September 2018
Vol. 21, No 1

THE NEPAL CHARTERED ACCOUNTANT

Journal of the Institute of Chartered Accountants of Nepal


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

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Design, Layout & Printed by:
Print and Art Service, Bagbazar, Ktm, Tel: 01 4244419/4239154

Subscription Rates
Annual Subscription Rs. 600 *(including courier charges for Organizations)*
Rs. 400 *(including courier charges for Members)*
Rs. 300 *(Self Collection)*

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Editorial

Hamilton, while deliberating on the American constitution in The Federalist Papers, puts forward a very pertinent question that *'whether societies of men are really capable or not of establishing good government from reflection and choice, or whether they are forever destined to depend for their political constitutions on accident and force'*. The jury is out and the people have spoken and have expressed their deliberate choice for establishing a democratic federal republic through the Constitution of Nepal, 2072.

The time to embark on the journey to prosperity and fulfilling the aspiration of the Nepalese people had never been more conducive. With the promulgation of the Constitution, the desire of ordinary people for better education, healthy life, respectable employment etc. have been guaranteed. Moreover, the Nepalese people had collectively expressed their choice for pro-development and stable government with resounding two-third majority. The final step in consolidating federalism was accomplished by assigning capital and naming the states.

It seems the initial euphoria has died down. Tax has been a taxing issue for governments to respond to. Echoed almost in all spectrum- be it in satires in social media, news flashes in TV screens or in the actual ordeal of an ordinary citizen who find it as yet another monster gaping at them - tax is often found ironically linked with 'fruition' of new federal polity. Apart from other issues of public criticisms against government, tax perhaps holds a prime place in the list. *Kar*, the Nepali counterpart of tax, connotes some sort of 'pressure' to do something. The very essence of it has transmigrated in the minds of rulers and bureaucrats alike that tax is fundamentally a government's legal discretion to be imposed upon citizenry; not a subject of voluntary contribution of citizens or any act done out of persuasion.

Though there is no empirical evidence of correlation of economic growth and tax reductions, and various studies of scholars are at best limited by the assumptions that they make, it is evident that inefficiency in government spending of the resources in its hand has wide implications on economic growth. The report of budget expenditure of the government has always been dismal. At a time when the government is itself not able to spend the funds in its coffers, it has set ambitious targets to collect more revenue.

A fine balance should be kept between revenue and expenditure. Taxes are the major source of revenue. However, the states should desist from treading into a zone where tax becomes counterproductive. Moreover, State's concern for funds can be met by the shared tax revenue and inter-governmental transfer.

On the brighter side, our experience with federalism is just in a nascent stage. Barring a few hiccups, our efforts and intention has been honest and progressive and looking for an overhauled system overnight may be like pulling out a rabbit out of the magician's hat - just an illusion. We all should remember that *"Rome was not build in a day"*. For the roots of federalism to spread firmly, we need to make many structural changes and bring forth many policy formulations.

A great Indian poet Kalidas made a fitting metaphorical proposition before a King in Raghubansha, wherein, he says , *'It was only for the good of his subjects that he collected taxes from them, just as the Sun draws moisture from the Earth to give it back a thousand fold'*. The Nepalese people have a right of thousand fold from the State!!!

Editorial Board

President's Message

Dear Professional Colleagues,

It is my honor and privilege to communicate with you as the President of our glorious Institution. At the onset, I would like to extend my gratitude to all my current and past Council Members including all members of the Institute for reposing trust in my leadership and for my election as Vice-President for the F.Y. 2017/18, and now as the President of the Institute for the F.Y. 2018/19.

I would also like to thank all the Presidents of the previous Councils and their teams whose tireless efforts have led the Institute to attaining high reputation and making accounting profession a matter of pride for all the members.

I congratulate CA. Krishna Prasad Acharya on being unanimously elected as the Vice President of ICAN for the F.Y. 2018/19. I am fully confident that his rich experience and professional acumen will greatly benefit the members at large and help our team in discharging our responsibilities. I also take this opportunity to congratulate and welcome Mr. Jeevan Prasad Suvedi, Assistant Auditor General, Office of the Auditor General, Ms. Chandrakala Poudel, Joint Secretary, Ministry of Finance and Mr. Shankar Shrestha, Joint Secretary of the Financial Comptroller General Office, nominees to the Eighth Council of the ICAN. Moreover, I congratulate the Registered Auditor Members for being unanimously elected to the Eighth Council. I am sure that their diverse knowledge and long professional experience will further enrich the collective wisdom of the Council and support the cause of the profession.

In addition, I would like to thank our immediate Past President CA. Prakash Jung Thapa for his leadership and scaling the Institute to new heights and his assurance of continuing guidance to the Eighth Council. The Strategic Plan (2018-2020) formulated during his tenure shall be guideposts for us.

Dear Friends and Colleagues,

In the words of the poet Robert Frost:

The woods are lovely, dark and deep. But I have promises to keep.

And miles to go before I sleep, and miles to go before I sleep.

We have been successful in establishing our Institute as the pre-eminent center of excellence and the members of the Institute have been the true ambassadors of the Institute, propagating the fame of the Institute through their par excellent service to the nation and public at large. However, much needs to be done. As the baton has been handed to me, I commit to leave no stone unturned to enrich and excel our Institute and our profession. I have always been passionate about our profession. Over the years, I have come to realize that ethical professionals are assets of the society, who can contribute immensely in their respective fields. Moreover, members of the Institute have a wider role to play in nation building by enhancing credibility and transparency of the system and being a role model of integrity and trust. As Gandhi said, "be the change you want to see in the world", we have to strive for self- efficacy. Let our deeds speak for us.

Now, I would like to share the vision of the Institute and give a brief outline of some tasks that I plan to undertake during my tenure. I am confident that these initiatives can be accomplished with management team and active participation of the Council Members and other stakeholders.

Sub-committees under Past Presidents

Past Presidents and Council Members of the Institute, with their rich and diverse experience and learning are valuable assets of the Institute. Recognizing their continuing support, Eighth Council has decided to award the Chairmanship of most of the Non-Standing Committees of the Institute to them to harvest their vast knowledge and experience not only in the field of the profession but all the spheres of lives. I am confident that with the support of all the Past Presidents and Members of the Institute, I shall be able to fulfill all my commitments delivered at the time of oath taking ceremony.

Education

At the core of the Institute lie our students and it is their competency and skills that is of our prime concern. The education landscape is facing rapid changes and keeping abreast with those changes is vital to compete in the globalised world. Therefore, the Council of the Institute has approved new syllabus for all three levels of CA examination under twinning arrangement with an internationally recognized Institute, which will be implemented from this year itself. Moreover, in order to check the competency of the students, examination question quality framework will be prepared as per the requirement of the new syllabus.

Our Institute is the premier accounting institution of the country. In order to enhance quality of accounting education, the Institute is planning to increase technical coordination with the national universities of the country. I believe, this partnership will be mutually beneficial to the Institute and partner universities and the nation at large.

As you are aware, the Institute has already implemented online payment service for the members for paying their fees and the same facility will be extended to the students from this year. This service will enhance the efficiency of service delivery and at the same time save valuable time of the students.

The Institute is also planning to formulate and issue 'Mentoring Guidelines' to regulate and streamline the training of article trainees. This will provide a guiding framework for both mentors and mentees for the effective training.

CA education will be made the preferred choice of education by attracting deserving and meritorious students. The Institute has been awarding scholarship to the merit holders and deserving students of different level every year. More scholarship will be provided to motivate students towards CA education.

The demand for accounting technician has been increasing for bookkeeping, account preparation, tax/ VAT filing, preparation of financial statements etc. Accounting technician cater to the needs of the mid-level accounting profession and support the requirements of professional accountants in the industry and service sector. Therefore, the expertise and skills of accounting technician will be enhanced and this profession shall be made more attractive.

Membership and Professional Capacity Development

The corporate ecosystem has been witnessing changes due to developments in ICT and automation. This has impacted our profession as well. A fortiori, our knowledge and skill set must be attuned with the latest developments. We also intend to engage with the beneficiaries of our services for the identification of any skill gap that needs to be bridged through appropriate skill development programs.

Furthermore, in the context of federalized structure of our country, implementing systems, enhancing accountability, transparency and its sustainability is a major challenge. The Institute will continue to coordinate with various local, state and federal bodies and provide its expert services as per the need. Moreover, avenues for mutual co-operation and interaction shall be searched with the Regulators.

The Institute has been supportive and proactive in implementing Nepal Financial Reporting Standards (NFRS) in the banking, insurance and other sectors with some carve-outs. Similarly, the Institute is planning to implement NFRS in the SMEs from next year. Moreover, the Institute is planning to conduct various programs related to NFRS for different entities and members of ICAN. Informative books about NFRS will be published for wider understanding and clarification. The Council of the Institute has already formed two NFRS Committees for smooth implementation of NFRS in financial and non-financial sectors.

The CPE is essential for maintaining adequate level of current knowledge and proficiency of members The Institute has decided to increase the CPE hours for the members from this year as per the Statements of Membership Obligations (SMOs) of IFAC. The Institute will initiate to conduct NFRS classes in regular basis. Moreover, online CPE will be introduced from this year. Emphasis will be given to provide CPE training to the members considering their areas of work and interest and initiatives have been undertaken to re-module the training package to address this effort.

'Women Empowerment' has always been one of the priority areas of the Institute. We have much to gain from the knowledge, skills and energy of women members of our fraternity. ICAN has formulated the Women Empowerment Committee to increase the participation of women members in all activities of the Institute. For the first time in the history of ICAN, two women Council Members are on board through election and nomination. We believe that our Council will be more gender inclusive in the future. I hope that this Committee will also succeed increasing the participation and representation of woman in the ICAN activities.

Similarly, in the context of federalized structure of the country and to promote regional balance, the Institute envisages to establish Regional Council in every State. To get the momentum rolling, we are in the initial phase of coordinating and partnering with the Local Governments for getting land for establishing branch offices. I urge our Branch colleagues to play more active and constructive role in this regard. I believe our branch colleagues will associate with the Provincial and Local Level Governments to make our engagement stronger and effective at respective levels. Such efforts will increase the professional productivity of the Branches as well as strengthen the professional voice and representation.

The Institute will also coordinate with the Public Service Commission for creating new positions in the Government Entities and State owned entities for its members. I believe, this effort will help to enhance the quality accounting and expert services in such entities.

The Institute will conduct pre and post budget interaction program as well for giving suggestions/ recommendation to the government of Nepal while preparing Budget. We will also continue to maintain and strengthen our cordial relationship with IFAC, CAPA, SAFA and accounting bodies of other countries

Quality Control

The Institute has revised the Code of Ethics as per the revised Code of Ethics of International Ethics Standards Board for Accountants (IESBA), 2016. The Institute has always taken initiatives for quality service delivery. In this regard, the Institute will conduct various programs related to Code of Ethics for raising awareness among its members.

The Institute will conduct monitoring of quality of services of its members. Action will be taken against non-complying members as per the Code of Ethics, Directives, Rules and Regulations of the Institute. A mechanism of information sharing with the other regulating authorities such as Inland Revenue Department and Office of the Company Registrar has already been initiated and the development of the monitoring software is underway. We hope this effort will curb unethical practices and enhance quality of services delivered by the members

Quality Assurance Board has started quality review of the selected audited firms from the independent reviewers. With the formation of the Board, the Institute can play an active role for effective monitoring and will help to enhance the audit quality. I believe the tasks done by the Board will be a milestone for audit quality enhancement.

Institutional and Human Resource Development

Timely and proper implementation of the three-year ICAN Strategic Plan 2018-2020, as approved by the Council will be our next area of focus.

The Council has approved the new organizational structure, as per which the Institute will recruit technical and administrative staffs for smooth running of the Institute and make it more effective and efficient. We will make our staffs more effective and capable by encouraging them for self- learning and multi-skilled training.

The infrastructure at ICAN office building and branch offices shall be upgraded as per the requirement for efficient and timely service delivery to our members and students. Effort to have own office building of ICAN at all the states will continue for providing better services to the students and members.

Dear friends,

In the wise words of Aristotle, "We are what we repeatedly do. Excellence, then, is not an act, but a habit." Therefore, let us strive for excellence with a passion. Collectively and with team effort we can achieve much more. I seek your guidance, comments and support for betterment of the Institute, the profession and the nation at large. I hope this Council will get all support from Government of Nepal, Office of the Auditor General, Financial Comptroller General Office, Nepal Rastra Bank, Security Exchange Board of Nepal, and other regulatory authorities, FNCCI, CNI, Council Members, Past Presidents and Past Council Members, Boards within the Institute, various Committees, Professional Organizations, ICAN Management and its Employees for the betterment of the Institute in days ahead.

Wish you all a very Happy Bijaya Dashami, Deepawali and Chhat festival, 2075.

Best Wishes,

CA. Jagannath Upadhyay (Niraula)

President

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Investments in Equity Instruments: FVTPL or FVTOCI

‘The NFRS/IFRS 9 distinguishes the treatment of realization of fair value gain/loss from equity investments classified at fair value through Other Comprehensive Income (FVTOCI). The main effect of IFRS 9 on the accounting for equity investments is to change the location of the information about changes in its fair value.’

CA. Sujit Pokharel

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What IAS 39 offered?

Under IAS 39, the “Available for Sale” category is the residual category which includes financial assets that do not fall into any of the other categories or those assets that the entity has elected to classify into this category.

For example, an entity could classify some of its investments in debt and equity instruments as Available for sale (AFS) financial assets. The AFS category includes all equity securities except those classified as fair value through profit or loss.

Available for sale financial assets are carried at fair value subsequent to initial recognition. There is a presumption that fair value can be readily determined for most financial assets either by reference to an active market or by a reasonable estimation process. IAS 39 requires that almost all equity investments are measured at fair value on the balance sheet. The only exemption to this are equity securities that do not have a quoted market price in an active market and for which a reliable fair value cannot be reliably measured. Such instruments are measured at cost instead of fair value.

Any period on period changes in the fair value of AFS category equity investments is taken to Statement of Other Comprehensive Income (SOCI) and dividend income is recognized in Statement of Profit and Loss (SOPL). The cumulative change in fair value is re-cycled to Statement of Profit and Loss (SOPL) at the time of disposal of such investments.

Lacuna in IAS 39

As earlier said, AFS is a residual category under IAS 39. The AFS category includes all equity securities except those classified as fair value through profit or loss. From the viewpoint of a user of financial statements, clearly visible information about changes in the value of an equity investment is always important, even if the investment is not going to be sold in the near term. IFRS 9 also allows recognizing the fair value change of equity investments in P & L if an equity investment is relevant to an entity's performance, then the most useful information about that investment is provided by measuring it at fair value with value changes recognized in P & L on period by period basis. Better information is provided about value appreciation and the investor's performance when value changes are recognized period by period as they arise. This holds good for those equity investments which are done for trading purpose by an entity (held for trading).

However, for example, lets consider where an investor might have purchased the equity shares about 10 years ago at NPR 1,000,000 and being classified as AFS investments (Residual Category under IAS 39) that periodic change in Far Values were recognized through Other Comprehensive Income (OCI). While selling it after 10 years the investor recognized the accumulated fair value gain of NPR 1,200,000 in Profit and Loss Account only in the year of sale. Being an AFS investment, the accumulated gain of NPR 1,200,000 is taken to Profit and Loss Account from OCI in the year of sale.

Here, the value appreciation took place over an investment period of 10 years. It distorts the investor's performance to recognize a gain of NPR 1,200,000 in P & L at one point in time; i.e. when the investor sells the share. That treatment does not properly portray the investor's performance in any period—neither over the life, nor in year 10 - because it affects performance in a single period when, in fact, the gain arose over an investment period of 10 years.

In addition, recycling of fair value gain or loss of such AFS investments while disinvesting provides an incomplete picture in P & L about the investor's performance, if the effects of sale and any impairment are recognized in P & L. As a result, an investor may show a profit in P & L from the sale of 'good' assets even when its investment portfolio (Equity investments categorized at AFS) is loss-making overall thus giving a room to a company to delay loss recognition by holding loss-making investments and mask the deterioration of its performance by selling profit-making investments.

The IAS 39 failed to distinguish between whether the fair value changes arising from equity investments, of which the change in fair values are designated to be routed through Statement Other Comprehensive Income (SOCI), is held for any long-term strategic purpose or returns in terms of dividends and/or capital gain.

Differentiation by NFRS/IFRS 9

NFRS/IFRS 9 acknowledges that presenting changes in the fair value of an equity investment in P & L may not be indicative of the investor's performance when an investor holds ordinary shares in a company for 'strategic' reasons such as to strengthen a business relationship or to gain access to a particular market. In such cases, the investor is holding the investment for non-contractual benefits rather than for increase in its value, and therefore changes in the value of such an investment do not reflect the investor's performance vis-à-vis that investment.

The above proposition under IAS 39 of routing the accumulated fair value gain/loss through SOPL at the time of disposal, would not hold good if the equity investments is held for long-term strategic reasons or benefits of business advantage of new market or in order to strengthen and solidify the long-term business relationships. Changes in the value of such strategic investments are arguably never indicative of the investor's performance. In such case the entity's performance should not at all include the reflection of change in fair value of such investments neither by period on period basis nor through cumulative gain/loss by routing it through SOPL at the time of its disposal.

Accounting Treatment by NFRS/IFRS 9

The NFRS/IFRS 9 distinguishes the treatment of realization of fair value gain/loss from equity investments classified at fair value through Other Comprehensive Income (FVTOCI). The main effect of IFRS 9 on the accounting for equity investments is to change the location of the information about changes in its fair value.

This election of classifying equity investments into FVTOCI category under NFRS/IFRS 9, which once decided becomes IRREVOCABLE, is not designed for financial investments that are held for the reason of earning through value appreciation or dividend payments.

Consistent with this view, the OCI election for equity investment does not include recycling of the cumulative fair value gain/loss on disposal through SOPL. When a company using NFRS/IFRS 9 chooses to categorize equity investments in FVTOCI category, the cumulative gain/loss is not subsequently recycled to P & L when the equity investment, being held for strategic purposes, is sold; these gains and losses are not part of an investor's performance.

Example:

An IFRS Bank Limited had purchased for cash 1,000 no of equity shares at NPR 1,000 per share and designated them as investments of which fair value change to be routed through Other Comprehensive Income - OCI (For ease of understanding lets assume: Available for Sale - AFS under IAS 39 or FVTOCI under IFRS 9). During the FY 73-74 the IFRS Bank Limited received a Dividend Income of NPR 50,000. At the end of Asadh 2074, the quoted market price came to NPR 800 per share. The entity sold the entire investments at NPR 1,300,000 during FY 2074-75.

1. Initial Recognition:

a. Financial Assets – AFS/FVTOCI – Equity Shares	Dr.	1,000,000
b. Bank Account	Cr.	1,000,000

2. During the FY 2073-74:

a. Recognition of Dividend Income during FY 2073-74:

Bank Account	Dr.	50,000
Dividend Income (Profit & Loss Account)	Cr.	50,000

b. Re-measurement as at Asadh End, 2074:

Other Comprehensive Income	Dr.	200,000
Financial Assets – AFS/FVTOCI – Equity Shares	Cr.	200,000

c. Deferred Tax Accounting as at Asadh End, 2074:

Deferred Tax Asset	Dr.	60,000
Deferred Tax (Other Comprehensive Income)	Cr.	60,000

(Accounting Base: 800,000, Tax Base: 1,000,000 resulting Deductible Temporary Difference of 200,000. Hence Deferred Tax Asset of 60,000 i.e. 200,000 @ 30% tax rate)

Balance as at Asadh End, 2074:

Other Comprehensive Income (Reserve under Equity – Debit Balance)	140,000
Financial Assets – AFS/FVTOCI – Equity Shares	800,000
Deferred Tax Asset	60,000

3. During the FY 2074-75: Disposal of Investments

a. Re-measurement while disinvesting:

Financial Assets – AFS/FVTOCI – Equity Shares	Dr.	500,000
Other Comprehensive Income	Cr.	500,000

b. Deferred Tax Accounting on above re-measurement

Deferred Tax (Other Comprehensive Income)	Dr.	90,000
Deferred Tax Liability	Cr.	90,000

(Accounting Base: 1,300,000, Tax Base: 1,000,000 resulting Taxable Temporary Difference of 300,000. Hence Deferred Tax Liability of 90,000 i.e. 300,000 @ 30% tax rate)

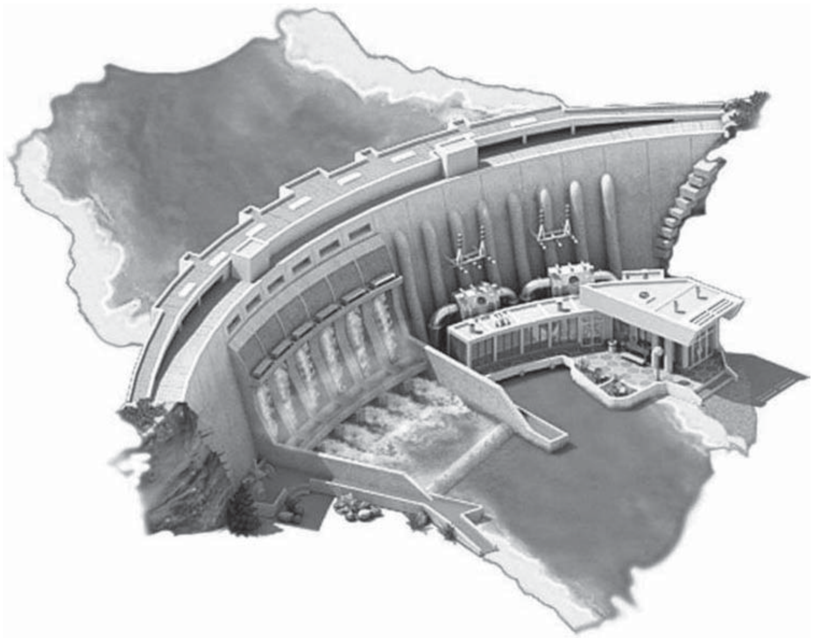
	Balances just before accounting the effect of disposal:		
	Financial Assets – AFS/FVTOCI – Equity Shares		1,300,000
	Deferred Tax Asset		60,000
	Deferred Tax Liability		90,000
	Other Comprehensive Income (Reserve under Equity – Credit Balance)		270,000
c.	Sale Value realization:		
	Bank Account	Dr.	1,300,000
	Financial Assets – AFS/FVTOCI – Equity Shares	Cr.	1,300,000
4.	**Routing of OCI Reserve:**		
	Under IFRS/NFRS 9:		
	Other Comprehensive Income (Reserve under Equity – Credit Balance)	Dr.	270,000
	Deferred Tax Asset	Cr.	60,000
	Retained Earnings	**Cr.**	**210,000**
	Transferring Deferred Tax Liability:		
	Deferred Tax Liability	Dr.	90,000
	Tax Payable	Cr.	90,000
5.	**Under IAS 39:**		
	Other Comprehensive Income (Reserve under Equity – Credit Balance)	Dr.	270,000
	Deferred Tax Liability	Dr.	90,000
	Deferred Tax Asset	Cr.	60,000
	Profit and Loss Account	**Cr.**	**300,000**

Conclusion

In the Nepalese banking context, the Nepal Rastra Bank Clause no. 6 of Directive 17/074 of Unified Directive 2074 allows Banks and Financial Institutions (BFIs) to count the investment done in ordinary shares (As promoter) of "D" class licensed financial institution in calculation of its compliance of minimum lending required under Clause no. 1 of Directive No. 17/074. This equity investments held by BFI in "D" class licensed institution is for different strategic reason rather than for increase in its value neither during the holding period nor at the time of disposal, and therefore changes in the value of such an investment do not reflect the investor's performance vis-à-vis that investment neither during the holding period nor while disinvesting it.

Hence, the entity needs to be more cautious towards reason of classifying any of its equity investments through FVTOCI, which once exercised becomes IRREVOCABLE, rather than through FVTPL; since the "net realized gain/loss" on disposal of such investments classified at FVTOCI cannot be recycled through Profit and Loss Account and that will have effect in calculation of Statutory Staff Bonus Amount, Earnings Per Share (EPS), Price Earnings Ratio (P/E Ratio), Capital Adequacy Ratio (CAR) where regulator allows profit of Profit and Loss Account only to be counted for the same, etc. ■

Revaluation of a Hydroelectric Portfolio



"A description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period) and quantitative information about the significant unobservable inputs used. Quantitative disclosure specific to hydroelectric assets include discount rates, estimated average (e.g. for a time band of 1 to 10 and 11 to 20 years) revenue per MW (for contracted as well as un-contracted), percentage of generation contracted and terminal capitalisation rate"

CA. Bal K. Sharma

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Unlike, US Generally Accepted Accounting Principles (GAAP), Inthernational Financing Reporting Standards (IFRSs) allow property, plant and equipment (PPE) to be measured in fair value after initial recognition. The IAS 16, *Property, Plant and Equipment* (IAS 16) permits application of a revaluation model as an alternative to cost model. It, however, discourages cherry picking and requires revaluation of the entire class of PPE (IAS 16.36). The IAS 16.31 requires a revaluation to be carried out with sufficient regularity depending upon the changes in fair value, which implies that revaluation of PPE represents recurring fair value measurement. The PPE with significant and volatile changes are required to be fair valued once a year and those with insignificant changes may be revalued once in three or five years.

The IFRS 13, *Fair Value Measurement* (IFRS 13) defines fair value, sets out of a framework for measuring it and requires certain disclosures about fair value measurement. As per IFRS 13, the objective of a fair value measurement is to estimate an exit price (and not an entry price) at the measurement date from the perspective of a market participant that holds the asset or owes the liability. IFRS 13 allows the use of unobservable inputs where observable inputs are not available but requires that use of unobservable inputs be minimised.

The IAS 1, *Presentation of Financial Statements*, has specified that revaluation surplus is recognised in other comprehensive income and is not reclassified to profit or loss subsequently (IAS 1.96). Therefore, when the unrealized gain is realized, it does not have any impact on net income.

Valuation Technique

Expected present value technique, one of the income approach valuation techniques, is considered appropriate for determining the fair value of PPE. The IFRS 13 envisages two methods of analysing future cash flow to arrive at the discounted cash flow (DCF):

(1) risk-adjusted cash flow discounted at a risk-free rate, and

(2) risk-neutral cash flow discounted at a risk-adjusted rate.

Even though the estimated economic life of a primary component of hydroelectric assets such as a dam extends well beyond 100 years, cash flow for a much shorter period is generally analysed. For example, some organisations have 20-year capital plans and, hence use a 20-year DCF model. This is because a reasonable third party would be indifferent between extending the cash flow further in the model versus using a discounted terminal value. Apart from the time value of money effect, longer time period in the future means greater uncertainty.

Inputs, Assumptions and Estimation

Revenue forecast, a function of volume and price, is an essential step in a revaluation process. Hydroelectric assets being associated with long-term power purchase agreements (PPAs) have a more predictable revenue stream and are thus better suited for fair value measurement. Though PPAs ensure a steady cash flow in the future, to take advantage of the market conditions, it is considered a prudent practice to keep a part of the volume un-contracted (merchant) e.g. during winter as and when temperature dip, power prices soar.

Volume of electricity is the estimated future generation, referred as long-term average generation, calculated on the basis of historical data. Price in respect of contracted volume is relatively simple and is determined by a reference to power purchase agreements. As for uncontracted volume, electricity prices for the future years are estimated using broker quotes from independent sources to the extent there is a liquid market. For longer term, however, certain assumptions need to be made to determine the future electricity prices. Irrespective, uncontracted revenue should reflect the risks associated with the fluctuation in market price.

With global warming becoming a serious concern, one of the important assumptions that is increasingly being considered is the cut-off date when renewable sources of energy such as hydroelectric, wind and solar will fully replace pollutant sources of energy such as coal-fired plants. The assumption being once generators build additional capacity to maintain system reliability and provide an adequate level of reserve generation, the pollutant sources will be completely phased out and replaced by power from clean sources, albeit at higher prices.

Operating expenses including major maintenance expenditure are adjusted for inflation. *Sustaining (as opposed to growth) capital expenditure* (CapEx) is considered necessary to maintain productive capacity of an asset.

Discount rates capture time value of money. With the aim of reflecting an entity's cost of capital, risk-free discount rates are adjusted (method (2) per IFRS 13) for premium by considering current interest rates, average market cost of capital as well as risk associated with the price and geographical location of the operational facilities.

Wherever applicable, foreign exchange rates are forecast based on spot rates and, to the extent available, forward rates. For longer term, however, exchange rates need to be extrapolated.

Terminal capitalisation rate is used to determine residual value or terminal value as a lump sum amount so as to compensate for the cash flow beyond the period analysed e.g. 20 years.

The estimation process can be summarised as follows:

- Calculate EBITDA (earnings before interest, tax, depreciation and amortisation i.e. revenues less operating costs);
- Deduct from EBITDA income tax expense and sustaining CapEx;
- Add tax benefit on depreciation expense;
- Discount the unlevered after-tax cash flows as calculated above to arrive at present value;
- Add the discounted residual value of the asset at the end of the DCF period.

In this context, it is relevant to mention that the fair value of PPAs is not determined separately as the same is reflected in the fair value of the PPE they are associated with.

Disclosure

The IAS 16 has prescribed a few high level disclosures specific to revaluation method: (a) the effective date of the revaluation; (b) whether an independent valuer was involved; (c) the carrying amount under the cost model (historical cost); and (d) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

However, it is the IFRS 13 which has prescribed rather onerous disclosures, not least because it gives lowest priority to unobservable (Level 3) inputs that are used to determine fair value of PPE. The IFRS 13.99 suggests a tabular format for quantitative disclosures unless another format is more appropriate. Common disclosures under IFRS 13 which would apply to revalued PPE include:

- Level of fair value hierarchy (which is 3 for hydroelectric assets)
- Description of valuation techniques, inputs used in measurement and, in case of change in valuation techniques, additional disclosures on such changes
- A description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period) and quantitative information about the significant unobservable inputs used. Quantitative disclosure specific to hydroelectric assets include discount rates, estimated average (e.g. for a time band of 1 to 10 and 11 to 20 years) revenue per MW (for contracted as well as un-contracted), percentage of generation contracted and terminal capitalisation rate.
- A reconciliation (also referred as roll forward) of the starting balances and ending balances, disclosing separately changes during the period e.g. total gains and losses for the period recognised in profit or loss, and in other comprehensive income; purchases, sales, issues and settlements (separately disclosing each of those types of changes); transfers into or out of Level 3 of the fair value hierarchy (presented separately); foreign exchange gains or losses on translation of foreign subsidiaries.
- Narrative description of the sensitivity of the fair value measurement to changes in significant unobservable inputs. Unlike for financial assets and liabilities, the requirement falls short of prescribing quantitative sensitivity analysis (e.g. impact of a certain bps increase or decrease in discount rate).
- Interrelationships between the unobservable inputs and discussion on how they might magnify or mitigate the effect of changes in the unobservable inputs in the fair value measurement. For example, an increase in interest rates may lead to an increase in discount rates as well as electricity prices. Consequently, the decrease in fair value attributable to higher discount rates may be partially offset by increased revenues.

One of the important disclosures for non-financial assets, irrespective of whether their fair value is measured or merely disclosed, is when the highest and best use differs from its current use. An entity must disclose that fact and why the asset is being used in a manner different from its highest and best use (IFRS 13.97).

In Practice

Revaluation of PPE generally results in a stronger balance sheet. However, due to higher depreciation resulting in reduced net income, the impact on income statement is to the contrary. Therefore, entities that fair value their PPE go extra lengths to explain why the accounting profit does not reflect the actual performance. Instead, they put a lot of emphasis on relevance of non-GAAP performance measures such as funds from operations (FFO) which exclude depreciation. Such entities also make an effort to persuade that deferred tax liability attributable to revaluation surplus is not likely to materialise and hence it is appropriate to consider as a part of equity for calculation of certain ratios e.g. debt to capitalisation.

The fair value of some financial assets and liabilities (e.g. unquoted bonds and derivatives) is determined on the basis of (directly or indirectly) observable inputs (level 2) and, even a run-of-the-mill treasury management software such as IT2 can spit the required information out. This is not the case with non-financial assets whose fair value is estimated on unobservable inputs (level 3). As such the fair value estimation process remains, by and large, an excel spreadsheet exercise. In spite of numerous controls and procedural safeguards, spreadsheet models lack the robustness in validation, navigation and security that is otherwise taken for granted from a typical data management software package.

Accordingly, for some entities the cost to develop and maintain revaluation model might far outweigh the benefits. If the objective is simply to make a point that the carrying value of assets as presented in the balance sheet is significantly lower than fair value, it is much better achieved by disclosure under IAS 16.79(d) which requires entities to disclose fair value of PPE when it is materially different from the carrying amount. Towards making the information more meaningful to users, IFRS 13 has added a few disclosure requirements for assets and liabilities not measured at fair value but for which fair value is disclosed.

Entities which revalue their PPE do so with a clear objective. For example, those active in capital recycling opt for revaluation model to improve leverage. Financial institutions are more than willing to accept a number included in audited financial statements rather than one based merely on a consultant's estimate. Some entities, e.g. whose share price is not performing as per management's expectation, calculate net asset value (NAV) per share based in fair value to demonstrate the potential share price. Canadian giant Brookfield Asset Management Inc. and its subsidiaries including Brookfield Renewable offer a good real-life example of how best to apply revaluation model and get the most out of it. ■

Progress /Issue in Sustainability Reporting

"Sustainability shall be incorporated as a crosscutting issues throughout the accounting standards and mainstreamed duringdevelopment,harmonization & implementation. The scope of accounting standard shall be expended to environmental accounting. The sustainability issues shall be important for the public-sector accounting standards as well. Some public sector has its own environmental screening procedure,however the IPSAS has lack of guidance."

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Sustainable Development and Sustainability Reporting:

The awareness of sustainability resulted from the concept of sustainable development (SD) which was the main issue for discussion at the World's first Earth Summit in Rio in 1992. The United Nations World Commission on Economic Development (WCED) has formed a definition of sustainable development (SD) as the "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs". The definition has been further elaborated as a driver of change in which the misuse of resources, the selection of investments, the course of technological development and institutional change are interlinked. This will help to meet current and future social needs and aspirations. The notion of sustainable development is being used to articulate through different angle and mainly recognised in economic, environmental and social aspect.

There is increasing degradation of natural resources which has negative impact on environment demanded the changes in the traditional way of doing businesses. Increasing awareness in society also demanded the additional reporting on social and environmental impacts. This mainly includes non-financial aspect including social and environmental. Such reporting is voluntary and only few organisations publish the report on sustainability. There is increasing demand to expand such reporting to all kind of organisation and business entities.

To meet the needs of present society without compromising, sustainability principles can be applied to the business at various levels. The sustainability principle drives intellectual and technological innovation, and demonstrates people's pursuit of excellence. Whether it is a matter of public policy, planning a city or constructing a home, or setting up a new production unit; sustainable development means to meet the immediate need of present generation by incorporating long-term planning. Through SD mainstreaming, the organisation can boost up its profit in the long run. It may be cheaper to choose an inexpensive and temporary solution rather than investing in permanent and innovative solution. However, the long-term solutions incorporating the technological innovation will have a long-term benefit which drives the stakeholders to consider wider perspective.

The objective of sustainable reporting is to achieve the goal of SD. The publication of reporting supports to enhance the organisation's accountability for the impacts and increases trust among the stakeholders. The reporting also helps manage the social and environmental impacts and provides competitive advantage to enhance the investor's confidence and trust. The dissemination of sustainability information can be utilised by various stakeholders to assess the impact and contribution of businesses to the economy. The reporting practice promotes transparency and it can help the market to operate more efficiently and which indicates the health of the economy. Such reporting is used to communicate risk of the organisation to other stakeholder and develop their strategy to promote the business. The sustainability reporting considered as drive for innovation through business and product by creating the competitive advantage in the market. This also provides opportunity to analyse and improve operating efficiency and with minimum damage to the environment. Therefore, this has emerged as a common practice and followed by many organisations.

The sustainability reporting results the following benefits:

Better reputation:

Transparency can be achieved through publication of reports and related data. This will help maximize the reputation and initiate a dialogue with stakeholders including investors, communities and customers. This is one of the ways of demonstrating the openness and accountability. A survey found that increased transparency and reporting are the most effective ways to increase trust in business. The 2013 Boston College Center for Corporate Citizenship and EY survey revealed that more than 50 percent of respondents issuing sustainability reports stated that those reports helped improve firm's reputation.

Improved processes, efficiency and innovation:

To report on sustainability, the organisation requires collecting and maintaining the data. This will help to analyse the process and impact to the society. Such analysis cannot be extracted from basic accounting records. This can further help to identify the existing bottleneck and provide an opportunity to advance the process. The organisation may have pressure to adopt the innovative system, which can result the competitive advantage in the market. This monitors the issues like energy consumption, material use and waste and allows promoting resource saving and waste reduction and generating bottom-line cost savings that can be used to fund other activities. Internal management and decision-making process can be established through an improved process to minimize the cost and resource usages.

Among the global survey of sustainability reporters, 88 percent indicated that reporting helps to make the decision-making processes more efficient. This also helps in promoting the innovation and new thinking in the development of sustainable goods and services. It allows the organisation in a stronger position to attract investment and entering into a new market. Recent research found that the organisation with the reporting practice ranked high for sustainability.

Progressing vision and strategy:

Engagement of other players in society can contribute to shape the vision and strategies of the organisation. The engagement can be done through the reporting and engaging on certain process relating to sustainability. The organisation will be able to expand their business by making the sustainability as an integral part of the organisation strategy.

Reducing compliance costs:

Sustainability reporting can prepare firms to avoid or mitigate environmental and social risks that might have financial, social, environmental impacts. Through sustainability performance monitoring system, the organisations can meet regulatory requirements and avoid fines and penalties. The data collected for sustainability reporting can be used for other purposes which can help to explore the innovative ways of doing business.

Harmonisation and Challenges - IFRS Concerning Sustainability:

Almost every business has some degree of impact in the society and environment. Some countries require reporting on environment performance but there are large numbers of countries which do not have adequate law demanding such reporting from the business houses. Particularly under developed and developing countries will not have sufficient policy and guidance enforcing to report on environment performance.

Most of accounting bodies are members of IFAC, and have responsibility for the development of accounting standard to be applied for private and public sectors. International Financial Reporting Standards (IFRS) are designed as a universal tongue for business affairs so that the financial statements are understandable and comparable across the globe. Financial statements are prepared for the stakeholders mainly for external users around the world. The definition of financial statement has been extended to environmental and financial reporting which covers all aspects of environment and sustainability reporting. The outlook of the financial statement may appear different from country to country due to socio--economic and local law requirements and are not comparable. The harmonisation was initially demanded by the multi-national companies due to consolidation and circulation of financial statement in various countries. This has been further demanded by the various stakeholders across the world.

153 professional bodies are members of The International Accounting Standards Committee (IASC) from 112 countries. ISAC issued 41 IAS and 16 IFRS to support the organisation in producing the high-quality reporting meeting international standards. Except Canada, Japan and USA, IFRS has been accepted in most of the countries. Organisation for Economic Co-operation and Development (OECD) also developed a code of conduct for multinational enterprises for the harmonisation through national and international bodies. To facilitate the Multi-national Corporations around the world, a disclosure standard has been set up - UN Commission on Transnational Co-operation. The International Federation of Stock Exchanges suggested to its members to comply with the IASC accounting standards as a condition for listing stock (Most, 1984). This indicates that there is ongoing progress in harmonising and implementing IFRS concerning sustainability.

IFRS started an attempt to harmonise accounting within the European Union and the concept of harmonisation was very attractive to others as well. IFRS foundation and IFAC is working together to further harmonize and refine the accounting standards. As the world is moving towards the globalization, IFRS becoming important tool of integration to harmonize the reporting which was observed in London and Pittsburgh submit of the G20 leaders in 2009. The leaders agreed to reinforce the harmonization and implementation of IFRS. By 2008, 100 countries adopted IFRS and expected to expand through all IFAC members. 90 countries have harmonized their local accounting standards with IFRS.

United Nations special summit 2009 also created the link between environment and finance. The summit also made the appraisal of the current environmental accounting and examines the IFRS pertaining to environment and sustainability. The appraisal has been expanded to review the provision of environmental accounting and financial reporting. The sustainability is a major issue to mainstream in the accounting standard. The present IFRS has provision to address the environmental issues for certain sector of business however it is not sufficient to analyses the environmental damages. There is increasing demand from various pressure group to harmonize and address the sustainability issues.

Challenges - Harmonization of Accounting Standard and Sustainability:

The harmonization is not an easy task as there are a number of challenges associated to harmonizing and addressing the sustainability issues. Underdeveloped and developing countries' government will have other priority other than accounting standards and sustainability. These countries are going through the conflict and post conflict stabilization process, and the government mainly focusing on managing the political situation. The adaption or conversation of IFRS and environment reporting may not be the immediate need for the government and resulting the inadequate provision to report on environmental and sustainability. This allowed the flexibility to the company not to report on environmental and sustainability issues. The stakeholder may not be aware of the damage created by the company. There are a large number of companies enjoying such benefits and making significant amount of profits at the cost of damage to the environment and society. It is vital that government is aware of such damages and make it as a political agenda.

Local accounting standards have been developed in different countries under different legal, economic, social and cultural environments to meet the specific requirement. This has created the gap in harmonization. To achieve harmonization, it is essential that all countries reach an agreement to harmonize the financial reporting including sustainability. In absence of political will and leadership, it is difficult to adopt a financial reporting philosophy and harmonize the locally developed accounting standards with International Financial Reporting Standards.

There is an ongoing debate of rule versus principles approach on harmonization of accounting standards around the world. IFRS are principle based however the US GAAP is rule based. The USA observed the gap between IFRS and GAAP as significant difference and reluctance to adopt IFRS. The USA also lobbying to continue with GAAP and appears major challenges to harmonise the IFRS. Due to legal requirement and compulsory provisions, the rules-based standards are challenging in harmonization to adopt or converge the accounting standards.

Many organizations are heading to increase their profit in the short run. This may lead to comprise the environmental damage. The industry is not sustainable if this happens to damage the environment. There is a strong need to find the opportunities to minimize the environmental damage. One of the ways is adopting the innovation to manage the production and supply system. However, it is not easy to be innovative in all aspects of business. The companies may require to spent resources for research and technology. This results as an additional investment and the investors may not be willing to adopt this approach. A legal requirement or incentive can motivate the investor to follow this approach. Country where there is lack of provision of environmental laws and IFRS has negative impact on environment.

There should be strong leadership and regulatory support to ensure the effective implementation. Adequate law, monitoring and support (including the report guidance, templates and other tools) on implementation process can drive the positive results. The quality of reporting is subject to the effectiveness of the process by which those accounting standards are implemented. Therefore, it is critical to build the local capacity for the implementation of IFRS and sustainability reporting. The capacity should be built from institutional to individual level including private sector and small business. There are ongoing efforts made by the United Nations and the World Bank to build the institutional level capacity. However, the satisfactory achievement yet to be met. The capacity gaps at national level are assessed through country Public Expenditure and Financial Accountability (PEFA) assessment. Professional accounting bodies made significant improvement to build the capacity at individual level and private sector. Qualified individuals from underdeveloped and developing countries are migrating towards the developed countries for better opportunities, and this has created significant capacity gap in the countries.

Issues not covered by the IFRS concerning Sustainability:

The sustainability and environment reporting has become a matter of great concern. The companies started practice of making environment disclosure for external reporting. However, there are variations in reporting and level of details published by organizations. Therefore, the disclosures are not comparable. There are some provisions made in IFRS to deal with environmental disclosure and data. However, this is not sufficient. There is no IFRS which exclusively deals with sustainability and environmental issues.

Every country has its own rules, regulations and requirement for preparation and publication of financial statement. For example; EU member states are driven by EU legislation which requires reporting on environment performance to address the issue of emission to air, water and land, and waste disposal. The harmonization and adaptation of IFRS address some of the issues. However, the preparation and publication of financial statement are based on legal, social and cultural requirement. There is no accounting standards which exclusively provide the guidance for environment and sustainable issues. Different countries follow different practices and hence the reports are not comparable. However, there are direct and indirect guidance provided by IAS/ IFRS to deal with environmental accounting. IFRS 8 deals with reportable segments and IAS 38 provides the guidance on impairment of emission rights. This has been further detailed by IFRIC 3 on emission rights. IAS 39, 32 and IFRS 7 provides the provision relating to presentation, disclosure and recognition of financial instruments. To deal with exploration for and evaluation of mineral resources IFRS 6 has made specific provisions. These are some of the examples of IAS/ IFRS requiring reporting on sustainability. The concept of sustainability can be applied to other general accounting areas of provision, contingent liabilities and contingent assets as defined by IAS 37. IAS 10, 20, 36 and 16 also provide some guidance on such reporting. However, the standards are unable to address the following issues:

- There is no clear basis for environmental accounting. Every organization has its own method to maintain and publish information. The standard should be comprehensive to maintain and publish the environmental data.
- There is no template or reporting structure suggested by the accounting standard. It is important to provide guidance on the structure of reporting so that it can be compared with other organization.
- The accounting and auditing standard do not make any reference about the qualification of financial and non-financial impacts relating to sustainability. Noncompliance can result financial or reputational loss to the organization, therefore the standard should be able to provide proper guidance on these issues.
- Assessing the environmental risk, mitigation plan and residual risk are technical procedure. There should be adequate technical guidance to support on assessing and reporting the risk to the stakeholder. Many accounting and auditing professional may not have capacity to understand or assess the risk and impact of such issues.

There are inadequate provisions in IFRS to address the sustainability issues. The accounting standard board must deploy sufficient resources in addressing such issues. This should be done through evaluation of country situation so that relevant context and social requirement can be addressed through the accounting standards.

Voluntary Codes of Reporting

It is still debatable whether such reporting should be made voluntary or statutory. Voluntary code of reporting encourages the organization as self-conduct so that it benefits to the society as well as organization. It also informs stakeholders about organization and its products meeting certain standards. For sustainability reporting, there are a set of voluntary codes produced by many organizations which may be called as code of conduct, codes of practices, voluntary initiatives, guidelines etc. By nature, these sets are non-legislative. This may consist of several documents including its principle, obligation and the technical requirement to be met. There are series of international initiative on sustainability reporting including of International Cyanide Code of Practice, Tailings Guidelines, International Diamond Certification System, Global Multi-Stakeholder Initiative on Mining + Biodiversity Conservation and Communities and Small-Scale Mining initiative (CASM).

The UN Global Compact was announced by the United Nations to address the sustainable development goals. This was the world's largest sustainability initiative with 13,000 corporate participation from over 170 countries. This has main objective of *"Mainstream the ten principles in business activities around the world" and "Catalyse actions in support of broader UN goals, such as the Millennium Development Goals (MDGs) and Sustainable Development Goals (SDGs)".* The UN Global Compact and its signatories agreed to move ahead with these principles on human rights, labour standards, environment and anticorruption. Three principles are developed under environment theme to support a precautionary approach to environmental challenges; to undertake initiatives to promote environmental responsibility; and to encourage the development and diffusion of environmental-friendly technologies.

The above principles are not regulatory instrument rather than a guidance to the government, companies and other stakeholders to influence on the sustainability reporting. This may be used as a tool to develop as compliance system at country level. These principles are flexible and vague so that it can be applied in various contexts. However there are resources and guidance provided to achieve these principles. For example, Global Reporting Initiative (GRI) has been developed to produce resources and guidance so that the companies can utilize it to achieve the Sustainable Development Goals.

Conclusion

There has been significant progress noted in the process of harmonization towards the convergence of accounting principles and procedure. Convergence initiatives have become more effective in harmonizing the accounting standards. This helps to reduce the gap and expected to contribute in further harmonization in the coming years. IFRS under new regulatory framework is an effort to achieve the harmonization and has been expanded to various sectors. However, there are few accounting standards to deal with the environmental accounting issues which are symbolic and inadequate. Therefore, specific accounting standards shall be developed to report on environment and sustainability issues. This will serve as a guiding tool for disclosure in the annual report.

Provision relating to sustainability shall be flexible to address country specific issues. IFRS aimed at meeting the expectation of stakeholders from various parts of the world and this should be compatible to address the local statutory requirements.

Sustainability shall be incorporated as a crosscutting issues throughout the accounting standards and mainstreamed during development, harmonization and implementation. The scope of accounting standard shall be expended to environmental accounting. The sustainability issues shall be important for the public-sector accounting standards as well. Some public sector has its own environmental screening procedure, however the IPSAS has lack of guidance. IPSAS standards need to incorporate the sustainability and environmental aspects.

IFRS shall be further expanded to provide the methodology to calculate the impact on society and environment. Present IFRS do not provide the methodology to calculate the financial and non-financial impacts. In the absence of specific methodology, various methods are applied by the organization while preparing their reports. Therefore, the reports are neither consistent nor comparable. The level of disclosure of the information relating to sustainability and environment are not clearly defined by the IFRS. This provides opportunity to the organization not to make the full disclosure and keep the minimum information in their annual report. IFRS shall make a comprehensive requirement to disclose sufficient information in their annual report and other related reports including public portal. This will help to compare the information within and across the industry. ■

Foreign Direct Investment in Nepal's Hydropower Sector

"In order to attract FDI, there must be an environment to ease the doing business climate so that the investors can feel confident to invest in Nepal. This objective can be achieved with well thought out regulatory framework and well-coordinated bureaucracy. Careful amendments to the Industrial Enterprise Act 1992, the Foreign Investment and Technology Transfer Act 1992 and the Electricity Act 1992 can create favorable environment for making a conducive environment for doing business and attracting FDI for mega hydropower projects in Nepal."

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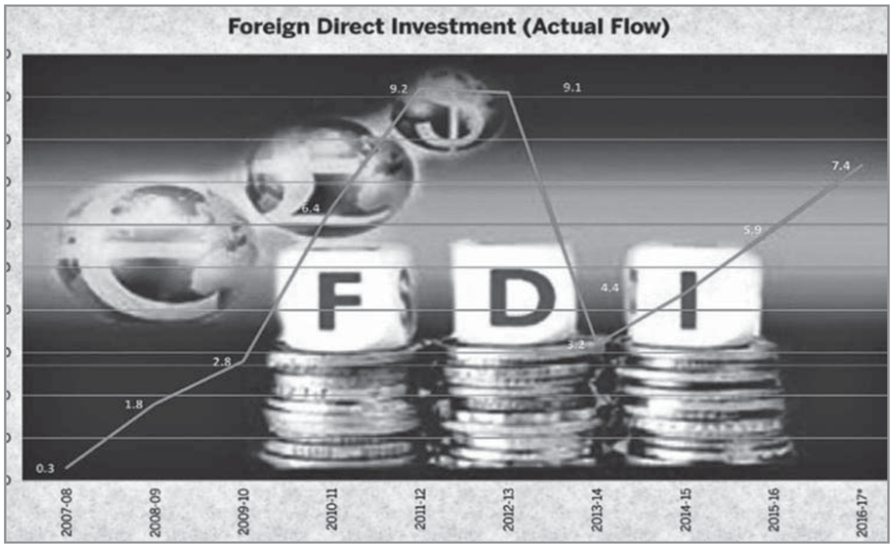

Introduction to FDI

Foreign Direct Investment (FDI) plays a vital role in economic growth. It is a general source of capital formation. Similarly, it supports technology to spillover, supports human capital formation, enhances international trade integration, creates competitive environment and strengthens enterprise development. Developing countries, emerging countries and countries in transitional phase regard FDI as a source of economic development and modernisation, income growth and even employment.[1]

The overall world FDI flows have grown speedily and remained significant in the recent years. Developed economies accounted for 59 per cent in total inflows, a growing share in 2016. Although, South Asia received only 3.1 per cent of total FDI inflows in 2016. India is a leading host of FDI in South Asia followed by Bangladesh, Pakistan and Sri Lanka. The FDI position of Nepal is substantially low in comparison with other peers. Nepal's share in the world total FDI is only 0.01 per cent. Nepal has been developing institutional and legal infrastructure to ease doing business since the 1980s with an objective of attracting FDI. The FDI inflow is, however, very low despite its great importance to Nepalese economy.

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[1] Dunning, J. H. (1993). *Multinational Enterprises and The Global Economy.* Workingham: Addison Wesley.

The amount of FDI, though small compared to that of neighboring countries, inflow in Nepal has been increasing in recent years. The FDI stock reached 6.1 per cent of GDP in 2015/16, which was mainly driven by the increase in reserves of FDI-based industries. This reserve constitutes two-thirds of FDI stock. A total of 84 foreign investors from more than 39 countries have made their investment in 252 firms showing great interest in the service sector which has received 70.2 per cent of the total FDI in Nepal.

Nepal could be an emerging destination for FDI in South Asia because of advantages such as demographic structure, gradually improving business indicators, strategic geographic location and its improving legal structure. Primarily, the availability of cheap labor force could be an attraction for investors. Secondly, the increasing disposable income with remittances, expansion of economic activities and changing consumption pattern have been creating new markets for products. Thirdly, Nepal ranks at 105, second in South Asia after Bhutan, on the World Bank's Doing Business Report 2018. The gradual reforms and realisation for the requirement of foreign capital in mega projects would improve the business environment for foreign investors. Fourthly, Nepal lies in a strategic geographic location surrounded by two populous countries, China and India, which has more than 35 per cent of total population of the world. Lastly, Investment Board of Nepal (IBN) has identified potential investment sectors for FDI such as hydropower, transport, agriculture, tourism, information communication technology, mines and minerals, health and education, manufacturing and financial institutions, among others.

FDI in Hydropower

Hydropower is identified as one of the main areas of water resources development that can contribute to the national economic development. After Brazil, Nepal is the largest country of the world in hydropower generation capabilities with 83,000 MW in total, out of which 43,000 MW is financially and technically feasible. Nepal's abundant water resources and geographical features provide ample opportunities for hydropower generation. Techno-economically feasible capacity for generating hydroelectricity is 43,000 MW. Presently, the real generated hydroelectricity is 631.309 MW. Out of this, the government sector has generated 472.994 MW and 158.315 MW from the public & private sector, which is around 0.68 per cent of the total potential of hydroelectricity generation. Nepal possesses more than 6,000 world's most forceful rivers and streams. Out of 194,471 sq.km drainage area, 76 per cent falls within Nepal and 33 of them are greater than 1,000 sq.km.

Asian countries are challenged with rapidly rising energy demand tied with increasingly insufficient energy supplies. Most of the countries in South Asia are already struggling with energy shortfalls, typically in the form of recurrent, costly, and widespread electricity outages. Because of the economic and political ramifications arising from such shortfalls, improving the supply of energy, particularly the supply of electricity, is an essential priority of federal and local governments. The countries in South Asia are looking to vary their traditional energy supplies, promote additional foreign investment for energy infrastructure development, improve energy efficiency, reform and privatise energy sectors, and promote and expand regional energy trade and investment. Water resource is identified as one of the main resources of Nepal, which can be harnessed for not only the overall economic growth but also in eradicating poverty and improving the livelihood of communities in addition to coping with the ever-increasing population. Hydropower development, taking consideration of the guidelines provided by the World Commission on Dam, is very important key areas of water resources development that can contribute to boost the national economy and overall development of Nepal.[2]

After restoration of democracy in 1990 with the introduction of the then Constitution of the Kingdom of Nepal, 1990, Nepal has broadened the door of foreign investment along with adaptation of open and liberal market economy policies. The FITTA 1992, IEA 1992, WRA 1992, EA 1992 rules there under with their subsequent amendments, HPDP 2001, Arbitration Act 1999, Contract Act 2000, Privatization Act, 1994, Copy Right Act 2002, Local-self Governance Act, 1998 and its Regulation 1999, Act Relating to Private Investment on Construction and Operation of Infrastructure (BOOT) 2006, Insolvency Act, 2006, The Companies Act, 2006 are certain instances in this regard. As the former constitution, the Interim Constitution of Nepal, 2007 has also followed the spirit of open, liberal and market economy.[3]

[2] *Dr. Bharat Bahadur Karki, "Legal Regulation of Foreign Investment in Nepal: Industry Sector Specific" 27 Nepal Law Review, (Kathmandu. 1999).*

[3] *Department of Industry, Procedural Manual for Foreign Investment in Nepal 5 (DOI, Kathmandu. 2007).*

Despite the enactment of new policies, legislations, rules, and subsequent changes made in policies, laws and rules there under, potential private foreign investors seem not active in the field as anticipated particularly in the hydropower sector. It is shown by the inadequacy of electricity facing by many Nepalese people in their daily life. The question of exporting electricity and earning foreign currency has been only the dream. It is often said that "market failure " are really "policy failures" the problem result either from the unwillingness or inability of the government to enact and implement policies that boost and support effective economic systems and prevent countries from participating in world trade and investment. So, it has been very need of time to investigate the root of the problem of not being fully able to harness the hydropower potentialities of Nepal.[4]

The second largest component of noncurrent assets is capital work in progress (CWIP). The total expenditure on capital works and projects stood at Rs. 31,924.53 million at the end of the fiscal year 2011/12. The ongoing major hydroelectricity projects, namely Chameliyagadh (30 MW), Kulekhani III (14 MW), Upper Trishuli 3A (60 MW) and Rahughat (32 MW) and many transmission lines of different voltage levels contributed to increase in CWIP. In FY 2011/12, NEA invested Rs.530 million in Sanjen Hydro Power Company Limited and Middle Bhotekoshi Hydro Power Company, both promoted by Chilime Hydro Power Company Limited, a subsidiary company of NEA. By the end of FY 2011/12, NEA's equity investment in Upper Tamakoshi Hydro Power Company Limited (UTKHPL) reached Rs. 3,690 millions, constituting 73.68 per cent of the total investment. The NEA holds 41 per cent of the total equity in UTKHPL. Likewise, NEA's equity in Chilime Hydro Power Company Limited (CHPCL) remained at Rs. 489.60. In FY 2011/12, NEA received Rs. 129.74 million (30 per cent) cash dividend and 40 per cent bonus share (Equivalent to Rs. 1,958.40 million) from CHPCL.[5] It is expected that CHPCL will yield better results in future as it is undertaking the development of Upper Sanjen HEP (14.6 MW), Sanjen HEP (42.5), Middle Bhotekoshi (100 MW) and Rasuwagadhi (112 MW) through three subsidiary companies. NEA has 10 per cent equity each in Sanjen Hydro Power Company Limited and Middle Bhotekoshi Hydro Power Company Limited and has 18 per cent equity in Rasuwagadhi Hydro Power Company Limited. Other investment of NEA includes equity investment in Khumbu Bijuli Co (Rs. 20.65 million), Salleri Chaylsa Hydro Electric Co. (Rs. 11.63 milion), Nepal Engineering Consultancy Service Center Ltd (Rs. 2.28 Million), Nepal Hydro Lab (Rs.1 million), Power Transmission Company Limited (Rs.2.50 million) and Butwal Power Company (RS.8.8 million). NEA is not receiving any dividend from these subsidiary and associate companies except CHPCL and Butwal Power Company Limited (BPCL). NEA received Rs. 2.54 million (25 per cent) cash dividend from BPCL in the FY 2011/12. In addition to the above investment, NEA deposited Rs. 100 million in Citizen Investment Trust (CIT) towards gratuity and pension liabilities. Total amount invested in CIT reached Rs.716.43 million at the end of FY 2011/12.[5]

Energy sector is most prominent sector to drive economic growth and it is regarded as the vehicle to transform the Nepalese economy. The country has potential of generating approximately 83,000 MW and economically viable of approximately 42,000 MW. But, the installed capacity is only approximately 961.2 MW as of mid-July 2017. The Ministry of Energy (MoE) oversees energy sector activities whereas Water and Energy Commission Secretariat (WECS), the Department of Electricity Development (DoED), the Nepal Electricity Authority (NEA) and Alternative Energy Promotion Centre (AEPC) are other administrative bodies.

The IBN is administrative body to implement the investment for the hydropower projects above 500 MW. The Electricity Act, 1992 guides the survey, production, transmission and distribution of electricity. License is not required for the generation, transmission or distribution of electricity up to 1,000 KW. License should be obtained from the Department of Electricity Development, if the capacity of the project is more than 1,000 KW. The NEA issues survey license for 5 years, generation license for 35 years for domestic supply and 30 years for export oriented projects, additional maximum five years for hydrological risks is provided.[6]

Regulatory Framework

Along with the process of liberalisation in the mid-1980s, Nepal put efforts to attract FDI to fill the resources gap in private capital formation. Foreign Investment and Technology Transfer Act, 1982 was

[4] *Raghu Bir Basnet, Foreign Direct Investment in Nepal 45 (Kathmandu, Nepal. 2005).*

[5] *Nepal Electricity Authority 88 (A Year in Review-Fiscal Year 2011/12,)*

[6] *Ibid.*

[7] *A survey report on FDI in Nepal. Nepal Rastra Bank, Research Department (June 2018)*

enacted to attract and utilise the foreign investment in Nepal. Subsequently, a new Foreign Investment and Technology Transfer Act, 1992 was enacted to facilitate the liberalisation process of 1990s.

Thereafter, Nepal became member of the World Trade Organization (WTO), Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation (BIMSTEC), South Asia Free Trade Agreement (SAFTA) and Multilateral Investment Guarantee Agency-MIGA. Nepal signed Bilateral Investment Protection and Promotion Agreement (BIPPA) with six countries and Double Taxation Avoidance Agreement with ten countries. Nepal has obtained access to neighboring and global markets. Investment Board Act, 2010 was enacted based on which Investment Board has been established.[8]

Legal Framework

The legal arrangements that govern FDI in Nepal include Foreign Investment and Technology Transfer Act (FITTA), 1992, Foreign Exchange (Regulation) Act, 1962, Investment Board Act, 2010 and Industrial Enterprises Act, 2016, Company Act, 2017, Investment Board Act, 2011, Contract Act, 2000, Arbitration Act, 1999, Income Tax Act, 2002, Labor Act, 2017, and Privatisation Act, 1992. Similarly, DOI, Investment Board of Nepal (IBN) and NRB are the agencies for administration and implementation of rules and regulations related to FDI.

The FITTA defines the forms of foreign investment as (a) investment in share (equity); (b) reinvestment of the earnings derived from the clause (a) above; (c) investment made in the form of loan or loan facilities. The minimum investment required for foreign investment approval is Rs. 5 million per investor. The act also defines the technology transfer which is allowed even in the area where foreign investment is not permitted. Use of technological rights, specialisation, formula, process, patent or technical know-how of foreign origin; use of any trademark of foreign ownership and acquiring any foreign technical consultancy, management and marketing service are the forms of technology transfer. However, there are some industries like cottage industries, security printing, arms and ammunition industries, among others, where foreign investments are not allowed.

Furthermore, there are sector specific acts that should also be followed if the investment goes to the given specific sectors. These acts are the Electricity Act, 1992, Nepal Petroleum Act, 1983, Private Investment in Infrastructures Act, 2006, Mines and Mineral Resources Act, 1985, Bank and Financial Institutions Act, 2017, among others.[9]

Challenges of Hydropower development in Nepal

The major factors that causes the obstruction in development of hydropower project in Nepal, basically regarded by private developers, are local politics and political leaders along with co-ordination among the parties involved, lack of transmission lines and Power Purchase Agreement (PPA) which act as major agents and causes. These agents and causes not only obstruct the construction and operation of projects but also hinder the projects at planning phase from coming into the fruition. Increased bureaucratic hurdles, fragile political situation, insufficient transmission capacity and absence of necessary policies and regulatory frameworks for operationalising power sales as causes for backing out of the project. While Nepal is facing power shortages and lacks sufficient funds and technical skills to build mega hydropower projects, FDI in hydropower sector will be reasonable alternative to solve the current problem. In order to attract FDI in such projects, there must be an environment of ease doing business climate so that the investors can feel confident to invest in Nepal. This objective can be achieved with well thought out regulatory framework and well-coordinated bureaucracy.

Opportunities of Hydropower Development in Nepal

The FDIs are normally industrial type investments, long term and more resilient. FDI allows the transfer of technologies that cannot be achieved through financial investments or trade in goods and services. The FDI can also promote competition in the domestic market. Recipients of FDI often gain trainings of employees in the course of operating new businesses, which ultimately contributes to human capital development in the host country. Similarly, profits generated by FDI contribute to corporate tax revenues in the host country. Hydropower projects can bring opportunities like:

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[8] *A survey report on FDI in Nepal. Nepal Rastra Bank, Research Department (June 2018)*

[9] *Report on FDI in Nepal. Nepal Rastra Bank (June 2018)*

- High employment and development during construction phase
- Revenue to the government in terms of royalty and taxes
- Dry season energy for Nepal's need
- Foreign currency revenue through power sales
- A plausible and tangible reason to start large industries in Nepal

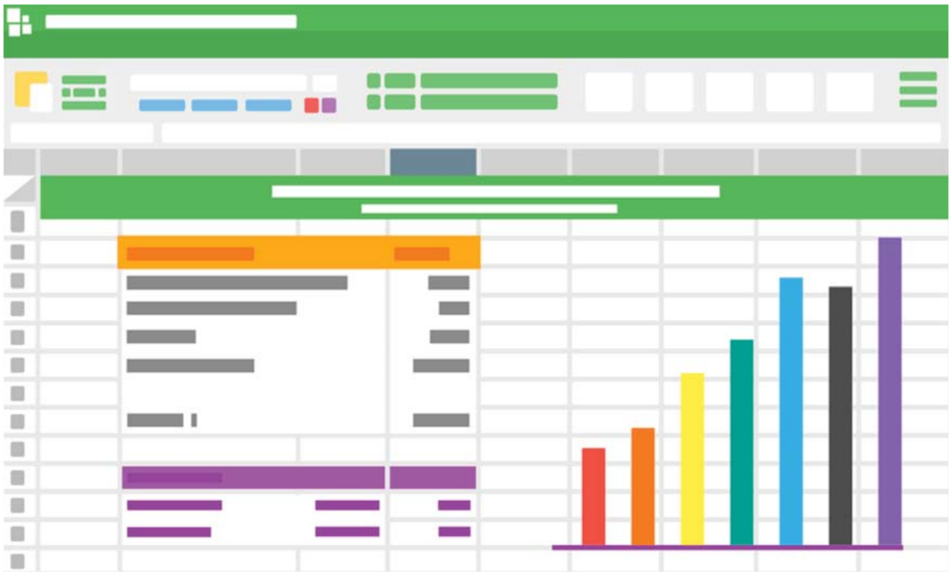
Conclusion

Being the largest country of the world in hydro power generation capacity with some 83,000 MW in total out of which 43,000 MW is financially and technically feasible. Out of such high potentiality, only about 1.4 per cent is used for generating hydropower yet. Nepal could boost development process as well as earn foreign currency, by utilising highly potential water resources basically by generating hydro power energy and supplying in the market as per demand.

Despite the growing interests shown by many investors of national, regional and international levels to harness the hydropower potentialities of Nepal, the figures of foreign investment is not encouraging in energy sector. Political instabilities, lack of adequate provisions and laws, lack of effective implementation of the rules are the responsible factors for this adverse impact on foreign investment climate in the past.

In order to attract FDI, there must be an environment to ease the doing business climate so that the investors can feel confident to invest in Nepal. This objective can be achieved with well thought out regulatory framework and well-coordinated bureaucracy. Careful amendments to the Industrial Enterprise Act 1992, the Foreign Investment and Technology Transfer Act 1992 and the Electricity Act 1992 can create favorable environment for making a conducive environment for doing business and attracting FDI for mega hydropower projects in Nepal. ■

Managing the Spreadsheet Risk



"Spreadsheets pose significant challenge to management and auditors. Whereas, applications have at least some built in controls, security, log and change management system; spreadsheets lack all of these. Spreadsheets are usually created by end users, stored in their local computers which are outside the control of information technology department. During audit we have found that the management and IT department were surprised to know the use of spreadsheets in so many areas without any controls."

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Spreadsheet[1] is the most commonly and widely used calculation and data management tool by accountants and auditors regardless of size, industry or the complexity of the entity's business model. We prepare budgets, forecasts, reconciliations, financial statements, reports and even calculate salary and tax in spreadsheet. In some instances, these excel spreadsheets become so large and complex, they grow to be a kind of traditionally developed applications. Information is downloaded from applications in excel for further work and presentation. We also upload information from excel to applications in the form of voucher, adjustments and TDS submissions. The information resided in excel files is typically sensitive, confidential or proprietary in nature. Thus, companies should have significant interest in ensuring protection and reliability of sensitive spreadsheets.

Risks and Exposures to Spreadsheets

Spreadsheets pose significant challenge to management and auditors. Whereas, applications have at least some built in controls, security, log and change management system; spreadsheets lack all of these. Spreadsheets are usually created by end users, stored in their local computers which are outside the control of information technology department. During audit we have found that the management and IT department were surprised to know the use of spreadsheets in so many areas without any controls.

In a case reported by UK-based financial modelling company F1F9[2] , 88 per cent of all spreadsheets have errors in them, 50 per cent of

[1]MS Excel is the common spreadsheet program. Spreadsheet and Excel are used interchangeably in this article.
[2]The Dirty Dozen – 12 financial modelling horror stories, f1f9.com

spreadsheets used by large companies have material defects. These mistakes are not just costly in terms of time and money, but can also lead to damaged reputations, lost jobs and disrupted careers. The report further says "If the spreadsheet is ridiculously complex and impossible to read, then nobody will actually read it – and determine if there are any errors. It's impossible."

F1F9 has outlined 12 of the most high-profile financial modeling errors. The list includes, among others :

- The omission of a minus sign which cost Fidelity Magellan Fund around US$2.45 billion
- The British Government's botched efforts to assess bids for the West Coast Rail Line in 2012, which is estimated to have cost around US$76.6 million

Although, spreadsheets are not the risk in themselves, management should keep an inventory of spreadsheets being used in producing and processing critical and confidential information where it can impact the accuracy and reliability of organization financial information based on magnitude, materiality and complexity.

Examples of Spreadsheet Risk Exposures:

Risk exposure	Sample Problems
Calculation logic and formula accuracy	There are mainly two ways the spreadsheets are designed (a) some knowledgeable person designs the spreadsheet and others copy and adopt the spreadsheet without knowing exactly how it works and what are the formula and calculation logics. (b) The user prepares the spreadsheet based on his level of knowledge. There is no guarantee that the formulae and logics are correct. In both of these cases, there is a risk in creation and adoption. When the spreadsheet is complex, mostly they are not audited by management or auditor due to lack of expertise and in many cases the auditors do not recalculate the results based on inputs defined. They rely on the spreadsheets or ignore it as not material part of audit process.
Data integrity	Link to incorrect data, incorrectly referring and pulling the data source from source (like in case of VLOOKUP), incorrect reference, manual input of values, copy/paste from another source, hardcoding figures in formulas (like tax rates, value limit) which may be overlooked when updating spreadsheet raise question on data integrity.
Versioning	Though, there are some limited ways to control version of excel files; we usually do not use them. Version control is essential to ensure that the spreadsheet is up to date with latest and correct data. Version control is also supposed to keep the master data up to date without redundancy and ambiguity. Poor versioning could result in the use of outdated calculations or stale data.
Fraud	The ease with which spreadsheet information can be manipulated or compromised makes it relatively easy for fraudsters to abuse spreadsheets and potentially remain undetected. Spreadsheets can be easily manipulated if not protected. The changes made by the fraudster may not be detected if spreadsheet changes are not logged or controlled.
Unauthorized users	Access to the spreadsheet needs to be protected to ensure that unauthorized users do not inadvertently change data within the spreadsheets or view the sensitive data within the spreadsheet.

Spreadsheet Management

To minimize the risk exposure, the management should manage the spreadsheets like it would do in case of full-fledged applications used by the organization.

1. Identify Critical Spreadsheets

Management should take the responsibility to Identify and control the use of spreadsheets by considering the following four questions:

- Does the output impact financial reporting, budgeting, pricing, or payments?
- Is the spreadsheet complex in nature?
- Is the potential size of any error material to the financial statements, budget analysis, or pricing calculation?
- Does the output have other compensating controls that adequately mitigate the risk of material misstatements?

2. Maintain Spreadsheet Repository

Once the critical spreadsheets are identified, a repository should be kept including the following information:

- Name of the spreadsheet
- Location of the spreadsheet
- Last revision date and history of all changes
- Password used – yes or no (the actual password does not need to be recorded unless management needs a record of passwords in case personnel change)
- Risk level, including criticality and complexity of the spreadsheet
- Purpose of the spreadsheet
- Creator of the spreadsheet
- Owner of the spreadsheet
- Location of source documents that support the information within the spreadsheet
- Frequency of use (e.g., daily, monthly, quarterly, annually)

After management has identified the spreadsheets, a process needs to be set up to manage the addition or discontinuance of spreadsheets within the organization. In addition, management should ensure that each spreadsheet has an owner with defined roles and responsibilities for the management of the spreadsheet. Very often, applications come to life without accountability.

3. Evaluate Controls

For all critical spreadsheets, the following control considerations should be evaluated:

- Logical security: What prevents unauthorized access to the spreadsheets? Are passwords used? Is the spreadsheet located in a secure directory?
- Change management: What prevents unauthorized changes to spreadsheets? Are changes logged and monitored? How are errors prevented or detected?
- Operational: What ensures that the spreadsheets are backed up so they are available? Are spreadsheets appropriately archived in accordance with internal policy, laws and regulations?
- Business: Does adequate documentation exist to support the spreadsheet? Does the spreadsheet support the needs of the business?

Auditing Controls

After the inventories of spreadsheets have been risk-ranked, management needs to perform audit procedures to validate the logic and controls within the spreadsheet. Depending on the risk ranking, different procedures may need to be performed. For high-risk spreadsheets, management should apply extensive procedures to gain assurance that controls are in place. For medium-risk-ranked spreadsheets, fewer procedures will be performed. For low-ranked ones, management may chose not to test, or to perform a basic set of procedures.

1. Logical Security: Similar to application security, security within spreadsheets is very important to ensure that only authorized individuals have access to view, add, change, or delete data. Controls could include access control, security and integrity of data, segregation of duties, and password protection.

2. Password protection: Spreadsheet needs to have adequate password security with reasonable password configuration settings to ensure authorized access to the specific file and to key cells or formulae within the file. Many times, passwords in spreadsheets are simple and could be hacked. Management could consider using operating system or windows directory controls to prevent unauthorized access by controlling read/ write privileges.

3. Spreadsheet backup and storage: As far as practicable, spreadsheets should be stored in a network folder that is backed up daily. The spreadsheet should be stored in a secure location

that can be accessed only by authorized personnel.

4. Spreadsheet access: Where spreadsheets are stored in shared folder, the folder access permission should be restricted to authorized personnel only.

5. Spreadsheet access review: Spreadsheet access should be periodically reviewed and get a listing of the individuals that have system access rights to the spreadsheets to determine if the access is appropriate. To have good segregation of duties, management needs to ensure that the spreadsheet creators/owners, supervisor reviews, and users of the spreadsheets each have a segregated role.

6. Cell protection: Cells are protected to prevent formula overrides. By locking the cells, management can ensure that certain cells cannot be altered without a password. This can help protect sensitive data, formulas, and calculations.

7. Input fields and formulas: Separate and color code input fields and formulas and break complex calculations into smaller pieces.

Spreadsheet Auditing Tools

There are many in built and third party spreadsheet auditing tools available for evaluating the logic and structure of the spreadsheet application. In Excel, the Formula tab provides a “Trace Precedents” and “Trace Dependents” functions when activated shows the cells referenced in a formula. The error checking option shows where there are calculation or reference errors in the spreadsheet.

Another options is setting a watch window on a formula in one sheet that depends on inputs from another sheet provides the auditor with a tool that may be more efficient than opening multiple windows in order to view different tabs, or working against hard copy.

There are many third party excel add-ins which provide additional functionality or complement the built-in functions . Some of the third party spreadsheet audit tools are:

XLAudit: cimcon.com/products/solutions-xl-audit

Spreadsheet Detective: spreadsheetdetective.com

Spreadsheet Auditor: spreadsheetauditor.com

Excel Formula Audit: exceldashboardschool.com/excel-formula-audit

Arixcel Explorer: arixcel.com

PerfectXL: perfectxl.com

Conclusion

Spreadsheets are integral components of an organization’s information and decision-making process supporting financial and business operations. Due to the ease, flexibility and efficiency, spreadsheets have empowered end-users to meet a broad array of business requirements without requiring the involvement of IT organizations. But the use of spreadsheets is mostly outside the supervision of the IT department and control of the management posing a significant risk to the organization resulting from errors, lack of reliability, security and control. Thus it is very important to implement and maintain internal controls over Spreadsheets commensurate with their specific use, financial significance of the account or process with which the Spreadsheet is associated and its complexity. ■

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Critical Analysis of Judicial Practices on Corporate Criminal Liability in Context of Nepal

"Corporate liability determines the extent to which a corporation as a legal person can be liable for the acts and omissions of the natural persons it employs. It is sometimes regarded as an aspect of criminal vicarious liability, as distinct from the situation in which the wording of a statutory offence specifically attaches liability to the company/corporation."

A realistic approach to making corporations accountable requires an exploration of the decision-making structure of companies and a degree of innovation in adapting the elements that define the individual human culpability. It is difficult to draw a direct analogy between corporations and human beings who commits crimes. While a corporation may be characterized as a "person" capable of a crime, basing fault on the same psychological processes as apply to people raises problematic issues with respect to moral turpitude, the *mens rea* element of offences and defences. Every human in the legal world has only those status, capacity, and personality as attributed by the law. The law's empire is ubiquitous. The law has gained the power to create any legal abstracts, so the creation of a person is not chimerical. Even a corporate with a comprehensive compliance program may be held criminally liable for criminal acts of its employee.

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1. INTRODUCTION

Criminal liability of corporations has become one of the most debated topics of the 20th century. The debate became especially significant following the 1990s when both the United States and Europe faced an alarming number of environmental, antitrust, fraud, food and drug, false statements, worker death, bribery, obstruction of justice, and financial crimes involving corporations.[1] However, the principal underlying corporate criminal liability is *respondeat superior*.[2] "The principle of *respondeat superior* represents the implementation of the principles governing vicarious liability: the *actus reus* and the

[1] Anca Iulia Pop, "CRIMINAL LIABILITY OF CORPORATIONS—COMPARATIVE JURISPRUDENCE" Pg. 33.

[2] *Ibid.*

mens rea of the individuals who act on behalf of a corporation are automatically attributed to the corporation.[3] An organization is responsible for all its employees' actions done in the course and scope of their employment and, at least in part, for the benefit of the corporate.[4]

It is important to understand the purpose of corporate liability because the choice of liability strategy is to be determined by this ultimately i.e. whichever strategy achieves the purpose better must be used.[5] To support and endorse fundamental values of society by punishing their breach along with that to deter undesirable activity. Criminal law is intricately linked to the notions of culpability, blame, and the infliction of loss on an offender. Its offences commonly require proof of an accused person's mental state.[6] An organization can be held responsible for a crime if one of its decision makers or employees committed the prohibited act for the benefit of the organization or in breach of the organization's duties.[7] Fundamental principle of criminal law is that the criminal sanctions should address the individual responsibility of the wrongdoer without harming innocent third parties.[8] With these considerations in mind, lawmakers around the world traditionally adhered to the principle *societas delinquere non potest*.

It is, however, equally obvious that corporations can cause substantial harm.[9] They have been drivers of industrialization and the globalization of the economy. Their negligence has resulted in severe injury to individuals, groups, and the natural environment and their deliberate abuses of power have highlighted their apparently privileged position relative to other persons and entities.

Further, though such harm may result from the acts or omissions of individual "rogue employees", it may also be the expression of a corporate culture that tacitly condones, or at least tolerates wrongdoing. When corporate systems or cultures are to blame, sanctions against lone– possibly low-level– employees seem an inadequate response.[10] Since the individuals and groups of citizens are not the only participants in the economy: many governments and government agencies are also engaged in commercial activities, including industries or sectors with higher levels of "compliance risk".[11]

Finally, neither companies nor governments are the only large, complex institutions whose stakeholders could harm others through their collective operations. The peculiarities of corporate personality and the restraints posed by principles of the fair procedure may limit the ability of lawmakers to check corporate power through the criminal law.

2. THEORIES RELATING TO THE CORPORATE LIABILITY

Some of the theories related to the corporate liability are as follows:

- **Vicarious Liability:** Vicarious liability makes the employer or principal (the corporation) liable for the acts of an employee, providing that the employee has acted within his or her responsibilities and for the intended benefit of the corporation.[12] It is a form of strict liability arising from the master-servant relationship, without reference to any fault of the employer, 'it is a point not to be disputed but that in criminal cases the principal is not answerable for the act of the deputy, as he is in civil cases; they must answer each for their own acts and stand or fall by their own behavior".[13]
- **Personal Liability:** Richard Lissack for A.V. presented[14] the theory of personal liability. The

[3] *Cristina* De Maglie, Centennial Universal Congress of Lawyers Conference-Lawyers and Jurists in the 21st Century: Paper: Models of Corporate Criminal Liability in Comparative Law, 4 Wash. U. Global Stud. L. Rev. 547, 553 (2005).

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[12] Wells (2005), p. 150 and Pieth, Low & Cullen (2007), p. 7.

[13] Raymond CJ in Huggins (1730).

court rejected this theory by accepting the 'Primary rule of attribution' -i.e. 'directing mind and will ', stressing that for common law crime the court has not departed from identification theory but said that primary rule of attribution is not determinative in all cases, which means that the scope of 'personal liability' is open.

- **Theory of Identification:** This theory is similar to vicarious liability in that it relates to the responsibility of the corporation for the offences of its officers.[15] However, identification theory is about the senior officers of a corporation. These senior officers can be said to be part of the directing mind of a corporation.[16] The acts of these officers are seen as acts of the corporation itself. Though, just as for vicarious liability, fault must be found in an individual for a corporation to be liable which limits its use, especially for the decentralized multi-national corporations of today.[17]

- **Aggregation Theory:** Where pockets of knowledge or negligence are aggregated to make a corporation responsible is aggregation doctrine.[18] This theory suggests that the corporate culpability does not have to be contingent on one individual employee's satisfying the relevant capability criterion. Aggregation needs to be recognized that individuals within a company contributes to the whole machine; it is whole which is judged, not the parts.

- **Holistic Theory:** The holistic ideas have in common that they strive to base corporate liability on something else than the act of one individual.[19] C. Wells gave real picture of organization saying that- "We do not imagine that we are transacting with the Managing Director of Marks and Spencer when we do not shop there, nor that when a plane takes off the airlines board of directors has special knowledge of its activities, route, or condition that day. We do, however, expect that large companies operate according to a set of rules and procedures.[20]

3. JUDICIARY'S ASPECT OF NEPAL ON CORPORATE CRIMINAL LIABILITY

According to Company Act 2063 - a company shall have a separate corporate personality. The company does not have brain and heart to operate. Despite of not having brain and heart to operate, it uses its shareholder, directors, employees or concerned person to handle or to perform the business. Therefore, the concerned person might fail to perform its duty, to make them liable under the criminal law, judiciary has played significant role. Hence, judiciary has an important ??? to interpret the law through the interpretation of statues. Some of the cases related to the corporate criminal liability are mentioned herein:

- **Yadav Lamichhane et.al V. H.M.G. Special Police department. [NKP: 2046, no. 3849] Pg. 601.**

  Yadav Lamichhane and other people were the defendant who were charged for the air ticket corruption of the then Royal Nepal Airlines Corporation. The matter to be observed is not in the decision of this case but only on the charges. The M.D., executive director, and two directors of Dolakha Travels Pvt. Ltd. were accused of the collision with the Account and Finance Manager of RNAC in the corruption offences.

  In this case, we can see that the individuals of the Dolakha[21] Travels are the "Controlling mind" of the company. The fact relevant to us is that the prosecutor had no idea and intention to prosecute the Dolakha Travels Pvt.Ltd. This shows the trend and culture of perceiving corporate crime.

- **Unity Life International Limited V. Prime Minister and Council of Ministers et.al. [NKP: 2069 no.8814] Pg.:643**

  The government charged the Unity Life International Limited under the 'Banking and Negotiable Instrument Act, 2063', 'Securities Exchange Act, 2063'. The government during the investigation freezes its property and bank accounts, ceases the files and keeps the chairman under the custody. The petitioner requests[22] the court for giving the mandamus and other appropriate orders for his rights of freedom, property, occupation etc., which were encroached by the state.

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[14] G.S reference (2000) All ER 182.
[15] Pieth, Low & Cullen (2007), p. 18
[16] *Ibid.*, p. 8.
[17] *Supra Note* 12, p. 8.
[18] Wells (2005) p. 153.
[19] *Ibid.*
[20] C. Wells, corp. and crim. resp., OUP: 2001, Pg. 158.
[21] Yadav Lamichhane et.al V. H.M.G. Special Police department. [NKP: 2046, no. 3849] pg. 601.

The Supreme Court quashed the writ petition. The Supreme Court put the light on the concept related to a company. The court by highlighting the situation for lifting the corporate veil said that the individual rather than the company is to be held liable. Uprety, J:

> "... A doctrine of lifting the corporate veil is taken as an exception to the concept of corporate personality.... The principle of independent corporate existence and limited liability is the prerogative provided for the efficient business and this prerogative is available only for those transactions which are done and being operated with the predetermined object under the existing law.... This prerogative is not absolute; in many situations, such prerogative is not available to the company, its directors, promoters, staff, and shareholders. In many situations, the principle of independent existence is not given validity and the people who were related directly to the act ostensibly done for the companies are looked upon. This situation is called lifting the corporate veil." Primarily, if the following condition is proved then the individual, viz., director, promoter, staff or person with ostensible authority to perform a task, involved directly in irregularities are held responsible:
>
> a) If the veil of the company is used for any inappropriate illegal or fraudulent act.
>
> b) If the veil is used for evasion of inland revenue or tax.
>
> c) If the veil is used for the benefit of other than the company.
>
> d) To find out the residential status of the company.

The court then said that the Nepalese law also has accepted the principle of lifting the corporate veil in some situation eg. according to 'Company Act, 2063' and 'Securities Exchange Act, 2063' the Board of Directors is made liable, not the company if any illegal act is committed. The court, after observing the above two acts made the directors liable for any acts committed against the law and concluded that the concept of lifting the corporate veil is accepted under the Nepalese law.

The court considered that company is incapable of possessing the *mens rea,* this incapability puts the company away from the criminal punishment. Uprety, J:

> "... As it has abstract existence it cannot have its own feeling, mind or brain capable of thinking and it cannot be killed because it does not have any soul. It cannot possess *mens rea,* so for its operation, the human mind is used. The different organs filled with the human mind are used. The different organs filled with human mind act for its operation. As for the company's transaction is done by the general meeting, Board of Directors, Managing Director or Managers, which consists the mind of promoters or shareholders, which generally cannot be punished for the crimes which require *mens rea."*

The court after giving an opinion for corporate criminal liability said: ".... but the company cannot escape from providing compensation and relief, by showing technicalities that the directors, staff or other persons doing the transaction for business were not given the authority or the act happened with person's negligence... If the statue has envisaged the strict liability offence, then the matter is upto penalties. But, the company does not have any physical existence, i.e. for the abstract person, the punishment of imprisonment cannot be imposed. As the individual shareholder, directors, or staff or the person are liable personally, the scope of corporate criminal liability is supposed to be limited." This decision showed the presence of corporate criminal liability in Nepal but limited in scope. This decision has allowed to liable the company for strict liability offences.

- **General Tunga S. J. B. Rana et.al. v Indian Airlines Corporation, Kathmandu. [NKP: 2024, page no.389]**

A business by a carriage was conducted by an Indian Airlines Corporation within Nepal and India. In 2013, one of its airplanes crashed in an accident where, 13 people died. Among the dead, eight children were of the plaintiff. Plaintiff sued the company for the compensation.

In this case, we can observe the scope and acceptance of corporate criminal liability in the

[22] Unity life international Limited V. Prime Minister and cabinet of ministers et.al. [NKP: 2069 no.8814] Pg.:643.

dictum within the dissenting opinion given by,[23] Justice Prakash Bahadur K.C.:

> "…. Where the murder or theft is done by an individual or their collectives, the limitation starts immediately after the occurrence of the offence because the offence is knowable after the commencement. But in the case of airplane accident, the blameworthiness of the company or the pilot is not identifiable immediately. The accident may occur with the fault of nobody also. In such a situation, the company and the pilot proved to be innocent. The Accident occurred by the offence of the pilot or company becomes certain only when the report of the fair technical investigation committee or commission charges with guilt…."

4. LEGISLATIVE ASPECTS

There are many laws that are highly related to the concept of Corporate Criminal Liability. However, some of them are given below:

- *Muluki Criminal Code, 2074*[24]

  Criminal liability for offence committed by a body corporate to be of the doer of the act or who causes the act to be done: where a firm company or body corporate commits or causes to be committed an act considered to be offence under this code or law the person who has committed offence is responsible thereof; if such a person could not be specified the responsibility of the offence shall be borne by, owner or partners in case of a firm; M.D. or G.M. in case of company or body corporate and if such person could not be specified then CEO has to be made liable."- Section 30

- **Company Act 2063**[25]

  Section 60 of this act provides action towards directors to be held responsible in the case of loss of net worth of company: Sub Sec.(3) If it is held that the net worth of company has been reduced as mentioned in Sub-section (1) as a result of mala fide intention or malicious recklessness of any director, the director who commits such act shall also be liable to pay compensation for the same.

  Section 99 stipulates the responsibilities and duties of directors where he/she shall not do anything to derive personal benefits through the company or in the course of conducting the business of the company. Shall not commit any act contrary to Memorandum of Association and Article of Association if done then, the company may recover damages for any loss or damage caused to the company from a director who does any act with an ulterior motive, causing such loss or damage to the company, in contravention of such act.

  Section 160 of this act provides punishment with fine not exceeding Rs. 50,000 or with imprisonment for a term not exceeding two years or with both for the act done by any member of the company such as

  (a) where any director or officer of a company has caused any loss or damage to the company or any person by mentioning any false matter in any document of the company, with mala fide intention or malicious recklessness, such director or employee;

  (b) where any director or officer of a company fails to maintain or update[26], or cause to be maintained or updated, hides or conceals or damage such books of account or accounts as required to be maintained pursuant to this act, such person;

- **Money Laundering Prevention Act, 2063 (2008)**[27]

  While punishing the bank or financial institution or non-financial institution if the personnel or an employee of such is identifiable then these personnel or an employee and if not identifiable then the person working as main of such shall be punished - Section 30.

- **Foreign Exchange (Regulation) Act, 2019 (1962)**[28]

  Punishment: If the offence to be punishable by this Act is committed by any firm, company or body, the director, office-bearer, employee or agent taking responsibility of such a firm, company or body of the work related with such offence at the time of the commission of the offence shall be liable to punishment. Provided that, if there was a situation that such a director, office bearer,

23 General Tunga S. J. B. Rana et.al. v Indian Airlines corporation, Kathmandu. [NKP: 2024, page no.389]
24 Muluki Criminal Code, 2074, Section 30.
25 Company Act 2063, Section 60, 99 160 Amended in 2017.
26 Company Act 2063 Amended in 2017.
27 Asset (Money) Laundering Prevention Act, 2008, Section 30.
28 Foreign Exchange (Regulation) Act, 2019 (1962) Section17.

employee or agent could not be informed about the occurrence of such offence or if they submit evidence that they did their best to prevent such offence, they shall not be liable to bear the punishment- Section 17 Sub Section (4)

- **Banking Offence and Punishment Act 2064**[29]

  Where an offence under this Act is committed by an institution the personnel or an employee, where they are identifiable, and if they are not identifiable then the person acting as the main of the office shall be liable - Section 5

  The person or institution attempting the banking offence, or the person or institution indirectly involved in committing an offence or an employee of such institution or an institution accomplice to banking offence shall be punished half of the offence- Section 6

- **Organized Crime (Prevention) 2071**[30]

  If any corporate body is established under the prevailing commits any offence under this Act the personnel or the employee causing that shall be made liable. And if such personnel or the employee could not be identified then the person working as chief or main during the period of the crime shall be made liable. - Section 50

Conclusion

The concept of corporate criminal liability is in its emerging stage in Nepal. Although attempts are made in terms of legislations like Company Act 2063 (amendment in 2017) to control and reduce corporate crime, the very definition and concept of corporate criminal liability is still at nascent stage. Corporate liability determines the extent to which a corporation as a legal person can be liable for the acts and omissions of the natural persons it employs. It is sometimes regarded as an aspect of criminal vicarious liability, as distinct from the situation in which the wording of a statutory offence specifically attaches liability to the company/corporation. It means that to make one liable it must be shown that act or omission has been done which was forbidden by law and has been done with the guilty mind. Criminal law punishes justly; its irreplaceable retributive, deterrent and rehabilitative characteristics satisfy the public demand for vengeance. Criminal punishment of corporations sends a symbolic message: no crime goes unpunished. And a just punishment includes the moral condemnation of society. Corporations are independent juristic persons that can cause harm. Therefore, corporations should bear the responsibility for their actions.

Although corporations have been initially conceived as a method of avoiding personal liability, and although its members will feel the side effects of sanctioning corporations, members do not lose more than what they were willing to risk from the beginning (at incorporation). A natural person in Nepalese context cannot trigger liability. Individual prosecution and liability are given more preference rather than the corporate liability. Although, there is no obstacle in the criminal law jurisprudence whatsoever to impose criminal sanction on a corporate since it can have a mind of its own and an environment wherein crime is nurtured.

Nevertheless, this concept is still at embryonic stage in the statutes in the context of Nepal. This developed jurisprudence does not find a place in the Nepalese statues as they still make only the officials responsible for the act criminally liable and not the corporation itself. It appears that the models available in common law system is enough for convicting body corporate because the identification theory helps in the case where particular persons could be found as directing mind and besides this theory, the common law system through the statues also have adopted the holistic approach. In Nepal, the legislative in some statutes has envisaged the criminality of the corporate body but has not explicitly shown any intention to punish them and the judiciary also seems to be at infant stage in a matter of corporate criminal liability. Hence, corporate crimes cannot be dealt by implementing more laws or governance practices, but rather by effective and stringent action against the perpetrators. To combat corporate crimes, the regulatory mechanism would have to be strengthened and provisions would have to be made for imposition of stringent legal penalties.■

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[29] Banking offence and punishment Act 2064, Section 5 and 6.

[30] Organized Crime (Prevention) 2071, Section 50.

Major Changes in Laws

Labor Act 2074 (Bhadra 19, 2074)

Provisions relating to types of Employment:

Section 10 of the Act has categorized employees on the basis of employment as follows:

a) Regular employment
b) Task based employment
c) Time based employment
d) Casual employment
e) Part time employment

Section13 mentions the provisions of keeping an employee under probation of 6 months period.

Provision relating to trainees and interns

Section16 & 17 is regarding hiring interns as per the approved syllabus of the educational institution. However, if such interns are engaged in works other than as per their approved syllabus, then they shall be deemed to be regular employees. As per section 18, training period of a trainee cannot be more than 1 year unless otherwise prescribed by the law. The employer shall not be obliged to hire such trainees as regular employee, however if appointed, they shall not be kept under probation.

Provisions relating to time period of work

The normal working hour of an employee shall be 8 hours per day and 48 hours per week. Half an hour break must be provided after continuous work for 5 hours (section 28). The maximum number of overtime hours that an employee can be assigned to work cannot be more than 4 hours a day and 24 hours a week (section 30).

Provisions relating to remuneration

An employee is entitled to one month remuneration annually as festival allowance and regarding employees not completing 1 year of employment, such allowance shall be provided on proportionate basis (section 37)

Provisions relating to leave

An employee can take weekly holiday, public holiday, substitute leave, house leave, sick leave, maternity leave, obsequies leave, with remuneration or without remuneration leave. Maternity leave of up to 14 weeks can be taken out of which 60 days shall be fully paid (section 45). Moreover, the husband of such pregnant woman shall get paternal leave of 15 days. Additionally, 90 days house leave and 45 days sick leave can be accumulated and any excess accumulation shall be encashed every year (section 49).

Provision relating to provident fund, gratuity and insurance

An employee shall be entitled to provident fund (section 52) equal to ten percent of basic salary and gratuity (section 53) equal to 8.33 percent of basic salary. An employee shall be eligible for provident fund and gratuity from the first day of employment which is to be deposited in Social Security Fund.

The Act has introduced medical insurance (section 54) with insurance coverage of at least 1 lakh for every worker whose premium shall be contributed equally by employer and employee & accident insurance (section 55) with insurance coverage of at least 7 lakh for every worker whose premium shall be contributed fully by the employer.

Provisions relating to occupational safety and health

The Act has provisions for formation of Health and Safety Committee (section 74) for employer with 20 or more employees in the enterprise.

Provisions relating to collective dispute resolution

An enterprise having 10 or more employees shall constitute a Collective Bargaining Committee (Section 116) under this Act.

Provisions relating to conduct and sanctions

The Act has introduced section 131 (2) according to which maximum of one day remuneration can be deducted as punishment for the misconduct committed by the employee. Similarly, the Act has introduced changes in establishment of Labor Court (section151). Moreover, the employee can be reprimanded under section 132 for sexual harassment based on circumstances and gravity of the offense (section 132).

Provisions relating to termination of employment

An employee under regular employment shall mandatorily retire at the age of 58 (section 147). Termination of employment for time based employment (section 140) and task based (section 142) shall be when the time and task for the same expires respectively. Also, the employment maybe terminated if performance of the employee is found to be unsatisfactory while evaluating performance continuously for 3 times or more.

Miscellaneous

This Act shall not be applicable for Civil Service, Nepal Army, Nepal Police, Armed Police Force and National Investigation Department.

The new Act has repealed Labor Act, 2048, Industrial Training Act, 2039, Retirement Fund Act, 2042.

Minimum wage under section 106 of Labor Act 2074.

The Government of Nepal has stipulated minimum wage of Laborers as required by section 106 of Labor Act 2074, by publishing it in Nepal Gazette, which are as follows:

a) Minimum Wages for workers engaged in other than Tea Estate

S.N	Basis of Remuneration/ Wages	Basic Remuneration (NPR)	Dearness Allowances (NPR.)	Total (NPR)
1	Monthly	Rs. 8,455/-	Rs. 4,995/-	Rs. 13,450/-
2	Daily	Rs. 325/-	Rs. 192/-	Rs. 517/-
3	Hourly	Rs 43/-	Rs 26/-	Rs. 69/

b) Minimum Wages of workers engaged in Tea Estate

S.N	Basis of Remuneration/ Wages	Basic Remuneration (NPR.)	Dearness Allowances (NPR.)	Total (NPR.)
1	Monthly	Rs. 6,469/-	Rs. 4,312/-	Rs. 10,781/-
2	Daily	Rs. 231/-	Rs. 154/-	Rs. 385/-
3	Hourly	Rs 31/-	Rs 20/-	Rs 51/-
4	Daily Allowances for workers/ employees engaged in tea processing and working at tea factories and Sardar, Naike and security guard working in the Tea Estate	-	-	Rs 42/

Provisions relating to deposit guarantee (Shrawan 3, 2075)

Deposit guarantee limit has been revised up to Rs. 300,000/- of funds in deposit account of the natural person, pursuant to sec 19(1) of Deposit and Loan Guarantee Fund Act 2074, which previously was Rs. 200,000/-.

Provisions relating to house-rent-tax collection (Baishak 10, 2075)

Notice regarding collection of house rent tax pursuant to Article 57 (4) of Constitution of Nepal 2072 and section 3(3) and schedule 3 of Intergovernmental Fiscal Arrangement Act, 2074:

a) Local level shall collect house rent tax from natural person residing within its jurisdiction and earning income from house rent. IRD shall not collect such tax.

b) Natural person of whose house rent tax has been deposited at the local level shall not be required to pay income tax on such house rent income.

c) As the local level will collect house rent tax, IRD shall handover previous years' records to the local level where the permanent address of such tax payer is situated.

d) The concerned authority collecting house rent tax shall certify such income of the tax payer.

Provisions relating to Bonus Regulations, 2039 (Bhadra 25, 2075)

Provisions of Rule 6 for Government-owned Entities

Each government owned entities established for profit motive shall have to allocate an amount equivalent to **five** percent of its net income of one fiscal year for bonus to the employees. (sub-rule 1)

Notwithstanding anything contained in sub-rule 1, the government owned entities established for profit motive and having monopoly in the areas as specified by the government, shall have to allocate an amount equivalent to **one** percent of its net income of one fiscal year for bonus to the employees. (sub-rule 2)

Such government owned entities shall obtain approval of the Ministry of Finance (GON) prior to distributing bonus and inform about the approval so obtained to the concerned labor office as well (sub-rule 3). Additional details under sub-rule 4 shall also be accompanied along with details as required by sub-rule 3.

However, government owned entities established without profit motive for regulation, promotion, and development of certain area, shall not allocate provision for bonus. If such entities distribute bonus contrary to this Rule, such amount shall be recovered from the official who made such decision as government dues

Provisions relating to maximum amount to be received as bonus by the employee in Government-owned Entities (Rule 7)

For the employees engaged in government owned entities as per rule 6(1), an Officer level employee shall get an amount not more than three months salary based on first salary scale in an income year as bonus, while the employees of lower level than Officer level shall get an amount not more than four months salary based on first salary scale in an income year as bonus.

For the employees engaged in government owned entities as per rule 6 (2), an Officer level employee shall get an amount not more than two months salary based on first salary scale in an income year as bonus, while the employees of lower level than Officer level shall get an amount not more than three months salary based on first salary scale in an income year as bonus.

Provisions relating to Rule 10

"Ministry of Labor and transport management" as mentioned under rule 10 of the regulation has been replaced by "Ministry of labor, Employment and Social Security".

Provisions relating to Excise Regulations, 2059 (Jestha 22, 2075)

Provisions relating to Rule 6 of Excise Regulations, 2059

In addition to the existing sub-rules in rule 6, sub-rules 4 & 5 have been added as follows:

Sub-rule 4, during wine production, patent steel tank or wooden barrel (vat) must be used for fermentation.

Provisions relating to Rule 30(A)

Rule 30A has been added after rule 30 of the Excise Regulation, 2059, with provisions of formation of committee for disposal of stock of unusable excise tickets in the department (sub-rule 1) and in IRO or Taxpayer Service Office (sub-rule 2), as per the procedures of the department.

Contract Act has been repealed and replaced by Muluki Civil (Code) Act, 2074 (2017) *[Muluki Devani Ain 2074].*

Quality Assurance (QA) : Updates and Insights

ICAN being the sole regulator of the accounting profession in the country under the provisions of the Nepal Chartered Accountants Act 1997 along with the corresponding responsibility for the same, it has felt indispensable need to monitor audit quality of its practicing members in pursuit of building its regulators image and ensuring public confidence in audit. Realizing this fact and being pressured to comply with its own responsibility, demonstrate the ICAN's role for public interest and fulfill the condition of ICAN's membership of IFAC, the leadership of ICAN has set up the Quality Assurance Framework in ICAN to review and regulate the quality of audit firm's and members' services, specifically firm's quality control system and audit quality. This issue aims to impetus the firm's understandings of quality performance expected out of them at minimum, and the ideas how these would be reviewed by the ICAN's QA team.

The need for QA

Auditing, by far and at large, has remained aloof of impactful monitoring to ensure that it meets the desirable standards of quality, in the history of accounting profession in the country. With the advent of the more dependable, transparent and accountable businesses, the stakeholders and regulators have started to pay greater emphasis on trustworthy and qualitative financial information to assist their decision making. Such stakeholders, regulatory authorities and public at large depend upon the assurance provided by professional accountants' audit report including the presentation and disclosure in the financial statements, which is based upon the quality of audit work. Several cases of fraud and impediment to corporate governance of entities, nationally and internationally, have triggered the demand of standardized audit quality from professional accountants. Around 50 countries all over the world have come up with audit oversight board, to provide for more stringent audit regulation, monitoring of audit firm's practice and raising the state of public confidence in audit.

ICAN's Framework on QA

- Necessary provision on Rule 103 of Nepal Chartered Accountants (NCA) Rule 2061 (fifth amendment 2072)
- Audit Quality Assurance (AQA) Review Procedure 2073 approved by Council to provide for the operation of Quality Assurance Board (QAB)
- 7 members QAB (A chairman, 2 Council Members, 2 Members, a representative of Securities and Exchange Board of Nepal (SEBON) and a representative of Office of Auditor General as appointed or nominated)
- QA unit to work for QAB
- QA Manual to provide for guidance to the QA Unit's review team to carryout and finalize the firm's review
- A team of Chartered Accountant employees of the Institute designated to work for the QA Unit

Focus and Priorities

Review is a gradual and systemic development process, and not a one-time activity. Hence, considering the resource, now and in the long run, QA is bound to prioritize the review activities in phases. In the first hand, QA has prioritized the review of those audit firms who have completed the audit of listed entities in the period of last 12 months. The listed entities have been so prioritized considering the highest level of public interest involved in them. Likewise, QA will, through further discussions, gradually prioritize other sectors like other public interest entities, non-listed public limited companies, private companies and cooperatives above certain threshold, to identify the list of audit firms for being reviewed. On the review part, the focus is on raising awareness about the need for firm's quality control system and audit quality, discussing and reporting on the weak areas with probable course of actions for improvement and creating an environment where every audit firm are keen to improving the audit quality. Last but not the least, a provision for actions on firms for gross negligence or non-compliance to standards and regulations exists which is applicable in the extremely inappropriate audit performances.

Recent Development on QA

- Review of 18 CA firms completed
- 20 Listed entities file review conducted
- Review Report sent to 15 firms for response
- Response received from 7 firms

The QA team at ICAN, with the oversight and guidance of the QAB, has until the end of September 2018, carried out the review visits of 18 CA firms. As against the chaotic situation in the pre-arrangements to start the QA, a situation now looks quite enabling. The feedback and overwhelming support has been received from partners of the firms as regard to strengthening of QA in the country. They have also found the QA exercise and discussions useful in envisioning for developing firm's system and engagement performance.

A look at the review process

- Currently, List of Listed Companies from the list in NEPSE's Website, is selected by the QA Unit following a prescribed basis, and approved by the QAB from time to time. The audit firms conducting audit of approved listed entities are identified for review scheduling.
- 3 months' advance notice is sent to the identified firms asking them to propose the date of review on their comfortable time within 3 months.
- If they do or do not respond within 3 months' time, a 15 day's advance notice is sent to the firms along with the firm level questionnaire for response prior to visit.
- One reviewer is generally allotted 3 days' time for review of 1 firm. Entry meeting and exit meeting is conducted in the beginning and end of firm review.
- A report is prepared and sent to the firm in designated format after it has been prepared following due internal process of report finalization.
- Time of 15 days, except in the case of exceptional situation is provided to the firms to provide response in the review report.
- An evaluation of the issues in the light of response received on the same is made by the QA Unit.
- A summary report is prepared by the QA Unit for the Board including the principal issues, response of the firm, and views of the reviewer along with recommendation for grading and actions, if any.
- The QAB discusses on the summary report and decides on grading and actions to be taken, if any.

QA's expectation from the Firms:

QA includes the review of firm's system of quality control in compliance to NSQC-1 and the engagement performance of completed audit files in compliance of professional standards (NSAs and Code of Ethics) and legal and regulatory requirements. Hence, the following details (though not exhaustive) outline what exactly the QA will be looking forward during the review visit. None the less, QA applies professional judgment to decide the applicability and extent of compliance in view of the nature and size of the firm, and relevance in the particular circumstances.

Firm's System of Quality Control

The objective of firm's system of Quality Control as mandated by NSQC-1 is to ensure that:

- The firm personnel comply with professional standards and relevant legal and regulatory requirements
- The report issued by the firm is appropriate in the circumstances

In order to evaluate the firm's ability to achieve the above objectives, the review assesses the firm's arrangements in respect of the following elements of the firm's system of quality control:

(a) **Leadership responsibilities for quality within the firm.**

- Partners' Tone at the top emphasizing on quality and enabling environment where quality is given priority over commercial considerations.
- Provision of Quality Control Policy for formalized, enforcing and verifiable quality control environment. The policy is expected to cover how the firm addresses the requirements of NSQC-1, and considerate to the firm's size and nature.
- Commitment by the firm on resources (hardware/software/space/work environment/pay/library/logistics/training/audit system/policies/communication)
- A culture of reward for quality audit performances, performance based incentive systems
- A Partner assigned of quality control responsibility in a partnership firm
- Interaction and Communication of quality control policy and result of monitoring reviews to the firm personnel

(b) **Relevant ethical requirements.**

- Declaration of Independence by all firm personnel on joining of the firm and at least annually with respect to firm's current list of clients
- The declaration form should at least refer to chief independence issues as listed out in the Hand Book of Code of Ethics and should be tested for Personnel's close member of family as well
- A summary of assessment of all independence declarations
- Record of application of safeguards in case of any independence issues
- Assignment of ethics responsibility to appropriate personnel within the firm
- A record of staff orientation on possible independence issues and the type of communication that is required

(c) **Acceptance and continuance of client relationships and specific engagements.**

- Record of assessment of Clients' integrity – Use of Checklists
- Statement that the firm can comply with ethical requirements
- A statement of declaration that the firm has adequate resources and time to carry out the engagement

- Re-assessment of continuing clients
- Documentation of resolution of issues identified
- Communication with previous auditor
- Copy of letter of engagement

(d) **Human resources.**

- Assessment of human resource capacity
- Assurance that qualitative human resources is hired
- Existence of any performance appraisal system of the staffs, let the staffs know the policies for advancement
- Assurance that competency is maintained through regular professional education, training and development (Record of in-house trainings, CPE, staff meetings, specialized trainings etc.)
- Assurance that staff assignment within the team remains appropriate

(e) **Engagement performance.**

- The use of planning memoranda, Audit Program, Checklists and their standards to promote consistency
- Evaluation that audit approach remains appropriate and the audit is headed to right direction
- Timely review of engagement performance by partner and EQCR for listed entities
- Procedures for consultation on difficult and contentious matters and their record
- Procedure to sort out differences of opinion and their record
- Mechanism to ensure compliance or observance to each of the professional standards relevant to the audit including documentation
- Maintain EQCR documentation and independence

(f) Monitoring.

- Existence of annual monitoring of firm's own Quality Control System, its operation and effectiveness and a report thereof
- Communication of deficiencies identified and the action to address them
- Procedure to deal with the complaints and allegations and their record

- **<u>Audit Quality</u>**

This ultimately requires the adherence to professional standards (Nepal Standards on Auditing and the Code of Ethics), and relevant regulatory requirements in the conduct of the audit engagements. However, for quick go through, following minimal but major requirements of the NSAs have been set out as below which the engagement file shall exhibit compliance to.

- Appointment Letter and engagement acceptance note
- The agreeing of the terms of audit engagements
- Engagement Planning Meeting Records
- Overall audit Strategy including doc-

umentation to show understanding of clients business

- Audit Plan – Time Plan including assessment of risk and response to those risks
- Audit Program
- Proof of Performance of risk assessment procedures and response to those risks (These may be use of checklists for control tests, Compliance tests, risk and response schedule)
- Communication with management and those charged with governance (Including notes of entry and exit meetings)
- Planned Materiality Level and sampling Methodology
- The significant risks
- Adequacy of risk assessment procedures- fraud, laws and regulation, going concern, accounting estimate, subsequent events, and related parties.
- Evidence gathering procedures – Substantive test(Test of details and Substantive analytical procedures) and test of control
- File Note (A summary of audit objective, audit procedures applied, audit evidence obtained, findings and resolution of findings for each material line item of the financial statements)
- Conclusions reached, Effect of uncorrected misstatements
- Other Completion Procedures (Use of checklists, subsequent events, management representation, review of financial statement appropriations/adjustments/disclosures, analytical procedures at completion stage)
- Engagement Quality Control Review (EQCR)- Documentation of extent of review and review outcomes
- Support for the Audit Opinion (Evaluation of impact of all misstatements identified)
- Other Regulatory Reports
- Final Sign off in the Working papers (By Preparer, Reviewer and Approver)
- Linkages between Audit Work Papers, Lead Schedules, Financial Statements and Preliminary Audit Report
- Assembly of Audit File and Safe Storage
- Compliance to NSQC-220, Quality Control for an Audit of Financial Statements

Disclaimer:

The above information on QA is provided by the QA team of ICAN for the general information of the audit firms and practicing members in Nepal, with the objective that it facilitates the understanding/preparedness of firms for firm's system for quality control and minimal engagement performance standards and documentation which is also the subject of review by QA team. But in no way, the QA team assumes any type of responsibility for the technical accuracies of the information or possible interpretation differences or whatsoever, and encourages the professional judgment and reference to text of the relevant and authorized standards for acting in the particular circumstances.

The Institute of Chartered Accountants of Nepal (ICAN)

Decision on Carve-outs in NFRS with Alternative Treatments

The Institute of Chartered Accountants of Nepal resolved that the following 7 Carve-outs in NFRS with following Alternative Treatment and effective Period of Carve-outs shall be provided to the Banks and Financial Institutions regulated by Nepal Rastra Bank on the specific recommendation of Accounting Standard Board Nepal. However, other entities may also use these carve-outs with necessary disclosures.

Carve - Out Number	NFRS/ NAS	Existing Provision	Carve-out : Alternative Treatment	Period of Carve-out
1	**NFRS 10 : Consolidated Financial Statements** ***Preparation of consolidated financial statement using uniform accounting policies***			
Para 19	A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.		A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances *unless it is impracticable to do so.*	FY 2017-18 FY 2018-19 FY 2019-20
Option • *The carve-out is optional, if an entity opts to use this carve-out that should be disclosed in the Financial Statements with its monitory impact on the Financial Statements as far as practicable.*				
2	**NAS 17 : Lease** ***Operating lease in the financial statements of Lessees***			
Para 33	Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit		Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term *unless either:* *(a) Another systematic basis is more representative of the time pattern of the user's benefit even if the payments to the lessors are not on that basis; or* *(b) The payments to the lessor are structured to increase in line with expected general inflation to compensate for*	2017-18

		the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition is not met.	
Option • *The carve-out is optional, if an entity opts to use this carve-out that should be disclosed in the Financial Statements with its monitory impact on the Financial Statements as far as practicable.*			
3	**NAS 28 : Investments in Associates and Joint Ventures** ***Accounting for Investment in Associates as per equity method using uniform accounting policies***		
Para 35	The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.	The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances *unless, in case of an associate, it is impracticable to do so.*	FY 2017-18 FY 2018-19 FY 2019-20
Option • *The carve-out is optional, if an entity opts to use this carve-out that should be disclosed in the Financial Statements with its monitory impact on the Financial Statements as far as practicable.*			
4	**NAS 34 : Interim Financial Reporting** ***Impracticable to restate the corresponding previous intetim period information***		
Para 2	If an entity's interim financial report is described as complying with NFRSs, it must comply with all of the requirements of this Standard. Paragraph 19 requires certain disclosures in that regard.	If an entity's interim financial report is described as complying with NFRSs, it must comply with all of the requirements of this Standard. Paragraph 19 requires certain disclosures in that regard. *However, an entity shall not required to restate its corresponding previous interim period balance if it is impracticable to restate.*	FY 2017-18 FY 2018-19
Option *The carve-out is optional, if an entity opts to use this carve-out that should be disclosed in the Financial Statements with its monitory impact on the Financial Statements as far as practicable.*			

5	NAS 39 : Financial Instruments: Recognition and Measurement *Incurred Loss Model to measure the Impairment Loss on Loan and Advances*		
Para 58	An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. If any such evidence exists, the entity shall apply paragraph 63 to determine the amount of any impairment loss.	An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. If any such evidence exists, the entity shall apply paragraph 63 to determine the amount of any impairment loss *unless the entity is bank or financial institutions registered as per Bank and Financial Institutions Act, 2073. Such entities shall measure impairment loss on loan and advances as the higher of amount derived as per norms prescribed by Nepal Rastra Bank for loan loss provision and amount determined as per paragraph 63; and shall apply paragraph 63 to measure the impairment loss on financial assets other than loan and advances. The entity shall disclose the impairment loss as per this carve-out and the amount of impairment loss determined as per paragraph 63.*	FY 2017-18 FY 2018-19 FY 2019-20
Not Optional • Bank and Financial Institutions shall measure impairment loss on loan and advances as the higher of amount derived as per norms prescribed by Nepal Rastra Bank for loan loss provision and amount determined as per paragraph 63; and shall apply paragraph 63 to measure the impairment loss on financial assets and other assets other than loan and advances. The Bank and Financial Institutions shall disclose the impairment loss as per this carve-out and the amount of impairment loss determined as per paragraph 63.			
6	NAS 39 : Financial Instruments: Recognition and Measurement *Impracticability to determine transaction cost of all previous years which is the part of effective interest rate*		
Para 9	The *effective interest rate* is the rate that exactly discounts	The *effective interest rate* is the rate that exactly discounts	

Definitions relating to recognition and measurement	estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see NAS 18 *Revenue*), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).	estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received, *unless it is immaterial or impracticable to determine reliably,* between parties to the contract that are an integral part of the effective interest rate (see NAS 18 *Revenue*), transaction costs and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).	FY 2017-18 FY 2018-19
Option • *The carve-out is optional, if an entity opts to use this carve-out that should be disclosed in the Financial Statements with its monitory impact on the Financial Statements as far as practicable.*			
7	**NAS 39 : Financial Instruments: Recognition and Measurement** ***Impracticability to determine interest income on amortized cost***		
Para AG93	Once a financial asset or a group of similar financial assets has	Once a financial asset or a group of similar financial assets has	

Interest income after impairment recognition	been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment ss.	been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. *Interest income shall be calculated by applying effective interest rate to the gross carrying amount of a financial asset unless the financial asset is written off either partially or fully.*	FY 2017-18 FY 2018-19 FY 2019-20

<u>Option</u>

- *The carve-out is optional, if an entity opts to use this carve-out that should be disclosed in the Financial Statements with its monitory impact on the Financial Statements as far as practicable.*

NEWS

Institutional Development

Oath Taking Ceremony of President, Vice-President and Council Members of 8th Council

The oath taking ceremony of President-elect CA. Jagannath Upadhyay (Niraula), Vice President-elect CA. Krishna Prasad Acharya along with the newly elected Council Members of the Institute was held on July 17, 2018. Hon'ble Auditor General of Nepal Mr. Tanka Mani Sharma (Dangal), in the presence of the Chief Guest of the programme Hon'ble Finance Minister Dr. Yuba Raj Katiwada, administered the oath of office and secrecy to all the newly elected Council Members and the newly elected President.Thereafter, CA. Upadhyay administrated the oath to the newly elected Vice President CA. Krishna Prasad Acharya.

A Glimpse of hand over Programme of President Medallion.

Hon'ble Auditor General Mr. Tanka Mani Sharma (Dangal), administering the oath of office to the newly elected Council Members

Outgoing President CA. Prakash Jung Thapa handed over the "President Medallion" to the newly elected President CA. Upadhyay (Niraula) and highlighted major activities and achievements during his tenure. During the programme, 7th Council Members were also felicitated for their outstanding contribution. The newly elected President Upadhyay delivered a welcome speech where he briefed his plans and strategies to achieve goals as outlined in the Institute's Strategic Plan 2018-20.

To mark the untiring efforts of the outgoing President CA. Thapa, Executive Director CA. Sanjay Kumar Sinha presented him a token of love on behalf of the Institute.

Strategic Plan of the Institute Unveiled

Coinciding with the oath taking ceremony of the new Council Members Hon'ble Finance Minister Dr. Yuba Raj Khatiwada unveiled the Strategic Plan (2018 -20) on 18 July, 2018 in Kathmandu.

Hon'ble Finance Minister Dr. Yuba Raj Khatiwada releasing the Strategic Plan (2018 -20) of ICAN.

The 7th Council of the Institute had approved the Strategic Plan (2018-20) as the road map for the Institute. Its implementation is believed to be responsive for the changing needs of the profession that shall serve as guidance for the decisions of the Council, Committees and periodic action plan of the various departments of the Institute.

The Strategic Plan gives domain-wise priorities, goals and strategies for each domain with detailed year-wise action plan.

National Best Presented Annual Report Award Distributed

Similarly, coinciding with the oath taking ceremony, the Institute awarded National Best Presented Annual Report Award for the fiscal year 2016/17. The national BPA Award 2017 was awarded under the categories of Banking Sector (Private and Public Sector), Financial Sector (including Development Banks and Finance Companies), Insurance Sector, Public Interest Entity, General Sector, Service Sector, Manufacturing Sector and others. The organisations preparing ther Financial Statement based on NFRS and complying with the criteria set by the Institute were only selected for evaluation.

The Best Presented Annual Report Awards are an effective means of identifying and rewarding good practice in public reporting, both financial and non-financial.

The winner of the National BPA Award receiving the award.

Citizen Bank International Limited, Standard Chartered Bank Limited and Nepal SBI Bank Limited respectively were declared the winner, first runner up and second runner up under the category of Banking Sector (Private and Public Sector) whereas, Karja Suchana Kendra Limited (Credit Information Bureau Limited) was declared as winner under General Category. Likewise, Oriental Hotels (Radisson Hotel Limited) stood first in Service Sector stream and Bottlers Nepal Limited and Butwal Power Company Limited were declared winner and first runner up in Manufacturing Sector.

The Best Presented Annual Report Awards were presented by Hon'ble Finance Minister of Nepal Dr. Yuba Raj Khatiwada in the presence of Guest of Honour Hon'ble Auditor General Mr. Tanka Mani Sharma (Dangal).

Addressing the programme Hon'ble Finance Minister Dr. Yuba Raj Khatiwada urged ICAN members to provide necessary support in achieving government's vision and strongly regulating the financial reporting standards to support expected growth of the economy.

Conference on the theme "Governance for National Prosperity"

The Institute also organised a conference on the theme 'Governance for National Prosperity' on July 17, 2018, coinciding with the oath taking ceremony of the newly elected Council Members.

ICAN President CA. Prakash Jung Thapa delivering speech at the Conference.

The programme consisted of three technical sessions. The first technical session was on Non-Compliance with Laws and Regulation (NOCLAR) – Ethical Guidelines for Professional Accountants, Chaired by the Past President CA. Kausalendera Kumar Singh. In this session, CA. Nanda Kishor Sharma, former Chairman of Auditing Standards Board presented a technical paper. Similarly, second technical session on objectives and priorities of federal budget 2075/76 was Chaired by Revenue

A glimpse of the technical session of the conference.

Secretary, Ministry of Finance, Mr. Sishir Dhungana.CA. Sudarshan Raj Pandey, Past President ICAN presented the technical paper. Similarly, third technical session was on Corporate Governance: Challenges and Way Forward. The session was Chaired by President CA. Prakash Jung Thapa and the panellists were Dr. Rewat Bahadur Karki, Chairman, Securities Board of Nepal and Insurance Expert Mr. Bhoj Raj Sharma representing Insurance Board.

Interaction with Regulators on Quality Assurance Held

Quality Assurance Board (QAB) of the Institute organised an interaction programme with the representatives of the regulatory authorities and government offices on quality assurance on Thursday, July 12, 2018 at ICAN Building.

The programme was organised to disseminate information on quality assurance initiatives of the Institute and to discuss on the matters relating to audit quality. The Chairman and members of the QAB, President, Vice-President and Past President of the Institute, Executive Director, including the representatives from Office of Auditor General, Ministry of Finance, FCGO, Nepal Rastra Bank, Insurance Board, Securities Board of Nepal, Inland Revenue Department, Office of Company Registrar and Nepal Stock Exchange Limited attended the programme.

Speaking at the programme, the Chairman of the QAB, Mr. Ramesh Raj Satyal briefed about the status of Quality Assurance Review. He stated in the initial phase, priorities had been given for quality assurance of the auditors of listed entities. Further he also stated that the quality assurance findings are preventive rather than corrective, as a result of which they would apply to enhance quality of future audits rather than the ones under review.

Likewise, President of the Institute CA. Prakash Jung Thapa emphasised that the Institute had system in place to ensure that quality in the audit and assurance services rendered by its members through the applicability of national standards in line with international standards in audit and provision for review under quality assurance mechanism of the Institute.

MoU Signed for Implementation of NFRS in Banking Sector

A tripartite MoU between the Institute, Nepal Rastra Bank and Accounting Standards Board has been signed on July 16, 2018 to effectively implement the NFRS in banking sector (bank and financial institution). The main objective of the MoU is to facilitate effective implementation of NFRS in banks and financial institutions. The MoU was signed by CA. Prakash Jung Thapa, President of ICAN, CA. Narendra Bhattarai, Chairman of Accounting Standards Board and Mr. Chintamani Siwakoti, Deputy Governor of Nepal Rastra Bank. President Elect CA Jagannath Upadhyay, NRB Director CA. (Dr.) Suvod Karn, Deputy Governor Mr. Shiva Raj Shrestha, President of Nepal Banker's Association CA. Gyanendra Dhungana, member of Accounting Standards Board CA. Prabin Dhoj Joshi, Executive Directors of NRB CA. Maheshwor Lal Shrestha and Mr. Narayan Poudel were also present on the occasion.

Participation in 21st Plenary of Asian Pacific Group (APG) on Money Laundering

Deputy Director of ICAN CA. Ghanashyam Kafle attended the 21st plenary of Asian Pacific Group (APG) on Money Laundering, hosted by Government of Nepal from July 21-27, 2018 in Kathmandu.

This Plenary meeting discussed on mutual evaluation reports, follow up reports, governance issues and compliance status reports related to money laundering and terrorist financing.

More than 500 participants attended the programme. Of which 450 delegates were from more than 55 countries.

Meeting with the Coordinators of Branch Advisory Committee

The Institute organized meeting with the Coordinators of Branch Advisory Committee on July 24, 2018 at ICAN office, Satdobato. The meeting focused on the activities of the branch offices and their effectiveness. The meeting was participated by President CA. Jagannath Upadhyay (Niraula), Vice President CA. Krishna Prasad Acharya, Executive Director CA. Sanjay Kumar Sinha and Department Heads. This initiative was appreciated by the Coordinators of Branch Advisory Committee as such meeting was organized for the first time to bridge the gap between the ICAN central office and branch offices.

Participation in NFRS Based Financial Statement Format Issued by NRB

A seminar on NFRS based Financial Statement issued by Nepal Rastra Bank was held on July 28, 2018 where President CA. Jagannath Upadhyay (Niraula) participated as panellist. The seminar was organised by Nepal Bankers Association and Times Research and Training Institute. The seminar was focused on compliance with Nepal Financial Reporting Standards (NFRS) by banking business and challenges faced in its effective implementation.

Executive Director of Nepal Rastra Bank CA. Maheswor Lal Shrestha Chaired the panel discussion. Other panellists of the program were Director General of Inland Revenue Department Mr. Bishnu Prasad Nepal and Vice President of Nepal Bankers Association Mr.Anukul Bhatnakar.

Meeting with the Auditor General

President CA. Jagannath Upadhyay (Niraula) and Vice President CA. Krishna Prasad Acharya had a meeting with Hon'ble Auditor General of Nepal Mr. Tanka Mani Sharma (Dangal) on July 30, 2018. During the meeting, the President briefed about the contemporary issues related to accounting profession, ongoing activities about monitoring of members, disciplinary affairs and quality assurance review conducted by the Institute as well as other activities related to regulation of accounting profession.

Participation in the Interaction organised by Association of Chartered Accountants of Nepal

The Council Members and Past Presidents of the Institute had participated in the interaction Programme on Certification of Bonus and Stock organised by the Association of Chartered Accountants of Nepal on August 7, 2018. During the programme they discussed on controversial calculation mechanism on Bonus Act, 2030 and case hearing of Indushankar Sugar Industries Ltd.

Participation in Interaction Programme on Role of auditors in Tax Administration in Federalized Context

President of ICAN CA. Jagannath Upadhyay (Niraula) representing the Institute participated in the interaction programme organised by National Bureau of Professional Services Nepal on the Role of auditors in tax administration in federalised context on August 7, 2018.

The programme focused on the role of the ICAN members to support effectively in revenue administration function of Government of Nepal, particularly in federalised context. The programme also discussed on roles and responsibilities of ICAN as a regulatory body of accounting and auditing professionals in Nepal to support the government in effective functioning of revenue department.

Speaking on the occasion, the President mentioned that ICAN members are always committed to advocate for the compliance with taxation laws by their clients and encourage fair representation of financial statement as well as tax returns. He further reiterated that ICAN is always ready to extend necessary support for effective functioning of revenue administration in the provincial set up.

NFRS Implementation in Insurance Companies

The representative of the Institute attended a meeting on pathway to be adopted by Insurance Board for implementation of NFRS in insurance companies organised by the Insurance Board on August 9, 2018.

The meeting focused on ways of addressing the reporting format of financial statement of insurance companies in line with directives issued by Insurance Board and with Nepal Financial Reporting Standards (NFRS). Representatives from non-life insurance companies, consultants of Insurance Board and employees of Insurance Board, among others also attended the programme.

Meeting at PEFA Secretariat

ICAN President CA. Jagannath Upadhyay (Niraula) and Executive Director CA. Sanjay Kumar Sinha had a meeting with representatives of Public Expenditure and Financial Accountability (PEFA) Secretariat Nepal on August 10, 2018. During the meeting, they discussed about the steps to be taken for the effective implementation of the Integrated Public Financial Management Reform Project. Similarly, a discussion was held on further possibilities cooperation between ICAN and PEFA Secretariat to further strengthen Public Financial Management System in Nepal. The ICAN President assured to extend necessary support to the government for strengthening public sector financial management system in Nepal.

Meeting with Financial Comptroller General

The ICAN President CA. Jagannath Upadhyay (Niraula) and Executive Director CA. Sanjay Kumar Sinha hade a meeting with Financial Comptroller General Mr. Suresh Pradhan on August 10, 2018. During the meeting, they discussed on the possibilities of further coordination between ICAN and Financial Comptroller General Office (FCGO).

Meeting with Chairman of Public Service Commission

The ICAN President CA. Jagannath Upadhyay (Niraula) and Joint Director Shyam Mani Dahal had a meeting with Hon'ble Chairman of the Public Service Commission Mr. Umesh Prasad Mainali and other officials on August 12, 2018 to discuss on the possibilities and manner of recruting ICAN members by Government of Nepal at various positions requiring expertise of ICAN members including revenue administration, policy formation, audit of government offices, advisory services, public financial management etc. The President of ICAN committed that the Institute is always ready to extend necessary support to the government for the development of the nation.

Meeting with Minister of Federal Affairs and General Administration

The ICAN President CA. Jagannath Upadhyay (Niraula) along with other officials of ICAN had a meeting with Hon'ble Minister of Federal Affairs and General Administration Mr. Lal Babu Pandit on August 14, 2018. During the meeting, discussion was held on various professional issues faced by ICAN members in federalised context. The President of ICAN briefed the Hon'ble Minster that all ICAN members have their firms registered with respective government authorities of their location, and hence, registration in all local level authorities is not necessary. Vice President CA. Krishna Prasad Acharya, Council Member RA. Kedar Nath Poudel, President of Auditors Association of Nepal (AUDAN) RA. Mohan Raj Regmi and other officials of AUDAN attended the meeting.

Participation in Interaction Programme on Alternative Investment Fund Regulation, 2075

President of ICAN CA. Jagannath Upadhyay (Niraula) representing ICAN attended a programme on Alternative Investment Fund Regulation, 2075 as a special guest organised by the Security Board of Nepal (SEBON) on August 16, 2018.

Speaking at the programme ICAN President mentioned that ICAN was committed to extend necessary support for the development of the capital market in the country. The programme was also attended by Vice President CA. Krishna Prasad Acharya.

Interaction Programme

The ICAN officials held an interaction with different stakeholders on August 18-19, 2018 in Biratnagar, Morang. The officials interacted with the following stakeholders on following matters.

Stakeholders	Area of Interaction/ Meeting
Students and their parents	Education System and Examination Procedure etc.
Local Bodies	Accounting Guidelines for Local Authority, Tax Issues in Local Authority and Role of ICAN
Inland Revenue Office	About ICAN, Data Sharing with IRD and Current Issues in Auditing/ Accounting Profession
Branch Advisory Committee	Role of Branch Office, Plan and Program of Branch, Location of Branch Office and Facility of Branch Office (Including Staffs)

Udyog Sangathan Morang, Morang Bypar Sangh, FNCCI Chhetra No.1, Bank Managers	About ICAN, NFRS for SMEs, NFRS etc. and Current Issues in Auditing/ Accounting Profession
Members	Role of Members, Expectation of Society, Expectation of ICAN, Implementation of NFRS, NFRS for SMEs, NSAs, Code of Ethics etc and Current Issues in Auditing /Accounting Profession.

Technical Session on Financial Reporting

Financial Reporting Review Committee of the Institute organised a two-day technical session on financial reporting with a view to inform Committee members about the annual financial reporting format prepared by the Nepal Rastra Bank from August 23 to 24, 2018 in Kathmandu. The sessions were Chaired by Chairman of the committee and Past President of ICAN CA. Prakash Lamsal.

Meeting with Director General of Department of Revenue Investigation

President CA. Jagannath Upadhyay (Niraula), Vice President CA. Krishna Prasad Acharya and Executive Director CA. Sanjay Kumar Sinha had a meeting with Director General Mr. Dirgha Raj Mainali and other officials of the Department of Revenue Investigation on August 28, 2018. The meeting focused on the role of auditors in combating money laundering and tax evasion, and also discussed on punishment to the evaders. Both the bodies expressed their commitment to collectively address and coordinate in future incombating AML CFT issues.

Meeting with Director General of Department of Inland Revenue

President CA. Jagannath Upadhyay (Niraula) and Vice President CA. Krishna Prasad Acharya and Executive Director CA. Sanjay Kumar Sinha had a meeting with Director General of Inland Revenue Department Mr. Bishnu Prasad Nepal on August 28, 2018. During the meeting, they discussed on the mechanism to strengthen Nepalese tax system and coordination between two bodies.

Interaction Programme on NAS for MEs, NAS for NPOs & Carve Out Proposal from Nepal Rastra Bank

The Institute organised an interaction programme on the request of Accounting Standard Board of Nepal (ASB/N) on September 1, 2018 at ICAN premises. The program commenced with a welcome note by Chairman, ASB, Nepal, CA. Narendra Bhattarai, after which he highlighted on the objectives of the programme. The ICAN President CA. Jagannath Upadhaya (Niraula) welcomed the participants.

The programme was conducted in two sessions with presentation and floor discussion. In the first session of the programme, CA. Jagadish Kumar, NRB and CA. Narendra Bhattarai, Chairman, ASB/N made of presentation on carve out proposal from Nepal Rastra Bank and NAS for MEs & NAS for NPOs respectively in their respective session. The programme was concluded with a vote of thanks by Vice President, ICAN CA. Krishna Prasad Acharya.

The council members, NFRS Implementation Committee (other than Banking), NFRS Implementation Committee (Bank & Financial Institutions) and representative of the Office of the Auditor General and FCGO, among others attended the programme. Twenty-nine people attended the interaction programme.

Participation in meeting organised by PEFA Secretariat

Executive Director CA. Sanjay Kumar Sinha and Deputy Director CA. Ghanashyam Kafle attended a meeting organised by the Project Coordination Committee of PEFA on September 5, 2018. During the meeting, they discussed on the background, objectives and implementation of Integrated Public Finance Management Reform Project.

Meeting with Hon'ble Finance Minister

President CA. Jagannath Upadhyay (Niraula) and Vice President CA. Krishna Prasad Acharya and Executive Director CA. Sanjay Kumar Sinha hade a meeting with Hon'ble Finance Minister Dr. Yuba Raj Khatiwada on September 6, 2018. During the meeting, ICAN President CA. Jagannath Upadhyay (Niraula) briefed about progress of the Institute and also mentioned about the meetings with the Director General of Inland Revenue Department, Director General of Department of Revenue Investigation, Financial Comptroller General and Minister for Federal Affairs and General

Administration. In the meantime, ICAN representatives discussed on the activities of the Institute with Finance Secretary Mr. Rajan Khanal and Revenue Secretary Mr. Sishir Kumar Dhungana separately.

Information Session on Mutual Pathway between ICAN and CPA Australia

The Institute organised an information session on mutual pathway between ICAN and CPA Australia on September 10, 2018 in Kathmandu.

The representative of CPA Australia presented on fee structure, way of registration, discount for ICAN members, benefit after getting CPA, and other issues. More than 40 CAs. attended the informative session. The ICAN President CA. Jagannath Upadhyay (Niraula), Executive Director CA. Sanjay Kumar Sinha and other ICAN staffs were also present in the informative session.

Interaction on Labour Law

The Institute organised an interaction programme on Labour Law on September 14, 2018, at ICAN Building. The programme started with a welcome remarks by ICAN Past President and Chairman of Organising Committee (Contemporary Issue Discussion Committee) CA. Mahesh Khanal. Similarly, President of ICAN CA. Jagannath Upadhyay (Niraula) addressed the programme.

The interaction programme was conducted in two technical sessions on Labour Law. Advocate Mr Ramesh Badal and Er. Barun Kumar Jha, Project Chief, Occupational Safety and Health Project, Department of Labor, Employment and Social Security, presented on amended and new provisions and technical issues of the labor laws. The technical sessions were followed by open floor discussions.

Council Members, ICAN Past Presidents, Members of Contemporary Issue Discussion Committee of ICAN, Members of Law Reform Committee of ICAN and ICAN staffs participated in the programme. The programme concluded with the vote of thanks by Executive Director CA. Sanjay Kumar Sinha.

Formation of Standing and Non -Standing Committee of ICAN

The Council of the Institute constituted 4 standing and 25 Non-Standing Committees pursuant to Section 13 of Nepal Chartered Accountants Act, 1997 to support the functioning of the Institute.

Standing Committee		
S.N.	**Name of the Committee**	**Number of Members in Committee**
1	Executive Committee	4
2	Professional Development Committee	7
3	Disciplinary Committee	7
4	Examination Committee	7
Non Standing Committees		
S. N.	**Name of the Committee**	**Number of Members in Committee**
1	Editorial Committee	9
2	Ethics Committee	9
3	Continuing Professional Education Committee	9
4	NFRS Implementation Committee (Other than Banking)	13
5	NFRS Implementation Committee (Bank & Financial Institutions)	11
6	Auditing Standards Implementation Committee	9
7	Committee on Public Finance NPSAS	7
8	Audit Committee	3
9	Expert Advisory Committee	9
10	Information Technology Committee	9
11	Small and Medium Practices Committee	9
12	Monitoring Committee	9
13	Recruitment Committee	3
14	Financial Reporting Review Committee	7
15	Committee for Members in Industry	9
16	International Affairs Committee (MRA) Committee	6
17	Research and Development Committee	9
18	Law Reform Committee	10
19	Fiscal and Taxation Committee	9
20	RA. Member Capacity Development Committee	12
21	Contemporary Issue Discussion Committee	7
22	Committee For NPO's and Co-operatives	9
23	ICAN Advisory Committee	21
24	Building Committee	10
25	Women Leadership Committee	7

The above number excludes the Member Secretary of the respective Committees.

STUDENT RELATED ACTIVITIES

Publication of Examination Result

The Institute published the result of the CAP- I, CAP-II, CAP -III levels and membership examination held in June, 2018 on August 14, 2018. 445 students passed CAP-I, 210 students passed CAP-II (both groups and individual group), 32 students passed CAP-III (both groups and individual group) and 16 CAs having membership of Foreign Professional Accounting Organisations passed the membership examination of the Institute. Altogether, 28 candidates qualified for the ICAN membership. Details of examinees and passed out students are as follow:

S.N.	Level	Description	Both Group	First Group	Second Group	Total
1	CAP I	Total Appeared	-	-	-	698
		Passed out	-	-	-	445
2	CAP II	Total Appeared	758	272	257	1287
		Passed out	43	68	99	210
3	CAP III	Total Appeared	171	222	133	526
		Passed out	3	11	18	32
4	Membership	Total Appeared	-	-	-	198
		Passed out	-	-	-	16

Completion of GMCS Training

The Institute organised a General Management and Communications Skills (GMCS) training from August 22, 2018 to September 07, 2018. A total of 14 participants including one Accounting Technician, attended the training.

Similarly, a Certificate Distribution Ceremony was held to mark the completion of GMCS training on September 07, 2018. During the ceremony participants made presentations consisting of which was evaluated by panel of evaluators – CA. Ratna Raj Bajcharya (ICAN Past President), CA. Rajan Singh Bhandari, CA. Bibek Jha, CA. Manoj Gywali and CA. Binay Bahadur Shah. ICAN President, Vice President, Council Members and staffs of the Institute participated in the ceremony.

Student Registration

694 Students enrolled in ICAN in various levels during the period of July 2018 to September 2018. The details of thich are as follows.

Level	CAP I	CAP II	CAP III
No. of Students	106	471	117

One Year Internship

During the period of July 2018 to September 2018. 40 chartered accountancy degree holders of ICAI enrolled for one year internship pursuant to Rule 41(Ka) of Nepal Chartered Accountants Regulation, 2061.

Publication of ISA Results

The Institute published the result of Information System Audit - Assessment Test held on June 23, 2018. Altogether 6 students qualified the examination.

MEMBERS RELATED ACTIVITIES

Capacity Development Training to Members

The Institute organised two days training on **"Audit System"** in Dhangadi as part of capacity building programme designed to enhance the knowledge and competency of members on July 3-4, 2018. The programme was conducted by CA. Chhabi Acharya as a resource person. Altogether 25 members participated in the programme. The programme was conducted in the presence of RA. Yadav Prasad Nyaupane, Council Members and Member of RA. Capacity Development Committee.

Workshop on "NFRS for SMEs and its Impact in Corporate Sector"

The Institute of Chartered Accountants of Nepal Organised a two days' workshop on "NFRS for SMEs and its Impact in Corporate Sector" Biratnagar, Morang from September 18-19, 2018

Altogether 66 participants participated in the programme. The programme was conducted by CA. Aman Uprety and CA. Aswini Bansal as a resource person in the presence of ICAN President CA. Jagannath Upadhyay (Niraula). Six CPE credit hours were granted to the participating members of ICAN. Executive Director CA. Sanjay Kumar Sinha was also present in the workshop.

Registration of New Chartered Accountant at ICAN

The Institute registered 9 new chartered accountants pursuant to Sec 16 (2) the Nepal Chartered Accountants Act, 1997. During the period of July 2018 to September 2018 the newly registered chartered accountants is as follows:

S.N.	Mem. No.	Name
1.	1307	ROHIT DHITAL
2.	1308	SURAJ KHATRI
3.	1309	ROSHAN ACHARYA
4.	1310	MANDIP ADHIKARI
5.	1311	SURESH PYATHA
6.	1312	RESHA SHRESTHA
7.	1313	PRABHANJAN REGMI
8	1314	ANIL BANJARA
9.	1315	RABINDRA GHIMIRE

INTERNATIONAL RELATIONS

ICAN Officials visited ICAEW

Executive Director of the Institute CA. Sanjay Kumar Sinha, Acting Director Mr. Binod Prasad Neupane and Joint Director CA. Kiran Kumar Khatri visited the Institute of Chartered Accountants of England and Wales (ICAEW) from August 11 to 20, 2018 with the support of Asian Development Bank and Confederation of Asia and Pacific Accountants and technical support of ICAEW to participate in the training on quality assurance at ICAEW office.

Participation in SAFA Board Meeting

President CA. Jagannath Upadhyay (Niraula) along with Council Member RA. Abdul Karim Khan, Council Members RA. Meera Shrestha and Executive Director CA. Sanjay Kumar Sinha participated in the conference organized by South Asian Federation of Accountants (SAFA) at Karachi, Pakistan hosted by Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan) . Major decision made by the SAFA board meeting was to form a separate committee at SAFA level to facilitate the Mutual Recognition Agreements (MRA) among the CA Institutes of SAFA region as well as among the Cost and Management Institutes (CMA Institutes) of SAFA region by mapping the syllabus/course content being imparted by its member bodies.

Participation in the Financial Reform for Economic Development (FRED) – III Conference

Coinciding with the SAFA board meeting, ICAN delegation also participated in a Financial Reform for Economic Development (FRED) – III Conference hosted by Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan) and funded by the World Bank and Confederation of Asian and Pacific Accountants (CAPA) on 24th of September, 2018. The conference was organized with the theme "Maximising Private Sector Finances and Solution for Development". The programme started with the welcome remarks of ICAP President and ICMA Pakistan President. The opening remarks of the programme was delivered by SAFA President and ICAN Past President CA. (Dr.) Suvod Kumar Karn and other delegates representing different organizations. The programme had three plenary discussions on Fostering an Enabling Environment: Private Sector Investments for Development, Gearing for the Future: New Skills for the Profession and Building Investor Trust through Effective Public Sector Institutions which were moderated and participated by different experts. The conference was mainly focused on public private partnership (PPP) model.

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