss from discontinued operations	20,000
Other comprehensive income	35,000
Total comprehensive income	1,042,000
The following amounts have been inclu	مطع من المما

The following amounts have been included in the amounts above:

Depreciation and amortization	350,000
Interest income	5,000
Interest expense	5,000
Income tax expense	22,000

NOTE - The summarized financial information is not the entity's share but the actual amount included in the separate NFRS financial statements of the joint venture.

#### Example of Disclosure for Associates:-

Fruit Group Limited

Extract from the notes to the consolidated financial statements for the year ended 15 July 2017

- H. Associates
- H.1 Details of material associates

Pear Limited has a year end of 15 June. This reporting date was established when the company was incorporated. The reporting date cannot change as it is not permitted by the government of the country in which Pear Limited operates.

Pear Limited's financial statements for the year

ended 15 June 2017 have been used and appropriate adjustments have been made for the effects of any significant transactions that occurred between Pear Limited's year end and Fruit Group Limited's year end. This was necessary so as to apply the equity method of accounting.

Based on the quoted market price available on the stock exchange as at 15 July 2017 of the country in which Pear Limited operates, the fair value of Fruit Group Limited's interest in Pear Limited was 2.5 million.

## A. Interest in Unconsolidated structured entities

An entity shall disclose information that enables users of its financial statements:

- A. to understand the nature and extent of its interests in unconsolidated structured entities; and
- B. to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

#### I. Nature of Interests

An entity shall disclose qualitative and quantitative information about its interests in unconsolidated structured entities, including, but not limited to, the nature, purpose, size and activities of the structured entity and how the structured entity is financed.

#### The entity shall disclose:

- (a) how it has determined which structured entities it has sponsored;
- (b) income from those structured entities during the reporting period, including a description of the types of income presented; and
- (c) the carrying amount (at the time of transfer) of all assets transferred to those structured entities during the reporting period.

#### II. Nature of risks

An entity shall disclose in tabular format, unless another format is more appropriate, a summary of:

A. the carrying amounts of the assets and liabilities recognized in its financial statements relating to its interests in unconsolidated structured entities.

- B. the line items in the statement of financial position in which those assets and liabilities are recognized.
- C. the amount that best represents the entity's maximum exposure to loss from its interests in unconsolidated structured entities, including how the maximum exposure to loss is determined. If an entity cannot quantify its maximum exposure to loss from its interests in unconsolidated structured entities it shall disclose that fact and the reasons.
- D. a comparison of the carrying amounts of the assets and liabilities of the entity that relate to its interests in unconsolidated structured entities and the entity's maximum exposure to loss from those entities.

#### A structured entity often has some or all of the following features or attributes

a.restricted activities.

- b. a narrow and well-defined objective, such as to effect a tax-efficient lease, carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors.
- c. insufficient equity to permit the structured entity to finance its activities without subordinated financial support.
- d. financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

# Examples of entities that are regarded as structured entities include, but are not limited to:

- (a) securitization vehicles.
- (b) asset-backed financings.
- (c) some investment funds.

## Application of NFRS 12 from perspective of other laws

#### **Provision**

Section 176 of Companies Act, 2063 has allowed 60 percent of free reserve and share capital or 100

percent of free reserve of a company can be invested in securities of other companies, 100 percent investment in subsidiary.

Section 143 of Companies Act, 2063 states the holding company should include the prescribed documents of subsidiary company in its financial statements.

Section 51 of BAFIA Act, 2073 allows a Bank and Financial Institutions to open subsidiary company on obtaining due approval from Rastra Bank.

Section 59(3) of BAFIA Act, 2073 states "if a bank or financial institution has a subsidiary company than in the balance sheet and profit and loss account of bank or financial institution, it shall mention the

transactions and financial situation of such subsidiary company separately and as a whole".

Thus, the above provisions can be properly addressed through application of NFRS 12, as discussed earlier in this article, for proper understanding by the users of financial statements.

#### Reference:

Nepal Financial Reporting Standards (NFRS)

www.pkf.com

www.ev.com

Companies Act, 2063

Banks and Financial Institutions Act, 2073

### लेखापरीक्षण गर्न पाउने हदमा भएको परिवर्तन बारे अत्यन्त जरूरी सूचना

नेपाल सरकार, (मा. मन्त्रीस्तर) को निर्णयानुसार नेपाल चार्टर्ड एकाउन्टेन्ट्स नियमावली, २०६१ को नियम ५३ र ५३ क ले तोकेको लेखापरीक्षण गर्न पाउने रकमको हदमा यही २०७५ श्रावण १ गतेदेखि लागु हुनेगरि निम्नानुसार संशोधन भएको व्यहोरा सम्बन्धित सबैको जानकारीको लागि यो सूचना प्रकाशित गरिएको छ ।

- क) पेशागत प्रमाणपत्र प्राप्त चार्टर्ड एकाउन्टेन्ट सदस्यले जितसुकै रकम
- ख) "ख" बर्गको पेशागत प्रमाणपत्र प्राप्त दर्तावाला लेखापरीक्षक सदस्यले १ (एक) अर्व रुपैया रकम सम्म
- ग) "ग" बर्गको पेशागत प्रमाणपत्र प्राप्त दर्तावाला लेखापरीक्षक सदस्यले २५ (पच्चीस) करोड रुपैया रकम सम्म
- घ) "घ" बर्गको पेशागत प्रमाणपत्र प्राप्त दर्तावाला लेखापरीक्षक सदस्यले ४ (पांच) करोड रुपैया रकम सम्म

नियम ५३ क अनुसार लेखापरीक्षण गर्न अनुमित पत्र प्राप्त गरेका लेखा प्राविधिज्ञहरुले परिषदले तोकेको आचार संहिताको अधिनमा रही लेखा प्राविधिज्ञ अनुमित पत्रको आधारमा रु २० (बीस) करोड रुपैयाँ रकमको हदसम्म लेखापरीक्षण गर्न सक्नेछ ।

स्पष्टीकरणः नियम ५२क, ५३ तथा नियम ५३क को प्रयोजनको लागि रकम भन्नाले वासलातमा उल्लेख भएको जायजेथा वा दायित्वको रकम सम्भन् पर्छ र सो शब्दले वासलात तयार नगर्ने संस्थाको हकमा नाफा नोक्सान वा आम्दानी वा खर्चको कुल अंकमा उल्लेखित रकम समेतलाई जनाउँनेछ ।



### नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्था

The Institute of Chartered Accountants of Nepal

(Established under The Nepal Chartered Accountants Act - 1997)

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# Loan Processing Fee & Other charges under IFRS 9 & IFRS 15

The other transaction cost i.e. loan servicing fees are NOT the part of the loan's i.e. financial asset's "Initial Measurement", but these are accounted for in line with the standard IFRS 15 Revenue from contracts with customers. It's the practice that loan servicing fees are charged up front in lump sum at the time of generating the loan. But, the same still cannot be recognized straight in profit or loss at the time of charging it to customers.



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When you apply for a loan in any Bank, then the bank would take some charges/fees from you for example loan processing fee/charge, CICL charge, collateral valuation charge, credit history clearance charge etc.

These charges are recovered by the bank from a loan customer at the very beginning. Let's say a Bank is charging some short of fee of 1% as loan processing fee/loan renewal fee etc. on loan amount for each loan issued to customers while sanctioning the loans.

The issue is how do we do accounting of such fees/charges in accordance with NFRS/IFRS? Are we doing correctly what we have been doing or IFRS/NFRS deviates somewhere while such charges and fees hits the books of account of a Bank?

The first and foremost thing that should be considered before jumping straight into the accounting of such fees and charges, are:

# What is the purpose of these fees?

Why did the bank charge them?

The standard IFRS/NFRS 9 gives us some guidance on segregation of such fees and charges being taken while issuing loans to customers i.e. which are transaction fees and which are not the transaction fees.

The most common types of the TRANSACTION FEES/COSTS are:

#### 1. LOAN ORIGINATION FEES

The bank usually charges these fees to cover its costs for evaluating & assessing the borrower's financial condition, for assessment of guarantees or collateral, negotiating the terms of the loan, preparing the loan contract, credit history clearance charges, CICL charges, other similar activities etc. In other words, origination fees cover the activities that result in creating/originating the loan by the bank.

#### 2. LOAN SERVICING FEES

These fees are charged usually throughout the life of the loan for the administrative aspects for the loan viz. like fees for sending monthly payment statements, collecting the payments, maintaining the records and other items, periodic inspection of the unit, periodic debt equity calculations to monitor maintenance of pre-approved condition by loan customer etc. hence for servicing the loan throughout its life i.e. loan tenure.

Hence the fee being charged to loan customer needs to be clearly identified or specified as whether it is charged as Loan Origination Fees or is it charged as Loan Servicing Fees or that includes both!!

If the fee is charged like say Loan Processing as 1% of Loan amount, then that should be segregated by bank as how much of it is for origination part and how much is for loan servicing part or is it entirely for origination only or servicing only.

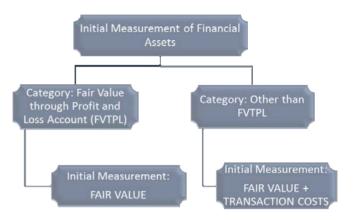
Following above, the treatment of all these transaction costs depends on how you classify the financial instrument as per IFRS/NFRS 9?

#### **Origination Fees:**

For this fee charged, the focus should be on financial assets classification as per IFRS/NFRS 9 i.e. whether it falls under Amortized Cost category or Fair Value through Profit and Loss (FVTPL) category or Fair Value through Other Comprehensive Income (FVTOCI) category, because the question relates to the bank providing a loan, thus generating financial asset by the bank.

- If the loan is classified as a financial asset at fair value through profit or loss (FVTPL), then it i.e. transaction costs - origination fee must be recognized in profit or loss when they arise i.e. accounting the entire above fees as income upfront in Statement of Profit and Loss (SOPL)
- If the loan is classified as a financial asset at Fair Value through Other Comprehensive Income (FVOCI) or at Amortized Cost, then the transaction costs i.e. origination fee, enter into

the initial measurement of the financial asset.



And most of the loans provided by banks to the customers is indeed measured at amortized cost, because they usually meet the two criteria for amortized cost measurement i.e. the Business Model Test and Cash Flow characteristic test as described by NFRS/IFRS 9.

So, it is clear that if the loans are at amortized cost category, then the transaction costs i.e. the loan origination fees enter into the initial measurement.

Subsequently, you should amortize these fees or costs over the expected life of the loan, in most cases, they are included in the effective interest rate (EIR) calculation.

#### **Servicing Fees:**

The other transaction cost i.e. loan servicing fees are NOT the part of the loan's i.e. financial asset's "Initial Measurement", but these are accounted for in line with the standard IFRS 15 Revenue from contracts with customers.

It's the practice that loan servicing fees are charged up front in lump sum at the time of generating the loan. But, the same **still cannot be recognized straight in profit or loss** at the time of charging it to customers.

The reason is that under IFRS 15, that can be recognized as revenue when you meet the performance obligation - in this case, when the bank serves the loan over the life of the loan.

Thus, the right accounting treatment would be to recognize the loan servicing fees received up front as a **contract liability under IFRS 15** and subsequently, derecognize the contract liability over the life of the loan and booking the income accordingly.

## Illustration - Ioan transaction fees (Origination Fee and Servicing Fee)

Let's say NFRS BANK LIMITED provides a loan of NPR 10 Million for 3 years and charges loan processing fee of 1% and NPR 120,000 loan servicing over the life of the loan (If such fee is also taken as such). Other charges like collateral valuation charge of NPR 5,000, credit history clearance information charge of NPR 500 are passed on to the loan customer as per actual.

The loan is at amortized cost.

## The accounting treatment of the loan and other charges shall be as follows:

a) Initial recognition of the loan (IFRS 9):

Debit Financial Assets - Loans: NPR 10 Million

Credit Cash : NPR 10 Million

b) Transaction cost - loan origination fee (IFRS 9): (In this case the Processing Fee, which is assumed to be of the nature of origination fee, of NPR. 100,000. Expenses which are passed on to the loan customer as per actual are excluded)

Debit Cash: NPR 100,000

Credit Financial Assets - Loans: NPR 100,000

c) Transaction cost - loan servicing fee received upfront (IFRS 9 and IFRS 15):

Debit Cash: 120,000

Credit Contract liability: 120,000

d) Transaction cost - loan servicing fee recognition as income (First Year):

Debit Contract Liability: 40,000

Credit Profit and Loss: 40,000

e) Transaction cost - loan servicing fee recognition as income (Second Year):

Debit Contract Liability: 40,000

Credit Profit and Loss: 40,000

f) Transaction cost - loan servicing fee recognition as income (Third Year):

Debit Contract Liability: 40,000

Credit Profit and Loss: 40,000

When loan servicing fees are charged monthly instead of one up-front fee, then they can be recognized straight in profit or loss, because the receipts would be roughly aligned with the pattern of providing the service to the customer under IFRS 15. Whereas for those loans which have loan tenure of one year or subject to renewal in one-year time, the loan servicing fee need not be spread for more than the tenure of such loan.

# Macroeconomic Impact of the Budget for 2018/19

expansionary budgetary framework and outlook as envisaged in the budget for 2018/19 signals that inflation will rise and current account/balance of payments will weaken, and ensuing macroeconomic uncertainty and instability as well as loss of trust in the economy will negatively affect investment, output, export and employment growth in 2018/19 and beyond.



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#### Ambitions of the 2018/19 Budget and Pitiable Condition of the Economy

The budget for fiscal year 2018/19 promises many socioeconomic development outcomes including the promise of initiating many tasks to be completed within the coming years. During 2018/19, the budget envisages growth rate at eight percent and projects inflation at 6.5 percent. The budget aims at generating additional employment for 500,000 people in 2018/19. Likewise, the promise doubling the agricultural output in five years' time would become possible only when the country succeeds in attaining an average annual agricultural output growth

at 14.9 percent. Attaining such high average annual agricultural growth seems to be an impossible dream by any means. The budget mentions that, based on the revised estimates for 2017/18, 87.1 percent of the budgeted recurrent and only expenditure percent of the budgeted capital expenditure (82.1 percent of the total) has been spent, implying low capacity utilization in the public sector, inadequate institutional mechanism to mobilize the foreign assistance as envisaged in the budget, unscientific budgeting, accountability problems, Likewise, there are challenges and deficiencies obstructing the attainment of envisaged socioeconomic objectives including poverty alleviation. In addition

to the structural problem of rising trade deficit over the past two decades, widening current account and balance of payments deficits have been the other pressing problems confronting the economy during the recent period. On the whole, past seven-decade's efforts at socio-economic development have brought no significant results, making Nepal's per capita income level (US\$ 919 in 2018, source: World Economic Outlook Database, April 2018, IMF) one of the lowest in the world.

#### 2. Overall Financial Structure of the Budget

The total amount of budget for fiscal year 2018/19 (Rs. 1,315.2 billion) represents an increase of 25.7 percent over the revised estimate of budget for fiscal year 2017/18 (1,046.4 billion), as shown in Table 1 below. In terms of preliminary estimate of gross domestic product (GDP) for 2017/18 and projected GDP for 2018/19, the revised estimate of the budget for 2017/18 and the budget estimate for 2018/19 represent 34.8 percent and 38.0 percent respectively (Table 2). Similarly, while total expenditure (recurrent and capital) as percent of GDP is estimated to increase from 31.2 percent in 2017/18 to 33.5 percent in 2018/19, total resources that do not create debt, i.e., revenue and grants, are estimated to represent 25.4 percent and 25.7 percent of GDP respectively. Revenue surplus (revenue minus recurrent expenditure) decreased from Rs. 94.0 billion in 2016/17 to Rs. 28.8 billion in 2017/18 which is projected to slide to negative region (Rs. 14.1 billion) in 2018/19. Since 2011/12, there was revenue surplus till the year 2017/18. In 2018/19, even for meeting recurrent expenditure, the government will have to depend on grants/borrowings. This is a symptom of unhealthy economy. In such environment, the revenue will hardly be available for augmenting capital formation in the economy.

The budget for 2018/19 has proposed very high level of budget deficit at 7.8 percent of GDP, higher than 5.8 percent in 2017/18 and 3.1 percent of GDP in 2016/17. The convention is that, for a healthy developing economy, the annual (gross) borrowing (total of external and domestic) should be below 5 percent of GDP. In 2018/19, annual (gross) borrowing from external sources is projected at 7.3 percent of GDP compared to 2.5 percent in 2017/18 and 2.2 percent in 2016/17. Likewise, annual (gross) borrowing from domestic sources is projected at 5.0 percent of GDP in 2018/19 compared to 4.8 percent in 2017/18 and 3.3 percent in 2016/17. Thus, total gross borrowing for 2018/19 is projected at 12.3 percent of GDP compared to 7.3

percent of GDP in 2017/18 and 5.5 percent of GDP in 2016/17. The external borrowing for the coming year is estimated to increase by 239.0 percent as compared to its growth at 29.1 percent in 2017/18. Given the past record of slowdown in mobilizing the committed foreign assistance targeted by the budgets, it is doubtful that such high growth in mobilizing external assistance could be materialized in 2018/19. Such high budget deficit associated with excessive borrowing would have significant structural problems, financing challenges and macroeconomic risks and implications unfavorable to the objective of attaining higher rate of sustained economic growth and development. Further, the economy will be moving towards the debt trap, that is, the recourse for borrowing for the purpose of debt financing.

# 3. Budget Deficit and Its Interrelationships: Some Empirical Considerations

Budget deficit, which is the excess of public expenditure over revenue and foreign grants, is financed by borrowing (both domestic and foreign). Excess domestic borrowing will raise the cost of borrowing for the private sector in what is popularly known as the crowding-out effect. Excess borrowing and money supply will raise inflation, aggravate the trade deficit and weaken the balance of payments. Excess foreign borrowing will create debt-servicing problems and other external sector risks including the exchange rate shocks. Need for servicing a higher level of public indebtedness would substantially reduce the resources available for essential physical infrastructure, basic social services and other essential programs intended for the poverty reduction. The task of attracting investment in a debt-ridden country will be difficult to materialize because the investors perceive that the deficits and the debts would have to be eventually retired through future taxation.

Let's analyze the public or budget deficit on the basis of saving-investment (S-I) identity. Investment (public plus private) equals saving (public, private and foreign) in the economy. Public investment minus public saving is termed as the public deficit. Private saving minus private investment gives the private surplus. Foreign saving is equivalent to current account deficit. The public deficit thus equals the private surplus plus current account deficit. The S-I identity and the financing mechanism of the public deficit would appear as below:

#### Investment = Saving

or, Public Investment + Private Investment = Public Saving + Private Saving + Foreign Saving

or, Public Investment - Public Saving = Private Saving - Private Investment + Foreign Saving

or, Public Deficit = Private Surplus + Current **Account Deficit** 

(Source: What is a "prudent" fiscal deficit? in World Development Report, 1988 (Public Finance in Development), World Bank, page 58)

Likewise, internal and external balance is another associated concept. Given the national accounts identity of national income (Y) = consumption (C) + investment (I) + government expenditure (G) + exports (X) -imports (M), the economy will be in equilibrium when X = M (or the current account balance is zero) and Y (income) = A (absorption: C + I + G). The former is called the external balance and the latter the internal balance of the economy. Internal imbalances are reflected in inflation or unemployment while external imbalances are reflected in surplus or deficit. This relationship suggests two remedies for an economy that is out of balance. A government could achieve equilibrium, or stabilize the economy, by adjusting absorption, the nominal exchange rate, or both. As a rise in budget deficit would enlarge the absorption, the macroeconomic policy tools used to achieve internal and external balance by the government are the level of expenditure and the exchange rate. Therefore, the two options for balancing the economy are reducing absorption and adjusting the nominal exchange rate.

#### 4. Unsustainable Level of Budget Deficit and Its Macroeconomic Risks

The budgetary implications of the factors negatively affecting economic growth, employment, price stability, saving, investment, interest rate, balance of payments, exchange rate, debt structure and its servicing obligations, etc. would be termed as the macroeconomic risks of the budget. Mainly, the nature and extent of budget deficit determines the severity of such risks. Populist budget based on widened budget deficit and borrowing will invariably crowd out private investment by excessively raising the cost of borrowing for the private sector. Consequently, there will be incentive for capital flight and the

deindustrialization process currently faced by the economy will deepen. Past trend of rising imports and trade deficit will further widen, making the balance of payments unfavorable by large amount and depleting the foreign exchange reserve. The weakness in the external sector will make the macroeconomy unstable and less predictable. Even the growth and stability of the financial sector will be disturbed by such uncertainties. The liquidity problem in the banking sector will also worsen. In such an environment, the monetary policy will be dysfunctional. As economic environment will not be investment-friendly, the production, productivity and competitiveness of the economy will not be augmented. In such context, the economy is destined to become weaker compared to the situation that is prevailing at the moment, with economic growth falling quite short of the target, employment generation receiving setbacks, inflation increasing and living standards of the people declining. So, moderate and sustainable level of budget deficit is inevitable for low and stable inflation, acceptable debt service burden, reasonable real interest rate. comfortable balance of payments, and avoidance of problems like debt accumulation, capital flight, stagnant private investment, shrinkage in saving ratio, appreciation in the real exchange rate and loss of confidence in the economy

#### 5. Conclusion and Messages

While budget deficit in Nepal has been applied as the significant instrument of budget financing throughout almost the last seven decades since 1951, the development status of Nepal could not be elevated as promised. Nepal has no liberty of pursuing excessive debt financing as in the early 1980s when foreign exchange reserve depleted to a level barely enough to meet one month's imports in 1984/85, macroeconomy became misaligned and the economy was eventually stabilized by entering into stand-by arrangement and structural adjustment facility with the IMF. The problem of Nepal being that the budget deficit has not been used as the temporary means of balancing the fluctuations of trade cycle; rather, it has been used as the permanent means of financing the budget. The expansionary budgetary framework and outlook as envisaged in the budget for 2018/19 signals that inflation will rise and current account/balance of payments will weaken, and the ensuing macroeconomic uncertainty and instability as well as loss of trust in the economy will negatively affect investment, output, export and employment growth in 2018/19 and beyond. In an economy where around 80 percent of the gross fixed capital formation came from private sector based on the last five-year

average, the effect of the excessive budget deficit and borrowing as projected in the budget for 2018/19 will definitely undermine investment and output contributions by the private sector.

Therefore, these messages become extremely useful for consideration. Large budget deficits are often at the roots of both external and internal macroeconomic imbalances. Widening budget deficit exposes the economy to the problem of debt accumulation and its servicing obligations along with the occurrences like adverse macroeconomic impacts and implications. Macroeconomic stability is necessary for fostering a climate that supports increased investment, productivity and economic growth on a sustained basis. A prudent fiscal policy is the foundation of a stable macroeconomy. Budget deficit consistent with low and stable inflation, affordable level of debt, and favorable climate for investment is indispensable to

stability and sustained growth. Prudent fiscal policy. thus, guards against the risks of excessive debt liability and over-valued currencies. Inflationary fiscal policy would aggravate the problem of currency appreciation, adding pressures on the trade and payments front. Countries that have allowed their real exchange rates to become grossly overvalued have experienced reduction in the export growth and increased capital flight, further retarding the export competitiveness and economic growth. Unless excessive budget deficit is cut and macroeconomic fundamentals are made right, exchange rates will not become sustainable and the emerging external sector risks would continue inhibiting the investment and growth prospects of the economy. In an economy like Nepal where 4/5ths investment is contributed by the private sector, the macroeconomic impacts and implications of such excessive budget deficit and borrowing will be devastating.

Table 1. Budget Estimates for 2017/18 (Amt. in Rs. Billion)

S. N.	Particulars	2016/17 Actual	2017/18 Revised	2018/19 Estimate	Per	e Growth cent
1	Total Rudget	837.2	Est. 1,046.4	1,315.2	2016/17	2017/18 25.7
2	Total Budget	731.8	764.5	890.1	4.5	16.4
3.1	Total Revenue and Grants Revenue (Federal Gov.)	612.6	728.4	831.3	18.9	14.1
3.2	Revenue (including that to be allocated to states and local levels)		728.4	945.6	18.9	29.8
4	Foreign Grants	31.9	36.2	58.8	13.5	62.4
5	Total Expenditure	727.4	938.2	1,159.4	29.0	23.6
	Recurrent Expenditure	518.6	699.6	845.4	34.9	20.8
	Capital Expenditure	208.8	238.6	314.0	14.3	31.6
6	Budget Surplus (-} / Deficit (+)	82.8	173.7	269.3	109.8	55.0
7	Financial Provision	-39.4	-111.6	-269.3	183.2	141.3
8	Loan Investment, Net	26.0	16.1	39.0	-38.1	142.2
	Domestic Loan Invest.	28.9	16.1	39.0	-44.3	142.2
	Dom. Loan Repayment Receipts (-)	2.9	0	0		0
9	Share Investment, Net	19.7	41.8	58.1	112.2	39.0
	Domestic Share Invest.	16.9	38.2	57.9	126.0	51.6
	Foreign Share Invest.	2.8	3.6	0.2	28.6	-94.4
10	Foreign Loan, Net	-35.3	-44.7	-229.4	26.6	413.2
	Foreign Loan Principal Repayment	22.7	30.2	23.6	33.0	-21.9
	Foreign Loan (-)	58.0	74.9	253.0	29.1	239.0
11	Domestic Loan, Net	-49.8	-124.9	-136.9	150.8	9.6
	Domestic Loan Principal Repayment	38.5	20.1	35.1	-47.8	74.6
	Domestic Loan (-)	88.3	145.0	172.0	64.2	18.6
12	Surplus (-)/Deficit (_)	43.4	62.1	0	43.1	

Source: Budget Statement for 2018/19

Table 2. Budget Estimates for 2017/18 (As Percent of GDP)

S. N.	Particulars	2016/17 Actual	2017/18 Revised Est.	2018/19 Estimate
1	Total Budget	31.7	34.8	38.0
2	Total Revenue and Grants	27.7	25.4	25.7
3.1	Revenue (Federal Gov.)	23.2	24.2	24.0
3.2	Revenue (including that to be allocated to states and local levels)	23.2	24.2	27.3
4	Foreign Grants	1.2	1.2	1.7
5	Total Expenditure	27.5	31.2	33.5
	Recurrent Expenditure	19.6	23.3	24.4
	Capital Expenditure	7.9	7.9	9.1
6	Budget Surplus (-} / Deficit (+)	3.1	5.8	7.8
7	Financial Provision	-1.5	-3.7	-7.8
8	Loan Investment, Net	1.0	0.5	1.1
	Domestic Loan Invest.	1.1	0.5	1.1
	Dom. Loan Repayment Receipts (-)	1.0	0	0
9	Share Investment, Net	0.7	1.4	1.7
	Domestic Share Invest.	0.6	1.3	1.7
	Foreign Share Invest.	0.1	0.1	
10	Foreign Loan, Net	-1.3	-1.5	-6.6
	Foreign Loan Principal Repayment	0.9	1.0	0.7
	Foreign Loan (-)	2.2	2.5	7.3
11	Domestic Loan, Net	-1.9	-4.2	-4.0
	Domestic Loan Principal Repayment	1.4	0.7	1.0
	Domestic Loan (-)	3.3	4.8	5.0
12	Surplus (-)/Deficit (,)	1.6	2.1	0
	GDP	2,642.6	3,007.3	3,459.0*

 $^{\circ}$ GDP for 2018/19 is projected on the basis of 8 percent GDP growth rate and 6.5 percent inflation as projected by the budget for 2018/19.  $\blacksquare$ 

# The Role of Financial Leadership in Sustainable Public Finances in Nepal

Governments all over the world are going through enormous change and public sector reforms are high on their agendas. If governments are serious about making change, politicians and civil servants should ensure that the finance roles within their governments are fit for purpose. ICAN, in its capacity as advisor to the Nepalese Government can and should take a lead role in this respect and help its government to transition through these reforms in a structured way.



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Focused and empowered leadership is essential to driving higher standards in financial management and ensuring that finance is integral to decision-making at the very highest level across the public sector says Sumita Shah, regulatory policy manager at ICAEW

In most private sector companies, from the big corporations down to smaller sized companies, the finance leader is involved in all key decisions. Indeed, finance leadership models in the private sector vary, but across large multidivisional organisations, there are some common features. In contrast in the public sector, there is often a mis-match in policy-making with economists and policymakers taking the lead in big decisions without involving the finance leaders.

# The Role of Financial Leadership in Public Finances

In ICAEW's publication, the role of financial leadership in sustainable

public finances in its Better Government Series, we explore the role that finance leaders can and should play in managing sustainable public finances. We explore the drivers for strong financial leadership and the skills and competences that, in our view, a strong finance leader should have. Senior leaders, from around the world, provide their thoughts the importance of strong finance leaders in the public sector. They explore the practicalities of financial leadership that is needed to tackle the problems that many governments are facing - whether it be to drive through public sector reforms or to tackle increasing government debts and deficits. The authors give their insights on:

- the importance of having finance professionals as leaders in the public sector;
- what a successful finance professional leader should look like and the specific skills/ qualities that they need to have;
- the challenges that finance professional leaders within the public sector face and how they can tackle them;
- how a finance professional leader can make an impact in government so that people listen when they speak; and
- how governments can ensure that they have the right people in place for these leadership positions.

# The Nepal Journey

Nepal as a country has made great strides in its public sector reforms. It has changed from a centrally managed government structure to three-tier structure: federal, provincial and local. The political will to enhance accountability and transparency in public finances has been achieved and is now a top priority for Nepal. One of the key challenges is for the government to integrate its financial reporting between the three-tiers of government in order to provide better information for budgeting and decision-making. It is encouraging however to see that, based on the recent ROSC and PEFA assessments, a multi-donor trust fund has been established to help the Nepalese government to implement public sector financial management reforms to strengthen accountability, transparency and overall performance.

For the financial years 2014/2015, the government adopted the Nepal Public Sector Accounting Standards (NPSAS), which are based on International Public Sector Accounting Standards (IPSAS) cash basis of accounting, for two of its line ministries. This was a positive first step in the move to better financial reporting. However, it needs to go further in these reforms. One of the challenges that the Nepalese Government faces in its journey towards improving public sector financial management is having the right skills and knowledge to help it drive through the public sector finance reforms.

# Capacity and Capabilities

ICAEW's publication encourages professional accountancy bodies to take the lead in working with governments on ways to attract, recruit and retain professionals for key roles that require the necessary accounting and financial skills. It is pleasing to note the leading role that ICAN is taking in helping the government in this respect.

ICAN has formed a committee to look at the NPSAS for the financial year 2017/2018 and to seek improvement of financial governance in the public sector. The committee has sought to define advisory and educational roles in the government and public sector enterprises. Having also identified that capacity and capability, both in terms of resources and skills, is still one of the main challenges for the government, ICAN is looking at ways in which it can help with this challenge.

The government is considering the establishment of a public finance management academy. ICAN's involvement in this will be crucial as accountants are key to providing financial leadership within government structures. ICAN is seeking to provide training to those in finance roles in government so that they have the necessary basic knowledge and skills to understand and prepare financial information.

Going forward, ICAN could also explore the multitude of roles that finance leaders should be playing in the public sector: from instilling financial disciplines across government (accountability, transparency, governance and ethics), providing strategic advice to policymakers on key financial policy decisions, to strengthening standards, improving balance sheet management and driving value for money across government. Finance leaders need to have both a strategic and a detailed understanding of how government works and be effective communicators and influencers to help shape policy and debates. It is therefore important for such leaders to have a combination of soft skills as well as the detailed technical skills. ICAN could, with its committee, consider whether it can provide such leadership to the Nepalese government. Indeed, is there scope for ICAN members themselves who have these skills to take on such roles within government, perhaps on a secondment basis?

While the specific leadership attributes and skills will differ depending on circumstances, cultures and individuals, it is important that finance leaders have integrity, courage and the ability to build widespread

support for change which advances the public interest. Traditionally accountants have provided these attributes. This is something that ICAN members will surely be able to transfer to the public sector.

Governments all over the world are going through enormous change and public sector reforms are high on their agendas. If governments are serious about making change, politicians and civil servants should ensure that the finance roles within their governments are fit for purpose. ICAN, in its capacity as advisor to the Nepalese Government can and should take a lead role in this respect and help its government to transition through these reforms in a structured way.

# A CFO at the top of Government?

In 2015, at a public sector conference hosted by ICAN, ICAEW discussed the potential for a Chief Finance Officer at the top of the Nepalese Government. With the extensive changes that the Nepalese Government has made in its public sector financial reforms, this is a good time for ICAN to now make recommendations for its government to consider a CFO at the top of its government.

This CFO would be a qualified accountant with a strong financial and leadership background who would look at overall finances across government departments and help government with the strategic financial leadership and instilling of financial disciplines that are needed to improve and strengthen Nepal's public finances. The position needs to be similar to a board level position in the private sector. Financial management is about both income and expenditure and a good CFO would be able to look at both inputs and outputs. To manage

a growing and developing economy, with the public sector contributing to the nation's overall economic development, it is important to have the right financial leadership at the top of its government. The tasks of a CFO are enormous. In our publication, a CFO at the Cabinet Table? we explored this role in more detail.

If the government is to get this right, the CFO must have a track record of cutting through bureaucracy - with both the technical skills for the task and the strength of character to challenge public sector financial cultures. If the Nepalese Government is serious about making changes and leading the charge for strengthening its public finances, to be truly effective, we hope it will be open-minded to putting into place a finance leader role that is fit for purpose.

# Radical changes are needed

The proposals outlined in this article are radical for the public sector but radical changes are needed if the Nepalese Government is to drive through its planned reforms and manage its public finances in a sustainable manner - it is therefore essential for the right finance leadership role and the right structures to be in place at the top of its government.

ICAN has already shown its leadership in taking steps to help the Nepalese Government, it should now be bolder and radical itself and propose changes to the financial leadership at the top of the Nepalese Government.

To view more publications in ICAEW's Better Government Series, please go to www.icaew.com/publicfinances.

# Rethinking the Capabilities of a Chartered Firm towards Protges Training in Nepal

The firm to protégé interaction is decisive to create long term impacts in the realm learning. organizational In house programs would be a comfortable way to create better harmony and knowledge sharing ground to the protégé and the employees. Peer learning, lecture sessions, essay competitions could add value to their personality developmen



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# **BACKGROUND**

When a twenty year boy unwittingly enters a staid chartered firm it makes his flesh creep. The ensuing three years in this place will be an epic journey, but does he really know what will happen? He sees everyone in formals, partner's name embedded in doors (shut), shoes squeaking here and there, papers scattered all around, index files clubbed together in the four corners and many more. While few were glued to their laptops, some others were running down the corridor with papers in their hands. But he could sense something missing. Probably it was a lively environment. He feels brave enough to introduce himself to the rest of the protégés. They smile reluctantly but they were all washed out. Silence reinforces again until some senior guy barges

in, goes straight to one of the protégé, murmurs something to his ears and leaves with a bang. Six hours has passed and nothing interesting has happened.

The next day he has an orientation session in office. After the session got over, some stern looking guy approaches to share with him few gigabytes of knowledge resources. This was customary and everybody got it. It contained Acts, Directives, Accounting Standards, Auditing Standards and many more documents. He was baffled to see all of these. 'Go through all these before conducting an audit assignment, 'the protégé sitting next to him blabbered. Then again that immortal, ceaseless, unproductive gazing to the laptops continued till the end of the day. Following day the boy wanted to see his principal but his cabin was

shut. For the next one month the boy was not in office. He was sent on an assignment to a district very far from home. When he returns back he had so many incidents to tell to his principal. This time his principal was on a foreign trip. For a second he planned to write an email to him but feared to do so because he did not know the formal way of writing an email. He sneaked into one of his line manager's cabin and narrated his experience. After the talk he felt happy and motivated.

The story does not end here. The question that still remains is, does he become a professional in the ensuing three years?

# INTRODUCTION

Chartered firms in Nepal employ young boys and girls as protégés whose average age is 22 years. Their employment is technically called articleship training which is of three years. They do not have defined job description or responsibilities. They are helping hands in all the services that the firm provides to their clients, be it accounting, auditing, financial management, legal mandates or taxation services. By and large, this is the only professional training in Nepal that provides such diverse work exposures at such a young age.

# THE CAPABILITIES: Knowledge Centric Learning

Now the guestion is simple. How do the chartered firms train these youngsters to become better professionals? This question poses both opportunities and challenges to a chartered firm. The challenges may be greater to a newly established firm with zero goodwill in the market. However for a well established and reputed firm, it is not back breaking, rather it needs to streamline its organization structure in much smarter way like creating a separate division that looks after the welfare of the protégés. It may be termed as 'Professional Training and Development Wing' which is guite similar to a Human Resources Department in a company. Like in a classroom, rote learning does not always help. Similarly in a chartered firm, only completing assignments will not measure success of a protégé. Can a chartered firm go beyond their core activities to help better train their protégés for a brighter professional future?

From my perspective it is not a daunting task, though it requires usurping the **existing status quo of 'doing by you'**. The concept of Knowledge Centric Learning must be brought in to make this happen.

# **Knowledge Centric Learning**

Outreach Programmes

- Company visits (Manufacturing, Trading and Services)
- Report Writing (Academic)

Collaborative Programmes

- Firm to firm learning (confidential clauses)
- Competitions

In House Programmes

- Firm to protégé learning
- Collaborative learning
- Competitions

Outreach programs will constitute mostly of company visits ending with report writing. The objective of this program will be to familiarize the protégés about the functional and organizational structure of a company.

Collaborative programs will be another tipping point to obtain a cross functional view of firm to firm learning process. Though the functional dimension will remain similar to that of outreach program, the style of working will be the focal point. Competitions like quiz

contests, debates and business case competitions, sports meet could be added to these programs.

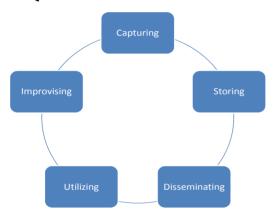
The firm to protégé interaction is decisive to create long term impacts in the realm of organizational learning. In house programs would be a comfortable way to create better harmony and knowledge sharing ground to the protégé and the employees. Peer learning, lecture sessions, essay competitions could add value to their personality development.

Therefore, the above programs could support and unclog every weakness that protégés face during their training period.

# **UNIQUE KNOWLEDGE CYCLE:** the process

A Chartered firm's foundation is built upon knowledge and its proper management. Every assignment requires a set of methodologies and a distinct skill set to ensure its timely completion. Some of them may turn out be extremely complex and mind boggling (like bank audits). Once knowledge imperative is spelled out, quality of assignment deliverables will be enhanced.

# UNIQUE KNOWLEDGE CYCLE



Managing knowledge is equally important to a Chartered firm as it is to a Fortune 500 company

A Protégé's acquired knowledge in any kind of assignment, whether small or large, must be captured by the firm. It must then be stored; otherwise captured knowledge will be valueless. A knowledge repository must be created after which dissemination follows. Only after this will knowledge is disseminated. Once it is known then it shall be utilized. This will indirectly sharpen his cognitive abilities. This is one step towards his professional development.

The above scenario is one out of hundreds of scenarios; the willingness to develop other models lies with the special division. However, its importance must not be negated; otherwise it will impinge the professional development of a protégé.

# CONCLUSION

Protégé is not required to attend a University to complete his chartered degree. This means that the University Learning Model will be missing. The absence of this model has overarching consequences as he grows to become a Chartered Accountant. But this can very well be mitigated and it is the role of chartered firms to act as the guiding light. The positive impact of implementing it is the permanency of creativity and youth in a young chartered accountant's life. In this way we shall save and sustain our profession for the times to come.

# The Future of Audit: Technology

Increasing use of technology will result in new challenges for businesses and new risks in the audit process. Auditors will need to validate the design and controls around the platforms which host the new software in addition to interpreting the complex data sets that arise



Technology is driving many changes in how we all live, work and interact and it is critical that the audit profession keeps pace with this change and is proactive in understanding how new technology trends can transform the audit approach. The Audit and Assurance Faculty explores ways we can maximise the opportunities presented by these developments.

- A call for action
- Background
- The current technology landscape
- Technology horizon scanning
- What does this all mean for the profession?
- What does this mean for the auditor of the future?

## A call for action

If we embrace new technology we believe that highly skilled auditors of the future will play an increasingly important role in society, bringing forward looking insight, trust and human judgement which is enabled, but not replaced, by technology.

To move towards this future all stakeholders - audit firms, regulators and standard setters, companies, investors - must engage and collectively drive forward this transformation.

#### **Auditors**

Larger audit firms should continue to invest and experiment in new technologies and drive an active ongoing dialogue with regulators as new techniques emerge.

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All firms need to build awareness and engage in the debate, as well as developing an agile strategy is key to successfully adapting to these new challenges and opportunities.

# The audit profession

Professional bodies should encourage and facilitate the dialogue needed to allow auditors to embrace the use of technology. They should also ensure that professional training and development requirements reflect the changing skills required of audit and accounting professionals.

# Regulators and standard setters

Regulators need to work closely with audit firms to understand the experiments in progress and to make some wholesale changes to regulatory requirements which in turn will shape individual firm methodology and approaches.

There needs to be a transparent process and mechanism for developing these new frameworks with input from all key stakeholders.

# Companies

Boards and audit committees will need to be appropriately resourced and sufficiently trained in order to understand the impact of technology on financial reporting processes.

Companies need to be open to moving towards a more standardised format of financial data to enable analytics capability and cognitive software to be used effectively.

# **Stakeholders**

The investor community needs to be clear on what information they need, when it is needed and what level of assurance is required.

# **Background**

There is wide debate around the impact that advances in technology will have on the scope and relevance of the audit of the future. If we do not engage with these developments the outlook could be bleak: at best the profession as we know it will become less relevant and at worst we might not remain in business at all. But if we harness the opportunities that technology disruption offers us then we have a very exciting and integral role to play.

Over the past 10-20 years there has already been a significant change in how we all use technology - both in business and socially. However the rate of technology change that is around the corner is likely to be significantly greater than any we have experienced to date. As an example, market research company Forrester reported that by 2021 robots will have eliminated 6% of all jobs in the US - just a few years away.

And set against this backdrop we have a profession steeped in tradition and operating within rigid regulatory frameworks. Do these disruptive technologies present an opportunity or a threat to the auditing profession?

While this pace of change will be perceived as a significant threat by many, this is a time of great opportunity for the profession if we embrace it. The biggest risk for auditors lies in doing nothing in response.

Some roles will undoubtedly be eliminated, however there will always be a need for skilled, human auditors who can apply sound judgment and arguably this is even more important in an increasingly technology enabled world. After all, who will decide what information should be fed into technology enabled tools? Who will interpret and communicate the results? And who will ensure that end users can rely on the output from these tools and have a robust understanding as to how risks such as cyber threats have been mitigated?

# The current technology landscape

Technology is already changing the face of the audit profession. Machines are helping us to do audits faster and with a reduced risk of error.

# **Analytics**

Analytics has been a buzzword within the audit landscape for a number of years now and it remains a pivotal part of the move towards the audit of the future. Improvements in analytics capabilities are enabling auditors to concentrate their efforts towards outliers in a population and allow 24/7 analysis of huge data sets. Suddenly testing complete data sets rather than a sample based approach is achievable and the concept of continuous audit within reach, allowing auditors to test audit evidence in real time, with timely identification of issues and insights and allowing focus on anomalies in a population.

Audit analytics has an important role in raising the audit quality bar, in particular enabling stratification of data and focused testing of large or complex data sets. As with many of the technology solutions which are going to become part of the auditor's future toolkit there is a critical dependency on the standardisation of data as a pre-requisite to being able to overlay these advanced tools.

Going forward, there is a shift towards predictive analytics - using analytics capabilities to predict events, explain when and why they might occur using simulation and modelling and also prescribe the most effective path to maximise opportunities. Such developments will allow audits to be increasingly precise in targeting risk and increase their relevance.

# Artificial Intelligence (AI)

Al is simply the task of getting computers and machines to do tasks that require intelligence when done by humans. Most current Al is narrow in that it is created to deliver a specific task within certain programmed parameters. This means the Al is reliant on humans providing initial instructions and algorithms.

Cognitive computing uses artificial intelligence and machine learning algorithms to go beyond analytic capabilities and to learn and make autonomous decisions. Al is considered a fundamental advance in driving efficiency and quality of output.

The concept of AI is not new and is being actively explored and rolled out in a broad range of areas - from the healthcare sector to the automotive industry, from online advertising to credit agencies. Unsurprisingly, the audit profession is also exploring the opportunities and potential for harnessing AI within an audit approach.

Emerging technologies like AI present the audit profession with many opportunities to improve the way we work, to provide better services delivered in a more efficient way and bring enhanced insight into the audit process.

Just take one example of natural language processing: using advanced machine learning techniques, auditors are now able to quickly process, highlight, and extract key information from electronic documents. These cognitive capabilities enable the auditor to assess a far broader population set in its entirety, and focus effort on key items of interest and insight while the repetitive or low judgement area of extraction is automated.

Although automation, analytics and cognitive technologies in themselves have the power to disrupt how audits are delivered - and indeed the business models and structure of audit firms - the real transformation of the audit profession will occur as these exponentials converge and combine with new technological disruptors, such as distributed ledgers - often referred to as the blockchain.

# Technology horizon scanning

## **Blockchain**

Distributed ledgers are becoming an increasingly hot topic. The concept of a secure, distributed ledger of information which provides a platform for representing and exchanging things of value could disrupt the way in which transactions are conducted and recorded in the future. Many organisations are starting to recognise the potential of blockchain technology and some are investing heavily in experimenting in this area.

Over the last five years, blockchain has evolved from a cryptocurrency or payment system to a broad ecosystem of digital automation opportunities.

The blockchain provides an immutable record of a transaction established in code. Some have suggested the future possibility of triple entry accounting where every accounting transaction recorded by an entity also has a corresponding posting onto a public blockchain. All the transactions on a public distributed ledger are available to all the users in the network, making the system transparent by design.

In reality, this feels a little far off and is dependent on collaboration within a complex ecosystem of companies, regulators, standard setters and government. The more likely route over the short to medium term is that some core building blocks of the blockchain concept will be incorporated into the way in which private groups of companies transact.

One such example is the way in which blockchain can be used to record smart contracts between entities. Such contracts could dramatically disrupt the way people do business. It is easy to see the advantages of users being able to interact with smart contracts to invoke automatic execution of defined rules and as a way of securely holding and transferring legal title of the asset. Details of how to account for the contract could also be included within the smart contract. This would enforce congruence between the recognition of costs in one entity and the recognition of revenue in the other. Such transactions are self-verifying meaning

that someone auditing the recognition of revenue from the contract would know that the other party to the contract has agreed the costs incurred, either themselves, or through a trusted source of verification.

And what is the long term view? Put the concepts of smart contracts and triple entry accounting together and the world of auditing looks very different. With all transactions verified by an independent source (or the other party to the smart contract) and a complete history of all transactions on the blockchain, focus can move from the audit of transactions in a year to auditing the terms of the smart contract itself.

Rather than waiting until year-end to see the impact of an entity's transactions on their financial statements, auditing could occur as smart contracts are created, before the transactions even take place. Misstatements, either due to fraud or error could be stopped before they occur. Auditing becomes real time - not an annual event looking back at the past year, hence bringing a new lens to transparency and corporate reporting.

Most development efforts using distributed ledgers remain highly experimental, and practical applications and large-scale commercial solutions have yet to emerge. And of course it is not without its negative press; the instability of Bitcoin is a seasoned discussion point. More recently, the negative press associated with the "hacking" of ledgers due to potential flaws in the code have made people realise that the blockchain may not be as impenetrable as thought.

Blockchain is still a relatively early stage technology. However despite the very obvious current challenges and its unpredictable journey to maturity, the disruptive potential of distributed ledgers remains significant.

# What does this all mean for the profession?

As a profession that is steeped in tradition and surrounded by frameworks and concern for regulatory challenge it is going to take a concerted effort to embrace and proactively respond to the opportunities and challenges that the digital and technological revolution will bring. Some of the biggest hurdles will be around responding in an agile way and having a forward looking mind-set.

Technology disruption is not a distant future state - it is here and now. If the profession is going to remain relevant it needs to embrace these changes. And the pace of change remains one of the biggest threats to

the profession. If we are not proactive in our response to these technology advancements then the traditional audit services and audit firms are wide open to challenge from the more agile start up community.

The response required is complex and requires interactions from multiple stakeholders. Each of these stakeholders is critical in ensuring the ability of the profession to move forward.

# **Auditors**

While there are many important stakeholders, in discussing the future of the audit profession it is auditors themselves who should be seeking to drive the agenda. There is a responsibility on audit firms, particularly the largest firms, to continue to invest in developing increasingly technologically enabled audits. This needs to involve some experimentation and an active ongoing dialogue with regulators as new techniques emerge.

Increasing use of technology will result in new challenges for businesses and new risks in the audit process. Auditors will need to validate the design and controls around the platforms which host the new software in addition to interpreting the complex data sets that arise.

All firms - regardless of size - have the potential to be disrupted by technological advancement. While smaller and medium practices may not be able to invest in experimentation on a scale that larger practices are able to, building awareness and engaging in the debate, as well as developing an agile strategy, is key to successfully adapting to these new challenges and opportunities.

# Regulators and standard setters

Recent and future technological advancements demand a rethink of the regulatory environment. In the short term, as auditors increasingly use algorithms to identify outliers for testing there is an urgent need for regulators to reassess the relevance of the regulatory environment and adapt their focus. This means that regulators need to work closely with audit firms to understand the experiments in progress and to make some wholesale changes to regulatory requirements which in turn will shape individual firm methodology and approaches.

Longer term disruptors - such as distributed ledgers - will require a completely new regulatory environment and accounting standards to ensure consistency of approach around verification of ledgers, validation and

recording of transactions and the role that oracles play verses auditors.

If we want something that is going to support technological developments and be a meaningful and appropriate regulatory environment, we must ensure that we do not simply try and shoehorn the new technology/approach into an existing framework. There needs to be a transparent process and mechanism for developing these new frameworks with input from all key stakeholders.

The audit profession can be a big ship to turn and a concerted and proactive effort is needed on the part of regulators, standard setters and audit firms to make this change happen. There is a risk that existing laws and regulations will act as a barrier to the pace of change and therefore action is needed now to start the cogs of change.

# **Companies**

Technological change and its impact on internal and external audits will also bring challenge and opportunity for companies. For example, boards and audit committees can demonstrate interest in how technology-enabled their external audit is through supporting technology investment in internal audit.

From a governance perspective, boards and audit committees will need to be appropriately resourced and sufficiently trained in order to understand the impact of technology on companies' own financial reporting processes, as well as being able to understand and challenge the work executed by auditors.

And, from a practical standpoint, if companies want to benefit from a more effective and efficient audit, they will need to be open to moving towards a more standardised format of financial data to enable analytics capability and cognitive software to be used without the prohibitive barriers of complex data manipulation which is often the case at present.

# **Investors**

The investor community also has an important role to play. The clearer this community can be on what information they need, when it is needed and what level of assurance is required, the greater the chance of success.

Investor needs can be met through more innovative, timely and relevant financial reporting, enabled by the types of technological developments highlighted above, but engagement and clarity of needs is key.

# What does this mean for the auditor of the future?

Significant change is coming and offers a huge opportunity for the profession to be more relevant and trusted than ever. This prize will require us to embrace change and to train and to develop people with a different range of skills and abilities.

While the broad business training that qualification for the ACA provides is still considered a valuable asset by graduates, there is a risk that the profession is still perceived by the majority to be very narrow in its graduate selection and required skillset.

For the future, the mix of skillsets is critical. The profession will need people who have accounting skills but who are also extremely IT literate. Analytical capability is coming to the fore - and also the ability to code and work with a range of new technologies. To meet this opportunity there are already some examples of audit firms recruiting in a broader way than they have done in the past and this trend looks set to continue.

Added to this is the potential to use the crowd to deliver audit tasks - a future that will be enabled by technology platforms and which will bring a whole new dimension to the flexible and agile audit workforce.

Future audits will be of a higher quality enabled by technology, but this is only part of the equation. Highly skilled humans will always be needed to interpret the big data, report and to interact with other humans on key judgment areas and provide assurance around the new technologies which are generating the data.

Technology is not a silver bullet - it is only as good as the data underneath. While the day-to-day remit of the auditor may change, the opportunities for our profession are greater than ever. ■

# **Update on US Chapter of ICAN**

The "US Chapter of ICAN" has been incorporated with State Corporate Commission Richmond, Virgina, United States of America which was formally inaugurated by President CA. Prakash Jung Thapa on 24 March, 2018. This chapter, along with facilitating social networking platform for ICAN members residing in United States of America will interact with ICAN on matters of professional interest, develop and conduct continuing professional education (CPE) programs, represent ICAN in local professional platform etc.



The principal office of US Chapter of ICAN is established at 3038 Southern Elm Ct, Fairfax, Virginia 22031. Members of the ICAN residing in USA shall become the member of this Chapter.

The Chapter shall be managed by the Managing Committee. Managing Committee as per the necessity, may form the other committees to support in functioning of the Chapter. Managing Committee members shall be elected for three years at the annual meeting of members which shall be held in November each year.

# **Certificate of Incorporation**

Managing Committee of US Chapter comprising following members has been formed to manage the affairs of Chapter:

CA. Ganesh Chandra Baniya : Coordinator

CA. Naya Raj Baral : Deputy Coordinator

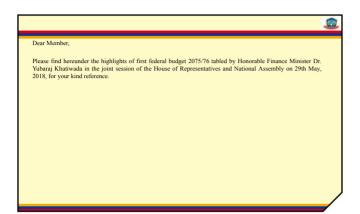
CA. Sudarshan Chapagain : Secretary CA. Ishwar Pokharel : Treasurer

CA. Binod Lamsal : Executive Member CA. Birajan Pant : Executive Member CA. Laxman Bhandari : Executive Member CA. Tika Acharya : Executive Member

The Managing Committee has also formed seven sub-committees to facilitate the activities of Chapter:

- a. Continuous Professional Education Committee (CPE).
- b. Membership Database and Information Technology Committee.
- c. Contemporary issue discussion Committee.
- d. Public Relation and Editorial committee.
- e. Professional Enrichment Committee.
- f. Audit Committee

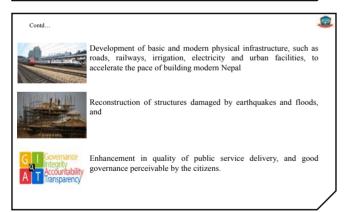
# **Budget Highlights of F/Y 2075/076**

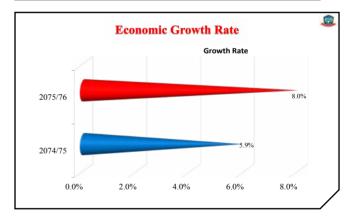


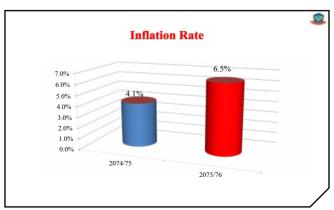


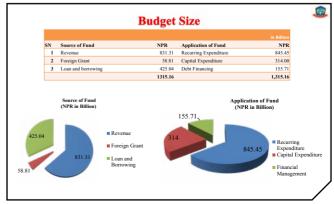


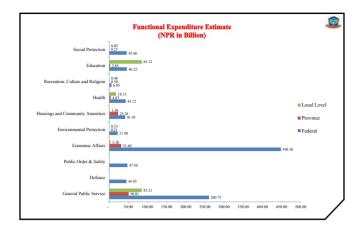












- \*Madan Bhandari Institute of Science and Technology will be established with the objective of making it an international educational center for excellence on Science and Technology.
- Allocated NPR 295.7 million to make all indigent and backward women self-dependent by expanding President Women Uplifting Program through the development of their skills, entrepreneurship and providing access to work and employment opportunity thereby ensuring their self-earning.
- A Geriatric Healthy Hermitage will be established at each province.
- The government will bear the cost of health insurance premium up to NPR 100 thousand of insurance amount for all citizens of over seventy years of age. In addition to the government-sponsored social security, a legal provision will be enacted that the children must take care of their elderly parents.









- \*"Agriculture Knowledge Center" will be established at all local levels to provide technical owledge and skills about agriculture and livestock.
- ❖ Waived off loans borrowed by small farmers from pre-existing Sajha Sahakari Santha
- Nijgadh International Airport will be initiated, Tribhuvan International Airport will be expanded, Pokhara Regional International Airport construction will be initiated and Gautam Buddha Regional International Airport will be operated after its completion
- ♦ The FY 2018/19 will be celebrated as the National Sanitation Campaign Year to ensure access to basic sanitation to all Nepali citizens within next three years









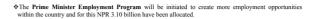
- \*Terai-Madhesh Sambridhi Karyakram (prosperity program) will be implemented for intensive social and economic transformation and carrying out physical infrastructure development programs in an integrated way in the backward local levels in terms of human development index in Terai-Madhesh.
- \*Garib Sanga Bisheshwor Karyakram coordinating with other poverty alleviation programs will be carried out in the local levels having extreme poverty
- ❖Ghar Gahr Ma Manab Adhikar will be implemented at grassroots level to ensure the human rights for all
- A High-Level Pay Commission will be formed to review and recommend about the salary and fringe sector employees







#### Major Plans of Budget 75/76



- Attract youths in business having higher education, arrangement will be made to provide loan up to NPR, 700 nd with a 5 percent subsidy in interest rate against the collateral of academic certificates
- on of providing project-based loan up to Rs. 1 million after accreditation of skill for the business for the youths returning from foreign employment
- At least one health center will be established in every ward within two years with partnership of local level governments and service of at least one medical doctor will be ensured for each local levels.
- \*"Let's Bring to School, Retain and Teach" campaign will be carried out for all children









- \*Expansion of air quality measurement center and effectiveness of environmental assessment and monitoring system in the major cities
- \*Allocated necessary budget for feasibility study and infrastructure development to establish at least one industrial zone, economic zone and special economic zone in each province in coordination with provinces and in partnership with public and private sectors.
- ❖Visit Nepal 2020 campaign will be launched with an objective of bringing 2 million tourists in the next two
- Internal tourism promotion campaign will be launched with the spirit of Country First Then Abroad.
- A contributory pension system for public servants joining service from 17 July 2018 will be compulsorily implemented.









#### Contd..

- ❖Allocated NPR 2.97 billion for the JantakoTatbandha Program operated for the protection of life and wealth by controlling large rivers.
- ❖Celebrating the period of 2018-2028 year as Energy Decade
- Provisioned NPR 50 thousand grant to the households below the poverty line to purchase materials including zinc sheet, subsidized rated woods per family willing to build safe houses by then
- \*Operate Terai-Madesh Road Infrastructure Special Programme to the local level linking to southern border and other sectors lacking adequate physical infrastructur
- Local Infrastructure Development Partnership Program will be operated under cost sharing mechanism with province and local level for the development of necessary infrastructure in local level, being implemented with the coordination and facilitation of elected representatives in federal, province and local







# **Changes and Reforms in Tax**

# Direct Tax



- □ Provided dividend tax exemption also to the all manufacturing and tourism industries by expanding existing provision of such exemption provided in the capital formation through cumulative profit and reinvestment in own industry.
- ☐ Provided subsidy in income tax for the industries providing direct employment to more than one hundred people.
- 50 percent income tax exemption on prevailing tax to promote tea, textile and dairy industries. I have proposed to provide income tax exemption for five years to promote small scale entrepreneurship business and additional two years of exemption for such industries owned by women.
- □ 10 percent exemption on income tax for three years as an incentive to transfer private limited company with paid up capital of NPR 500 million and or above into the public limited company. However, this provision shall not be applicable to those company which has to be incorporated as public company as pursuant to section 12 of Company Act, 2063



- ☐ In section 11(3kha), industry involved in minerals exploration and extractions will also be entitled to 100% exemption of income tax for seven years from the date of commencement of operation and 50% exemption in income tax for three subsequent years and the period of commercial operation has been extended till 2080 BS Chaitra end.
- 20 percent tax exemption on income tax rate to community hospitals.
- ☐ Exemption on past fiscal years tax and fees to social organizations if they submit statements as per prevailing income tax act.
- Exemption of social security tax for the individuals participated in the Contributory Provident Fund. I have increased the limit of life insurance premium up to NPR 25 thousand allowable for the deduction in income tax.



- Micro entrepreneurial industries are entitled to full concession on the applicable rate from the date of commencement of business or transaction. If such industries are run by women than for additional two years, it is entitled to full concession on the applicable tax rate.
- ☐ The period under sub- section 6 and sub-section 7 of section 47Ka has been extended to 2076 Asadh end and 2077 Asadh end respectively
- ☐ Transaction based tax rate has been revised to 0.25% if transaction for business dealing in gas and cigarette on 3% commission or making value addition thereof and 0.75% of transaction for business besides mentioned earlier.





- ☐ Reduced the threshold from rupees three million to rupees one million for the exemption of capital gain tax, being imposed on the transaction of house and land
- ☐ Corporate tax rate increased to 30% for companies operating telecom/internet services, money transfers, security market business, capital market, merchant banking, commodity/future market, commodity and stock broker, business of cigarette, bidi, cigar, chewing tobacco, gutkha, pan masala, alcohol, and beer
- ☐ The persons involved in joint venture, shall be individually or jointly liable to pay tax liabilities of joint venture in which he or she is involved.



- □ Where special industry and IT industry provides direct employment throughout the year to:

  - a. 100 or more Nepali nationals- 90% of applicable tax rate b. 300 or more Nepali nationals- 80% of applicable tax rate
  - c. 500 or more Nepali nationals- 75% of applicable tax rate d. 1000 or more Nepali nationals- 70% of applicable tax rate
  - Additional 10% reduction in applicable tax rate in case special industry and IT industry providing direct employment to at least 100 Nepali nationals throughout the year has its workforce composed on at least one-third from women, dalit or incapacitated.
- ☐ Taxes paid to provinces and local level shall be deductible pursuant to section 21
- ☐ The disclosure requirement of source of fund as per section 11 kha has been extended up to 2076 Chaitra
- ☐ In case of export made by Natural person, he or she is entitled to 25% concession on income on which 20% tax rate is applicable and is entitled to 50% concession on income on which 30% tax rate is applicable.



☐ Changed the existing fifteen and twenty five percent individual income tax rate to 10, 20 and 30 percent for developing the equitable tax system through progressive tax. Impose of 20 percent surcharge on income having more than NPR 2 million



Tax Rate for 2075-76					
Tax Rate	Single	Couple			
1%	350,000.00	400,000.00			
10%	100,000.00	100,000.00			
20%	200,000.00	200,000.00			
30%	1,350,000.00	1,300,000.00			
36%	Above NPR 20 lakh	Above NPR 20 lakh			



- □ Where he-buffalo, buffalo, he-goat, sheep falling in Part 1 of Harmonized Code System; live, fresh or frozen fish falling in Part 3 of HS System; fresh flowers falling in Part 6 of HS System; fresh vegetables, potato, onion falling in Part 7 of HS System, and fresh fruits falling in Part 8 of HS system are imported for business purpose, the customs office shall collect advance tax at the time of release of goods @ 5% on customs value determined on such products.
- TDS shall be deducted on payment made for preparation of question papers and verification of answer sheet.
- ☐ If a person required to file TDS return as pursuant to sub-section (1) of section 90 fails to do so within the stipulated time than he or she shall be charged fine of 2.5% p.a. for each month or part thereof

- ☐ The interest paid to any natural person by cooperative as per section 88(3) shall also deduct 5% TDS.
- ☐ In case of natural person, 7.5% capital gain tax shall be applicable on gain earned from disposal of share of entity listed in Nepal Stock Exchange and for other (except registered entity) the applicable rate is 25%.
- ☐ TDS to be deducted on commission paid on reinsurance premium received from non resident insurance company
- On payment of rent to natural person TDS need not to be deducted.
- ☐ TDS need to be deducted on payment exceeding 50 lakhs made towards the works done through the consumer committee.



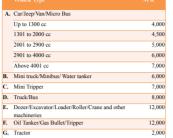
- ☐ If the owner of vehicle is a natural person, except a proprietorship firm, filing tax as pursuant sub-section 13 of section 1 of schedule 1, he or she shall not be required to file return as pursuant to section 96.
- 2.5% TDS shall be collected on payment made for goods delivery services.
- ☐ Where a natural person deriving income only from gain on disposal of Non Busines Chargeable Asset opts for non-filing of return (no return need to be filed).
- 2.5% TDS shall be collected on payment made for goods transportation/freight
- ☐ TDS need to be deducted on payment of rent to a natural person in relation to leasing of vehicle and transport where such vehicle and transport is not operated through
- ☐ TDS deducted on meeting allowance up to NPR 20,000 is final withholding tax.

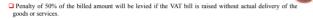


☐ The Office of Transportation shall collect presumptive tax as follows at the time of renewal or registration:



A.	Car/Jeep/Van/Micro Bus	
	Up to 1300 cc	4,000
	1301 to 2000 cc	4,500
	2001 to 2900 cc	5,000
	2901 to 4000 cc	6,000
	Above 4001 cc	7,000
В.	Mini truck/Minibus/ Water tanker	6,000
C.	Mini Tripper	7,000
D.	Truck/Bus	8,000
E.	Dozer/Excavator/Loader/Roller/Crane and other machineries	12,000
F.	Oil Tanker/Gas Bullet/Tripper	12,000
G.	Tractor	2,000
Н.	Power Tiller	1,500
I.	Auto Rickshaw/3 wheeler/Tempo	2,000





- Repealed the current provision of direct refund of Value Added Tax amount that collected from the consumer to the registered taxpayers. Similarly, the provision of Value Added Tax refund paid by importer on import of mobile phone set against the sell to registered taxpayers has been repealed
- ☐ Repealed the provision of collecting Value Added Tax in the health service provided by private hospitals.
- ☐ Arrangement to exempt the penalty against tax return non-filing for those taxpayers who have not submitted Value Added Tax return for long time but intend to comply regularly



☐ Full exemption of excise duty, Value Added Tax and 75 percent exemption of customs duty on import of one bus with thirty or more seats capacity by public schools for their use

☐ Hostel and canteen operated by the educational institutions for its own purpose is exempt from VAT.



#### Value Added Tax

- Compulsory registration in Value Added Tax for the transactions of goods related to brick production, alcohol distributor, wine shop, software, trekking, rafting, ultra-light flight, paragliding, tourist vehicle, crusher, sand mine, slate or stone, business of hardware, sanitary, intrinture, fixture, furnishing, automobiles, motor parts, electronics, marble, educational consultancy, disco-theque, health club, massage therapy, beauty parlor, catering service, party palace, parking service, dry cleaners using machinery, restaurant with bar, ice cream industry, color lab, boutique, tailoring with shirting suiting materials, uniform supplier for educational, health or other entities inside within the areas of metropolitan, municipalities and sub metropolitan city or areas prescribed by IRD.
- ☐ Taxpayer may issue invoice electronically after obtaining prior approval from Department. Notwithstanding anything written in above, Department may publish a notice requiring the person prescribed in the notice to issue invoice electronically and link such electronic means with the Central Bill Monitoring System of Department
- Any person developing, installing or operating software or equipment for the purpose to issue invoice electronically, if does not comply with provisions of Sec. 14A, penalty of NPR 5 Lakhs will be charged.



- Money transfer, capital market, stock market, merchant banking business, commodity future market and commodity or stock broker is included under Group 11 of VAT exempt list.
- Where an industry producing plastic bags replaces plastic bag by producing environment friendly jute, paper or cloth's bag, VAT applicable on purchase of new machinery for the same purpose is exempted from VAT.
- □ VAT on Machinery purchased and used for re-processing battery by respective industry is exempted from VAT.
- □ Polymer used for packing of Saline by Saline Industries upon recommendation of Department of Drug Administration is exempted from VAT.
- ☐ Constitutional services provided by provincial and local government is exempted from VAT.



#### Other Indirect Tax

- ☐ Increment in the excise duty in alcohol, cigarette, tobacco-based goods which
- Provision to collect the excise duty in the import and domestic production of coca mixed chocolates, perfume, toys, refrigerator and other similar goods.
- ☐ Increment in the excise duty in four-wheeler vehicles above one thousand CC and motorcycle above one hundred and fifty CC.
- ☐ Health Risk Tax on the production and import of cigarettes at the rate of twenty-five paisa per cigarette
- □ Nepali passengers returning from abroad are allowed to import raw gold up to one hundred grams by
- ☐ Excise duty has been introduced on energy drinks at the rate of Rs 25/liter.



□ NPR 40 million (previously NPR 30 million) annually will be charged for casino operation. Further if the game is played by casinos through modern machine and equipment NPR 10 million (previously NPR 7.5 million) annually will be charged as royalty.

☐ The service charge to be collected by telephone, mobile and internet service provider is increased from 11%







नेपाल चार्टर एकाउन्टेन्ट्स संस्था THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAI (Bitablished under the Nepal Chartered Accounts ICAN Marg. Sattlebate, Lahitpur, Nepal Phones 00977-1-5530832, 5530730

# NEWS

# **Institutional Development**

# Meeting with the Insurance Board

A team led by President CA. Prakash Jung Thapa had a meeting with officials of Insurance Board to discuss on effective implementation of NFRS in Insurance sector on April 1, 2018 in Kathmandu. The meeting was focused on support to be extended by Institute for effective implementation of NFRS by insurance companies. The Insurance Board assured for implementation of NFRS by insurance companies and to provide the required support to them. In this regard, a Committee has been formed to monitor the progress of implementation. The other team members were Vice President CA. Jagannath Upadhyay (Niraula) and Executive Director CA. Sanjay Kumar Sinha.

# Meeting with Affiliated Institutes

ICAN organized a meeting with affiliated Institutes on April 10, 2018 at the ICAN head office, Satdobato. The meeting was mainly confined on addressing the grievances of students regarding study materials, hall tests, postal test etc. President CA. Prakash Jung Thapa, Past President and Chairman of Board of Studies CA. Prakash Lamsal, Executive Director CA. Sanjay Kumar Sinha, Deputy Director CA. Gaurav Khwaunju Shrestha and Deputy Director CA. Utsav Baral represented the Institute in the Meeting.

# ICAN Organized Interaction Program on NSA

The Institute organized an interaction program on April 20, 2018 in collaboration with the Auditing Standards Board (AuSB) to discuss on the possible impacts on introduction of the exposure draft of Nepal Standards on Auditing (NSA) based on ISA 2017 Volume.

The participants shared their views on current status of NSA Implementation in Nepal, technical and practical challenges and measures to mitigate thereof, upon the pronouncement of the NSA.

President of ICAN CA. Prakash Jung Thapa, Vice President CA. Jagannath Upadhyay (Niraula), Immediate Past President and Chairman of Auditing Standards Implementation Committee CA. Mahesh Khanal, Past President and Chairman of Board of Studies, CA. Prakash Lamsal, Council Members, Members of Auditing Standards Implementation Committee, Executive Director CA. Sanjay Kumar Sinha and Deputy Director CA. Gaurav Khwaunju Shrestha participated the program.

# Interaction Program on Auditing and Monitoring

The Institute arranged an interaction program on "Issues related to Auditing and Role of Monitoring Committee" in Biratnagar and Janakpur on April 20 and 21, 2017(Baisakh 07 and 08, 2075) respectively in order to develop, protect and promote the accounting profession by enabling professional accountants understand their responsibility towards the accounting profession. The interaction program was held in presence of Council Member and Member of Monitoring Committee RA. Ganesh Raj Rai, and Member of Monitoring Committee CA. Ramesh Nepal.

During the interaction it was discussed on the present status of monitoring, areas requiring extensive monitoring and support of the Institute, challenges of auditing profession and measures to overcome them and other areas of auditing and monitoring.

# International Public-Sector Conference Organized

The Institute organized International Public-Sector Conference on the theme "Public Sector Financial Management: Enhanced Accountability and Transparency" on 12 May, 2018 at Hotel Yak and Yeti, Kathmandu, jointly with Public Expenditure and Financial Accountability (PEFA) Secretariat in association with Confederation of Asian and Pacific Accountants (CAPA).



Honorable Finance Minister of Nepal Dr. Yuba Raj Khatiwada is inaugurating the program.

Honorable Finance Minister of Nepal, Dr. Yuba Raj Khatiwada inaugurated the Conference by lightning the lamp.



IACN President CA. Prakash Jung Thapa is delivering speech on the program.

ICAN President CA. Prakash Jung Thapa welcomed the participants and highlighted the importance of conference in present context of Nepal being transformed from Central Structure to Federal and Provincial and local level. He mentioned that this transformation in the governance structure has created avenues of more involvement of professionals in Government Organizations for strengthening Public Sector Financial Management (PSFM).

Speaking at the inauguration ceremony, Finance Minister briefed about the present situation of Public Financial Management (PFM) and its relation with the fiscal policies and budget. He highlighted the role of professional accountants to develop and enforce the instruments for better management of government's

revenue and expenditure by establishing a stringent system of control for combating corruption. He further highlighted the need to frame institutional and policy frameworks for sound PFM particularly in the context of present federal setup where the Local and Provincial Governments have been entrusted with role of collecting revenue and spending budget.



Honorable Auditor General of Nepal Mr. Tanka Mani Sharma Dangal is delivering speech on the program.

Similarly, Guest of Honour Honorable Auditor General of Nepal Mr. Tanka Mani Sharma (Dangal) highlighted the role of ICAN and its members in enhancing good governance. Speaking on the occasion he also emphasized on the adoption of NFRS and NPSAS along with necessity of incorporating Public Financial Management (PFM) in curriculum of school and colleges. He said that effective implementation of PFM will help in making federalism a success in Nepal. He appealed professional accountants to perform their duty with highest professional standards.

CAPA President CA. Manoj Fadnis and SAFA President CA. (Dr.) Suvod Kumar Karn highlighted the importance of the conference whereas Mr. Anwaruddin Chowdhury, FCA, Institute of Chartered Accountants of Bangladesh (ICAB) delivered the key note speech in the program.

CA. Prakash Lamsal, Past President of ICAN, CAPA Board Director and Co-Ordinator of Organizing Committee delivered vote of thanks in the opening ceremony.

The conference covered various aspects of PFM in four technical sessions where National and International renowned personalities of respective field presented their technical papers. The Chair person and paper presenters of respective session were as follows.

Technical Session	Chair/ Moderator	Paper Presenter		
Session 1: Integrated	Mr. Kewal Prasad	Mr. Murari Niraula, Member Secretary, PEFA		
Financial Management	Bhandari, Joint Secretary,	CMA Sanjay Gupta, President ICAI (Cost)		
Information System	Ministry of Finance/GoN	Mr. Arif Mirza, FCCA Head of Policy at ACCA for Middle East		
		and South Asia		
Session 2: PSFM	Dr. Baikuntha Aryal,	Mr. Damodar Regmi, Joint Secretary, GoN/PEFA Co-		
Challenges and Way	Secretary, NNRFC/GoN	Coordinator		
Forward in Federal		Ms. Gillian Fawcett, Head of International, CIPFA		
Structure		Mr. Rurik Marsden, Head of DFID		
Session 3:	Mr. Ramu Dotel, Deputy	Ms. Sumita Shah, Regulatory Policy Manager, Public Sector		
Strengthening Audit	Auditor General of Nepal			
Function in Public		Mr. Franck Bessette, Lead Financial Management Specialist		
Sector		and Nepal PFM MDTF Manager of World Bank		
		CA. Narendra Bhattarai, Past President, ICAN		
Session 4: PFM	Mr. Brian Blood, Chief	Mr. Lasantha Wickremasinghe, Past President, ICASL and		
Governance and	Executive, CAPA	CAPA Director, CA. Atul Kumar Gupta, Council Member, ICAI		
Practices - Country		Mr. Babu Ram Gautam, Deputy Auditor General/Nepal and		
Experiences		ICAN Council Member		



Glimpse of one session of the conference.

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# CIPFA Membership Pathway Extended to all Chartered Accountants Members

The Institute has signed a supplementary agreement with the Chartered Institute of Public Finance and Accountancy (CIPFA) on May 13, 2018. The new provision allows Chartered Accountant members of the Institute who were qualified by examination with the foreign accounting bodies, remaining in good standing with ICAN and having at least five years relevant post qualification experience to have full CPFA membership of CIPFA. This matter was agreed at the recent visit of high level delegates of CIPFA office, UK in March 2018. The agreement was signed by President of the Institute, CA. Prakash Jung Thapa and Head of International, CIPFA, Ms. Gillian Fawcett in Kathmandu.

The conference was concluded with the vote of thanks from Vice President of ICAN CA. Jagannath Upadhyay (Niraula).

The conference was participated by delegates from 23 CAPA and SAFA Member Countries, Government Officials, Members of Institute, representatives Business Organizations and Development Partners and professionals.

As per original MoU signed on January 31, 2018, chartered accountant members qualified from ICAN and B & C category registered auditor members were allowed to become member of CIFPA by fulfilling the eligibility conditions.

# Interaction Program on Quality Assurance Review Organized

The Quality Assurance Board (QAB) organized an Interaction Program on Quality Assurance Review (QAR) on May 25, 2018 in Kathmandu.

The Interaction Program was organized to impart the initiatives taken by QAB to ensure quality assurance review of its member's practice and obtain the feedback and suggestions from members in Practice.

Executive Director of the Institute CA. Sanjay Kumar Sinha welcomed the participants. The interaction program was addressed by Chairman of QAB Mr. Ramesh Raj Satyal and President of the Institute CA. Prakash Jung Thapa.



Glimpse of interaction program on Quality Assurance Review.

President CA. Prakash Jung Thapa briefed about the Institute's strategies and initiatives to establish the effective system of quality assurance review of Practicing Units (PU) to meet the international standards and fully comply with the IFAC's Statement of Members Obligation (SMO 1 - Quality Assurance). President highlighted on importance of Quality Assurance review from the QAB and emphasized on the need to meet the expectation of Government, Corporate Sector, and General Public in regard to quality of professional services.

Similarly, Chairman of Quality Assurance Board Mr. Ramesh Raj Satyal briefed about the management structure of the Quality Assurance Board, independence and authority of the Board, Board's proceedings, procedure of selection of PU's for QA, process of selecting and prioritizing the audit file for QA, progress achieved so far by the QAB, legal framework of QA, and the plans of the Board to rigorously implement QA system within a reasonable timeframe. He further Explained that QAR of a practicing unit will be carried out in two levels i.e. Institutional level and engagement Level.

CA. Kiran Kumar Khatri, Joint Director of ICAN made a presentation conveying scope of review, focus and priorities of review, ICAN's QA Framework, questionnaires and responses, notice to PU before QA takes place, QA report and matters of consideration of the report by the QAB. After the completion of presentation, the floor was opened for discussion where more than 10 participants suggested the effective measures to make QA a success and appreciated the efforts of Institute and QAB for the initiations taken so far.

The queries raised by the participants were responded by the Chairman of QAB Mr. Ramesh Raj Satyal and the Vice President of Institute CA. Jagannath Upadhyay (Niraula).

The program was attended by more than 50 Members of the Institute representing several audit firms that are performing audit of listed entities including Council Members, Members of QAB and Past Presidents of the Institute.

The program ended with vote of thanks by the Vice President CA. Jagannath Upadhyay (Niraula).

## Afforestation

The Institute organized an afforestation program on June 5, 2018 at ICAN premises, Satdobato, Lalitpur.



ICAN President CA. Prakash Jung Thapa is planting a tree at ICAN premises.

The program was made successful by planting various species of plants in the ICAN premises. During the afforestation program ICAN President CA. Prakash Jung Thapa, Past President CA. Prakash Lamsal, Executive Director CA. Sanjay Kumar Sinha and staffs of the Institute were present.

#### NSA 2018 Pronounced

The Council of Institute has pronounced Nepal Standards on Auditing (NSA) 2018 on the recommendation of Auditing Standards Board (AuSB). The NSA 2018 was prepared based on the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements (2016-17 Edition) of International Auditing and Assurance Standards Board

(IAASB) published on 2016. This version of NSA has altogether 49 Standards that includes Nepal Standards on Quality Control (NSQC), Nepal Standards on Auditing (NSA), Nepal Auditing Practice Note (NAPN), Nepal Standards on Review Engagement (NSRE), Nepal Standard on Assurance Engagement (NSAE), Amended Nepal Framework for Assurance Engagement etc.

Nepal Standards on Auditing, 2018 has been pronounced from July 17, 2018 voluntarily and mandatory compliance from July 17, 2019 except for NSA 701 - Communicating Key Audit Matters in the Independent Auditor's Report.

# Strategic Plan (SP) II 2018-20 Approved

The Council of the Institute has approved Strategic Plan II (2018-2020) as a road map for three years to carry out operations to make the Institute more productive and achieve its goals. Its implementation is believed to be responsive to the changing needs of the profession that has identified the direction of the Institute into the future which shall serve as guidance for the decisions of the Council, Committees and periodic action plan of the departments of Institute.

This Strategic Plan II was presented to the Council for approval after finalizing it with series of discussion among the members of Executive Committee and other committees and considering the lessons learned from evaluation of implementation of first Strategic Plan (2014/15 - 2016/17) of Institute. On evaluating the achievement of first Strategic Plan (SP) the Institute experienced mixed results although many of the activities are of ongoing nature. Despite the various limitations in implementation of the first Strategic Plan to a large extent it has achieved the expected outputs. Many of the activities have been included in the second SP as continuity of reform process.

# 8th Council Members Elected

Election for 8<sup>th</sup> Council members amongst the Chartered Accountant members has been conducted on June 8, 2018 in Kathmandu and Registered Auditors members had already been elected unanimously on April 13, 2018. The name of newly elected Council Members is as follows.

S. No	Name			
1	CA. Jagannath Upadyay (Niraula)			
2	CA. Surendra Shrestha			
3	CA. Bishnu Prasad Bhandari			
4	CA. Krishna Prasad Acharya			

5	CA. Bidhyabaridhi Sigdel
6	CA. Madan Krishna Sharma
7	CA. Kiran Dongol
8	CA. Yuddha Raj Oli
9	CA. Mahesh Sharma Dhakal
10	CA. Peeyush Anand
11	RA. Kedar Nath Poudel
12	RA. Abdul Karim Khan
13	RA. Meera Shrestha
14	RA. Bahadur Singh Bista



Voters of 8th Council in the queue for using the right.

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

# Certificate Presentation Ceremony to Elected Members of 8<sup>th</sup> Council

The office of Election Officer of ICAN organized a "Congratulation, Wishes Exchange and Certificate Presentation Ceremony to Elected Members of 8<sup>th</sup> Council" on June 11, 2018 at ICAN Head office, ICAN Marg, Satdobato, Lalitpur.



Group photograph of newly elected Council members for 8th Council with ICAN President and Election Officer of 8th Council.

The program was started with the congratulating speech of Election Officer Mr. Uddhav Chandra Shrestha and he declared the election results. President CA. Prakash Jung Thapa congratulated all successful candidates and urged them to work for better ICAN. President CA. Prakash Jung Thapa and election officer Mr. Uddhav Chandra Shrestha felicitated the elected members of 8<sup>th</sup>

Council. Other personalities that include Vice President, Immediate Past President, Council Members and Staffs of the Institute, representatives from Association of Chartered Accountants of Nepal (ACAN), Association of Auditors Association of Nepal (AUDAN) and other professional association were also present in this event.

# **Members Activities**

#### **CPE Guideline Amended**

Continuing Professional Education (CPE) Guidelines has been amended by the Council to comply with the Statement of Members Obligation (SMO) issued by

International Federation of Accountants (IFAC) as per recommendation of CPE Committee of the Institute. The amendments shall come into effect from July 17, 2018.

# **RA Capacity Development Training**

The Institute organized a three-days training on Data Analytics in different places of country for its members. This training included various topic of excel such as excel as an audit tool, application and database, specific audit software etc.

Following are the training details.

S. No	Place of Training	Date of Training	No of Participants
1	Lalitpur	2075/01/4-6	31
2	Birtamod, Jhapa	2075/02/5-7	23
3	Nepalgunj, Banke	2075/02/11-13	24
4	Pokhara, Kaski	2075/02/18-20	17
5	Bharatpur, Chitwan	2075/02/26-28	24

CA. Mukund Pokharel conducted the training as resource person.

# New Members Welcome & Certificate Presentation Ceremony

The Institute organized New Member Welcome Program and Certificate Presentation Ceremony at ICAN Building, ICAN Marg, Satdobato, Lalitpur on June 3, 2018. The objective of this program was to welcome new Chartered Accountant members in the fraternity of members of ICAN and to brief them about the opportunities available to the profession, to share achievement with their friends and family, meet fellow members and networking, share expectation of each other, find out more about the services and facilities available to members.



Group photograph of new ICAN members after receiving the membership certificate with ICAN Officials.

The program started with the welcome remarks from Vice President CA. Jagannath Upadhyay (Niraula) who congratulated all new members for successfully completing Chartered Accountancy Course and obtaining the membership of the Institute. Vice president, in his welcome remarks, mentioned that ICAN takes it as achievement to have new members on board which will naturally help to contribute for the development of accounting profession.

President CA. Prakash Jung Thapa conferred with membership certificates to new members and Past President CA. Prakash Lamsal felicitated them.

Past President CA. Prakash Lamsal, in his remarks mentioned that obtaining the membership of the Institute is the beginning of a professional journey and it is a duty of our members to deliver the professional services complying with applicable technical and professional standards including code of ethics issued by the Institute.

Two new members delivered a speech regarding expectation of members and students from the Institute and suggested measures to further strengthen the Education and Monitoring system.

Addressing to the new CA. members President CA. Prakash Jung Thapa congratulated them and briefed about the felicitation program and idea of familiarizing new members with the Institute's environment, its global recognition and initiatives being taken by the Institute to create platform for the members at various levels. He further cited the importance of positive thoughts in professional life along with the necessity to deliver quality services to clients while adhering the ethical requirements and complying with the ethical principles of Code of Ethics i.e. Integrity, Objectivity, Professional Competence and Due Care, Confidentiality and Professional Behavior.

The program was also attended by Council Members CA. Suresh Devkota, CA. Ram Prabodh Shah, CA. Bhaskar Singh Lala, RA. Yadav Prasad Nyaupane, RA. Dhurba Prasad Paudel and staffs of the Institute.

The program concluded with vote of thanks from Executive Director CA. Sanjay Kumar Sinha. Altogether 35 new Chartered Accountant members were felicitated during this program. This kinds of program was organized by the Institute for the first time.

# Training on NFRS for SMEs

The Institute organized a two-days training on NFRs for SMEs at Lahan, Siraha for its members on 22 and 23 June 2018. This training included different topic of NFRS. Program was organized in the presence of Chairman of Member Capacity Development Committee RA. Surya Prasad Adhikari. Joint Director Mr. Binod Prasad Neupane was also present in the program. Altogether 25 members of ICAN participated in the training program. CA. Nirmal Kumar Bartaula was the resource person of the training.

# Registration of New Chartered Accountant

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

The list of newly registered 9 chartered accountants is as given below.

Membership No	Name
CA-1298	KSHITIZ KOIRALA
CA-1299	PRATIBHA SUBEDI
CA-1300	BIDYA GHIMIRE
CA-1301	ROSHAN PANDE
CA-1302	DINA DONGOL
CA-1303	YADAV SUBEDI
CA-1304	BISHNU PRASAD BHANDARI
CA-1305	ANKUR GOYAL
CA-1306	AYUSH KHETAN

# **Students Activities**

# Interaction Program on Chartered Accountancy Education

The Institute organized a full day interaction program on April 27, 2018 (14 Baisakh, 2075) with principals and account faculty of 50 schools and colleges. This program imparted information regarding the roles and responsibilities of ICAN, present status of CA education in Nepal and the responsibility of chartered accountant towards the society.

Program began with the welcome remarks from the Executive Director, CA. Sanjay Kumar Sinha. Similarly, Deputy Director CA. Gaurav Khwanju Shrestha briefly highlighted the opportunities available to Chartered Accountants, challenges and the way forward. President CA. Prakash Jung Thapa responded to queries raised regarding Chartered Accountancy education, its opportunity and challenges thereof.

ICAN President CA. Prakash Jung Thapa, Vice President CA. Jagannath Upadhyay (Niraula), Member of Board of studies RA Ganesh Rai, Executive Director CA. Sanjay Kumar Sinha and Deputy Director CA. Gaurav Khwaunju Shrestha participated in the program.

Altogether, 60 participants including principals and account faculty attended in the program.

# Interaction Program with Resource Persons (Examinations) Organized

The Institute organized one day interaction program with the academic resource persons in two sessions at ICAN Building on 5 May 2018.

The objective of the interaction program was to share the expectation of the institute, to obtain feedback and share experiences to strengthen and improve the examination system and procedure of the Institute.

The interaction program was attended by President, Vice President, Members of Examination Committee, Executive Director, and Staffs of Examination Department and by more than 90 resource persons/expert panel.

# Grand CA Education Fair 2018 Organized

The Institute organized Grand CA Education Fair in association with accredited coaching centers of the Institute on 14 May 2018 in Kathmandu to impart

detail information about the Chartered Accountancy (CA) course, entry requirements, admission procedures, scholarship, library facility etc., and the career opportunities available to qualified Chartered Accountants nationally and internationally.



Photograph of Grand CA Education Fair-2018.

The Fair was inaugurated by ICAN President CA. Prakash Jung Thapa with his welcome speech to the students, guardians and media representatives by highlighting the importance of Chartered Accountancy education and opportunities available in the globe. Speaking at the occasion, Vice President CA. Jagannath Upadhyay (Niraula) briefed about CA pathways, education and examination process, facilities available at the Institute, importance of professional qualification and opportunities available.

More than 200 students and guardians visited the fair. Council Members, Members of Board of Studies, and officials of accredited coaching centers and Executive Director of ICAN were also present for observation in the fair.

# Results of Accounting Technician Published

In pursuance of Bye-Laws 17 of the Accounting Technician Bye-Laws, 2067, the result of the Accounting Technician Examination held in March 2017 was published. According to the result one student declared pass. Four students filled the form whereas only two students were appeared in the examination.

# Chartered Accountancy Examination Conducted in June 2017

The Chartered Accountancy Examination of June 2018 has been conducted from 1 to 11 June 2018.

Different level examinations were conducted in Kathmandu as well as its branch offices. The brief information is as given below.

Kathmandu	Biratnagar	Birgunj	Pokhara	Butwal
CAP III, CAP II and CAP I	CAP I	II and	CAP II and CAP I	CAP I

Similarly, the details of Applicant and appeared students were as follows.

Details of applicants in June 2018 Examination:

S.No.	Level	Both Group	First Group	Second Group	Total
1	CAP I				729
2	CAP II	810	341	287	1438
3	CAP III	180	254	161	595

Details of appeared students in June 2017 Examination:

S.No.	Level	Both Group	First Group	Second Group	Total
1	CAP I				698
2	CAP II	758	272	257	1287
3	CAP III	171	222	133	526

Total applicants of all level of CA Examination were 2762 and appeared at least one subject were 2511.

# Chartered Accountancy Membership Examination Conducted in June 2018

The Chartered Accountancy Membership Examination was successfully conducted on 5 and 7 June 2018 in Kathmandu.

Total applicants of the examination were 253 and of which the examinees appeared in corporate Law were 197 and 187 examinees appeared in Advance Taxation.

# RA Upgradation Examination Conducted

The Institute successfully conducted RA upgrading examination from 1 to 5 June 2018 in Kathmandu. Only one C class RA member applied and appeared in the examination to upgrade in B class.

# One year Internship for Foreign CA Degree Holders

Pursuant to Nepal Chartered Accountants Regulation, 2061, Rules 41(KA) of its 5<sup>th</sup> amendment, The Institute of Chartered Accountants of Nepal has made mandatory

provision of one year internship to the foreign CA degree holders for getting Membership and Certificate of Practice. During the period of April 2018 to June 2018, total number of 89 chartered accountants member from ICAI have joined one year internship.

# **Student Registration**

Chartered accountancy course is becoming an attraction to the student interested to make their career in accounting and auditing profession. From April 2018 to June 2018, 1078 new students enrolled in different level of chartered accountancy course and accounting technician course. Details are as follows:

S.No	Level	No of Student Registration
1	CAP I	1048
2	CAP II	6
3	CAP III	24

# **Career Counseling**

The Institute is using Career Counseling mechanism as an effective tool to attract the new students in chartered accountancy education. Approximately 800 students in Kathmandu valley and 400 students in outside the valley actively participated in the counseling program during the period of April 2018 to June 2018.

# **Student Orientation Program**

The Institute organized an orientation program for the newly registered student on 24 and 25 June 2018 at ICAN office, ICAN Marg Satdobato, Lalitpur.



Glimpse of student orientation program.

About 800 students attended the program for pursuing the chartered accountancy course. Program was conducted in group basis. Each day two groups attended the program.

# International Relation

# CAPA Board and Committee Meetings Hosted

The Institute hosted Directors Meeting, Governance and Audit Committee Meeting, Accounting Technician Task Force Meeting and Public Sector Financial Management Committee Meeting of Confederation of Asian and Pacific Accountants (CAPA), a regional organization representing thirty-two professional accounting bodies operating in twenty-three jurisdictions in Asian and Pacific region on 11 May, 2018.



Glimpse of CAPA Board Meeting.

CAPA Directors and Members of various Committees were present at the CAPA Board Meeting. CA. Manoj Fadnis, President of CAPA chaired the meeting. The participants discussed on contemporary issues of accounting profession within the Asian Pacific region.

The Public Sector Financial Management Committee Meeting was attended by President CA. Prakash Jung Thapa and Immediate Past President CA. Mahesh Khanal. Mr. Thapa presented a progress report on the initiatives taken by the Government of Nepal in strengthening public financial management system since 2013 and the support extended by the Institute in this regard as Professional Accounting Body of the country and also elaborated about the opportunities available to the professionals in the changed Federal structure of governance. In the meeting, it was also briefed about the recent MoU with CIPFA to extend more technical and professional support to the Government.

# CAPA Members Meetings and Annual General Meeting Hosted

The Institute hosted Members Meeting and Annual General Meeting including Board Meeting of CAPA at hotel Yak and Yeti, Kathmandu, Nepal on 13 May, 2018 which was attended by President CA. Prakash Jung Thapa, Vice- President CA. Jagannath Upadhyay (Niraula), Immediate Past President CA. Mahesh Khanal, Past President and CAPA Director CA. Prakash Lamsal and Executive Director CA. Sanjay Kumar Sinha. These CAPA events/ meetings have been hosted by the Institute for the first time.

CA. Manoj Fadnis, President of CAPA chaired the meeting and welcomed all the members with his special thanks to ICAN for hosting all these events. ICAN President CA. Prakash Jung Thapa welcomed all the delegates and thanked CAPA for agreeing and reposing trust on ICAN to host these events including the International Public-Sector Conference.

The CAPA Members meeting discussed on issues around accounting profession both regionally and internationally, strengthening the capacity of the member bodies and other regular matters of CAPA.



Glimpse of CAPA Members Meeting.

Besides regular agendas, the members meeting also provided a forum for presentation on **Enhanced Auditor Reporting (EAR)** derived from ISA 701 "Communicating Key Audit Matters (KAM) in the Auditor's Report". The idea behind the presentation was to brief the members about the methodology adopted by member bodies in implementation of KAM and also organized a brainstorming session among the

participants to ascertain their views on the relevance of implementing ISA 701 Key Audit Matters (KAM).

The Members and Assembly meetings were attended by more than 50 delegates from 23 CAPA Member Countries. The meetings concluded with presentation of token of appreciation to President and Executive Director of ICAN by the President of CAPA, CA. Manoj Fadnis for ICAN's untiring effort in organizing CAPA events - meetings and International Public-Sector Conference which was successfully completed.

# SAFA Board Meeting Hosted

The Institute hosted 52<sup>nd</sup> Board Meeting of the South Asian Federation of Accountants (SAFA), an apex body of SAARC for the 3<sup>rd</sup> time in this financial year. The meeting was held at hotel Yak and Yeti on 11 May 2018. This meeting was hosted on the special request from SAFA member bodies to coincide with CAPA meetings/events.

The Board meeting of SAFA was chaired by the President of SAFA CA. (Dr.) Suvod Kumar Karn, Past President of ICAN and attended by 26 delegates of SAFA member bodies in the South Asian Countries including

representatives from the World Bank and Chartered Accountants of Australia and New Zealand (CA ANZ). The meeting discussed on latest developments in accounting profession, recent developments in SAFA and formation of SAFA Women Empowerment Committee including the role of SAFA with regard to enhancing the Audit Quality in digitalized context.

A joint meeting of CAPA and SAFA was also organized for developing new strategies to address the issues of mutual interest in the field of accounting profession to bridge the gap and address the burning issues of accounting profession in one platform.



Glimpse of 52<sup>nd</sup> SAFA Board Meeting.

# **Nepal Standards on Auditing 2018**

The Council of The Institute has issued Nepal Standards on Auditing (NSA) 2018 as recommended by Auditing Standards Board (AuSB) for pronouncement. This version of NSA has altogether 49 Standards that includes Nepal Standards on Quality Control (NSQC), Nepal Standards on Auditing (NSA), Nepal Auditing Practice Note (NAPN), Nepal Standards on Review Engagement (NSRE), Nepal Standard on Assurance Engagement (NSAE), Amended Nepal Framework for Assurance Engagement etc. Nepal Standards on Auditing, 2018 is issued for voluntary compliance from 2075 Shrawan 01 and mandatory compliance from 2076 Shrawan 01 except for NSA 701 - Communicating Key Audit Matters in the Independent Auditor's Report.

The list of Nepal Standard on Auditing (NSA) 2018 are listed as under;

S.No.	NSA No.	Standards		
		Preface to the Nepal Quality Control, Auditing, Review, Other		
		Assurance, and Related Services Pronouncements		
		Glossary of Terms		
		NEPAL STANDARDS ON QUALITY CONTROL		
1	NSQC 1	Quality Control for Firms that Perform Audits and Reviews of		
		Financial		
		Statements and Other Assurance and Related Services Engagements		
AUDITS	OF HISTORIC	CAL FINANCIAL INFORMATION		
		INCIPLES AND RESPONSIBILITIES		
1	NSA 200	Overall Objective of the Independent Auditor and the conduct of		
1	NSA 200	an Auditor in Accordance with Nepal Standards on Auditing		
2	NSA 210	Agreeing the Terms of Audit Engagements		
3	NSA 220	Quality Control for an Audits of Financial Statements		
4	NSA 230	Audit Documentation		
5	NSA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of		
	11011210	Financial Statements		
6	NSA 250	Consideration of Laws and Regulations in an Audit of Financial		
		Statements		
7	NSA 260	Communication with Those Charged with Governance		
	(Revised)			
8	NSA 265	Communicating Deficiencies in Internal Control to Those Charged		
		with Governance and Management		
300-499	RISK ASSESS	MENT AND RESPONSE TO ASSESSED RISKS		
9	NSA 300	Planning an Audit of Financial Statements		
10	NSA 315	Identifying and Assessing the Risks of Material Misstatement		
	(Revised)	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		

# **Nepal Standards on Auditing 2018**

16			
- 10	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 W	ORK OF OTHERS	
26	NSA 600	Special considerations-Audits of Group Financial statements (including the work of component Auditors)	
27	NSA 610 (Revised)	Using the work of Internal Auditors	
28	NSA 620	Using the work of an Auditors Expert	
700-799	AUDIT CONCL	USIONS & REPORTING	
29	NSA 700 (Revised	Forming an opinion and Reporting on financial statements	
30	NSA 701	Communicating Key Audit Matters in the Independent Auditor's Report	
31	NSA 705 (Revised)	Modifications to the opinion in the Independent Auditors report	
32	NSA 706 (Revised)	Emphasis of Matter Paragraphs and other Matter Paragraphs in the Independent Auditors Report	
33	NSA 710	Comparative information-corresponding Figures and comparative Financial Statements	
34	NSA 720	The auditor's responsibilities relating to Other information in Documents Containing Audited Financial statements.	
800-899	SPECIALIZED A	AREAS	
35	NSA 800 (Revised)	Special Considerations-Audit of financial statements Prepared in Accordance with special Purpose Frameworks	
36	NSA 805 (Revised)	Special Considerations-Audits of Single Financial statements and Specific Elements, Accounts or Items of a Financial statements	

# **Nepal Standards on Auditing 2018**

37	NSA 810 (Revised)	Engagements to Report on Summary of Financial Statements	
NEPAL	AUDITING PRAC	TICE NOTES	
38	NAPN 1000	Special Considerations in Auditing Financial Instruments	
AUDITS	S AND REVIEW (	OF HISTORICAL FINANCIAL INFORMATION	
2000-26	99 NEPAL STAN	DARDS ON REVIEW ENGAGEMENTS(NSREs)	
39	NSRE 2400	Engagement to Review Financial Statements	
40	NSRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity	
ASSUR	ANCE ENGAGE	MENTS OTHER THAN AUDITS OR REVIEWS	
	ΓORICAL		
	CIAL INFORMAT		
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41	NSAE 3000 (Revised)	Assurance Engagements Other than Audits or Reviews of Historical Financial Information	
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		<u> </u>	

# ICAN Code of Ethics for Professional Accountants-2018

The Institute of Chartered Accountants of Nepal has issued ICAN Code of Ethics for Professional Accountants-2018 which is based on International Ethics Standards Board for Accountants (IESBA) Code of Ethics, 2016. This code is a revised version of ICAN Code of Ethics, 2014.

The ICAN Code of Ethics for Professional Accountants, 2018 has changed the Section 290-Independence - Audit and Review Engagements and Section 291- Other Assurance Engagements which will be applicable from Shrawan 1, 2075. Synopsis of major changes have been cited here under for reference.

ICAN CODE OF ETHICS 2015 ( IESBA Code of Ethics 2014 Edition )

ICAN CODE OF ETHICS 2018(IESBA Code of Ethics 2016 Edition)

# SECTION 290-INDEPENDENCE—AUDIT AND REVIEW ENGAGEMENTS

# **Management Responsibilities**

# **Management Responsibilities**

#### Paragraph 290.159

# Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

# Paragraph 290.159

Management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

## Paragraph 290.160

Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would generally be considered a management responsibility include:

- Setting policies and strategic direction;
- Directing and taking responsibility for the actions of the entity's employees;
- Authorizing transactions;
- Deciding which recommendations of the firm or other third parties to implement;
- Taking responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; and
- Taking responsibility for designing, implementing and maintaining internal control.

# Paragraph 290.160

Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would generally be considered a management responsibility include:

- Setting policies and strategic direction;
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employee's work for the entity.
- Authorizing transactions;
- Controlling or managing of bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement;
- Reporting to those charged with governance on behalf of management.

- Taking responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; and
- Taking responsibility for designing, implementing and maintaining internal control

# Paragraph 290.161

Activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility. For example, executing an insignificant transaction that has been authorized by management or monitoring the dates for filing statutory returns and advising an audit client of those dates is deemed not to be a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

# Paragraph 290.161

A firm shall not assume a management responsibility for an audit client, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. For example, deciding which recommendations of the firm to implement will create self-review and self-interest threats. Further, assuming a management responsibility creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management. Subject, to compliance with paragraph 290.162, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

# Paragraph 290.162

#### **Management Responsibilities**

If a firm were to assume a management responsibility for an audit client, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. For example, deciding which recommendations of the firm to implement will create self-review and self interest threats. Further, assuming a management responsibility creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management. Therefore, the firm shall not assume a management responsibility for an audit client

# Paragraph 290.162

# **Management Responsibilities**

To avoid the risk of assuming a management responsibility when providing non-assurance services to an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the responsibility of management. This includes ensuring that the client's management:

• Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. Such an individual, preferably within senior management, would understand the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services;

- Provides oversight of the services and evaluates the adequacy of the results of the services performed for the client's purpose; and
- Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

# Paragraph 290.163

# Paragraph 290.163

#### **Administrative Service**

To avoid the risk of assuming a management responsibility when providing non-assurance services to an audit client, the firm shall be satisfied that a member of management is responsible for making the significant judgments and decisions that are the proper responsibility of management, evaluating the results of the service and accepting responsibility for the actions to be taken arising from the results of the service. This reduces the risk of the firm in advertently making any significant judgments or decisions on behalf of management. The risk is further reduced when the firm gives the client the opportunity to make judgments and decisions based on an objective and transparent analysis and presentation of the issues.

Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature. Examples of administrative services include word processing services, preparing administrative or statutory forms for client approval, submitting such forms as instructed by the client, monitoring statutory filing dates, and advising an audit client of those dates. Providing such services does not generally create a threat to independence. However, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

# **General Provisions**

# Paragraph 290.164

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:

- Originating or changing journal entries, or determining the account classifications of transactions; and
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).

# **General Provisions**

# Paragraph 290.164

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:

- Determining accounting policies and the accounting treatment within those policies.
- Originating or changing journal entries, or determining the account classifications of transactions;
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).

# Paragraph 290.166

These activities are considered to be a normal part of the audit process and do not, generally, create threats to independence.

# Audit Clients that are not public interest entities

## Paragraph 290.168

The firm may provide services related to the preparation of accounting records and financial statements to an audit client that is not a public interest entity where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level. Examples of such services include:

- Providing payroll services based on clientoriginated data;
- Recording transactions for which the client
   has determined or approved the appropriate
   account classification;

- Posting transactions coded by the client to the general ledger;
- Posting client-approved entries to the trial balance; and
- Preparing financial statements based on information in the trial balance.

In all cases, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

 Arranging for such services to be performed by an individual who is not a member of the audit team; or

# Paragraph 290.166 (Last Lines)

These activities are considered to be a normal part of the audit process and do not, generally, create threats to independences so long as the client is responsible for making decisions in the preparation of the accounting records and financial statements.

# Audit Clients that are not public interest entities

## Paragraph 290.168

The firm may provide services related to the preparation of accounting records and financial statements to an audit client that is not a public interest entity where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level. Services that are routine or mechanical in nature require little to no professional judgment from the professional accountant. Some examples of such services include:

- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client.
- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification. Recording a transaction for which the client has already determined the amount to be recorded, even though the transaction involves a significant degree of subjectivity.
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting client-approved entries to the trial balance; and
- Preparing financial statements based on information in the client-approved trial balance and preparing the related notes based on clientapproved records.

In all cases, the significance of any threat created shall be evaluated and safe guards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

 Arranging for such services to be performed by an individual who is not a member of the audit team; or If such services are performed by a member of the audit team, using a partner or senior staff member with appropriate expertise who is not a member of the audit team to review the work performed.

If such services are performed by a member of the audit team, using a partner or senior staff member with appropriate expertise who is not a member of the audit team to review the work performed.

# Paragraph 290.169

Except in emergency situations, a firm shall not provide to an audit client that is a public interest entity accounting and bookkeeping services, including payroll services, or prepare financial statements on which the firm will express an opinion or financial information which forms the basis of the financial statements.

# Paragraph 290.169

A firm shall not provide to an audit client that is a public interest entity accounting and bookkeeping services, including payroll services, or prepare financial statements on which the firm will express an opinion or financial information which forms the basis of the financial statements

# Tax Calculation for the Purpose of Preparing Accounting Entries

## Paragraph 290.182

Except in emergency situations, in the case of an audit client that is a public interest entity, a firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion.

# Replaced by Paragraph 290.181

In the case of an audit client that is a public interest entity, a firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion.

#### Paragraph 290.509

An evaluation shall be made of the significance of any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement, including those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the audit engagement partner in connection with the performance of the audit engagement (including the seat all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent).

#### Paragraph 290.509

An evaluation shall be made of the significance of any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement, including those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the audit engagement partner in connection with the performance of the audit engagement (including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent)

# SECTION 291: INDEPENDENCE—OTHER ASSURANCE ENGAGEMENTS

# **Management Responsibilities**

# **Management Responsibilities**

## Paragraph 291.141

# Paragraph 291.141

Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However. management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

Management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

# Paragraph 291.142

# Paragraph 291.142

Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would generally be considered a management responsibility include:

- Setting policies and strategic direction;
- Directing and taking responsibility for the · Hiring and dismissing employees. actions of the entity's employees;
- · Authorizing transactions;
- Deciding which recommendations of the firm or · Authorizing transactions; other third parties to implement; and
- Taking responsibility for designing, implementing and maintaining internal control.

Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would generally be considered a management responsibility include:

- · Setting policies and strategic direction;
- · Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- · Control or management of bank accounts or investments.
- · Deciding which recommendations of the firm or other third parties to implement; and
- · Taking responsibility for designing, implementing, monitoring and maintaining internal controls.

# Paragraph 291.143

Activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility. For example, executing an insignificant transaction that has been authorized by management or monitoring the dates for filing statutory returns and advising an assurance client of those dates is deemed not to be a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

# Paragraph 291.143

In providing assurance services to an assurance client, a firm shall not assume a management responsibility as part of the assurance service. If the firm were to assume a management responsibility as part of the assurance service, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. If the firm assumes a management responsibility as part of any other services provided to the assurance client, the firm shall ensure that the responsibility is not related to the subject matter or subject matter information of the assurance engagement provided by the firm.

# Paragraph 291.144

Assuming a management responsibility for an client may create threats independence. If a firm were to assume a management responsibility as part of the assurance service, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Accordingly, in providing assurance services to an assurance client, a firm shall not assume a management responsibility as part of the assurance service. If the firm assumes a management responsibility as part of any other services provided to the assurance client, it shall ensure that the responsibility is not related to the subject matter and subject matter information of an assurance engagement provided by the firm.

# Paragraph 291.144

When providing services that are related to the subject matter or subject matter information of an assurance engagement provided by the firm, the firm shall be satisfied that client management makes all judgments and decisions relating to the subject matter or subject matter information of the assurance engagement that are the responsibility of management. This includes ensuring that the client's management:

- Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. Such an individual, preferably within senior management, would understand the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services;
- Provides oversight of the services and evaluates the adequacy of the results of the services performed for the client's purpose; and
- Accepts responsibility for the actions, if any, to be taken arising from the results of the services

# Paragraph 291.145 (Omitted in ICAN Code of Ethics 2015 but to be referred if required)

To avoid the risk of assuming a management responsibility related to the subject matter or subject matter information of the assurance engagement, the firm shall be satisfied that a member of management is responsible for making the significant judgments and decisions that are the proper responsibility of management, evaluating the results of the service and accepting responsibility for the actions to be taken arising from the results of the service. This reduces the risk of the firm inadvertently making any significant judgments or decisions on behalf of management. This risk is further reduced when the firm gives the client the opportunity to make judgments and decisions based on an objective and transparent analysis and presentation of the issues.

Replaced by Paragraph 291.144 as above.

Paragraph 291.146 to 291. 157

Re-numbered as 291.145 to 291.156

# Specific Guidelines- ICAN Code of Ethics for Professional Accountants

The Institute of Chartered Accountants of Nepal has issued ICAN Code of Ethics for Professional Accountants, 2018 which is based on International Ethics Standards Board for Accountants (IESBA) Code of Ethics- 2016. This code is a revised version of ICAN Code of Ethics-2014

In this connection, the Institute (ICAN) has introduced specific guidelines relating to ethical issues by incorporating three guidelines in this code.

Firstly, the Guidelines on Marketing Professional Services by Professional Accountants in Public Practice has been issued to specify ethical Marketing and Publicity Practices.

This guideline is aimed to guide ethical communication in search of finding professional services. This guideline also enforce that such communication must not be in form of influence, persuade, or coerce the clients through any means of advertisement, publicity, communication, lobbying etc.

Secondly, the **Guidelines on Custody of Clients Money/ Assets** has been issued that guides on informing client regarding the responsibilities of client and custodian Professional Accountants.

This code specifically guides on not assuming the custody of clients' money/assets unless permitted by law to do so. Safeguards for minimizing threats resulted due to Custody has also been suggested in this guideline. The guideline is particularly important in context of discouraging money laundering practices and terrorist financing.

Lastly, the **Guidelines on Networks and Network Firms** has detailed out the provisions relating to network and network firms.

This guideline enforces conscious and consistent application of independence and judgement in creating understanding and in providing professional services to the public. Given the increase in scope of professional accountants due to decentralization and introduction of new laws and regulation, these guidelines facilitate in the composition of network and necessary activities to be carried out by network members to uphold highest level of professional standards.

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