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THE NEPAL CHARTERED ACCOUNTANT

Journal of the Institute of Chartered Accountants of Nepal

Actuarial Services in Nepal

- ✔ Life Insurance
- ✔ Pension and other Employee benefits
- ✔ Health Insurance
- ✔ General Insurance/Non-Life Insurance
- ✔ NFRS 4 and NSA 620

Actuarial Valuation as per various Accounting Standards

- ✔ NAS 19 (Nepali Accounting Standard 19)-NFRS
- ✔ US GAAP (ASC715)
- ✔ IAS 19 Revised 2011
- ✔ NFRS 4 and NSA 620

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Editorial

We are in the midst of an unprecedented pan-global and pan-sectorial crisis. COVID-19 pandemic has triggered the most severe economic recession in nearly a century and is causing enormous damage to people's health, jobs and well-being. All study and surveillance reports predict that emerging market and developing economies will be buffeted by economic headwinds from multiple quarters: pressure on weak health care systems, loss of trade and tourism, dwindling remittances, subdued capital flows, and tight financial conditions amid mounting debts (World Bank). The world economy is headed towards negative 4.9 percent contraction in global GDP in 2020 as per a report by IMF. Never have the scope and reach of challenges and devastation been so catastrophic and uncertain.

In order to avoid and overcome these complex and interlinked shocks, policy measures and strategic planning are required. Central bank and fiscal authorities really have their work cut out. Governments world over have announced stimulus packages, tax relief, fiscal policy reforms and a host of other boosters to keep the economies moving but, still more actions are needed like: investment in health and education, employment generation, bridging the digital divide etc.

Nepal, being a developing nation, and because the economy is mainly based on import, tourism and remittance sectors most severely hit by the current crisis, will undoubtedly face a synchronized deep downturn. The section that will bear the brunt of shock would be daily wage earners, people living below poverty line, farmers including small business enterprises and domestic industries. In this backdrop, the government has announced some concessions / relief packages to the various sectors in the new budget. The budgetary measures fell short of expectation of private sector, however, it is worth noting that the present crisis is daunting task and cannot be dealt with just by the government alone and require support from all quarters. Many analysts are now looking to the central bank for some relief. NRB is also formulating the monetary policy which will address the financial hardships faced by financial sector due to the COVID-19 pandemic.

The Institute, our members and students have also felt impact of lockdown. During the initial days of lockdown, the Institute remained closed; however it resumed its service in the digital platform by conducting online meetings, CPE programs and international webinars/ seminars with the participation of various dignitaries of PAOs, international and regional organizations of accountants, in the contemporary topic of impact of the pandemic in accounting. Likewise, the Institute issued an advisory note to its members on financial reporting and auditing, methodologies and procedures employed in the normal situation are not appropriate or feasible in these turbulent situation. Similarly, exams for all levels of CA education have been postponed for such time until the social distancing restrictions cease. In the meantime, the Institute is organizing online classes of various subjects for students.

With the longevity of lockdown, and hit in business world, financial statements must reflect these scenarios. The key potential financial reporting impacts are: going concern, impairment of non-current assets and goodwill, revenue recognition, leases, valuation of inventory, insurance claim, fair value measurement, deferred tax assets, etc. Similarly, the users of financial statements are likely to expect much more disclosures and information on risks, uncertainties, significant changes in business activities and financial results because of COVID-19 pandemic. In this situation, the preparers of financial statements should consider the issues or risks emerged because of pandemics and be abreast with the advisory of the Institute.

In the audit front, the pandemic has also affected conducting audit of financial statements, making audit difficult due to travel and movement restriction, and delay in issuance of audit report, validation of management estimates and judgment etc. Professional accountants should remember that adherence to our standards and advisories takes on added importance as investors depend now, more than ever, on the integrity of financial statements. With this in view, professional accountants should deliver professional services with full honesty and integrity and this will not only contribute to overcome the current economic crisis to some extent in the country but also to enhance our trusted image in the society.

Even in the midst of the crisis, we have innovations that are transforming the world for better, especially in health care, education, service delivery and many more sectors. With every experience, humanity is elevated towards a higher consciousness both scientifically and spiritually. By the time this crisis ends, we will have more stress tested and resilient system and a better world to live. Hope springs eternal and the sun will rise again.

President's Message

Dear Professional Colleagues,

The whole world and Nepal too, is in a state of suspended animation and the economy has come to a halt. The government had announced lockdown from last week of March to mid of June 2020 (Chaitra 2076 to Jestha 2077), that impacted the entire nation. As I deliver this message, even though lockdown has been eased, the number of coronavirus case is soaring and breaking new records every day. Consequently, containing coronavirus and living with corona is now a "new normal".

During my tenure, we tried to deliver to the best of our ability to give momentum to the Institute's activities, although there remains room for improvement. It is my responsibility and I would like to take this opportunity to bring some of the most significant professional development that we undertook during second half of my tenure, even in Covid-19 situation.

As a President of the Institute this is last quarter of my tenure and as I have committed in my oath taking ceremony that strengthening organizational structure will be on my priority, so during third and fourth quarter steps have been taken for transforming working environment of the Institute in more systematic way by approving revised organogram where much emphasis has been given on strengthening regulating role of the Institute by creating focused cells for Quality Assurance Review, Disciplinary Process, Monitoring Mechanism besides establishment of Center for Professional Excellence to cater specialized professional services from the Institute to the Government, Stakeholders and Professionals.

As we all are aware that from very beginning of year 2020 the world started noticing a disguised threat emerging from outbreak of COVID-19 pandemic. In Nepal, we too have to face more than 90 days' continuous lockdown from last week of March 2020 due to this pandemic which has not only hampered accounting profession but overall economy of the country. As we cannot predict how long this pandemic will continue to drag down the National and International economy, planning of working modality at this point is crucial for survival and early recovery of every industry including accounting profession from this pandemic.

However, considering the long term impact of pandemic, we at ICAN decided not to stop our continuing support to members and students in enriching their professional and educational qualifications. An alternative method was adopted immediately to transform from physical to virtual meetings, trainings, webinars and revision classes for members and students which we expect has really supported our members to upgrade their professional and technical skills whereas, students have been successful to go through their syllabus for upcoming exams.

Even during lockdown, we have successfully organized two National level and two International level webinars to attract attention of our members, stakeholders and Government of Nepal on likely short - term and long-term impact of COVID-19 pandemic on global and national economy besides organizing more than 20 online trainings for the benefit of our members.

Considering the complexities going to arise from the pandemic created by COVID-19 pandemic in accounting profession, the Institute has issued Advisory Note on auditing and accounting standards to maintain uniformity in reporting by the practicing members.

As the world is transforming to digitization, we strongly support that our members should adopt this change in their working environment by revamping official working modality to make all the staffs familiar with virtual working and gathering substantive information of clients siting in remote. In this connection, the Institute has already taken an initiation for Digitalized ICAN and digitization of auditing practices.

This is my final message to you in the capacity of the President of the Institute and by the time this Journal reaches you, a new leadership will have assumed the office. I congratulate CA. Madan Krishna Sharma and CA. Yuddha Raj Oli for being elected as the President and Vice-President of our glorious Institute respectively. I feel assured that the rich experience and acumen of the President elect and Vice-President elect will guide our Institute to higher plateau of excellence and growth, especially when we are facing a grave and tumultuous pandemic.

I would also like to extend warm and heartfelt thanks to the Council Members, Past Presidents, Members of Boards and Committees, Government Authorities, Regulators and all other Stakeholders for their continued support in making my tenure successful. Last but not the least, I would like to express my appreciation to entire management team and staff of the Institute for discharging their duties even from home in the lockdown.

STAY SAFE and BE SAFE!!

CA. Krishna Prasad Acharya
President, ICAN

Financial Accountability in the Perspective of Federal Nepal

People hold all kinds of power and used through the legislative, executive, and the judiciary organs of the country. Government bodies are run by public officials and such officials should be accountable to those who provide resources, holds the authority to evaluate the status of discharging accountability, and gives the responsibility to perform. The ultimate accountability of public officials' rests upon the public.

Mr. Ramu Prasad Dotel

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1. Introduction

The term accountability is being frequently used for last few years in the public sector across the world. Accountability is one of the key elements of good governance and it entails acting consistently in the public. It promotes the rule of law, transparent culture, corruption control, economy, efficiency and effectiveness, equity and inclusiveness, participation, and ethical behavior. It covers all segments of government i.e. legislative, executive, and judiciary. Mostly, accountability term is used in the public domain which is called public accountability. Public accountability requires governments or public official to justify the raising of public resources and the purposes for which they are used. It requires the responsible officer to provide an explanation or a satisfactory reason for his or her activities.

Public accountability is a relationship between those who control or manage an entity and those who possess formal power. In the democratic system, people are sovereign and retain the formal power to operate, control, and rule the country in the use of resources for the benefit of society. However, this power is exercised by the people in the election and delegated to the legislative and other bodies of the state. In other words, people hold all kinds of power and used through the legislative, executive, and the judiciary organs of the country. Government bodies are run by public officials and such officials should be accountable to those who provide resources, holds the authority to evaluate the status of discharging accountability, and gives the responsibility to perform. The ultimate accountability of public officials' rests upon the public.

2. Types of Accountability

Government accountability can be assessed based on various parameters considering the types of public accountability. The most important types of public accountability are given as follows.

a. **Political Accountability-** It is based on the principal-agent theory, which defines people as a principle and public officials are the agent to serve the interest of people. General Citizens delegate their sovereignty to the representative through election. Representative authorize budget and formulate policies, laws and delegates the majority of their authorities to the executive i.e. council of ministers. Council of Minister assign roles and responsibility to each minister and minister subsequently delegates their authorities to respective civil servants. The mechanism of political accountability operates precisely in the opposite direction to that of authority delegation.

b. **Legal Accountability-** Public officials and institutions need to operate within the legal framework determine by the legislature. Judiciaries are also involved to make other state institutions accountable. Sometimes, constitutional courts investigate the legitimacy of executive decisions as well as the law enacted by the legislature. Furthermore, regulatory organizations also review the legal compliance.

c. **Bureaucratic Accountability-** Public institutions are run within the principle of bureaucracy. Bureaucracy has the authority to implement the law and policy determined by the legislative, which requires a formal and legitimate delegation of authority, chain of commands, a strict adherence to the performance management system and standard operating procedures. Appropriate mechanisms are established to focus on efficient, effective and economic use of available public resources. It is required to comply with such bureaucratic principles, norms, and values while discharging duty by public institution is bureaucratic accountability.

d. **Professional Accountability-** Public officials have their professional involvement. They should comply with performance standards determined by professional bodies, principles, values, norms, and codes of ethics. Professional accountability is expected from the professional or public officials while discharging their responsibility. It is a novel way to instill discipline into government activities. Their performances are reviewed by a professional regulatory organization.

e. **Social Accountability-** It seeks more explicit accountability relations between public agencies, the citizens, and civil society. Public officials should feel obliged for their performance to the benefit of the public at a large, civil society and stakeholders. Various social accountability tools are to be used by CSOs, media, citizens, and communities to hold public leaders and public officials accountable.

f. **Financial Accountability-** It is the most important type of public accountability. All public officials and institutions are accountable for rational, efficient, and effective use of public resources. Ombudsmen and audit offices, independent supervisory authorities, anti-corruption agencies are established to strengthen financial accountability. Currently, several national auditing offices not only review probity and legality of public spending, but also its economy, efficiency, and effectiveness.

3. Issues on Financial Accountability

Financial accountability is an important aspect of public accountability which is the pillar of good governance. It is specifically related to the management of financial resources that involves activities such as budget formulation and implementation, reporting, accounting, monitoring evaluation, and auditing. Public officials are made responsible for the management of financial resources in performing activities in a systematic manner, which is called as financial accountability. In the context of the Federal Republic set up of Nepal, an adequate legal, institutional, and procedural arrangement has been made to ensure financial accountability in the governance system. All the offices of Federal and Province governments as well as Local levels are responsible to implement activities under the budget approved by the respective legislature. All incomes are deposited in the consolidated fund and no expenditure can be made without complying budgetary principle. While making public expenditure and collecting revenue, they are obliged to follow laws like Financial Procedure and Fiscal Responsibility Act Public Procurement Act Finance Act, Income Tax, Value Added Tax, Excise Duty, Customs Act along with related Rules thereof and other relevant regulations. Accounting records of financial transactions have to be maintained by applying Nepal Public Sector Accounting Standard(NPSAS). Reporting of physical and financial performance from subordinate offices to Ministries and Secretariats is mandatary. Budgetary progress is monitored at various levels and committee constituted as per rule and regulation.

Internal audit of financial transactions is carried out by the District Treasury Comptroller Office (DTCO) in the case of the Central Government, whereas it is conducted by Provincial Treasury Comptroller Office (PTCO) in Province, and by internal audit section in case of local level. Auditor General of Nepal is empowered to conduct a final audit of financial operations of all three tier of government entities considering the aspects of regularity, economy, efficiency, effectiveness, and propriety thereof. The other oversight agencies such as Commission on Investigation of Abuse of Authority, National Vigilance Center (NVC), parliamentary committees etc. oversee the actions of the public official. Such oversight mechanisms have been designed to strengthen the financial accountability of the government. The financial accountability situation of the Government of Nepal, its strengths and problem, and its consequences are discussed below.

Strengths	Areas for Improvement	
	Issues /Problems	Consequences
1. Budget formulation		
Implementation of Line Ministry Budget Information System and Provincial Line Ministry Budget Information System, Aid management platform designed, decreasing off-budgetary expenditure, discussion held at different levels of budget formulation are the positive initiation.	Non-implementation of participatory budget formulation and approval process, proper requirement analysis not conducted while allocating budget, lack of reliable and predictable budget, increasing virement of budget, a substantial amount of non-budgetary expenditure and off-budget foreign assistance, unable to increase capital expenditure and control recurrent expenses, increase in the practice of establishing separate fund and making expenditure are the main problems relating to budget formulation of the government.	A huge budget remains unspent. Transparency, accountability will be compromised and the optimal utilization of limited resources is lacking.

2. Project Governance		
Initiation taken to establish project bank, legal provisions to approve the project only after conducting the detailed survey and cost-benefit analysis, involvement of Ministerial Development Action Committee, and National Development Action Committee for monitoring are major strength in project governance.	Inadequacy in project preparation works, approval of projects without detailed survey and cost-benefit analysis, non-implementation of project bank concept, pork-barreling and spending money in a large number of small projects, non- completion of project as per schedule, lack of objective standard to determine national pride project and prioritized project, lack of coordination between different agencies, ineffective monitoring and evaluation are the major problems in project governance	Cost and time overrun of projects due to delay and beneficiaries remain deprived of benefit from the project. Financial resources are not properly utilized.
3. Public Procurement Management		
Implementation of procurement act and regulation and updating frequently, software for procurement designed, initiation taken for capacity building, estabilishment of Public Procurement Monitoring Office, policy taken to award contract only after completing preparatory work are positive factors.	Unreliable cost estimates of construction projects due to lack detailed survey and analysis, preparation of specifications which are suitable to limited contractors or suppliers or consultants, no limitation in awarding the number of contracts without considering the capacity of a contractor, lack of full implementation of Electronic Government Procurement (eGP) are the procurement related issues to be settled.	Variation and design change during the construction period, limits fair competition, low bidding resulted in poor quality of work performed or goods supplied, which ultimately affect the economy, efficiency, and equal opportunity in procurement.
4. Revenue Administration		
Integrated tax system implemented, 100 percent information technology-based tax system, risk-based tax auditing system, increasing revenue and satisfactory gross domestic production revenue ratios are the positive aspect in Revenue Administration.	Lack of market monitoring and billing enforcement, poor collection of tax arrears, under-invoicing, lack of transaction tracking and information sharing mechanism through using information technology, absence of link audit, absence of strategy in taxing e-commerce transaction, import-dependent revenue, increasing Zero return, VAT credit and decreasing VAT debit, large number of non-filer are the main weaknesses of the revenue administration.	Failure to achieve revenue target and bring potential taxpayer into tax bracket, unable to detect and control the informal economy which increases tax and VAT gap.
5. Accounting and Recording		
Implementation of NEPSAS, Computerized Government Accounting System, Treasury Single Account, Sub-national Treasury Regulatory Application (SUTRA), the existence of special accounting cadre, approval of accounting forms, use of Government Financial Statistic to classify expenditure and revenue are the strength of Accounting.	Absence of policy to use and maintain a proper record of all government property, lack of full implementation of Nepal Public Sector Accounting Standard (NEPSAS), shortage of accountants at Local level governments, equalization and other grants disbursement are treated as expenditure, recurrent grant disbursed can be used for capital expenditure and vice versa, lack of management information system are the issues relating to accounting and recording.	Fails to exhibit a true and fair view of the financial position of the Consolidated Fund as well as capital and recurrent expenditure. Accounting of unspent grant remains in the bank account of provincial and local government has inflated the government expenditure.

6. Program Implementation		
No program implemented without the approval of planning commission, formulation of program operation manual and directives, approval of norms, initiation to digitalize the government operations, Inter-Provincial Council formed to coordinate the inter-governmental activities are the initiation taken to improve program implementation.	The same programs are implemented from different levels of government. Duplication and fragmentation of programs are the common problem. Digitalization of public service has not been implemented effectively. Involvement of agent/mediator in public service delivery, non-implementation of one window service, ineffective public hearing, and grievance handling mechanism in each level of government are problems relating to service delivery.	Legal compliance and economy, efficiency and effectiveness in program implementation is lacking. Government service delivery is poor in terms of quality and cost. This ultimately affects the accountability of the government.
7. Audit and Scrutiny		
Provision made for internal audit in each level of government, broad mandate to conduct final audit considering economy efficiency and effectiveness in the operations of federal, provincial and local government, implementation of standard and guideline, timely submission of audit report, the process of irregularity settlement specified by law, the existence of public account committee are the strengths regarding audit and scrutiny.	The internal control mechanism is weak. Internal audit of the government is ineffective due to lack of independency, standard, competency, and professionalism. Lack of focus on performance and modern approach of auditing, absence of using information technology, increased volume of work, the paucity of capacity development of auditor, and non-implementation of updated audit standards and guidelines are the main problems for external audits. Non-settlement of audit observations on time which are not linked with performance evaluation, the ineffective role of parliamentary committees including public account committee, non-implementation of the decision made by the parliamentary committee are the problems relating to irregularity settlement and scrutiny.	Weak audit and scrutiny mechanisms have further affected the proper use of financial resources and audit impact. Transparency could not be promoted and an increasing amount of irregularity deteriorates the credibility of the government and further impacted financial accountability.
8. Provincial and Local-level Financial Management		
Defining Budget formulation, accounting and auditing process, initiation taken to implement SUTRA, participative approach in program selection and implementation, revenue sharing and various grants allocation mechanism based on independent and scientific criteria, legislative control over resources mobilization, separate jurisdiction for revenue collection, legal provision to report from local to the province to the federal government are the strengths of this sector.	No standards developed to use the authority prescribed under the common list of Constitution to the federal, provincial and local levels, ineffective internal control and internal audit mechanism, the dependency of Provincial and Local Governments to grant provided by the federal government, increasing volume of administrative and unproductive expenditure, lack of mechanism to control spending the conditional and special grants for other purposes, implementation of distributive programs, lack of implementation of reporting mechanism from local to provincial government and provincial to federal government are the major weakness in Provincial and local level financial management.	Dispute regarding the use of authority and revenue collection is increasing. It has affected the economic, efficient and effective use of financial resources. Most of the programs implemented are not sustainable, which may create future burdens to the respective government. Increase in recurrent expenditure in comparison to the revenue may create financial anarchism.

4. Way Forward

Currently, public resources are being managed by three tiers of the government pursuant to the legal authority given to them. Sustainable development and effective service delivery is only possible if available government resources are economically and efficiently used in carrying out the essential activities by the governments. In this regard, financial accountability is one of the pillars for the successful management of the functions of three levels of government. Considering the weaknesses as described in the previous sections, the following measures should be implemented to improve the financial accountability of the government.

a. There are several weaknesses & lacunae pertaining to financial accountability in government operations. The budget formulation process should be participative. The measures like preparing predictable and reliable budget ensure legal compliance while utilizing the resources, strengthening internal control, auditing and scrutiny mechanism, safeguarding and utilizing government properties, complying with the budgetary principles, mobilizing of foreign aid in priority sectors, etc. might help to maintain financial discipline in the management of public resources by the respective government. Likewise, reducing the tax gap, improving revenue administration through tax efficiency and tax compliance; making transparent, fair, economic and efficient public procurement system, improving project management and control cost and time overrun, determining protocols or norms for disbursement of grant and its monitoring, improving service delivery by using information technology and considering cost and quality are some key the areas to improve financial accountability.

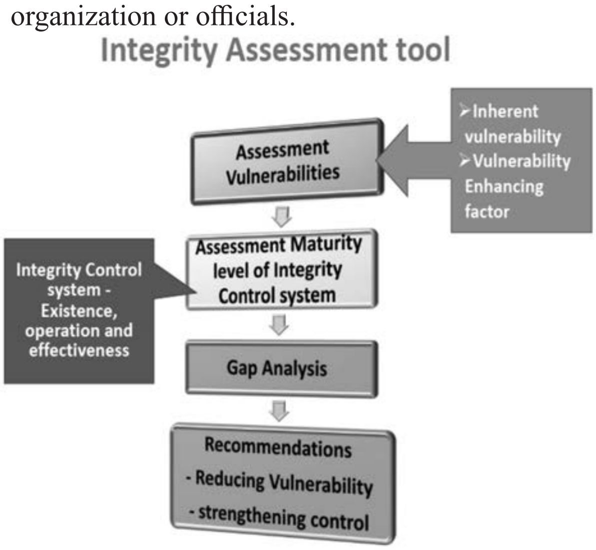
b. It is important to establish the mechanism of strong financial management with adequate staff in the provincial and local level government. Duplication and fragmentation in program implementation should be avoided between three tiers of the government. Administrative and unproductive expenditure needs to be curtailed. The grant disbursement process should be reviewed to ensure the effective use of such grant. Sustainability and achievement of results need to be the guiding principle for allocating resources by the sub-national government.

c. Various social accountability tools can be used by Civil Society Organizations (CSOs), media, citizens, and communities to hold public officials accountable. The participatory budget formulation process needs to be adopted by engaging citizens/CSOs and obtaining their views and budgetary needs that may address their actual requirements. Likewise, CSOs, social groups, media can contribute to synthesizing and simplifying budget and disseminate such information to the public. More importantly, the citizens have also a responsibility to monitor the performance of those authorities to ensure that they always act in the public interest and to raise alarm where there is derailment.

Public Expenditure Tracking System (PETS) is another tool that compares budget allocation with actual spending. **It is found that a significant portion of public fund does not reach to people due to corruption and mismanagement.** So, it is important to track the flow of resources. Similarly, social audit is important to improve financial accountability, where the beneficiary participates and enquires with a responsible person about the project/program cost, a modality of implementation, the benefit derived and distribution, and problems faced.

Citizen Report card/ community scorecards are tools to monitor government performance. It is a participatory community survey that registers the perception of the user regarding quality, adequacy, and efficiency of public service. The role of such tools is important to improve the financial accountability of the government.

d. The integrity self-assessment tools can be used which prevent corruption and generate a list of management recommendations for enhancing the integrity of the organization and public officials in the use of public money that ultimately promote financial accountability. In such an assessment, as shown in the diagram, the vulnerability profile is prepared by identifying inherent vulnerability and vulnerability enhancing factors. Vulnerable processes for integrity exists in all government organizations. However, some activities or organizations are inherently more vulnerable than others. For example, there are many offices in the government which are not vulnerable to integrity and many are inherently more vulnerable than others. Those offices which are involved in procurement, disbursing of subsidies; issuing licenses, permits and authorization; enforcing prosecutions, justice, assessing and collecting revenue, handling cash and goods are more vulnerable by nature for integrity. Thus, inherent vulnerability is assessed considering the types of activities performed by the organization or officials.



In addition to the inherently vulnerable activities as mentioned in the preceding paragraph, some circumstances of the organizations may enhance the existing vulnerability to breach integrity. Such factors are called vulnerability enhancing factors. While conducting integrity assessment, inherent vulnerabilities and vulnerability enhancing factors are identified to determine the overall vulnerability profile. Inherently medium vulnerable offices with high vulnerability enhancing factors result in a high vulnerability profile. As the vulnerability profile is high, it indicates that the integrity of such an organization is vulnerable. So, it is required to establish an integrity control system. Such a system helps to control breach of integrity. Although the overall vulnerability of integrity is high, the integrity control system helps to reduce the risk of violation and promote integrity. While assessing the integrity system, if an integrity control system is also weak then such office needs to determine the strategy to improve the integrity system, which ultimately contributes to promote financial accountability.

5. Conclusion

Good governance can be promoted through transparency and accountability. Accountability has various dimensions, among them financial accountability is important to utilize financial resources economically, efficiently, and effectively complying with all legal requirements. Due to the absence of accountability in government operations, various nations around the world are facing a significant lack of trust in governments, creating uncertainty and instability. In the context of the federal republic of Nepal, several weaknesses on budget formulation, implementation, project and public procurement management, revenue administration, accounting and recording, audit and scrutiny have been observed. In addition, provincial and local level governments are also making their efforts to establish sound financial management. It is required to comply with the budgetary principle by each level of government. Sound internal control and external scrutiny of governmental operation, competitive fair and economical procurement, transparency and strong MIS mechanism, prudent investment in program/project with timely completion and achievement of the result, using various citizen involvement tools could be the measures to improve financial accountability in the context of the federal republic of Nepal.

Corona Virus: Implication on Financial Reporting

The financial year closing for Nepal is nearby i.e. 15th July 2020. As the companies have suffered, there are chances that the company's financial statements may not depict the true financial position due to window dressing or lack of attention to transactions/ events impacting presentation of financial statements. Therefore, a major question of transparency might arise in the preparation of financial statement.

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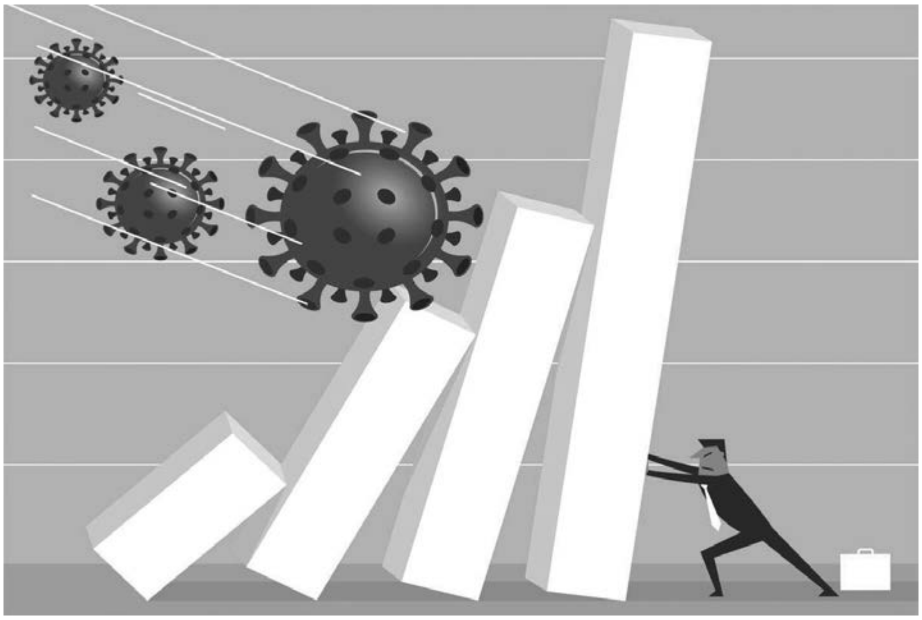

Background

The Coronavirus (COVID-19), pandemic is the defining global health crisis of our time and the whole world is suffering due to this outbreak. Countries are racing to slow the spread of the disease by testing and treating patients, carrying out contact tracing, limiting travel, quarantining citizens, restricting large gatherings and even enforcing complete lockdown. On March 11, 2020, World Health Organisation has characterized the COVID-19 outbreak as global pandemic due to alarming level of spread and severity.

COVID-19 is more than a health crisis. The business and economy is facing threat due to Coronavirus and it will leave deep scars on business and economy. The supply chain is disrupted and business are dealing with lost revenue. Considering health and safety of people, government is limiting activities whatever may be the consequence on economy. People definitely want relief and aids in financial and non-financial terms. Not only the business, but also the people who lost/losetheir income and job may need assistance at this time.

The financial year closing for Nepal is nearby i.e. 15th July 2020.As the companies have suffered, there are chances that the company's financial statements may not depict the true financial position due to window dressing or lack of attention to transactions/events impacting presentation of financial statements. Therefore, a major question of transparencymight arise in the preparation of financial statement.

Considerations for Effective Financial Reporting Amidst Coronavirus

The preparer of financial statement must ensure that all the relevant information are well presented in financial statements and all the disclosure requirements have been well complied. Following are the major considerations for proper financial reporting amidst the pandemic:

1. **Going Concern:**

   Ability to continue as going concern is the first assessmentto be made by the preparer of financial statement. The businessaffected by this crisis will be concerned about its survival. The companies in highly exposed sectors that are experiencing declining demand, falling sales and margin pressures will be more significantly impacted – particularly travel and tourism, hospitality/entertainment/sport and retail sectors. Also, impact on automobiles and luxury sectors may increase as government may bring policy to curb their consumption.The companies may not have adequate liquid cash to survive for some more period. The management has to consider the existing and anticipated effects of the Coronavirus outbreak on its future activities during its assessment.

   When preparing financial statements, management has to make an assessment of the company's ability to continue as going concern. All the companies will not be affected in the same manner and to same extent. Significant judgements and continual update to the assessments may be required given the evolving nature of outbreak.Based on this, company must assess whether its going concern assumptionremains valid.

2. **Impairment Testing**

   At the end of each reporting period, reporting entitiesare required to assess whether there is any impairment for financial and non-financial assets. An asset is impaired when a company is not able to recover its carrying value, either by using it or selling it.

   Due to outbreak of COVID-19, there is contraction in the economic activity which itself is the indicator of impairment. The adverse impact on companies caused by measures to stop the spread of the disease, such as temporary manufacturing plant closures and travel and import/export restrictions, can be considered an impairment indicator.

   For testing impairment, the companies shall determine the recoverable amounts of the assets based on the estimate of expected future cash flows and expectations about variations in cash flows.

   More the current environment is uncertain, more important it is for the company to provide detailed disclosure of the assumptions made, the evidence on which they are based and the impact of a change in key assumptions.

   Moreover, reporting entity being bank and financial institutions shall consider the impact of COVID-19 on impairment of Loans and Advances

3. **Fair Value Measurement (FVM)**

   According to NFRS 13 "Fair Value Measurement" a quoted price in an active market provides the most reliable evidence of fair value and if one is available then it has to be used to measure the fair value. The fair value of asset or liability shall reflect the market conditions at the measurement date. Determining fair value is highly technical and challenging especially when the markets are volatile and economic outlook is highly uncertain and may change quickly.

Given the impact of the increase in economic uncertainty on forecasting cash flows and other unobservable inputs used in valuation techniques (e.g. certain risk-adjusted discount rates), companies may need to provide sensitivity disclosures – together with disclosure of the key assumptions and judgements made by management so as to enable users to understand how fair value has been determined. Companies will also need to consider making related disclosures that could reasonably be expected to influence decisions that the users of general-purpose financial statements would make on the basis of those financial statements. Disclosure may be needed to enable users to understand whether or not the outbreak has been considered for the purpose of FVM.

4. Financial Instruments

Financial assets including trade accounts receivable, equity investments and available-for-sale debt securities should be assessed for collectability and impairment. The coronavirus pandemic could now have a greater impact to non-financial public business entities than previously expected due to the requirement to evaluate the impact of current conditions and reasonably supportable forecasts.

The companies are required to update the economic forecasts that they use to measure Expected Credit Losses (ECLs) at each reporting date by incorporating the reasonable and supportable information available at that time. The efforts required and sophistication involved will depend on the company's exposures. ECLs are usually material for banks and other financial institutions and these companies are likely to face the greatest challenges and will need to put the most resources into updating ECLs to reflect changing conditions.

The following factors may be particularly relevant when measuring ECLs.

- The increased uncertainty about potential future economic scenarios and their impact on credit losses may require companies to explicitly consider additional economic scenarios when measuring ECLs.
- Existing ECL models using historical experience to derive links between changes in economic conditions and customer behavior, and ECL parameters such as loss rates, probabilities of default and loss given default. However, these historical relationships are unlikely to read across to the COVID-19 pandemic. Therefore, adjustments to model , based on expert credit judgement, could be necessary to appropriatelyreflect the information available at the reporting date
- Certain types of customers, industries or regions may be severely affected by the economic effects of COVID-19. Companies with exposure to these customers, industries or regions will need to consider whether this is appropriately consideredin their ECL measurements.
- Governments and central banks are launching measures to mitigate the adverse impact of COVID-19 on banks and borrowers. Companies may need to consider this when estimating ECLs.
- Many borrowers are drawing down credit lines or holding on cash to obtain additional

liquidity to help them weather the economic storms. This will be relevant for estimating exposures from loan commitments and prepayable or extendable loans.

- The expected cash flows used in measuring ECLs may also be affected by any actions planned by the company (e.g. modification, forbearance, limit extensions).

The equity securities, except those accounted for under the equity method of accounting and those resulting in consolidation of the investee, are measured at fair value through net income.As such, the recent market declines will be reflected in the income statement of investors holding such equity investments.Available-for-sale debt securities continue to be assessed on an other-than-temporary impairment basis. For those companies that have adopted the new credit loss standard, the other-than-temporary impairment model for available-for-sale debt securities is eliminated and replaced.Investors will also need to assess whether any deterioration in its equity method investments are other-than-temporary. Similarly, equity investments that are measured under the new measurement alternative afforded require an assessment of impairment.

Monitoring **hedge accounting** relationships in response to recent volatile market activity is critical to effectively manage risk and continue to qualify for hedge accounting. The impacts of this outbreak may cause formerly highly effective hedge accounting relationships to unexpectedly become ineffective, leading to adverse impacts to the income statement. Regression models and dollar offset calculations used to assess hedging relationships, could indicate ineffectiveness. Qualitative effectiveness assessment methods including the critical terms match method and the short-cut method should also be reexamined. The economic impacts of this crisis could result in a heightened risk of counterparty nonperformance for over-the-counter derivative instruments.This risk should be captured in a counterparty credit valuation adjustment to the derivative instrument's fair value measurement. Additionally, any forecasted transactions designated in cash flow hedge accounting relationships should be carefully assessed to determine whether the forecasted transaction is still probable of occurring.

5. Inventory Valuation

As per NAS 2 "Inventories", Inventories are required to be stated at the lower of Cost or Net Realizable Value (NRV). NRV is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale. Any write-down to NRV should be recognised as an expense in the period in which the write-down occurs. Any reversal should be recognised in the income statement in the period in which the reversal occurs.

Due to Coronavirus, if there is decline in NRV of inventories below the cost, the management shall consider writing down the value of inventories to NRV item by item.

Moreover, NAS 2 requires fixed manufacturing overheads to include for the calculation of cost of the inventories. As the production of the entities are sluggish during this period, the companies shall not inflate the per unit production cost due to fixed overhead being constant. Unabsorbed overhead shall be charged as period expense rather than charging to the product.

6. Deferred Tax Assets

Under NAS 12 *"Income Taxes"*, a deferred tax asset is recognised for deductible temporary differences and unused tax losses (tax credits) carried forward, to the extent that it is probable that future taxable profits will be available.If a company is loss-making, it can still recognise a deferred tax asset if it has sufficient qualifying taxable temporary differences to meet the recognition test. Some of these changes may reduce future taxable profits, while others may potentially increase them. In addition, some of the changes – e.g. government's measures in response to COVID-19 may impact the timing of the reversal of temporary differences. If the losses can be adjusted in such time in future, then deferred tax asset can be recognized for tax advantage of carry forward losses.

7. Customer Contract and Revenue Recognition

Due to outbreak of COVID-19, there is substantial question on the companies and their customers to abide by the terms of their contracts. This affects the timing and amount of revenue to be recognized or in other hand same may not qualify recognition.

Customers may struggle to meet the contractual obligations. The right for payment may not be established due to force majeure. The conditions of the contract may have to be changed. In such circumstances, the timing and amount of revenue recognition may be affected.

There are also consequences for lenders. Financial institutions, such as banks and insurance companies, are being directed to support borrowers by providing relief on cash-flow obligations. These will be considered contract modifications and will require institutions to think about the measurements of their loan portfolio and expected credit losses. Similarly, real estate companies will have to consider the consequences if they provide relief to lessees on rents.

In such circumstances, the company has to book revenue only if there is reasonable certainty that future cashflows occurafter the modification in customer contract.The companies are required to disclose estimates made and changes in those estimates that significantly affect the amount and timing of revenue recognized.

8. Liabilities from Insurance Contracts

According to NFRS 4 Insurance Contracts, the company issuing insurance contracts shall account for its rights and obligations from the insurance contracts it issues. The current coronavirus outbreak situation could affect an entity's liabilities for issued insurance contracts for a range of product lines. Entities issuing insurance contracts will therefore need to assess the impact of the coronavirus, or the disruption caused by it, on their insurance liabilities based on their specific accounting policies. This assessment would need to consider factors including, but not limited to, the effect on reported claims, the effect on incurred but not (enough) reported claims, the impact of these effects on the assumptions for estimating expected future claims, and the impact on the entity's claims handling expenses. Where the entity has reinsured risk from its insurance contracts, it should also consider the associated recovery through its asset from reinsurance contracts held. As the pandemic continues to evolve, situations and conditions are changing rapidly, entities which are going to report their interim or annual financial statements with a reporting date would face significant challenges when considering the events after the reporting date. Insurers are required to perform a careful analysis of the nature and impact of these subsequent events to determine if those events and conditions are adjusting or non-adjusting in accordance with NAS 10 Events after the Reporting Period.

9. Lease

As perNAS 17 "Leases", any modification of the lease requires the remeasurement of the lease liability using a revised discount rate. It is necessary for the lessee to determine a revised incremental borrowing rate.

The coronavirus outbreak has exacerbated market volatility and central banks in many jurisdictions are cutting interest rates. Therefore, the lessee shall take into account incremental or decremental revised discount rates based on circumstances for the purpose of financial reporting.

10. Government Assistance and Income Tax

Due to coronavirus pandemic, the government may come up with various economic relief packages to individual and businesses. These include direct subsidies, tax exemptions, tax reductions and credits, extended expiry period of unused tax losses, rental reductions, deferrals and low-interest loans and so on.These will all have an impact on financial reporting.

Government grants are to be accounted based on NAS 20 :"Accounting for Government Grants and Disclosure of Government Assistance" which is applied in line with regular grants.

In case of any tax relief or rebates, they need to be assessed to determine whether they should be accounted for as a reduction to income tax expense or the receipt of a government grant. If the government provides relief in the form of grant after reporting period, then it must be treated as government grant. However, if the company is allowed to pay tax at concessional rate during the same reporting period then it must be shown as reduction to income tax expense.

11. Events after the Reporting Period

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. NAS 10 makes a distinction between adjusting and non-adjusting events after the reporting period. If management concludes an event is a non-adjusting event, but the impact of it is material, the entity is required to disclose the nature of the event and an estimate of its financial effect. If an estimate of financial effect cannot be made, then the entity is required to disclose that fact.

12. Others areas of impact

- Remaining useful life and residual value of property, plant and equipment may change (NAS 16). This may have to accounted for as change in accounting estimate.
- Provision, Contingent Assets and Liabilities may have to be booked and disclosed in the financial statement due to the impact of Coronavirus (NAS 37).

Conclusion

The companies shouldmonitor and anlaysethe current and potential effects of the Coronavirus (COVID-19) on their financial reporting. Timely and adequatedisclosures about the potential effect of pandemic on the financial position, performance and viability of the company, as well as measures taken to manage risks are important for users of general purpose financial statements.

High Time for Good Audit: Measure to Improve Audit Quality

It is appropriate to all audit service providers to keep in mind the quality of audit and comply with professional standards and regulatory requirement for contributing to the credibility of accounting profession.

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Background

Globally the dynamic nature of business environment has urged the professional accountants and professional accounting organizations to demonstrate high level of professionalism in providing their services to the public. Similar to other profession, the professional protocol or standards and Code of Ethics play a critical role in supporting the accountancy profession in acting in the public interest. For last few years, the accounting profession is fast evolving within a changing environment. As a member of International Federation of Accountants (IFAC), this applies to the Institute of Chartered Accountants of Nepal also. Therefore, it is appropriate to all audit service providers to keep in mind the quality of audit and comply with professional standards and regulatory requirement for contributing to the credibility of accounting profession. At the end of 2019/20, a total of 3524 auditing firms holding certificate of practice from of Institute of Chartered Accountants of Nepal (ICAN) are rendering audit services in the country. The number of firms registered is growing every year. Nepal Chartered Accountants Rules 2061 specifies that a member who intends to conduct accounting profession is required to get the firm registered as sole proprietorship or partnership firm with more than one member.

ICAN being a national regulator of accounting profession has a responsibility to monitor the performance and conduct quality assurance review of its members and their firms to ensure that they always act in the public interest and to raise alarm where there is derailment. In accordance with Nepal Chartered Accountants Rule and policy decisions of the Institute, the Quality Assurance Board (QAB) has conducted the quality assurance review of 34 audit firms in 2018/19. This scenario, reflected in the recent Annual report of Quality Assurance Board of the Institute signals that despite the monitoring and quality assurance review of audit firms there is dire need of improvement in the performance of auditing firms in their performance to meet the audit quality requirements and gain the confidence of the stakeholders. Based on the extent of the scenario presented in the annual report, an attempt has been made to discuss on the possible causes behind the weak performance of audit firms but not intended to preach.

Profile of the Audit Practitioners: the Nepal Chartered Accountant Rule 2061 require to obtain Certificate of Practice (COP) to provide audit services by the member. Members of the Institute holding COP as at year end (31/03/2076) stood 3524 which includes 450 Chartered Accountants' Audit Firms and 3074 Registered Auditors' firms (all sole practitioners). Most of the Chartered Accountant firms are small and medium in size and are eligible for audit of large sized entities. Some members are registered as partnership firm and some are sole practitioner but no assessment has been conducted in respect to structure of firm, number of partners, staff including article and audit clerks etc. Very few Chartered Accountants firms are affiliated to international accounting and auditing firms. Registered Auditor- RA firms are eligible to carry out audit of entities upto specified size of business which are less complex. These firms typically provide statutory audit and tax services to small sized enterprises. Most of the RA firms are sole practitioners that provide audit services.

Overview of Quality Assurance Review: The Annual Report of Quality Assurance Board for 2018/19 has covered various information related to the Board like frameworks, regulations and policy guidelines on quality assurance, institutional arrangements, functions, duties and powers of the QAB, volume of practicing audit firms, review process, progress achieved, key findings of quality assurance reviews at firm and engagement level, and other related matters thereto. The Quality Assurance Unit is a separate Division of the Institute which acts on behalf of the Board in performing functions as stipulated in the provisions set out in Rule 103(6) and Audit Quality Assurance Procedure, 2073.

The scope of review in the year 2018/19, the QAB has conducted quality assurance review for 34 Chartered Accountants audit firms that performed the audit of listed companies for the financial year 2017-18.The objective of the review was not to find out the deficiencies but to provide guidance to practicing audit firms to improve their performance and help enhance their adherence to technical standards and various statutory as well as other regulatory requirements. Audit firms can seek guidance from the observations summarized in the Report and adapt for their own facts and circumstances. The contents discussed in the annual report seem to be useful and helpful for stakeholders to understand the quality assurance system of the Institute. The publication of such kind of reports of the Boards or Committees might be useful to the all the stakeholders to disseminate about the activities of the Institute.

Result of Quality Assurance Review: Most of the audit firms have followed and applied audit quality standards, however degree of compliance with audit quality standards varies. Based on the Quality Assurance

Review Procedure, the quality assurance review results have been classified into four grades i.e. Satisfactory, Generally Acceptable, Improvement required and Significant Improvement required. Out of 34 firms reviewed in 2018/19, none of the firm was found to be ‘Satisfactory' while 10 firms were rated as ‘Generally acceptable' that accounts 29.41 percent whereas 24 firms i.e. 70.59 percent as “Need Improvement". During the year 10 quality assurance reports were endorsed by QAB. This scenario indicates a plenty of room to improve the quality of audit by practicing firms. The main findings identified from review visits relate to NSQC-1 and Nepal Standards on Auditing

The NSQC1- Quality Control for Firms that Perform Audits and Reviews of Historical financial Information, and Other Assurance and Related Services Engagements suggests the audit firms to establish a quality control system that include the elements like leadership responsibilities, compliance with the relevant ethical requirements, acceptance and continuance of the client relationships and specific engagements, human resources and monitoring. The most common types of findings at firm level are related to non- development of Quality Control Policy suitable to size of firm, non- confirmation of compliance to independence requirements, lack of training arrangements to staffs, lack of monitoring by a firm of its own system etc.

The most of common weaknesses featured in the annual report with regards to audit level are related to risk assessment, sampling, materiality, going concern, subsequent events, audit documentation of procedures and evidences, basis of forming the audit opinion, use of proper reporting format and NSA specific findings as identified in quality assurance review visits. These findings are related to various stages of audit i.e. planning stage, execution stage, and completion stage of the audit engagements conducted by the reviewed firm.

Potential Issues of Inconsistencies: In the light of the review findings, there are many causes behind the revelation of finding that are related to firm's internal reasons and some external factors created by the client. QAB report has reflected symptoms of some individual review findings with the potential key underlying causes of review findings in summarized form to assist firms in indentifying the real causes of the weaknesses.. The weakness noted relate to each stage of entire audit process starting from planning to reporting phase. It is worth to mention here that most of practicing firms reviewed have accepted the review findings and expressed their commitment to resolve the issues in their written response over the review report. The management of reviewed firms is expected to initiate the corrective actions with full honesty to resolve the issues that will not only help complying with professional and technical standards in upcoming assignment but also prevent recurrence of any inconsistencies so as to improve the quality of audit and better serve their clientele. The main area is the documentation of audit work undertaken where it could be improved. It is the responsibility of each audit firm to identify the reasons of weakness by performing root cause analysis in order to avoid the repetition of weaknesses in future. However, some of the key aspects mentioned below might be the issues where the audit practitioners need to consider for improving the audit practice.

Resource Issues: We all agree that adequate audit resources including knowledgeable, skillful and experienced staff is required in the audit firms without which it becomes difficult to comply with professional standards, legislation and fail to render quality services to the audit client. The audit team must have collective knowledge of their subject matter and auditing proficiency necessary to fulfill the requirement of audit. So the scenario seen from the findings of quality assurance review indicates the lack of resources available in the audit firm such as lack of competencies and experience of staff, understaffing, poor engagement team dynamics, lack of clarity on responsibilities, lack of training to staff, non-existence of practice of obtaining services of experts, lack of time available which compels to work in rush or crisis mode and rushed jobs are rarely successful etc.

No study has been conducted in our country about the resource of audit firms in terms of number of qualified, semi-qualified and article or trainees working in the firms for conducting audit work. As a result, there is lack of proper guideline or criteria in the quantity and quality of personnel firms should possess. But most of the practicing firms deploy qualified personnel and their article trainee in audit but the proportion of article trainee might be higher. Similarly, the audit firm should provide equal treatment and fair opportunities to all the staff. In the changing business scenario, knowledge of artificial intelligence, analytics, block chain technology has become essential for accounting profession to provide quality audit service to the clients as most of large clients are technologically complex

Personal, Ethical and Attitude Issues: In every certification tasks, the personal, ethical and attitude are most important factors which apply in audit also. Because of the nature of job, the auditors might face ethical dilemma or commonly referred to as 'Dharma Sankat' in course of performing audit. In such an odd situation, one has the duty to uphold the dharma of the audit profession. It is difficult to judge if a person is following dharma or not because dharma is located in intension and intension is intangible. Others can't see it nor measure it. So professionals need to consider the **respect the client suspect the client** attitude. The weaknesses that have appeared in the QAB report might have occurred due to absence of personal, ethical and attitudinal behavior of the audit engagement team.

Ethics and attitude is personal matter and one cannot justify by giving or showing the example of failure or unethical practice of others for similar incident. Society needs auditors to be ethical in whatever "we do". A mindset that is prepared to cut corners mean that certain processes are not carried out and also accept insufficient evidence to support conclusions, possibly due to a poor attitude to the work. Unwillingness to acknowledge or learn from mistakes, unable to direct, supervise or review effectively despite availability of resources is another factor to hinder good quality audit.. Professional Accountants in practice or in industry should not compromise on the integrity and ethics of their profession. However, all these matters are more of intuition and professionals are required to be guided by ultimate inner core of his heart 'dharma'.

Process Issues: Like other professions, the audit is also standards and process based profession that requires to be followed in completing the audit engagement. The auditing standards suggest developing firm's policies and procedure in place to render their services. where ever the firms have policies and procedure, but the issues arising from the firm's policies and procedures might be such as poorly described, with gaps compared to the context of the firm and not capable of being understood. The auditing standards tell the audit planning process and other related activities to be undertaken in audit process. The planning of audit work is the first step and essential phase of the audit process. This phase includes recording and analysis of adequate data and fact, in determining the scope, timing and direction of audit.. The plan should be prepared by the team of qualified and experienced auditor because it ensures that the appropriate attention is devoted to significant areas of audit, potential problems are identified and that the skill and time of the staff are appropriately devised. It is internationally accepted practice that for good audit, one third of total audit time is allocated to planning of the engagement. **Considering the importance of audit planning, it is said that fail to plan sufficiently means we have already planned to fail.**

Documentation Issues

NSA on documentation provides guidance on the documentation requirement in an audit. Working papers are all documentation related to a particular audit, right from its planning phase to its final conclusion. Such documentation help in planning and performing audit, internal as well as external review, supervise the work and most importantly provide evidence of the work performed to support the findings , opinion or reports. Nonetheless, insufficient documentation remains one of the most common weaknesses that are found during audit monitoring visits. The entire audit procedures performed and conclusion reached must be documented in the audit work papers however, there is lack of adequate audit documentation. Firms are generally found explaining that they have performed relevant tasks but failed to maintain the documentation of procedures and conclusions. QA reviewers are placed in difficult situation to judge whether the issue is lapses in the process or a mere documentation issue. When the reviewers face such scenario, they are and should be more inclined to the principle “the work not documented is the work not done".

Leadership Issues: It is said that no war is lost due to soldiers. So Commander has to prepare war strategy and implement it effectively by proper task allocation. The responsibility of Commander is also to communicate the importance of war, train them, equip them well, win their confidence, and encourage them. To a large extent, this saying is pertinent to audit engagements as well. Therefore, tone at the top and leadership is a critical factor to maintain the quality of audit. Lack of effectiveleadership increases the risk of unclear process, goals, poor morale and motivation and inefficient use of resources. So, the audit engagement partner has to lead in real sense in conducting the entire audit of a particular assignment. But the nature of review findings indicate that the staff of the firms may not have been influenced by appropriate leadership culture in performing the engagement work. The audit planning process and audit documentation system of most of the audit firms reviewed requires utmost attention to establish the standards of quality of audit they perform. It seems that due to proper leadership tone and culture, many of the firms fail in maintaining the documentation which can assure that due audit procedures have been followed. So, the audit engagement partner has to determine how his leadership traits are perceived in conducting the entire audit activities of a particular assignment.

Client Issues: Choice of selecting the auditor depends on various factors but it could be initiated from both sides i.e. the client and audit firm. Such factors can be referral by friends/associates, owners preference for specific auditor, long term relationship with current auditor etc. are some the choices of the client. Similarly the firm might have encountered difficulties such as fee pressure, an unreasonable client-imposed deadline to complete the audit, poor quality information, or information arriving late from the client. These are most likely to be external factors. Accountants must urgently acquire the requisite skillsets and capacity towards meeting the demands of clients and other stakeholders along with maintaining promising personality of independent, ethical and competent professional

Issue of Audit Remuneration: Fixation of the audit fee is also one of the significant key factors that might impact the quality of audit. Audit fees consist mainly of the wages and benefits for office and field personnel, travel costs, and other costs necessary to the audit and related support activities.

Theoretically, the amount of fees for audit services that a client pays to its audit firm reflects the level of audit work the latter has to perform in the auditing process. A number of scholars say audit fees as a surrogate for audit quality. This is based on the premise that audit fees reflect the magnitude of audit effort. It is assumed that a higher audit fee is expected to indicate more input in terms of staff hours, their experience requirement, extent of checking, etc. collectively contributing to audit quality. Similarly, if the audit fee is fixed at a low amount, it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price. Most of the practicing members argue that the current audit fee regime does not support the attraction and retention of appropriate skills and establishment of effective organizational structures in firms. In our context, with some exception, there are rare entrepreneurs that show their willingness to pay higher audit fees to receive higher quality audits. The scenario calls for some guidance for auditors on the ways of determining audit fees for it to be paralleled with quantity and quality of prospective audit work.

Challenges and Way Forward: The findings of quality assurance review across audit firms demonstrates the poor performance of practicing audit firms, when all reviewed firms are averaged together. In every profession, quality comes first and audit is not the exception to it although the audit quality depends on number of factors like people, and their training , audit firm and their processes, client and corporate governance system that contribute maintaining quality. We know poor audit quality damages the professional reputation and may lead to losses to stakeholders and subsequently amount to litigation. Institute is initiating its efforts for monitoring and enhancement of quality within audit profession in accordance with the requirement of quality control framework. Improvement in audit quality is continuous process. Occasionally, we can find a few audit practitioners talking about the problems faced in audit that has made profession risky because of complexity of business operation of auditee, over-burdened with auditing standards and regulatory requirements, competition among audit firms, maintain audit quality in poor audit fee structure, low demand of quality audit, fear of being questioned by investigating agencies on charge of wrong certification etc. So they intend to stop rendering audit services and looking in providing variety of non-audit services with fewer threats. Such views are more dangerous if the same audit practitioner helps the client with other services needed in their business operations. This perception of audit practitioners should be discouraged by the Institute through positive actions and come forward with appropriate measure to mitigate such perception of the members.

The review revealed various deficiencies in compliance with auditing standards and code of conduct that require significant improvement. Some of the suggestions to the potential issues are discussed below.

Strengthen the Enforcement Mechanism: High-quality corporate financial reporting depends on effective enforcement mechanisms. Merely adopting international accounting and auditing standards is not enough. The enforcement mechanism must stress the regulators' transparent and unbiased decision-making, quick and confidential investigative process, and effective means for rectifying detected noncompliance, together with imposing appropriate sanctions. In the light of the policy recommendation of Report on the Observance of Standards and Codes, Accounting and Auditing, 2015 published by the World Bank, Enforcement mechanism of the Institute needs to be further strengthened. In this connection, the arms of the Institute i.e. Disciplinary Committee, Quality Assurance Board, Monitoring and Financial Reporting Review Committee should made effective by initiating the activities in regular basis and deal with cases of professional misconduct and other disciplinary proceedings against members swiftly.

Conducting Root Cause Analysis (RCA): In the view of quality assurance review results based on 34 firms reviews last year, it is seen that not a single firm has been able to getting satisfactory rating is matter of concern for audit firms and stakeholders. So, the practicing firms have to assess the root causes of poor rating. In the context of auditing, RCA is the process of identifying the root cause of a review or inspection finding. If a firm does not know the underlying causes of deficiencies, it will not be able to determine appropriate remedial action. RCA assist audit professional with identifying underlying causes of significant problems and success, helps to establish best practice, avoid blame and strengthen continuous improvement or greater efficiency. The responsibility to undertake RCA lies with audit firm management because management is responsible to design and administer effective and efficient audit process to provide quality audit services. In order to conduct the root cause analysis, IFAC has issued a Step by Step Guide to RCA for practicing audit firms as guidance to conduct RCA. The RCA Guide covers the areas namely people, procedure and documentation, system and environment and has suggested process of analysis i.e. cause and effect. This exercise is applied when audit quality shortfall are discovered and thorough analysis is required to understand how and why the breakdown occurred and ensure how it does not happen again.

Considering the current situation, it would be appropriate to suggest audit firms to perform analysis and develop guidance material or a framework for RCA by ICAN to improve the firm's performances and audit quality. As a short term remedy, the Institute can suggest its practicing members to encourage them for performing RCA .

Perception towards Audit: One of the challenges is the negative perception of stakeholders towards auditors as a party to breed corruption and fraud. Occasionally when any cases of fraud and corruption are published in media or raised such issue in any forums, the auditors are targeted and blamed for such events for failure of their responsibility. Awareness activities and regular dialogue with key oversight agencies, media and stakeholders needs to be conducted to remove such misconception. But, it doesn't mean that auditors are never to be blamed for, but that needs to be put in the context of auditor's responsibility as prescribed by standards and regulations.

Discourage Unhealthy Competition among Audit Firms : The auditing profession operates in an open market. In recent years, auditors are facing the competing pressures by reduced fees while having to perform audits more efficiently. Number of firms is increasing every year. The unhealthy competition among audit firms might have impacted quality of audit. The existence of unhealthy competition between audit firms and lenient behavior of audit client are the reasons for the low level of audit quality. Unfair competition to attract audit customer affects the professional performance and audit quality.

Streamline the Audit Remuneration: When the question of audit fee comes in any forum almost all of the audit practitioners don't forget to raise their voice saying that the prevailing audit fee paid for statutory audit does not commensurate to the resources to be used, comply with standards, risk associated to the profession.. As a result of which the external auditors are forced to meet their expenses by rendering non- audit services. In this backdrop, the Institute should initiate dialogue with OAGN, MOF, NRB, *SEBON* and key regulators to review the fee regime for statutory audit fee at least for listed entities, banks, other specified entities and taking confidence of major stakeholders. A norm or criteria based audit remuneration might help to uphold transparency as well as justify the audit efforts but it should not be a basis to measure the quality of audit.

Merger of Audit Firms: The annual increase in number of audit firms in the country indicates the importance of accounting profession which is matter of satisfaction for the fraternity. However, most of the audit firms are very small in size. No formal study has been conducted about the management and governance, human resource etc. of the firms. It is estimated that there might be small audit firms withstaff number not exceeding single digit. The Institute needs to facilitate and encourage merger of small firms in order to widen their product/ portfolio, to minimize the operational expenses and for sustainability of the firms. The Institute of Chartered Accountants of Nigeria has developed guideline with the objective of encouraging sole practitioners for merger of small- and medium-sized audit firms so as to improve the operations and quality of services rendered by members to the stakeholders. The Guideline has suggested various types of business integration module that include complete integration/partnership, strategic alliances and merger/ acquisition.

So, the Institute has to create awareness of merger among the partners of small and medium audit firms for the promotion of the profession. Such merger might help in increasing efficiency; reducing administrative costs/ overheads, **internally sharing expansion of knowledge and experience within the firm;** and able to reduce the audit expectation gap etc. **It is said that what one man cannot do, two can do; what one man can do, two can do better.**

Encourage creating Website of Firm- Along with the technological advent in the business processes and environment, audit firms are generally resorting to have their ownwebsitebut not all of them still have. So, the Institute can encourage practicing audit firms those who have not created website to post useful professional and technical information for stakeholders. In this context, the Institute can issue website guideline or make clear provisions of the same by updating the existing marketing guidelines for the firms for ensuring credibility of information to be posted. This might provide particulars of practicing firm's like name of the firm, year of establishment, number of partners, organizational structure, nature of services being provided, details of staff, number of trainee/ article clerks, nature of assignment, resource and links for resources etc. Such details seem useful for assessment, monitoring, review, tracing member, transparency and for consumption of stakeholders and enhancing image of the firms.

Conclusion

The main purpose and duty of audit firms is to provide quality and credible audit services to their clients. The Institute has pronounced accounting and auditing standards prepared in line with international standards for the compliance by its members. Institute is monitoring compliance to those standards and framework through quality assurance regime as guided by IFAC's regulations to PAOs. Besides, the Institute is conducting professional education program and other tailored training program in Audit Practice Manual, Code of Ethics, Nepal Financial Reporting Standards and others from time to time to update member's skill and knowledge set and has also issued comprehensive Audit Practice Manual-APM for application. Despite such initiatives, the performance of audit firms requires substantial improvement in their firm systems, working practices, resource commitment, attitude towards audit quality and contributory approach to the reputation of the profession to address the weaknesses and meet the requirement of performance standards. There might be various reasons behind poor or risk-prone working procedure of the firms. So, it is the responsibility of firms to carry out the root cause analysis to find out the remedies in future and address them swiftly. The practitioners have to bear in mind that if audit work is not documented, it can be presumed that the work has not been performed properly.

The Institute has to intensify practice monitoring activities in order to continue to play its regulatory role and eradicate quackery in the profession. Similarly, the *Institute to develop a plan to conduct* research work with regards to size of the firm and its structure, staffing pattern, fee regime, merger modality etc. to be able to develop regulation and guidance to address the issues and ultimately to strengthen the accounting profession and ensure its continued high level of relevancy.

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Improving audit quality using root cause analysis - A paper for external Auditors, ICAEW

The Training Material developed by ICAN in 2073 for Registered Auditors

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Support SME's

SME's play a major role in most economies, particularly in developing countries. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide.

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Nepal has been left behind due to insurgency and prolonged political transition of over 2 decades. Nepal has had more than 30 governments between 1990 and 2018. Nepal is at crossroad being located in one of the most economically dynamic regions in the world but remains one of the Asia poorest economies. The economy is mainly *import-based* and *remittance dependent*. Remittances have supported the improvement in Nepal's economic indicators, but there always remain a risk because the demand for the Nepali migrant worker is not in our control.

More than 70% of the population is engaged in agriculture but it contributes less than 30% to the GDP. Adoption of technology, commercialization of farming and more efficient value chain should see this sector leapfrog in the coming decade. In developed economies, SMEs contribute more than 50 % to GDP but in Nepal the contribution is less than 22 %. With the beginning of Privatization from 1990's the most of formal firm are privately owned. With the exception of few large business groups most of the firms are small. However, the overall productivity levels remain low.

SME's play a major role in most economies, particularly in developing countries. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. As per the World bank, 7 out of 10 jobs is created by the SMEs. SME plays a pivotal role in development of the country. In case of Nepal SME' generate around 17 lakh employment. Nepal with a goal to reach a middle-income country by 2030 there should be more involvement of private sectors to trigger the response required for the country goal ambitions.

In Nepal it is an arduous task for SME to raise growth capital as it is difficult to obtain loan, as bank compulsorily require collateral in most of the cases There are some scheme where loan is provided without collateral but the celling amount is very low. So the founders have to rely on internal funds or cash from friends and family. As per the study by NRB, 33 % use ancestral properties, 26 % use personal saving, 16 % take loan from BFI , 6% take loan from cooperative and 0.5 % take from venture capital funds to start the business. As per International Finance Corporation formal micro, small and medium entities in developing countries have an unmet financing need of $5.2 trillion every year and the situation is same in our country. If we take the worldwide data, half of the formal SMEs don't have access to formal credit. The financing gap is even higher when micro and informal enterprises are taken into account. In case of Nepal as per NRB only half of SME take loans from BFI and amongst which 85 % of SME take loan from commercial banks. Majority of SMEs take loan less than 5 million and in an average SMEs require 38 days to get loan from the BFI's. The main problem for obtaining loan has been the inconveniences in the processes, high-interest rates and the lack of collaterals. In addition, a majority of SMEs do not know about various programs that exist for SMEs loans. That is why the use of concessional loans remains negligible whereas SMEs refinancing has not been effective.

For a country like Nepal trade can be an important engine for growth but sadly Nepal has not been able to exploit new market or diversify its exports. This can be validated from the data that Nepal export to GDP had fallen from 25 % in 1990's to 10 % currently. Since 2000, Nepal's merchandise exports have grown at a meager 0.5 percent per year. I believe SME will be the one who will reduce import and increase export, create employment opportunities. I am saying it because We Nepali youth are naturally entrepreneurial, but inadequate capital and business management skills keep us small. Nepal produces more than 5,000 IT graduates each year. Many of them end up migrating to western countries due to lack of opportunities in the country. But now returning migrants are beginning to bring back capital and skills to some extent. There is desire and willingness to achieve scale amongst most SMEs. We Nepali Entrepreneurs are the next generation of leaders. We are the leaders tapping the sectors with unrealized potential, overcoming the challenges. Many entrepreneurs in Nepal start companies with a strong commitment to solve problems that they often experience themselves. This drive to make things better – bound from the fact that we have lived these challenges – makes us resilient in the face of any hardship, including a major earthquake, and keeps us 100% committed. With our commitment to problem-solving we lead our communities towards change. We personalize a sense of responsibility towards our communities and understand that responsibility is a key pillar of Leadership. I believe Nepal is ready for business never like before because:

- There is improved political stability.
- Electricity supply is on track.
- Most of the sector such as tourism, IT, agriculture are underutilized and offer tremendous growth opportunities.
- Average age of the population is 22 offering a window of a few decades to tap into productive, tech-progressive workforce.
- Government has made efforts to strengthen competition, generate a more conducive

environment for investment and reduce corruption.

- Economic growth is the state's primary agenda with an aim to graduate to a middle-income country by 2030.

There are various sectors which have competitive advantage and can scale up if properly guided. Some of the sectors are :

- Tourism: High Feasibility due to unique natural endowments.
- Agri Business: High feasibility due to unique and diverse agri-climatic conditions.
- IT Sector: Low labor cost are an advantage and Information and Communication Technology export are less sensitive to transport cost constraint.
- Education: Education enables other sector and youth can be engaged more productively.

With the target of being a middle-income country by 2030, the government should be prudent careful while forming rules and regulation. It should be formulated after detailed study. I am still surprised why the ceiling of foreign investment has been raised to *5 cr from 50 lakhs.* SMEs were looking Private Equity /Venture Capital (PE/VC) as an option but now it also seems uncertain due to the recent change in the ceiling as most of PE/VC are backed by foreign investors. The FDI inflows have been dismal compared to peer nations. FDI inflows have remained negligible and substantially below 1 percent of GDP. The government should establish a platform to conduct regular dialogue between Young Entrepreneurs and itself to address pain-point and coordination. The Foreign Investment act should be aligned with international best practices. I hope government will understand the value of SMEs and make the policy that allows the economy to escalate.

Reference

World Bank Report: Maximizing Finance for Development 2018

World Bank Report: Creating Market in Nepal: Country Private Sector Diagnostic 2018

SMEs Financing in Nepal 2076, Nepal Rastra Bank

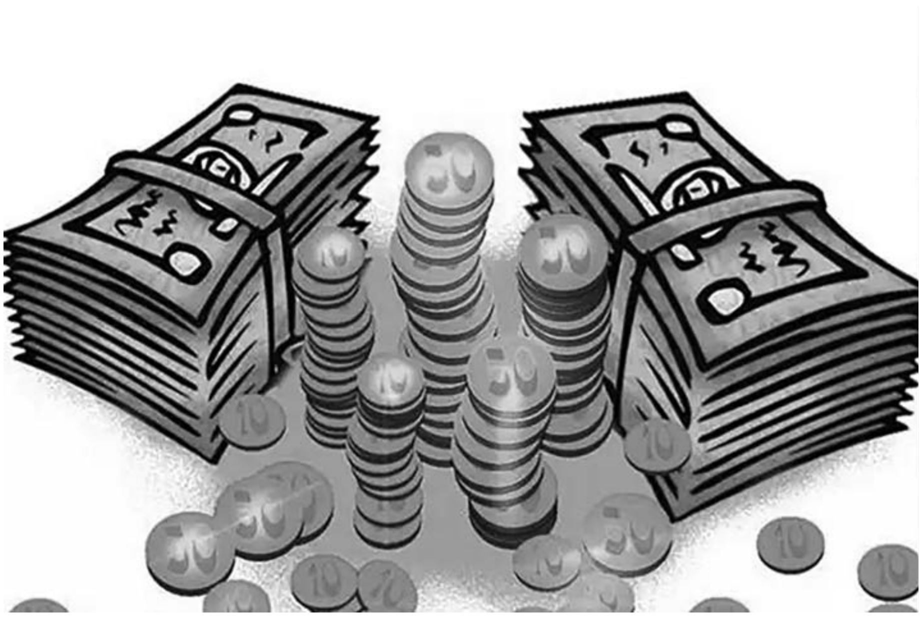
The Editorial Board of the Institute would like to inform to all the stakeholders that the Board of could not able to publish March 2020 Issue of its Quarterly Journal **" The Nepal Chartered Accountant"** due to existence COVID-19 Pandemic and lockdown of the Nepal Government in the Nation.

Please accept our apology in this regard.

STAY SAFE! BE SAFE!!

Comparative Fiscal Performance of Provincial Governments

In Nepal, obstacles and mal practices experienced at the federal level have been cascaded down to lower tiers of the government. The province governments have carried out the financial legacy of federal government, a legacy which has drawn much criticisms for its failure to ensure transparency and accountability. The spending of province and local governments has not been as expected. This has largely stifled development activities.



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A. Context

Federalism is still a nascent concept in Nepal, and the structural changes associated to the institutionalization of federalism are ongoing (Adhikari and Shrestha, 2019). The Constitution promulgated in 2017 prescribes a three-tier governance system consisting of federal, province and local governments. These three independent government units are provided with exclusive rights to prepare and execute their own budget. During the fiscal year 2074/75(2017/18), all 7 provinces prepared for the first time their trimester budget, and this marked the beginning of a new era of fiscal federalism in Nepal. In this paper, our aim is to compare and analyze the fiscal performance of all 7 provinces, as reflected in the budget.

B. Federal Administrative Structure

The new federal structures have resulted in several administrative and structural adjustments in the country. The present structure consists of 77 districts and 753 local units. The local units are made up of 6 metropolitan and 11 sub-metropolitan cities, 276 municipalities (nagar palikas) and

460 village bodies (gaun palikas). Approximately 60% of the country's population are living urban areas. Provinces have emerged as a second-tier government, each having its own governance and administrative structures. All 7 provinces have finalized their capital cities, and 4 provinces have agreed on their names. The table below presents an overall macro-economic scenario of all 7 provinces.

Table 1: Macro economic scenario of provinces

Province	Capital	Districts	Area	Population	GDP (In billion NRs.)	%
Province 1	Biratnagar	14	25,905 km²	45,34,943	505.85	14.60
Province 2	Janakpur	8	9,661 km²	54,04,145	444.50	12.83
Bagmati	Hetauda	13	20,300 km²	55,29,452	1432.76	41.36
Gandaki	Pokhara	11	21,504 km²	24,03,757	288.21	8.32
Province 5	Butwal	12	22,288 km²	44,99,272	452.80	13.07
Karnali	Birendranagar	10	27,984 km²	15,70,418	119.26	3.44
Sudurpaschim	Godawari	9	19,539 km²	25,52,517	220.96	6.38
Nepal		**77**	**147,181 km²**	**26,494,504**	**3464.32**	**100.00**

Source: Regional (Provincial) National Accounts (2019), CBS / GDP based on current price

The province administration includes ministries and other constitutional bodies. The following six ministries and seven constitutional bodies are functioning in each province of the country:

Ministries	Constitutional bodies and entities
1. The Ministry for Economic Affairs and Planning (which includes finance) 2. Ministry for Internal Affairs and Law 3. Ministry for Physical Infrastructure and Development 4. Ministry for Land Management, Agriculture and Co-Operatives 5. Ministry for Social Development (which includes education and health) 6. Ministry for Industry, Tourism, Forest and Environment	1. Provincial Assembly 2. Office of the Chief Minister and Council of Ministers (OCMCM). 3. Office of Chief of Province 4. Province Attorney General 5. Province Planning Commission 6. Province Public Service Commission 7. Province Treasury Controller Office

C. PFM Architecture

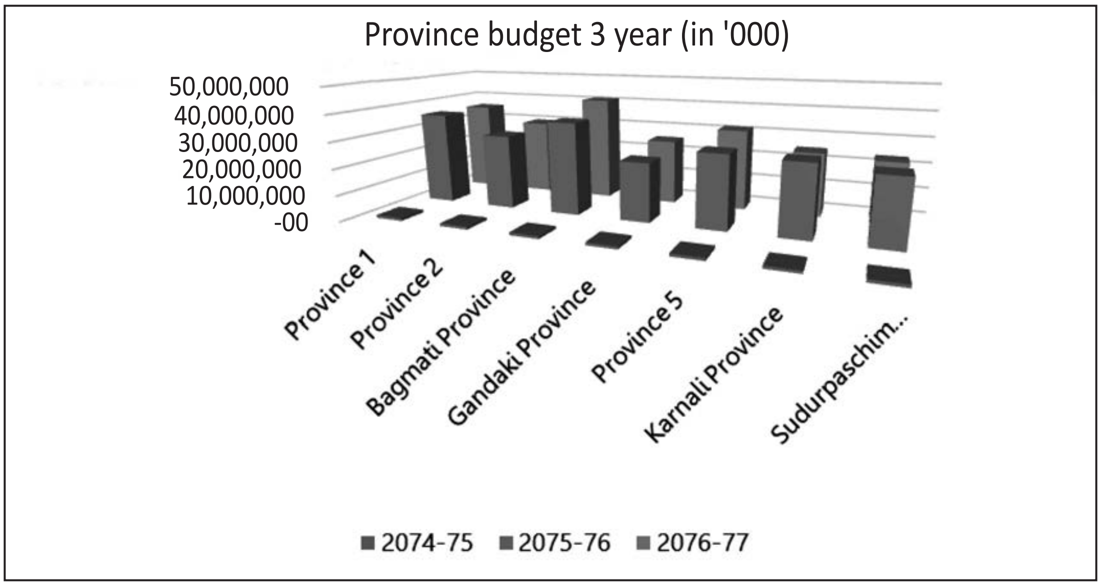
Public financial management (PFM) concerns planning, budgeting, accounting, reporting and auditing. Different units are responsible for handling each of these PFM elements. The Constitution of Nepal has codified the authority of different institutions, including the Financial Comptroller General Office (FCGO), the Auditor General Office (AGO), and National Natural Resources and Fiscal Commission (NNRFC) for the effective facilitation of financial administration in the country. Part 22 of the Constitution has empowered the AGO to undertake auditing of all federal, provincial-level and local government units, including the constitutional bodies. This is further elaborated in Section 3 of the Audit Act 2075. Section 5 of the Federal Financial Procedures and the Fiscal Responsibility Act of 2017 have authorized the FCGO to consolidate the financial statements prepared by government units at all levels, including the province and local levels. The same article also empowers the FCGO to develop the accounting formats and systems that can be used by government units; this is, however, subject to approval by the AGO. In 2009, the Ministry of Finance, the FCGO, has approved the use of a set of Nepal Public Sector Accounting Standard (NPSAS) when reporting the accounts. The FCGO monitors that the financial statements prepared by government units adhere to the requirements as set out in the NPSAS. The FCGO has made several institutional and statutory changes for the smooth facilitation of fiscal federalism. A major intervention has been the revision of the Chart of Accounts (COAs), making them compatible with the new federal set-up. The use of the COAs has resulted in promoting uniformity in accounting practice and reporting across all three tiers of the government. In addition, the FCGO is in the process of enacting a new financial procedure and responsibility regulation to guide the consolidation of accounts at the province and local levels. The establishment of other provincial institutions such as the Provincial Treasury Controller Office, the Provincial Planning Commission and the Provincial AGO is also under way. Few provincial governments have already developed their provincial financial procedure act, and they are in fact ahead of the federal government in terms of issuing similar procedures at the central level. More recently, the parliament has endorsed several bills relating to the decentralization of financial administration, including a National Natural Resources and Fiscal Commission Bill, an Intergovernmental Fiscal Transfer Bill, and a Civil Service Adjustment Bill. It is expected that the enforcement of these regulations and acts would help set up a firm structure for financial federalism in the country.

D. Provincial Budget Allocation and Execution

Setting up provincial budget was a challenging endeavor. All seven provinces struggled when preparing their first budget due to limited experience, capacity and IT systems. At that time, the guidelines for an annual budget preparation, the medium-term expenditure framework, the periodic plans were absent. A web-based software system, SuTRA, which was provided by the federal government, significantly helped the province governments to prepare their budget and annexes. In the following years, these challenges envisaged in the budget preparation were gradually addressed through the enactment of appropriate guidance and regulations. Some provinces enacted up to 52 acts and regulations, some of which were related to budget preparation and execution, during the year. The table below shows the initial budget prepared by all seven provinces through the mobilization of the federal fiscal equalization grants. The Bagmati province has the largest volume of budget compared with other provinces.

Table 2: Province budget for past four years

Province	Total budget (Rs, billion)			
	074/75	075/76	076/77	077/78
One	1.02	35.93	42.20	40.90
Two	1.02	29.78	38.72	33.56
Bagmati	1.02	35.61	47.60	51.43
Gandaki	1.02	24.20	32.13	34.84
Five	1.02	28.90	36.41	36.35
Karnali	1.02	28.28	34.35	33.74
Sudurpaschim	1.02	25.60	28.16	33.38
Total	**7.14**	**208.30**	**259.57**	**264.21**



The execution of the provincial budget is largely unsatisfactory. A trend of the high last quarter spending is observed in all provinces. Capital expenditures are relatively low when comparing with recurrent expenditures. The table below depicts the reality of the first budget in effect, as the spending within a period of three months was around 35.23% of the total allocation. Most provinces spent budget on activities such as office establishment, vehicle purchase and training. During the fiscal year 2018/19, the overall budget spending was around 56.39% of the total allocation; another example of unsatisfactory performance. A large portion of the current year budget (2019/2020) is being spent on staff adjustments (Karmachari Samayojan). Below we have compared the budget and actual expenditures of all seven provinces for the last three years.

Table 3: Actual Expenditure of provinces (Figures in Rs billion)

FY 2074/75 (017/18)	Budget	Actual Expenditure			
Province		**Current**	**Capital**	**Total**	**% of utilization**
Province 1	1.02	0.44	0.22	0.65	63.97%
Province 2	1.02	0.34	0.27	0.61	60.13%
Bagmati Province	1.02	0.15	0.12	0.27	26.41%
Gandaki Province	1.02	0.15	0.15	0.30	28.95%
Province 5	1.02	0.13	0.07	0.19	18.70%
Karnali Province	1.02	0.12	0.11	0.23	22.96%
Sudurpaschim Province	1.02	0.17	0.09	0.26	25.46%
Total	**7.15**	**1.48**	**1.04**	**2.52**	**35.23%**

FY 2075-76 (2018-19)	Budget	Actual Expenditure			
Province		**Current**	**Capital**	**Total**	**% of utilization**
Province 1	35.74	9.80	11.44	21.24	59.44%
Province 2	28.79	6.63	8.47	15.10	52.44%
Bagmati Province	35.62	11.10	9.56	20.66	57.99%
Gandaki Province	22.62	5.24	8.72	13.96	61.69%
Province 5	28.09	6.88	12.63	19.51	69.45%
Karnali Province	27.28	4.54	5.42	9.95	36.48%
Sudurpaschim Province	25.07	6.93	7.23	14.17	56.52%
Total	**203.20**	**51.11**	**63.47**	**114.58**	**56.39%**

FY 2076-77 (2019-20)	Budget	Actual Expenditure -6 Months			
Province		**Current**	**Capital**	**Total**	**% of utilization**
Province 1	35.58	2.48	5.18	7.66	21.52%
Province 2	29.72	1.96	0.72	2.68	9.01%
Bagmati Province	40.86	2.56	2.27	4.83	11.82%
Gandaki Province	25.35	1.77	3.66	5.43	21.42%
Province 5	31.42	3.85	3.65	7.50	23.87%
Karnali Province	24.66	1.38	0.80	2.19	8.87%
Sudurpaschim Province	23.32	1.66	1.56	3.21	13.78%
Total	**210.90**	**15.65**	**17.84**	**33.49**	**15.88%**

Source: FCGO CFS 2018/19 and Economic survey 2019/20

The tables show that the budget execution rate is higher in province 5, as compared with other provinces. During this fiscal year, it is expected that the budget execution rate would exceed 60% in this province. This failure to execute the entire allocation clearly signals unsatisfactory performance, as well as a problem in implementing the PFM reforms agreed on. Another issue concerns the quality of spending, which is even more worrisome from the governance and accountability aspects.

E. Fiscal Arrangements

In the current structure, fiscal transfers from federal to province and local governments are organized in the form of grants and transfers. These transfers are made on the basis of resources required by these governments, as well as their capacity to raise revenues. The National Natural Resource and Fiscal Commission (NNRFC) has developed formulas for resource allocation, considering the macro-economic factors in effect and other requirements as laid down by the federal government. As outlined in the Intergovernmental Fiscal Arrangement Act of 2074, there are 4 different types of grants available to province and local governments:

1. Fiscal equalization grants
2. Conditional grants
3. Matching grants
4. Special grants

These grants are also mentioned and defined in Article 60 of the Constitution. The Constitution states that: *"The Government of Nepal shall, on the basis of the need* *of expenditure and revenue capacity, distribute fiscal equalization grants to the province and local level. Each Province shall, in accordance with the province law, distribute fiscal equalization grants out of the grants received from the Government of Nepal and revenues collected from its sources, on the basis of the need of expenditure and revenue capacity of its subordinate local level*". The distribution of conditional, matching and special grants is mobilized through the Federal Consolidated Fund, following the Intergovernmental Fiscal Arrangement Act and the NNRFC. Grants received by each province in the last three years are presented in the table below:

Table 4: Fiscal transfers to sub federal governments (Figures in Rs Billion)

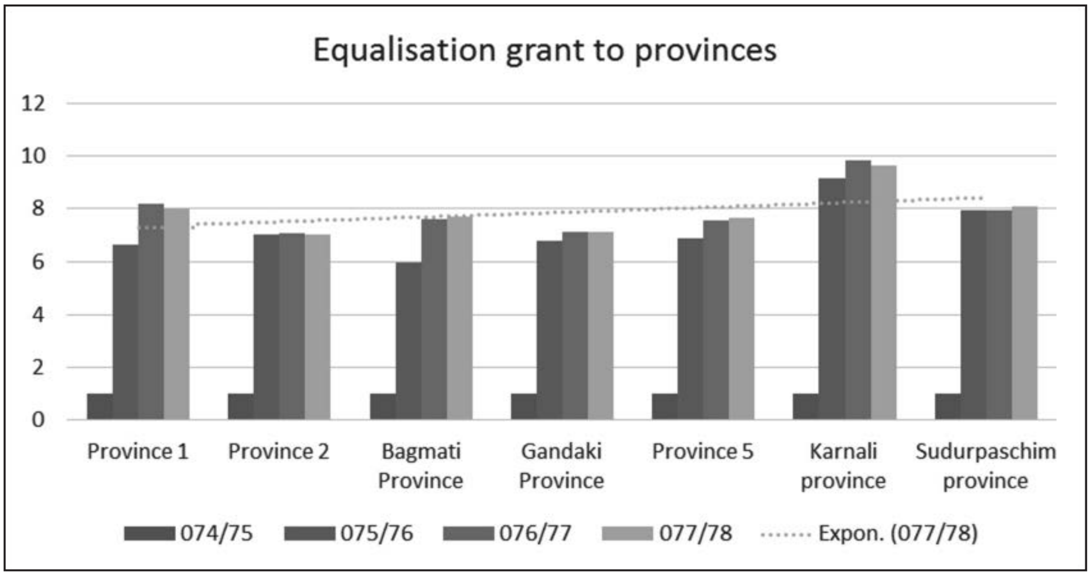
Level of Governments	Province		Local		Total	
Fiscal Year	**076/77**	**077/78**	**076/77**	**077/78**	**076/77**	**077/78**
Fiscal Equalization grant	55.3	55.19	89.95	90.5	145.25	145.69
Conditional grant	44.55	36.35	124	161	168.55	197.35
especial grant	5	3.14	5	6.83	10	9.97
Matching grant	5	5.19	5	4.78	10	9.97
Revenue sharing	65	61.07	65	61.07	130	122.14
Total	175	161	289	324	464	485
Ratio of transfer with respect to federal budget (%)	11.41	10.92	18.86	21.99	30.27	32.91

Each local/province government is now allowed to raise certain revenue, and this has resulted in the readjustment of the equalization grant provided to them. In the last two fiscal years, the federal government has allocated NRs. 10 billion for special grants and another NRs. 10 billion for matching grants, the transfer of which are based on demands made by the province and local governments. The table below shows the fiscal equalization grants approved to all seven provinces in the last three years:

Table 5: Fiscal equalization grant to provincial governments (Figures in NRs Billion)

Province	074/75	075/76	076/77	077/78
Province 1	1.02	6.61	8.16	8
Province 2	1.02	7.02	7.09	7.02
Bagmati Province	1.02	5.97	7.6	7.72
Gandaki Province	1.02	6.78	7.11	7.11
Province 5	1.02	6.87	7.54	7.64
Karnali province	1.02	9.13	9.85	9.63
Sudurpaschim province	1.02	7.92	7.95	8.07
Total	**7.14**	**50.3**	**55.3**	**55.19**

Figure: Fiscal Equalisation grant to provinces



The amount provided to each province, as part of the fiscal equalization grants, vary based on the formula-based allocation method adopted by the federal government. In comparison, Karnali province has received more grants, as this province has fewer sources to raise revenue. The perceived resource gap has been filled out using the fiscal equalization grants.

F. Revenue Sources and Borrowing Arrangements

The Constitution of Nepal has codified exclusive and shared rights to raise revenues at local levels in Schedule 5, 6 and 8. However, several challenges are envisaged when generating revenues through the mobilization of local sources (OSR). A large number of taxes imposed are in fact reckoned to be *shared taxes*.; house rent taxes serving as an example. As a result, many citizens are experiencing a bitter reality of federalism, as they are exposed to multiple taxes imposed by governments at different levels. Few examples of tax overlapping are presented in the table below:

Local taxes, charges and fees	Province taxes, charges & fees	Federal taxes, charges & fees
Wealth/property tax(e.g. land tax)		Customs
House rent tax		Excise duties
Business registration tax		VAT
Land revenue tax	Agro-income tax	Individual income tax
House and land registration fee	House and land registration fee	Business income tax
Motor vehicle tax	Motor vehicle tax	Passport and visa fees
Service charges	Service charges	Service charges
Tourism fees	Tourism fees	Tourism fees
Advertising tax	Advertising tax	
Penalties	Penalties	Penalties
Entertainment tax	Entertainment tax	

The Intergovernmental Fiscal Arrangement Act provides several provisions relating to tax administration. For instance, the act states:

- While collecting income tax, the federal government should also include the tax on agricultural income, this tax has to be levied by the State,
- While collecting vehicle tax, the province should also collect the vehicle tax levied by the local government,
- While collecting house rent tax, the local government should also include the income tax levied on house rent, as part of the income tax collected by the federal government,
- While collecting house and land registration fee, the local government should also include the registration fee levied by the State,
- While collecting advertising tax, the local government should also collect the advertising tax levied by the State,
- While collecting entertainment tax, the local government should also include the entertainment tax levied by the State.

The sharing ratio of the revenue collected by each level of government also varies. According to the provision, 2% administration fee is charged by each tier of government on natural resources, as part of royalties. Details on charging royalties on natural resources are depicted on the table below:

Royalties on natural resources Electricity production, forestry, mountaineering, mining and minerals
• 50% to the federal government; • 25% to respective province governments; and • 25% to respective local governments.

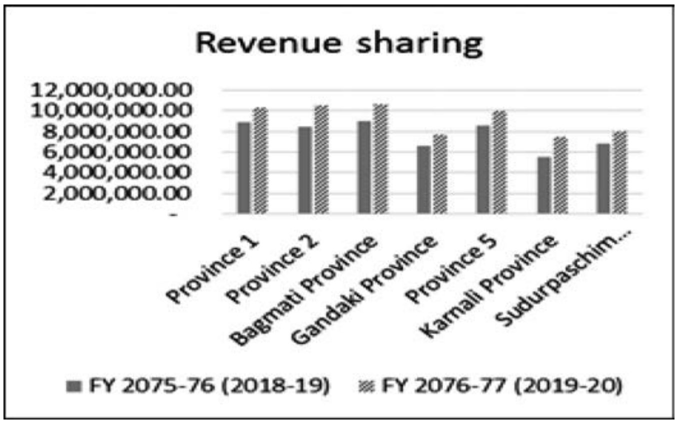
Province and local governments are required to share the collected revenue, using the formula provided by the NNRFC. At the federal level, the FCGO makes necessary arrangements for a transfer and distribution of the divisible amounts. The table below shows the total revenue generated and shared by province governments:

Table 6: Revenue Sharing by federal to provincial government (Figures in Rs Billion)

Province	075/76	076/77	077/78
Province 1	8.93	10.28	9.54
Province 2	8.48	10.44	9.52

Bagmati	9.00	10.60	9.70
Gandaki	6.58	7.71	7.57
Province 5	8.55	9.91	9.47
Karnali	5.52	7.44	7.40
Sudhurpaschim	6.77	7.99	7.87
Total	**53.83**	**64.37**	**61.07**

Source: MOF, Inter governmental fiscal transfer 2075-76, 2076-77



During the fiscal year 2017/18, limited revenues were generated at the province and local levels. However, the share of revenues generated by province governments has increased in 2019/2020, as there is more clarity on this issue.

G. Borrowing

All levels of governments (Federal, Province and Local) can borrow money from the *domestic* financial markets being within the limit prescribed by the National Natural Resources and Fiscal Commission. However, only the federal government has the authority to borrow externally and to accept foreign grants. The government of Nepal is required to ensure macro-economic stability while authorizing external borrowing. Many provinces have already started internal borrowing, as part of filling the resource gap. Raising loans to address budget deficits is not permitted.

H. Audit Irregularities

The federal legacy has endured at all levels when it comes to audit irregularities. The level of irregularities is peculiarly high in certain provinces. For instance, province number 2 has the highest level of irregularities, which account nearly 23% of its total budget expenditures. What is striking is a rise in the level of irregularities every year. Karnali is perhaps an exception where the percentage of irregularities is relatively low. The table below depicts the total audited amounts and irregularities for the fiscal year 074/75:

Table 7: Irregularities of provinces for FY 2017/18

Provinces	Total audited amount	Irregularities amount (In NRs, 000)				% of irregularities
		Recoverable	Regularize	Advance irregularity	Total	
Province 1	656,895	112	22,114	116	22,342	3.4%
Province 2	694,395	20,579	36,930	107,100	164,609	23.7%
Bagmati	274,629	3	969	-	972	0.4%
Gandaki	296,377	83	5	452	540	0.2%
Province 5	203,540	218	290	-	508	0.2%
Karnali	237,852	105	72	-	177	0.1%
Sudurpaschim	261,905	5,959	-	-	5,959	2.3%
Total	**2,625,593**	**27,059**	**60,380**	**107,668**	**195,107**	**7.4%**

I. Conclusion

Decentralization of public service is paramount to ripe the benefits of democracy. However, the very objective of decentralization through the state restructuring has encountered several challenges in Nepal. Indeed, the complex nature of financial federalism is also evident in developed countries (Jochimsen, 2018; Adhikari and Shrestha, 2019; Ter-Minassia et al., 2017). In Nepal, obstacles and mal practices experienced at the federal level have been cascaded down to lower tiers of the government. The province governments have carried out the financial legacy of federal government, a legacy which has drawn much criticisms for its failure to ensure transparency and accountability. The spending of province and local governments has not been as expected. This has largely stifled development activities. The expenditure trend is usually high in the last quarter of the year, creating a space for corruption and malpractices to flourish. Having said this, there are many issues which give us a great deal of hope for the future. For instance, all provincial governments have now enacted necessary financial regulations and set up institutions, the effective mobilization of which could easily improve accountability and efficiency at the local/provincial levels. What is important is therefore to enforce the regulations, invest on the capacity development of administrators and strengthen the monitoring mechanisms of oversight institutions. Good governance and accountability are also paramount to address the challenges posed by the pandamic.

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Need of Redefining Economic Nationalism in Nepal's Development

Economic Nationalism can drive vision of nation building. Nationalism cannot be soiled into someone's psyche and soul completely, but shall revolve within a civilized human being with logical and sensible approach. Nepal shall develop national interests, create nationalism economy vision and exercise those economically feasible practices with strict laws.

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Executive Summary

'Nation cannot be built overnight' but for Nepal - development cannot wait to progress piece by piece. Thoughtful planning shall be followed by strong footstep of implementation. Nothing can be improved or changed without completely heartily participation of citizens. Political leaders are mirror of public and politicians are obliged to deliver developments for all trusts and responsibility awarded. As Nepal has not been able to gear up for economic development, we need to figure out unnoticed reasons behind. Constitutional democracy has bestowed few insights of progress in academic, tourism and industrial sectors. However, the same journey dissolved hope, progress, and opportunity together in a bucket of permanent migration, fear and confusion. In Nepal's journey of democracy, developments could not ripe in comparison to high hopes flourished, resulting into shrinking faith towards system and leadership. At this critical point of people's craze to leave village and shift to cities or leaving small cities to Kathmandu or shifting from country to other countries, Nepal is going to face deficit of major capital of development i.e. human capital. Faith needs to be restored to reinstate love and responsibility towards soil.

Nationalism

Dictionary meaning of nationalism is identification of own nation and support for its interests, especially to the exclusion or detriment of interests of other nations. In simple words, it is an ultimate love, care and responsibility towards one's motherland in a dignified and honorable way.

Economic Nationalism is an ideology that favors country's intervention over other market mechanisms, with policies such as domestic control of the economy, labor and capital formation.

Facts

The general trend for landlocked countries like Nepal is that they trade 30 percent lesser than coastal countries. As transportation costs for landlocked countries are up to 50% higher than coastal countries, even more for mountainous country, importing goods would be discouraging, as they would cost more. Nevertheless, Nepal has always bucked these trends and is an import reliant economy where more than 40% of all its revenues come from import taxes (Government of Nepal, 2018). The continual rise of imports throughout its history has been recorded. The binging on imports versus weak exports records its chronically widening trade deficit that is adversely affecting its development. Since the last 25 years contributing to more than 40% of the entire GDP of Nepal, trade has remained a key factor in determining its economic condition and direction. Nepal has been running an ever-widening trade deficit since 1965. In addition, infrastructure development could not take any remarkable achievements in these years. Even distribution of infrastructure is mandatory for transforming nation through prosperity.

Clear vision, designs and roadmap are not in paper for nationwide for infrastructure and economy improvement.

Way Forward

The reliance on imports also causes many other negative impacts ranging from lack of innovation and entrepreneurship, ballooning trade deficits, depleting foreign currency reserves and stifling of fast-paced economic growth. All these problems can spate Nepal.

Therefore, it is imperative for Nepal to pursue effective import substitution strategies. Nepal has tried to come up with solutions of export-oriented industrialization and trade diversification to resolve such issues. They have produced ineffective outcomes as evident by ballooning imports, widening trade deficit and low global ranking. Some of bold strategies shall be:

1. Optimizing Gifted Potentials

Nepal is naturally blessed country in terms of geological structure and resources. Laws to be framed protecting such resources from encroachment, misuse and interruption against purposeful use.

- Energy sector – Nepal has economically feasible capacity of more than 45000 MW of hydro energy and almost equal opportunity for solar. Nation shall bring long term policies to mobilize economy through own energy.
- Restrict fertile lands for habitation or commercial purpose. Five decades ago, Kathmandu used to be most livable country in world but now deteriorated by unplanned urbanization. Not only country buried major portion of fertile land, also lost its beauty for tourism. So all fertile lands shall be utilized for agriculture only.
- Economically feasible products shall be produced within country by government investments. Import and consumption of luxury products shall be discouraged.
- Developments shall take place without harming natural and cultural environment. Various tourist attractions shall be brought into cities to attract tourist from all over the world.
- Mandatory service clause to be implied in logical manner.
- Love for self-grown food staples, own products shall be blended to culture

2. Revitalizing Education System of Nepal for Innovative Education

Country has invested substantial amount in education sector. At present, we have approximately 35000 school, 3700 Higher Secondary Schools, 1400 colleges, 9 universities, and 4 medical institutions. Annual budget of Rs 170 billion is allocated for educational development. Unfortunately, development in Nepal Education Sector could not accelerate well in global competition. As a result, majority of Higher Secondary Graduates are moving gulf countries to earn basic earnings for survival, while eligible students/professionals migrate towards western countries for long-term relocation. Every year more than 63,000 students are going abroad for studies with least chances of returning. Innovative education system shall be introduced so that citizen be motivated to stay in own country with dignity. Technological advancement and infrastructure development are crucial to bestow hope of opportunity, social security and opportunities.

3. Strategic Planning for Better Infrastructure Developments

Many ambitious projects were aborted in past, many areas were ignored blindly. Trans- Himalayan cross boarder railway to be built immediately. Nepal being at center of blooming economy and holding harmonious relationship with all the neighboring countries will reap maximum benefits by transportation connecting all the corners. Nation shall think about next 50 years and plan its resources, capital requirement, funding plan and cost-benefit analysis of all national projects. Rightful plans shall be developed to provide long-term direct benefits to project affected people.

4. Digitalization of Currency

Nepal's currency has continuously depreciated versus US Dollar with which foreign trade payments are settled. This has caused a precarious depletion of Nepal's foreign currency reserves breaking central bank's 8-month minimum threshold. While currency devaluation or depreciation for an exporting economy usually make exports more competitive and augments growth, for an import-based economy like Nepal it depletes its foreign reserves and stifles growth. Cryptocurrency shall in system at first priority for various direct and indirect reasons.

5. Managing Geo Political Challenges

Nepal has been suffocated in a cocoon made of multiple layers of geological challenges, diverse emotional barriers, national- international politics and century's old debates and limitations. Rigorous efforts are needed to visualize future, calculate risks, design needed roadmap and hike to create environment for sustainable growth.

Why Nationalism Wave Needs to Flow in Nepal Air for Economic Transformation

Being nationalist with patriotic zeal is essential for every well-thought-of national and anyone devoid of nationalism practically cease to be loyal citizen. Nepal has crossed a long and perilous journey of democracy in past six decades and nationalism was put to test many times. Fighting for basic rights of education and freedom in early 2000 BS to 2063 BS movement for republic system, patriotism concept has also been defined in various ways. At this fragile economic scenario, economic revolution shall begin with new definition of nationalism. Not only love, but also responsibility towards birth soil shall be germinated with all strings and knots. Every Nepali heart must realize that nations come first than anyone and anything. Policies and Planning shall be executed strictly without deviation from the spirit of constitution of Nepal.

For Nepal – Economic Nationalism can drive vision of nation building. Nationalism cannot be soiled into someone's psyche and soul completely, but shall revolve within a civilized human being with logical and sensible approach. Nepal shall develop national interests, create nationalism economy vision and exercise those economically feasible practices with strict laws. Human capital is most important factor for any country's development and enrolling every citizen whole heartily is must for micro to macro level policy changes and developments.

Interest Expenses and Commercial Expediency Test

The tax officer disallowed proportionate interest on the amount advanced to the supplier stating that the assessee had not utilized the interest bearing loan on income generating activities during that particular assessment year. The assessee appealed to the Revenue Tribunal on the decision of the tax office and the Revenue Tribunal overturned the decision.

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Prof. HLA Hart famously stated that '*whichever device, precedent or legislation, is chosen for the communication of standards of behavior, these, however smoothly they work over the great mass of ordinary cases, will, at some point where their application is in question, prove indeterminate; they will have what has been termed an open texture.'*[1] Hart borrowed the concept of open texture from Friedrich Waismann who went even further to state that *even the most precise and carefully delimited empirical terms might nevertheless produce uncertainty in the face of unforeseen and virtually unimaginable instances. Because language cannot anticipate all possible occurrences in all possible worlds, he argued, there persists the ineliminable potential that a definition of an empirical concept bounded in all now-foreseeable dimensions can break down in the face of unforeseen and unforeseeable events because of language*.[2] Even the words that seemingly, at first sight, have no ambiguities or vagueness might offer differing interpretations. This article focuses on one such instance – the phrase,

1 H. L.A. Hart, *The Concept of Law*, 127-8

2 Frederick Schauer, *On the Open Texture of Law*, 2

'*incurred in the production of income from the business or investment'*, used in section 14 (1) of the Income Tax Act, 2058 – which has puzzled tax payers and tax officers and has much judicial ink poured over it. This will be analyzed in light of few cases decided by the Supreme Court of Nepal and few leading cases from U.K. and India on on-lending arrangements.

Interest Deductibility under Income Tax Act, 2058

As a normal rule, interest expenses on borrowed loan is a deductible expenses while calculating taxable profit of taxpayers. Section 14 of the Income Tax Act 2058, deals with interest deductibility and sub-section 1 of the same section reads as:

> *For the purposes of calculating the income of a person for an income-year from a business or investment, there shall be deducted all <u>interest incurred</u> during the year by the person under a <u>debt</u> obligation, <u>which is incurred in the production of income from the business or investment</u>, of the person to the extent that.-*

(a) where the debt obligation was incurred in borrowing money, the money is <u>used during the year</u> or was used to purchase an <u>asset that is used during the year</u>; or

(b) in any other case, the debt obligation was incurred.

The phrase *'incurred in the production of income from the business or investment'* in conjunction words '*used during the year'* has been a heavily debated topic even among tax cognoscenti, as many litigations are being contested on the interpretation of these terms. Is the phrase -**'incurred in production of income'** – to be narrowly interpreted to imply 'incurred for generation of profit only' or should it be given a wider meaning of 'used for business purpose.'[3] Moreover, a supplementary issue that should be decided is whether the profit needs to be generated in the same assessment year for claiming interest expenses.

Jurisprudence from Nepalese Supreme Court

i) *Large Tax Payer's Office (LTO) vs Pashupati Cement P. Ltd. (Birendra K Sanghai)*, Decision No 10005

In this case, the assessee, a cement manufacturing company, borrowed loan at certain interest rate and advanced some funds from the same loan to a supplier in India for supply of raw materials, which was required in the cement factory; however, the supplier could not supply the raw material during the same assessment year. Moreover, the supplier only supplied a part of the order placed in the next assessment year and returned the balance amount to the assessee that too in the next assessment year.

The tax officer disallowed proportionate interest on the amount advanced to the supplier stating that the assessee had not utilized the interest bearing loan on income generating activities during that particular assessment year. The assessee appealed to the Revenue Tribunal on the decision of the tax office and the Revenue Tribunal overturned the decision. Thereafter, the LTO appealed against the decision of Revenue Tribunal in the Supreme Court. Justice Ishwar Prasad Khatiwada of the Apex Court stated that: *'for an expense to be deducted while calculating tax, the expenses should be incidental to the business and should be within the limits and parameters of the law. There is no doubt that the assessee had paid interest on bank loan, however the loan was not utilized in business for income generating activities for the same assessment year.'* Therefore, the decision of Revenue Tribunal was quashed and the proportionate amount of interest was disallowed.

ii) *Large Tax Payer's Office vs Arihant Multifibre Ltd. (Rajkumar Golcha.),* Decision No. 8862

Here, the assessee borrowed a loan bearing certain

3 The expression "for the purpose of business" is wider in scope than the expression "for the purpose of earning income, profits or gains", *Madhav Prasad Jantia vs. Commissioner of Income Tax U.P.* AIR 1979 SC 1291

percentage interest. Meanwhile, the assessee also invested certain sum of money into its sister concern, which the taxpayer said to be investment as share capital. The tax officer contented that the money invested was interest free loan to sister concern and disallowed proportionate interest paid on the loan. The assessee appealed to the Revenue Tribunal which overturned the order of LTO. Thereafter, in an appeal by LTO to Supreme Court, Justice Bharat Raj Uprety quashed the order of LTO which had overturned the disallowance of interest. Justice Uprety deliberated on length about the issue in his decision and stated that: '*if a person has scarcity of funds (cash) and takes a loan, but then forwards the funds to another person at certain interest or free of interest, then the loan cannot be said to be used for business purpose. Moreover, loan utilized for the business purpose can be ascertained only after the loan provided by the assessee is deducted from the total loan received by the assessee.'* He cautioned that if such on-lending scheme was allowed to flourish then section 14 of the Act would be misutilized and would be used to lower the tax payable by the assessee.

Justice Uprety proposed two options for calculating interest: i) netting the loan (total loan received *minus* loan forwarded to other person) and then calculating interest on such net amount for the purpose of allowing as expenses or ii) allowing the total interest and then simultaneously disallowing (add back) of proportionate amount of interest on on-lent loan.

iii) *Soaltee Enterprises P. Ltd.(Prabhakar Samsher JBR) vs HMG,* D. No. 6704

In this case, the assessee had invested borrowed money in shares of Hotel Soaltee Ltd., and the proportionate interest on such borrowed loan was disallowed as it was spent for generating exempt income (not taxable) or income which are final payments (taxable but not included while computation of taxable income) and the loan was not used in income generating activities.

iv) *Inland Tax Office, Biratnagar vs Shah Udyog P. Ltd.*, D.No.: 8265

In this case, the assessee took a bank loan for purchasing fibers for weaving textiles, however, the company lent the strings to another person during the course of business. In the meanwhile, the assessee kept on paying interest on the loan taken. The tax office contented that the loan was not used for income generating purpose. The assessee appealed to the Revenue Tribunal, Biratnagar which quashed the order of the tax office on administrative grounds that while passing tax order, no reasons was stated as to why the interest should be disallowed and that the order was passed without analysis and proper reason. On an appeal by the tax office to the Supreme Court, the concurred with the view of Revenue Tribunal, Biratnagar.

Commercial Expediency Test

Barring the case of Shah Udyog, mentioned above, in which the courts quashed the order of tax office on grounds of procedural inconsistency, the apex court has decided in favor of revenue authorities. The application of law in case of Arihant Multifibre Ltd. and Soaltee Enterprises, disallowing interest expenses, fell in the 'core of settled meaning'[4] and thus a strict formalist approach was justified. However, in case of Pashupati Cement, the matters fell in the '*penumbral'* region of application of law, and a counter argument can be raised as to whether a tax officer, sitting in an 'arm-chair[5]' decide whether the loans have or have not been utilized for business purpose. The issue was aptly put in a British case, albeit in different context, that *in order to claim a deduction, it is enough to show that the money is expended, not of necessity and with a view to direct and immediate benefit, but voluntarily and on grounds of commercial expediency and in order to indirectly to facilitate the carrying on the business*[6]. This is known as 'commercial expediency test'.

4 As per Hart, legal terms possess a core of settled meaning and a penumbra of debatable meaning.

5 *S.A. Builders Ltd. Vs CIT (Appeals)* (2007) 288 ITR 1(SC)

6 *Atherton vs. British Insulated & Helsby Cables Ltd* (1925)10 TC 155 (HL)

The commercial expediency test has been invoked in major decisions in various courts. Similar case arose in a leading case in India, S.A. Builders Ltd. Vs CIT (Appeals) (2007) 288 ITR 1(SC), where an the assessee had transferred a huge amount of funds to its subsidiary company out of the cash credit account of the assessee in which there was a huge debit balance. The tax officer, therefore, held that since the assessee had diverted its borrowed funds to a sister concern without charging any interest, proportionate interest relating to the said amount out of the total interest paid to the bank deserved to be disallowed. The Supreme Court of India stated that *the expression "commercial expediency" is an expression of wide import and includes such expenditure as a prudent businessman incurs for the purpose of business. The expenditure may not have been incurred under any legal obligation, but yet it is allowable as a business expenditure if it was incurred on grounds of commercial expediency*.

The court also guided whether the subjective standard of the assessee or an objective standard of tax authorities would be a conclusive view. In settling the dispute of reasonableness of standard the Indian Supreme Court further stated *that once it is established that there was nexus between the expenditure and the purpose of the business, the Revenue cannot justifiably claim to put itself in the arm-chair of the businessman or in the position of the board of directors and assume the role to decide how much is reasonable expenditure having regard to the circumstances of the case. No businessman can be compelled to maximize its profit. The income tax authorities must put themselves in the shoes of the assessee and see how a prudent businessman would act. The authorities must not look at the matter from their own view point but that of a prudent businessman.*[7]

However, the court cautioned that *we wish to make it clear that it is not our opinion that in every case interest on borrowed loan has to be allowed ……. It all depends on the facts and circumstances of the respective case. For instance, if the Directors ….utilize the amount advanced ….for their personal benefit, obviously it cannot be said that such money was advanced as a measure of commercial expediency.*

Conclusion

In our view, the jurisprudence elucidated by the Indian Supreme Court in S.A. Builders Ltd. Vs CIT (Appeals), regarding 'commercial expediency test' is a balanced judgment. It not only gives a wider interpretation of the term and brings subjectivity reasonableness test in deciding the validity of expenses, but also clamps down upon arbitrary expenses. Recently, interest expenses claimed by taxpayers have come under the scanner of tax officers and many taxpayers have faced the axe of tax office. Similar, case may arise in post Covid-19 assessment where taxpayers have claimed interest expense for loans that could not be used 'in the production of income' or was not 'used in business.' A fair, judicious and balanced view on a case to case basis is required for dispensation of justice. However, a more prudent approach would be amending law to remove penumbra and ambiguities.

7 Supra note 2

Reverse Charging Mechanism in the Context of Value Added Tax

Person constructing physical structure, if registered in VAT, should deposit the VAT on expenses incurred while receiving goods or services during the construction as per his VAT filing period. For example, tax payer filing monthly VAT return should deposit within 25 days after the end of the month in which the payment is done.

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The objective behind the provision of reverse charging system is to ensure the equal treatment in international service supply.

It intends to increase the tax base, to systematize the construction work and to motivate persons to get registered in Vat.

Reverse Charging is the mechanism, in Indirect Taxation, where the liability to pay tax is created by the tax payer on himself. It is a specific provision in the context of Value Added Tax (VAT) laws. When a person purchases goods from a vendor who is registered in VAT, the vendor collects VAT from him and deposits to the government. In an alternative scenario, when he purchases goods from a vendor who is not registered in VAT, he *may* need to pay VAT to the government on his own.

In the case of Nepalese VAT laws, the provision of reverse charging can be observed specifically in two scenarios, namely:

(i) international service supply, and
(ii) construction of structure.

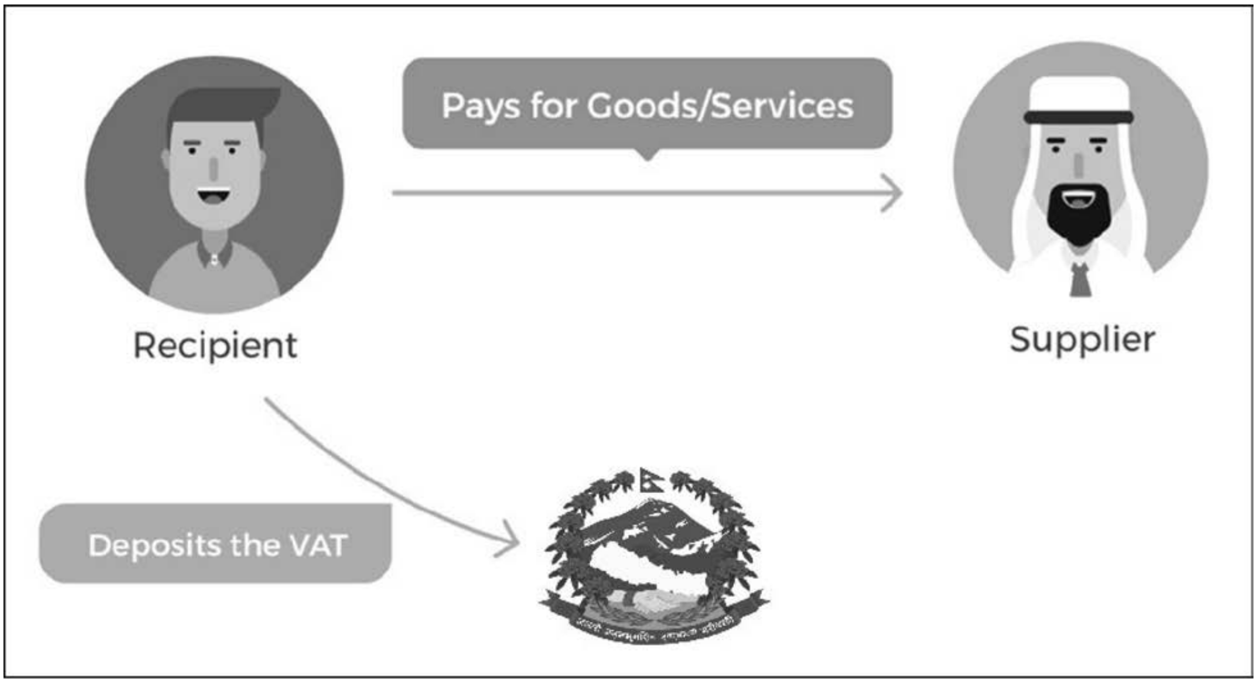
The objective behind the provision of reverse charging system is to ensure the equal treatment in international service supply. Generally, the service imported is not declared in the custom point and thus no VAT is levied at custom point. If any service procured from local service provider attracts VAT and the same service from international service provider does not attract VAT, then the competitiveness of local service provider diminishes in the market. By keeping this is mind, VAT act has inserted the provision of levying VAT on the import of services.

Similarly, the provision of reverse charging system is also seen in case of construction of structure. It intends to increase the tax base, to systematize the construction work and to motivate persons to get registered in VAT.

Overview of this Article

Section 8(2) of VAT Act 2052	Section 8(3) of VAT Act 2052
• Definition of service	• Definition of Commercial Purpose
• Conditions for attracting Section 8(2)	• Construction to be done through registered person
• Tax set off	• Special provision regarding construction
• Tax assessment	• Tax assessment
• Circulars related to Section 8(2)	• Circulars related to Section 8(3)
• Examples from VAT Directive	• Examples from VAT Directive
• Questions asked in ICAN Examinations	• Questions asked in ICAN Examinations

Figure 1: Reverse Charging Scenario



Section 8(2) of VAT Act 2052

Assessment and Collection of Tax regarding service from abroad

Any person, whether registered or not, receiving service from a person who is outside Nepal shall have to assess and collect tax on the taxable value in accordance with this Act and the Rules framed under this Act at the time of payment or at the time of receipt of service, whichever is earlier.[1]

1 Finance Bill 2066 clarified the time when VAT is to be collected, i.e. *"at the time of payment"*. Later, Finance Bill 2075 preponed the time by stating *"at the time of payment or at the time of receipt of service, whichever earlier"*.
Amendment regarding VAT registration status of service receiver was done by Finance Bill 2066, and amendment regarding VAT registration status of service provider was done by Finance Bill 2075.

Definition of service

'Service' refers to anything other than goods. *[Section 2: Clause (cha)]*

'Goods' refers to any kind of property, whether movable or immovable. *[Section 2: Clause (nga)]*

Conditions for attracting Section 8(2)

1. A person at foreign country should provide service to a person at Nepal.
2. The service should be supplied from foreign country.
3. The service should be VAT attractive.
4. The service should not be imported via customs.
5. The supplier of service should not be registered in Nepal. [2]

Tax set off

As per Section 17(5Kha), tax set off is allowed for tax paid under Section 8(2)[3], Section 12Ka and Section 15(3).

Section 17 of VAT Act has provided for the set off of tax paid on purchase made by registered person in relation to the business. Tax paid on purchase includes the tax paid on purchase from local market or tax deposited on import from foreign country or tax deposited on service as per Section 8(2).

Tax assessment

The person has to deposit VAT at the rate of 13% of the total payment made.[4]

Explanation of conditions related to Section 8(2) (Circular dated 2060.07.05)

A circular regarding reverse VAT system was issued by IRD on 2060.07.05 regarding implication of Section 8(2). According to the circular, VAT shall be deposited on taxable amount by the person receiving service, and if the same is not complied, then the tax officer shall make assessment under prevailing laws. The taxpayer shall be entitled for VAT credit on the basis of the voucher regarding the same.

Circular dated 2072.12.21

VAT and advance tax both to be levied on foreign consultancy service.

Examples from VAT Directive

Illustration 1: (Example 2.12 of VAT Directive 2069 – amendment 2076)

Suppose a foreign person or institution is running preparation classes for TOEFL, IELTS, GRE, GMAT, SAT, PTE, ESOL and other similar tests in Nepal. This kind of service is VAT attractive as per VAT Act 2052. The person providing such service should be registered in Nepal.

In case such service is being provided from outside Nepal, the receiver of service should deposit VAT on the amount of payment.

Illustration 2: (Example 2.13 of VAT Directive 2069 – amendment 2076)

A I Pvt. Ltd. is a company providing internet and telecommunication services. It has purchased technical services from Skynet Company in Singapore. It has been paying USD 100,000 per month for such services.

Since such transaction is VAT attractive, A I Pvt. Ltd. should deposit VAT amount of 13% of the amount equivalent to USD 100,000 at the time of payment or at the time of receipt of services, whichever earlier. The VAT amount paid on such purchase is allowed for input tax credit.

Illustration 3: (Example 2.14 of VAT Directive 2069 – amendment 2076)

Department of Mines and Geology of Nepal Government appointed two scientists from Canada for feasibility study

2 Before 2073's amendment, only the first 3 conditions were mentioned in Clause 2.6 of Chapter 2 of VAT Directive 2069.

3 Finance Bill 2066 had inserted *"Section 8(2)"*.

4 If VAT is not deposited at the time of payment, then penalty @ 25% of tax shall be levied under Section 29 (1Ka) of VAT Act 2052, as clarified by Clause 10.15 of VAT Directives 2069 (second amendment 2076).

on commercial production of minerals. The agreement was made for payment of USD 10,000,000 for the same. The scientists conducted the study and submitted final report.

Such service provided by those scientists is VAT attractive. The service of such kind is not a regular type of service, as it is of occasional nature. As the scientists have provided service from outside Nepal, the service is deemed to have been supplied under Section 8(2) of VAT Act.

Illustration 4: (Example 2.15 of VAT Directive 2069 – amendment 2076)

Department of Electricity Development of Nepal Government appointed scientists from Korea for feasibility study on commercial production of electricity in Nepal. The agreement was made for payment of USD 1,000,000 for the same. The scientists conducted the study and submitted final report.

Such service provided by those scientists is VAT attractive. The service of such kind is not a regular type of service, as it is of occasional basis. Although the taxable amount is more than NPR 1 crore, there is no any provision for getting those scientists registered in VAT in Nepal. So, the service is deemed to have been supplied under Section 8(2) of VAT Act. The Department of Electricity Development should deposit VAT amount of 13% of the amount equivalent to USD 1,000,000 at the time of payment or at the time of receipt of services, whichever earlier.

Illustration 5[5]: (Example 2.16 of VAT Directive 2069 – amendment 2076)

A resident airlines company in Nepal has to send the engine, gear box and other important parts of its airplanes and helicopters for repair and overhaul to an institution located abroad which is an institution authorized by Civil Aviation Authority of Nepal. While doing so, the airlines company has to send these goods after depositing the amount equivalent to customs duty in the customs office.

After being repaired, if those goods re-enter into Nepal, and if the VAT has been paid at the custom point, then no further VAT under Section 8(2) of VAT Act 2052 shall be assessed or recovered.

Illustration 6: (Example 2.17 of VAT Directive 2069 – amendment 2076)

A resident airlines company of Nepal has to send its pilots, engineers and other technical staffs for training to an institution located abroad as per the guidelines set by Civil Aviation Authority of Nepal.

Such service is not benefitted in Nepal. Hence, no VAT under Section 8(2) of VAT Act 2052 has to be assessed or recovered.

Illustration 7: (Example 2.18 of VAT Directive 2069 – amendment 2076)

A resident airlines company uses Online GPS Data service in Nepal. This service is based on information technology that is useful in the information, communication and Navigation Tracking in order to ensure safe and secured air flight service. For this service, it has to make payment to a company located abroad.

On such payment, VAT under Section 8(2) of VAT Act 2052 has to be assessed and recovered.

Questions asked in ICAN Examinations

June 2010 CAP II

S C P. Ltd hired a Technical Expert from India for consultancy service architect design of Hydropower projects on contract basis. The consultant charges Rs. 621,500 towards his service.

In such case, the amount of Rs. 621,500 is exclusive of VAT. Thus VAT = Rs. 621,500 x 13% = Rs. 80,795.

5 Illustration 5, 6 and 7 are new illustrations in VAT Directives 2069 (second Amendment 2076).

June 2013 CAP II

M P. Ltd is a company providing telecommunication services in Nepal. It has purchased a consultancy service from a company in US for setting up and expanding its operation in Karnali zone of Nepal. The company has paid USD 500,000 against such services in the month of Jestha 20XX.

In such case, M P. Ltd has to assess and collect VAT on the amount paid (i.e. USD 500,000) against the consultancy services in the month of Jestha 20XX. VAT is charged at the rate of 13% on the amount paid as consultancy services. The amount paid as VAT on such consultancy service is allowed to take VAT credit while submitting the VAT return.

Dec 2014 CAP III

S I P. Ltd deals in computer and related IT business. In the course of its business, it received services from M Tech Corp., Japan. M Tech Corp. raised bill of Rs. 21.60 Lakh against the services provided.

In the given case, the bill raised by M Tech Corp. is for Rs. 21.60 Lakh. Thus, taxable value for VAT is Rs. 21.60 Lakh. Hence, amount of VAT to be charged shall be: Rs. 21.60 Lakh x 13% = Rs. 280,800.

Section 8(3) of VAT Act 2052[6]

Assessment and Collection of Tax regarding construction work

In case the construction of building, apartment, shopping complex or similar other structure as specified by IRD, of value more than Rs. 50 Lakh for commercial purpose, has been done from a person who is not registered in VAT, then VAT has to be deposited as if it has been constructed from registered person. If VAT is not deposited so, it shall be assessed and collected from the owner of such structure.

6 Section 8(3) was inserted by Finance Bill 2066.

Definition of Commercial Purpose

As per the Explanation in Section 8(3)[7], for the purpose of this sub-section, “commercial purpose" refers to the act of construction of building, apartment, shopping complex or similar other structure as specified by IRD to sell, or to account as current or permanent assets for use in income generation.

Construction work to be done through registered person

As per Rule 6Kha of VAT Rules 2053[8], in case of construction of building, apartment, shopping complex or similar structure as prescribed by IRD of cost more than Rs. 50 lakh for commercial purpose, a person is required to construct only through a registered person.

Special provision regarding construction of building or similar structure

Group 12 of Schedule 1 of VAT Act 2058 has provided exemption to the purchase, sale or transfer of building. This provision includes the structures such as residential and commercial building, apartment, shopping complex. The transaction of building construction does not attract output tax. However, for such construction, various tangible and intangible goods and services are purchased in which input tax might have been paid. So we can see that if a registered person provides the construction service, it attracts VAT. Similarly, if an unregistered person provides such service, then no VAT is attracted. In order to avoid such situation, the provision of Reverse Charging has been introduced. Another objective of this provision is to ensure equal treatment in supply of taxable goods/service and to control tax leakage.

The construction of building, apartment, shopping complex, etc. for commercial purpose of amount more than Rs. 50 Lakh should be carried out through person registered in VAT. If a person does not carry out such construction through a registered person, then the owner

7 The explanation was inserted by Finance Bill 2071.
8 Rule 6Kha was added by the 11th Amendment dated 2066.03.29.

of such structure shall calculate and deposit the VAT attracted on such transaction. If not, the tax officer can recover VAT from the owner.

VAT Directives 2069, from its first amendment in 2073, has included the following procedure regarding implementation of Section 8(3) which is in line with IRD Circular dated 2070.07.03:

1. **Structure falling under Section 8(3):**

   For the purpose of implementation of Section 8(3), building, apartment, shopping complex, road, bridge, power production house, stadium and assets of similar nature which cannot be transferred from one place to other shall be included. Apart from these, if any other structure is prescribed by IRD, then those shall also be governed by Section 8(3).

2. **Meaning of commercial purpose:**

   For the purpose of Section 8(3), commercial purpose refers to the business where the building, apartment and shopping complex and any other structure prescribed by IRD are constructed and sold. Further, it also refers to the act of accounting such asset as fixed asset and using it for generating income.

3. **Identification of structure:**

   For the purpose of implementation of Section 8(3), such structure shall have to be constructed in a single place. The structures of any person constructed at various trading spots, branches or head office which aggregate to more than Rs. 50 Lakh shall not be included for this purpose. However, residential complex, road, bridge and similar structures shall be included for this purpose despite being constructed at different places.

4. **Calculation of cost of asset:**

   For the purpose of calculation of taxable amount under Section 8(3), all the costs having direct relation with construction work, *except financial overhead*, shall be included. The costs like mapping, design, supervision shall also be included.

5. **Components of cost:**

   The construction of structure of building, apartment and similar assets can be carried out through a single person or through different persons. All the costs incurred in the electrification, sanitation, painting, interior decoration and similar components shall be considered as inseparable element of the structure and included in the cost.

6. **Calculation of Taxable amount of the asset:**

   All other expenses shall be included, *except* the expenses incurred prior to construction of the asset, such as mapping cost, map approval costs, financial cost, supervision cost paid to third party etc. For this purpose, all other VAT attractive goods and services used in construction work should be included.

7. **Tax calculation and recovery:**

   a. If any person provides construction materials himself for construction of his structure and carries out such construction work through VAT registered person, and if the VAT on the goods and services has been fully deposited, then VAT need not be calculated on such amount.

   b. If any person purchases construction materials and gets the construction work done without giving it to another contractor (i.e. *on Amaanat*), then the taxable amount shall be: ‘Total cost' – ‘VAT paid on purchase'.

   c. If any person uses own production or available stock on which VAT has not been deposited; and if he carries out such construction through his employees or workers, then the market price of such structure shall be determined and VAT shall be recovered on such amount.

8. **Period for identification of asset:**

   The asset identified for the purpose of this section shall be included no matter how much time is required for construction.

9. Tax assessment and recovery:

Person constructing physical structure, if registered in VAT, should deposit the VAT on expenses incurred while receiving goods or services during the construction as per his VAT filing period. For example, tax payer filing monthly VAT return should deposit within 25 days after the end of the month in which the payment is done. The person not registered in VAT shall deposit VAT on the purchase or consumption price of goods or services upto the amount on which VAT has not been deposited, within 25th day of the following month.

10. Penalties:

While making assessment by tax officer under Section 20 of VAT Act on the basis of Section 8(3) of the Act, penalty equivalent to 25%[9] of amount in controversy shall be levied in line with Section 29 (1Ka) of VAT Act.

Tax assessment

If a person does not carry out construction as per Section 8(3) through a registered person, then tax shall be assessed from the owner of such structure as if he had carried out the construction through a registered person. For this purpose, ownership shall also mean the right to use the structure for commercial purpose.

Circular dated 2066.05.11

1. As per Sec 8(3) of VAT Act and Rule 6Kha of VAT Rules, construction of building, apartment, shopping complex, etc. for commercial purpose of amount more than Rs. 50 Lakh should be carried out through person registered in VAT.

2. The construction work can be carried through a registered person altogether with the materials required for such construction.

3. In contrary to above, only the construction work may be carried out through the registered person by providing materials by self.

4. The works related to construction, electrification, sanitation, plumbing, interior designing, consultancy services etc. may be carried out through separate registered persons. The machinery and equipment required for construction may be taken on rent.

5. Small value goods/services required for repair, construction or cleaning of other structure, which are practically difficult to be acquired from business firm or entity, may be acquired directly through market or an individual. Examples: construction of well and deep boring for water supply, repair of generator and pumping set, etc.

Circular dated 2070.01.04

A. Regarding segregation of commercial purpose and personal purpose:

Construction of building or structure with the objective of generating income, other than for self-residential purpose, shall be considered as construction for commercial purpose.

B. Regarding the type of structures to be included in the bracket of Section 8(3):

In addition to building, apartment or shopping complex constructed for commercial purpose, the structures classified under Group “A" [10] of Section 1 of Schedule 2 of Income Tax Act 2058 shall be included in the bracket of Section 8(3). The structures constructed under lease shall also be included.

C. Taxable Amount:

The total estimated cost shall be the base for calculation of value of the structure to be constructed.

9 Penalty @ 25% of tax shall be levied under Section 29 (1Ka) of VAT Act 2052, as clarified by Clause 10.15 of VAT Directives 2069 (second amendment 2076).

10 Assets under Group “A" of Section 1 of Schedule 2 of Income Tax Act 2058:
Building, structure and similar works of permanent nature.

If the cost estimate cannot be taken, then the capitalized value of such asset shall be the taxable amount. All the costs associated with the structure including finishing, electrification shall be included in the taxable amount.

D. Tax Assessment, Tax deposit and Tax Period:

The month in which such asset is capitalized, or the month of Ashad of every fiscal year, whichever earlier, shall be considered as the tax period. Assessment and payment of tax shall be done by taking such tax period into consideration.

E. Tax set off:

Registered taxpayer shall get the facility of tax set off as per prevailing VAT Act and Regulation in the construction materials and such. However, both registered and unregistered person shall include the total cost while calculating the taxable amount; no amount shall be deducted from the taxable amount on the basis of input tax paid on purchase or import.

F. Penalties:

While making assessment by tax officer on the basis of Section 8(3), penalty equivalent to 25% of amount in controversy shall be levied in line with Section 29 (1Ka) of VAT Act 2052.

Examples from VAT Directive

Illustration 1 – Impact on unregistered person (Example 3.7 of VAT Directive 2069 – amendment 2076)

ABC Housing Company Pvt. Ltd carries out the business of constructing and selling buildings. It has constructed a three storey building on cost of Rs. 1.76 crores including various expenses. For the purpose of determining the taxable value under Section 8(3), the expenses to be included shall be as follows:

Particulars	Amount (Rs.)
Payment to engineer for drawing design	1,00,000
Payment to engineer for electrification works	1,00,000
Payment to engineer for sanitary works	1,00,000
Cost of materials	50,00,000
Labour charges	20,00,000
Cost of materials for electrification and sanitary works	10,00,000
Wages for electrification and sanitary works	5,00,000
Engineer's salary for supervision and monitoring	6,00,000
Cost of furniture items	15,00,000
Other overhead	5,00,000
Painting and flooring works	9,00,000
Taxable Amount	**1,23,00,000**
VAT amount to be deposited @ 13%	15,99,000

Illustration 2 – Impact on registered person: (Example 3.8 of VAT Directive 2069 – amendment 2076)

ABC Hotel Pvt. Ltd (registered in VAT) has constructed one more storey in an existing building. It has done all the engineering works through a firm registered in VAT. It has purchased all the construction materials. The construction, however, has been carried out through a person not registered in VAT.

For the purpose of determining the taxable value under Section 8(3), the expenses to be included shall be as follows:

Particulars	Amount (Rs.)
Amount paid to engineering firm for drawing design, electrification and sanitary work Rs. 565,000 including VAT Rs. 65,000	500,000
Cost of materials Rs. 50,00,000 including VAT Rs. 260,000	47,40,000
Labour charges	10,00,000
Cost of materials for electrification and sanitary works Rs. 11,30,000 including VAT Rs. 130,000	10,00,000
Wages for electrification and sanitary works	200,000
Painting and flooring works Rs. 22,60,000 including VAT Rs. 260,000	20,00,000
Taxable Amount	**94,40,000**
VAT amount to be deposited @ 13%	12,27,200
Less: VAT paid *(Rs. 65,000 + Rs. 260,000 + Rs. 130,000 + Rs. 260,000)*	(715,000)
Net VAT amount to be deposited	512,200

Questions asked in ICAN Examinations

Dec 2012 CAP II

E Ltd. has given a contract to G Construction, a party not registered in VAT, for construction of a shopping complex built exclusively for commercial purposes. The cost of shopping complex is Rs. 55 Lakh.

In such case, since E Ltd. got the construction of a shopping complex for commercial purposes from non VAT registered party. Hence, as per Section 8(3) of VAT Act, E Ltd. has to deposit the VAT on transaction value, i.e. 13% of Rs. 55 Lakh = Rs. 7.15 Lakh to IRD. With regard to taxability of G Construction, since the amount of transaction has exceeded minimum slab, it has to get registered itself in VAT.

Dec 2013 CAP III

Mr. Buddhi Bahadur builds his house through a contractor who is not registered in VAT for own living. The total value of the contract comes to Rs. 90 Lakh. He gets another house built from the same contractor for a cost of Rs. 45 Lakhs for letting out on hire.

Regarding the first case, when a person builds his building for own living, it is not for commercial purpose and no VAT is payable by the owner. In the second case, since the value is less than Rs. 50 Lakh, no VAT is payable.

July 2015 CAP III

The owner of building who constructed the building at a cost of Rs. 4 Lakh for the purpose of his business paid VAT of Rs. 40,000 on account of non-submission of VAT bills for purchase of materials and labour under Section 8(3) of VAT Act 2052. The businessman wanted to set off this VAT payment of Rs. 40,000 against his VAT liability on sales he makes when he starts his business of trading.

In such case, since the VAT paid under Section 8(3) of VAT Act is not listed under Section 17 (5Kha) for set off, such VAT paid on construction is not allowable for set off from the VAT liability on account of sales he makes.

References:

Value Added Tax Act 2052, Value Added Tax Rules 2053

VAT Directives 2069

VAT Directives 2069 (First Amendment 2073)

VAT Directives 2069 (Second Amendment 2076)

Income Tax Act 2058

Finance Bill 2066, 2071, 2075

IRD Circulars and Notices

ICAN Suggested Answer Papers

Kar sambandhi paripatra sangalo, 2066 by Bhavanath Dahal

Income Tax and Value Added Tax by Bhavanath Dahal

VAT – Theory and Practice by Bishnu Prasad Bhandari & Surya Bhakta Pokharel

www.zoho.com

COVID-19: the Perfect Fuel for Possible Fraud and Auditors' Responsibility

Due to effect of COVID 19 unemployment has increased sharply within a few days. However, not all businesses have been impacted by COVID-19 in the same way, companies in the travel, hotel and restaurant service, college and school. Retail and entertainment sectors have seen their revenues evaporate as governments have ordered the physical closures of many stores and locations.

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Nepal has improved its ranking in the global corruption perceptions index, but despite climbing a few spots, it continues to remain as 113th least corrupt nation out of 180 countries, according to the 2019 Corruption Perceptions Index reported by Transparency International. In spite of Nepal's severe action on fighting against the corruption, Corona Virus pandemic has created new challenges for the country. As Corona virus (COVID-19) is presenting unexpected and extreme challenges for organizations of all sizes and sectors across the world, it is quickly changing how entities operate and how individuals live and also work in Nepal.

There are pressures that motivate fraudsters to act when pressures on people, companies, and the economy are greatest. Disturbances in normal business processes, controls, and working conditions give malicious actors opportunities to commit fraud, while the chaos and uncertainty of the crisis enable many to rationalize bad behavior that might otherwise have been checked by ethical codes. As organization focuses on sustainability by stabilizing their businesses, related stakeholder should consider how fraud might penetrate the organizational environment and develop the strategies to bring less disruption to the economy. However, it is worth noting that those who are involved in fraud and financial crime may not always be ‘bad people' in the conventional sense. In the case of deception, lack of knowledge, entrenched custom and practice or an absence of necessary governance frameworks coupled due to chaos situation may result in people unknowingly misusing or misreporting funds.

Leading criminologist Donald R Cressey's fraud triangle explains that the opportunity, pressure and rationalization contribute to committing fraud or corruption. Increase in any of these factors will see the fraud and corruption risk to rise. COVID-19 has delivered significant spikes in all three factors resulting in one of the most critical fraud and corruption challenges. COVID-19 is putting financial and psychological stress on people that have not been observed for generations. This stress combined with other external drivers results in an increased motivation to engage in conduct that the individual might resist in different times.

Opportunities

The rapid closures of many nonessential businesses and government orders to self quarantine at home have had unprecedented impacts on businesses of every size and shape. Businesses have shuttered offices or significantly reduced office personnel. As a result, most office workers, including accounting and financial reporting staff, have been forced to work from home. This migration has not only impacted where employees work, but *how* they work. Many companies have been forced to implement temporary workarounds for processes and procedures that worked smoothly in a cohesive office environment but may be ill-suited for a home-based workforce.

Remote work arrangements have also raised new potential challenges and fraud risk. The onset of the changes was so quick, few companies had sufficient time to react. In a matter of a couple of days, many companies had to migrate from office staff working cohesively in a closed office environment to a virtual home environment. Some employees had company-issued laptops and others had personal computers at home that were set-up for remote work and carry necessary document at home to work. As the physical and mental separation between work and home life has disappeared, family obligations may give rise to inefficiencies that could adversely affect financial reporting. Many staff may have school-age children at home that have been subject to the same shelter-in-place orders, often leading to stressful situations when employees are pressed to meet deadlines. Under such circumstances, some employees may be tempted to take shortcuts or forego certain controls altogether. Documentation overlaps due to remote work environment causing overlooking of various operation procedures.

In a normal office environment, a staff absence due to his illness or of his family member is obvious especially in case of widespread of diseases, triggering alternative procedures to meet the duties of the absent employee. However, in a home based working environment, supervisors may not be aware that a staff member is unavailable to perform key processes or review procedures on a timely basis. Many companies utilize checklists or similar procedures to monitor control activities, especially for time-sensitive processes such as month- or quarter-end closing. Furthermore, the availability of personnel may make it difficult to ensure segregation of duties.

Pressure

Due to effect of COVID 19 unemployment has increased sharply within a few days. However, not all businesses have been impacted by COVID-19 in the same way, companies in the travel, hotel and restaurant service, college and school. Retail and entertainment sectors have seen their revenues evaporate as governments have ordered the physical closures of many stores and locations. Yet other industries such as grocery, medical, banking and industries that specialize in home-delivery operations have scaled up and hiring has increased to accommodate increased demand. The speed with which COVID-19 has impacted business processes raises fraud risk. For example, companies that have experienced increases in demand may circumvent hiring and payroll controls either to book the expense or to speed up the operation of home delivery services. Banks may also circumvent controls surrounding loan documentation to meet customer pressure for government loan schemes.

The financial pressure placed on businesses and the way businesses respond to those pressures can also raise fraud risk. Many companies are implementing cost-saving measures and other changes in business strategies to address the economic changes brought about by the COVID-19 pandemic. Some companies are even fighting for survival. Cost-saving strategies inevitably may involve salary cuts and/or involuntary reductions in labor work force. These factors further increase fraud risk, as individuals seek ways to ensure their financial survival.

Fears over contracting COVID-19 using certain payment formats may also raise fraud risk. For example, as paper checks and paper billings are touch points, and entities may be concerned that COVID-19 may be transmitted via indirect touch points; there is an increase in vendor requests for automated payments or wire transfers and more customer requests for automated billings. Typically, these transactions are too large for paper bills in case of manufacturing and construction companies which brings pressure for fast response overriding the control system of payment. Companies may revisit payment procedure surrounding setup, approval and monitoring of wire transfer and procurement procedures in case of such environment

In a perfect world there would be no incentives for managers to indulge in creative accounting or fraud. This is because the business operations of the company would be in line with managerial expectations. Results would be excellent and bonuses would be high. Unfortunately, however, in the real world created by COVID 19 the manager does not live up to expectations. This is where the problems start and the temptations for fraudulent activities arise. It may be very tempting to manipulate sales revenue or loan asset quality than would actually be recorded by following the spirit of the accounting rules and regulations. Alternatively, it might be that profits are disappointing so it might seem like a good idea to use the flexibility in the accounting regulatory system to boost them. Liability, debt and loan might seem a bit high and therefore recording it downwards might seem a good idea.

Further, decrease in personal incentives like salaries, bonus-related pay; job insecurity, lifestyle of employee and pressure from financial institutions to repay the loan lead the employee to adopt fraudulent accounting or fraud as they will benefit directly. Job loss or unemployment of family member creates severe financial difficulties and desperate need of money can trigger the fraudulent activities in the organization.

Exacerbating the stress on the control environment are additional financial reporting and disclosure requirement by regulatory bodies was brought about by COVID-19. In response to the significant impact of COVID-19, investors, regulatory bodies and other stakeholders need high-quality financial information more than ever which creates financial reporting and disclosure challenges to the organization

Rationalization

The third fraud factor is rationalization – or the fraudsters' self-justification that it's somehow OK to steal. The typical fraudster is a first-time offender, and therefore they don't consider themselves a criminal, but rather a good person tackling the mess created by the pandemic. They might frame the actions as borrowing the company's money with the intent to pay back and the ability to alter the accounting records to hide the acts as the final push to move from contemplation of fraud to action.

Similarly, framing a fraudulent act as being "below the materiality threshold" is another dangerous rationalization unique to the accounting context in the situation of crises. A fraudster may re-label cash theft as a "temporary loan" that will be paid back, or call a fraudulent journal entry a "timing difference" that will be cancelled out in the following accounting period. Finally, when rationalizing with a focus on the company, the perpetrator shifts the blame to the company and claims unjust treatment as an excuse, presenting his own actions as rightful retaliation or fair.

The typical methods to justify their theft include:

- I'm only borrowing the money until the pandemic is over after which I will restore the cash

- I'm underpaid, and I deserve the extra money as I work in crisis situation of pandemic
- My family needs it in order to support my family member's job loss
- The inventories of the company were going waste so I will bring some home
- Other employees are wasting money all over the place.

From banks to related stake-holder, financial statement users place their trust in auditors to assure the reliability of the financial information they use to make decisions. As the impacts of COVID-19 are massive on the economy, the auditor's role has never been more important. As companies are struggling to survive by managing remote workforces, auditors are also facing challenges that many have never experienced. In this regards auditor need to focus on following areas for the better performance of assurance service.

Ensuring Review Procedures and Internal Control

Interpersonal interaction can represent an important element of staff training and supervision and thereby can be critical to maintaining effective operation of business. The benefits of informal interpersonal connectivity to asking questions, getting direction and sharing information are immense, but they may be overlooked in the situation of lockdown and closure of business. As workforces have become more dispersed in response to COVID-19, supervisors need to encourage staff to ask questions and provide informal open lines of communication through phone, text or company instant messaging apps.

Managers and supervisors need to encourage staff to ask questions and foster open communication on an informal basis. Additionally, to the extent supervisors regularly held staff meetings pre-COVID-19, such meetings should now be held regularly through video conferencing.

For many years, internal controls have been the focus of auditors' risk assessment as they seek to attest that the control environment is working effectively to minimize the potential for fraud . Auditor would be well advised to stress the importance of improved internal control system and quality financial information at client meetings and openly discuss and document workarounds that may be required as a result of the changes brought about by COVID-19. For example:

How are review procedures surrounding paper documents being handled from person to person?

Are the review procedures adequate in light of the possibility of distractions?

How do employees charged with reviews and approvals document such reviews?

If a staff member or reviewer is unavailable to perform a procedure – whether due to illness or another reason – how is this communicated and addressed?

Ensuring Secure IT Systems

With employees working from home using personal routers for internet access and, in some cases, personal computers, IT security should not be overlooked. Many companies opened up access to company IT systems for remote employees so they could work from home with secure protocols for access. However, few home networks are as secure as the company's network. Most home internet connectivity is through wireless connections to a home-based router. In many cases, the passwords used to secure router access are simple or have never been changed.

For example, in a 2019 survey of consumers conducted by the National Cyber Security Alliance (NCSA), only 40 percent of the respondents had changed their default router credentials during the initial setup at home Moreover, home computers may lack up-to-date security software. If a hacker gains access to a computer connected to a company server, the hacker may also have the ability to gain access to the company's IT systems. Access to company bank accounts may also be compromised if treasury or other staff uses home computers or unprotected home routers to perform routine banking functions.

Auditor should consider possible vulnerabilities in home internet environments, implement training and provide tools for mitigating identified risks.

Going Concern and Liquidity

Understandably, management affected by the crisis will be concerned about the survival of their organizations and the key will be cash flow. The major question to answer is, does the business have enough cash to survive the next 6-12 months?

When preparing financial statements, management has to make an assessment of a company's ability to continue as a going concern, and whether the going concern assumption is appropriate. In the current circumstances, management will need to consider the existing and anticipated effects of the corona-virus outbreak on activities in its assessment.

Given the unpredictability of the potential impact, there may be material uncertainties that cast doubt on the company's ability to operate under the going concern basis. If the company, nevertheless, prepares the financial statements under this assumption, it must disclose these uncertainties.

The degree of consideration required, the conclusion reached, and the required level of disclosure will depend on the circumstances in each case, as not all companies will be affected in the same manner and to the same extent. Significant judgment and continual updates to the assessments may be required given the evolving nature of the outbreak. Auditor should assess and evaluate the management assessment of going concern before providing the assurance on financial statements.

Start by assessing whether there are events or conditions that raise substantial doubt that the entity can continue as a going concern. Next, ask for that evaluation and consider whether it is complete and accurate. The look-forward period is one year from the date the financial statements are issued or available to be issued, unless otherwise specified in the financial reporting framework. When substantial doubt exists, disclosure in the financial statement notes is required, regardless of whether the doubt is alleviated by management's plans.

After determining whether there is substantial doubt, consider management's plans to alleviate that doubt and assess the impact on the auditor's report as follows:

- If management's plan alleviates substantial doubt, an unmodified opinion may be issued.
- If the going concern basis of accounting is appropriate but substantial doubt remains, an emphasis-of-matter paragraph is required.
- If the going concern basis of accounting is not appropriate, an adverse opinion should be issued.

Impairment Assessment

At the end of each reporting period, companies are required to assess whether there is any impairment for nonfinancial assets. An asset is impaired when a company is not able to recover its carrying value, either by using it or selling it.

The adverse impact on companies caused by measures to stop the spread of the disease, such as temporary closure of manufacturing plant and travel and import/export restrictions, can be considered an impairment indicator.

When assessing impairment, companies are required to determine the recoverable amounts of the assets. This calculation requires an estimate of expected future cash flows and expectations about variations in cash flows. The forecasted cash flows should reflect management's best estimate of the economic conditions that will exist over the remaining useful life of the asset. With the current situation, significant challenges are expected as to whether the forecast of budgets for future cash flows can be supported by subsequent performance.

The more the current environment is uncertain, the more important it is for the auditor to assess and evaluate the detailed disclosure of the assumptions taken, the evidence on which they are based and the impact of a change in key assumptions.

Contract Modifications

Companies affected by the COVID-19 outbreak may experience cash flow challenges as a result of disrupted operations, higher operating costs or lost revenues. They may need to obtain additional financing, amend the terms of debt agreements or obtain waivers if they no longer satisfy debt covenants. In such cases, companies need to consider whether any changes to existing contractual arrangements represent a substantial modification or potentially a contract extinguishment.

There are also consequences for lenders, financial institutions, and insurance companies, for being asked to help borrowers by providing relief on cash-flow obligations. These will be considered contract modifications and will require institutions to think about the measurements of their loan portfolio and expected credit losses. Similarly, real estate companies will have to consider the consequences if they provide relief to lessees on rent. Auditor needs to give due care on the modification of the contractual agreement to assess any noncompliance and misdeed of the companies.

Fair Value Measurement

Companies are required to measure some of their assets and liabilities at fair value. This is a date-specific exit price estimate based on assumptions that market participants would make under current conditions.

When making assessments and judgments for measuring fair value, the company should consider the conditions and corresponding assumptions that were known or knowable to market participants. The fair value measurement impact would depend on the evaluation of whether the severity of the outbreak at the reporting date would have impacted participants' valuation assumptions at that time.

Companies will also need to consider making related disclosures that could reasonably be expected to influence decisions that the users of general-purpose financial statements would make on the basis of those financial statements. Disclosure may be needed to enable users to understand whether or not the outbreak has been considered for the purpose of FVM. Users should understand the basis for selecting the assumptions and inputs that were used and the related sensitivities.

Government Assistance and Income Tax

Part of the response by governments to the corona virus outbreak has been to introduce relief measures for individual industries along with wider economic stimulus packages. These measures include direct subsidies, tax exemptions, tax reductions and credits, extended expiry period of unused tax losses, reduction of public levies, rental reductions or deferrals and low-interest loans. These will all have an impact on performance on financial reporting. Relief measures may fall within the scope of the standards on income tax, government grants, leases or financial instruments and the accounting may be different in each case.

One important factor to be considered by auditor when reviewing the accounting for any income tax consequence is whether the government to t concerned has substantively enacted the relevant law. Auditors need to determine whether changes to tax rates and laws were substantively enacted as of the reporting date. The characteristics of any tax relief or rebates need to be assessed to determine whether they should be accounted for as a reduction to income tax expense or the receipt of a government grant.

Auditor will need to look out for further regulatory updates and to monitor the current and potential effects that the corona virus will have on their financial reporting .

Conclusion

Unquestionably, COVID-19 has changed how companies do business resulting in unprecedented economic uncertainty. Similarly auditor also needs to change their attestation function in such ever changing situation. In this morass of COVID-19 issues, auditor should focus on quality of audit by making accounting standards a top priority for company management. Any policies and procedures that are changed, modified or adapted should be documented, and control designs should be continually assessed to ensure the integrity and going concern of business.

News

Activities

Celebration of 23rd Anniversary

The Institute celebrated its “23rd Anniversary Program" on 31 January, 2020 (17 Magh 2076) at Hotel Yak & Yeti, Kathmandu, Nepal. The program was inaugurated by Chief Guest of the program Hon'ble Auditor General Mr. Tanka Mani Sharma Dangal.

Addressing the program, Hon'ble Auditor General Mr. Dangal congratulated the Institute on completion of 23 years' journey and urged the Institute and it's members for more contribution in economic development of the Nation.

Chief Guest of the Program Mr. Tanka Mani Sharma Dangal inaugurating the Ceremony.

President CA. Krishna Prasad Acharya, during his address, elaborated on the various milestones achieved by the Institute during the fiscal year 2018/19 and future strategy of the Institute. President also presented annual report of fiscal year 2018/19 (2075//76).

ICAN President CA. Krishna Prasad Acharya Delevering Speech in the Program

Following annual report presentation, certificates and medals were distributed to Merit Holder Students of Chartered Accountancy Examinations conducted in December, 2018 and June, 2019.

Winners of ICAN Quiz and Elocution Contest, 2019 were also felicitated with certificates and prize during the program.

ICAN Past President CA. Madhu Bir Pande accepting Felicitation of ICAN

Similarly, the Past Presidents of the Institute CA. Madhu Bir Pande, CA. Narendra Bhattarai, CA. Prakash Lamsal, CA. Mahesh Khanal and CA. Prakash Jung Thapa were felicitated for their valuable services and contribution to the Institute during their tenure.

The Institute also felicitated two of its employees Ms. Poonam Bajrachayra and Mr. Ram Kumar Nepal in recognition of their untiring performance and contribution to the Institute during fiscal year 2075/76.

Anniversary Program was attended by Past Presidents, Council Members, Committee Members, Students and Staff Member of the Institute. More than 450 guests participated in the program.

2nd Chartered Accountants Convocation Ceremony

Coinciding with the 23rd Anniversary Celebration, the Institute organized the “2nd Chartered Accountants' Convocation Ceremony" at Kathmandu on 31 January 2020.

The convocation ceremony was organized to confer Chartered Accountancy degree to its graduates and to celebrate this very important and well-deserved achievement of it's members. The convocation ceremony was Chaired by ICAN President CA. Krishna Prasad Acharya. The Hon'ble Minister of Education, Science and Technology Mr. Giriraj Mani Pokharel and Hon'ble Auditor General Mr. Tanka Mani Sharma Dangal also graced the event as Chief Guest. Special Guest. Prof. Dr. Pushkar Bajracharya of Tribhuwan University was the keynote speaker of the event.

CA. Krishna Prasad Acharya delevering speech in the Convocation Ceremony

Speaking on the occasion, Chief Guest and Special Guest of the program congratulated Chartered Accountants for their achievement and urged them to contribute positively for the economic development of the Nation.

Mr. Giriraj Mani Pokharel, Hon'ble Minister of Education, Science and Technology delevering speech in the Ceremony.

Participants of Convocation Ceremony at the destination

Altogether, 105 Chartered Accountants qualified from ICAN were facilitated in this occasion.

Women Leadership Training

The Institute organized a one day “Training Program on women Leadership" on 25 January, 2020 at ICAN Building ICAN Marg, Satdobato, Lalitpur.

Chairperson of the Women Leadership Committee and Council Member, RA. Meera Shrestha welcomed the participants in the program. ICAN President CA. Krishna Prasad Acharya and Vice President CA. Madan Krishna Sharma also addressed the participants.

The training comprised various sessions such as Initiative to Alternative Investment: Prospective for Women Entrepreneur in Nepal, Contemporary Taxation Issues, Professional Women: Work Life Balance and Women Empowerment.

The training program was participated by 45 female members of the Institute, Members of the Women Leadership Committee, ICAN President, Vice President, Council Members, Executive Director and Staff Members of the Institute.

Member's Welcome Program

The Institute organized welcome program for New Chartered Accountant members of the Institute on19 January 2020 at ICAN Building ICAN Marg, Satdobato, Lalitpur.

Addressing the program, ICAN President CA, Krishna Prasad Acharya congratulated the new members for their success. During the program, 40 new CA members of the Institute were felicitated by the President with the certificate.

The program was participated by ICAN Vice President, Council Members, Executive Director and ICAN Staff members.

Training Program on Audit Practice Manual

The Institute organized a two-days training program on Audit Practice Manual on 18 and 19 January, 2020 at ICAN Building ICAN Marg, Satdobato, Lalitpur.

The two days training covered fundamentals of an ISA compliant audit, meeting quality control standards (NSQC1) etc. The training program was participated by 38 members of the Institute.

Member Capacity Development Training

The Institute organized a three-days “Capacity Development Training on Audit Documentation" from 21-23 February, 2020 at Dhangadi for practicing Registered Auditor members of the Institute.

Various aspects of audit such as appointment of auditor, correspondence with previous auditor, audit planning, evaluation of threat, mobilization of audit team, review of audit documentation, reporting etc., were covered during the training.

Council Member RA. Bahadur Singh Bista addressed the opening session and stressed on the importance of such programs for practicing members. Closing session of the training was addressed by President CA. Krishna Prasad Acharya. President, in his address, mentioned that the Institute is always committed to equip its members with new development in the profession.

CA. Nanda Kishor Sharma delivered the training in which 31 practicing Registered Auditor members of the Institute participated.

Diploma in IFRS

The Institute continuing with its objective to enhance professional capacity of its members organized a six-days Diploma in IFRS course in technical support of the Association of Chartered Certified Accountants (ACCA). This course was conducted from 1st to 6th of March, 2020 at ICAN premises. Altogether 37 participants participated in the course.

Continuing Professional Education Training

The Institute organized a three days continuing professional education (CPE) training from16 to 18 January, 2020, 27 to 29 February, 2020, 6 to 8 March, 2020 at Dang, Kathmandu and Nepalgunj respectively. These trainings covered various contemporary topics such as Audit of School, Audit of Cooperative, Audit Documentation, Code of Ethics, Nepal Financial Reporting Standards for Small and Medium Sized Entities (NFRS for SMEs), Nepal Accounting Standards for Not for Profit Organizations (NAS for NPOs). More than 250 members of the Institute participated in those training.

Training on School Audit

The Institute organized a two-days training on School Audit from 20 to 21 March, 2020 at Lahan, Siraha. CA. Ananda Shrestha facilitated the participants of the training. The training was also addressed by Council Member and Chairman of RA Member Capacity Development Committee RA. Kedar Nath Poudel.

Implementation of NSA 701: Communicating Key Audit Matters in the Independent Auditor's Report

Council meeting of the Institute held on Falgun 16, 2076 has prescribed the implementation date of Nepal Standards on Auditing (NSA)–701: Communicating Key Audit Matters in the Independent Auditor's Report in phased manner. This standard is a part of NSA, 2018 which was deferred for implementation until further notice on pronouncement of NSA, 2018.

It is subject to compulsory compliance in audit of multinational companies, listed companies and state owned enterprises from 1st Shrawan, 2077.

Similarly, it is applicable in audit of all other organizations from 1st Shrawan, 2078.

Webinar on “Impact of COVID -19 on Accounting Profession"

The Institute hosted a webinar on the topic “Impact of COVID -19 on Accounting Profession" on 24 April, 2020. This webinar is the first ever online webinar hosted by the Institute.

The Webinar started with welcome remarks by the Executive Director CA. Sanjay Kumar Sinha. Addressing the webinar as the moderator, ICAN President CA. Krishna Prasad Acharya, briefly outlined the objective of the webinar being brain storming on impact of COVID-19 on overall businesses and the subsequent effect on accounting profession. He also highlighted the initiatives of the Institute to support it's members and forming of technical committee to study effect of COVID -19 on the overall profession and to formulate the strategy of the Institute post the pandemic. He also stressed that the coordination among the stakeholders is even more important for transparent financial reporting amid the effects of the coronavirus pandemic.

Vice President (Also the Coordinator of the Technical Committee to study impact of COVID – 19) of the Institute CA. Madan Krishna Sharma as speaker presented on the global and national impact of COVID - 19 in businesses, accounting profession and other sectors. He stressed that there will be higher risk of fraud during this pandemic and increased professional skepticism is required.

Chairman of Accounting Standards Board CA. Mahesh Khanal presented briefly on the effect of COVID-19 on implementation of various Nepal Financial Reporting Standards (NFRSs). He also shed light on actions of International Standard Setters.

Similarly, Chairman of Auditing Standards Board CA. Anup Kumar Shrestha presented on the effect of COVID-19 on various Nepal Standards on Auditing (NSAs). He also stressed that audit quality should not be compromised whatever be the circumstances.

CA. Shashi Satyal, practitioner presented on various aspects of audit processes and challenges that practitioners might face post pandemic. CA. Anand Sharma Wagle, President of Association of Chartered Accountants of Nepal (ACAN) and RA. Mohan Raj Regmi, President of Auditors Association of Nepal (AuDAN) presented on the effect of COVID- 19 on the profession. The webinar was participated by more than 700 participants.

National Webinar on “Alleviating the Distress of COVID – 19: Role of Financial Sector"

The Institute of Chartered Accountants of Nepal (ICAN) hosted a National Webinar on the topic “Alleviating the Distress of COVID – 19: Role of Financial Sector" on 1st May, 2020. This webinar was organized to give an insight on the role of financial sector to overcome post pandemic financial crisis in the nation.

The webinar started with welcome remarks by the President CA. Krishna Prasad Acharya followed by his presentation on “Role of Accounting Profession in Revival Process of Economy".

The Chief Guest of the program was Hon'ble Finance Minister and Minister of Communication and Information Technology Dr Yuba Raj Khatiwada. Addressing the webinar, he appreciated the efforts of the Institute for organizing a webinar on a contemporary topic. He also highlighted some initiatives of the Government in preventing COVID – 19 from further spread and urged all regulators to play their part to revive the economy.

Following the address by Chief Guest, a panel discussion consisting of representatives from different regulators and associations to discuss on initiatives of their respective organizations and their role to revive economy post COVID – 19 pandemic was organized. The panel discussion was chaired by the Finance Secretary, Mr. Sishir Kumar Dhungana. Mr. Buvan Kumar Dahal, Chairman, Nepal Bankers Association, presented a paper on “Role of Financial Sector in Minimizing Economic Impact of COVID- 19 and Boosting the Economic Growth" in the panel discussion session. In his presentation, he mentioned the efforts made by the Bankers Association to fight with COVID-19 pandemic during the lock down period.

Similarly, Governor of Nepal Rastra Bank, CA. Maha Prasad Adhikari, as a member of panel discussion, highlighted the efforts being undertaken by Nepal Rastra Bank for fighting against the COVID-19 impact. He mentioned that Nepal Rastra Bank has already directed the banks and financial institutions to provide some concessions on interest rate and to extend deadline for payment of installments. Other panel members were Chairman of Securities Board of Nepal (SEBON) Mr. Bhisma Raj Dhungana, Chairman of Insurance Board of Nepal Mr. Chiranjibi Chapagain and Vice President of Federation of Nepal Chamber of Commerce and Industries (FNCCI) Mr. Chandra Prasad Dhakal. They briefly mentioned role of their respective organizations on reducing the impact of COVID – 19, initiative to protect the interest of stakeholders and future road map after lifting of lockdown.

CA. Madan Krishna Sharma, Vice- President of the Institute extended vote of thanks to all the participants. This webinar was participated by more than 1150 individuals.

ICAN Members Access to ICAI Digital Learning Hub

For the capacity enhancement of it's members, the Institute has arranged for access to Digital Learning Hub of the Institute of Chartered Accountants of India (ICAI) for ICAN members. The members of the Institute are now allowed to access materials on Information System Audit, Early Signals of Fraud in Banking Sector, Block-Chain Technology and Accountancy and Embracing Robotic Process Automation in the initial stage. Members will be awarded Continuing Professional Education (CPE) credit hours after successful study of above topics. For registration to the online learning portal of ICAI, members should go through member's login in ICAN's website.

Capacity Development Training on School Audit

The Institute organized a four days online capacity development training on School Audit for its members from 12 to 15 May 2020.

The objective of the training was to impart understanding to trainees on steps of auditor's appointment in schools, audit process, audit planning and evaluation of audit risk in school audit, audit documentation, corporate governance, accounting, fixed assets control, nature of income/expenses of schools, taxation in schools, sample audit report for school, financial statements of schools etc.

The program was addressed by President CA. Krishna Prasad Acharya. In his address President mentioned that the Institute is always committed for all round capacity development of it's members.

CA. Ananda Shrestha delivered the training and more than 800 members of the Institute participated in the training.

Post Budget Interaction Program

The Institute organized online post budget interaction program on 29 May 2020 – a day after the federal budget for fiscal year 2077/78 (2020-21) was tabled.

The objective of the interaction program was to review the budget speech and assess it's impact on various business sectors and in overall economy of the country. Further, the program also aimed to assess the impact on business including overall collection of revenue due to changes in tax laws.

The program started with the welcome remarks of President CA. Krishna Prasad Acharya. The interaction program broadcasted online, had three different technical sessions – Stakeholders discussion on impact of budget in various sectors of business along with effect of COVID – 19, Impact on overall business due to changes in tax laws and Impact of budget in overall economy. Chairman - Fiscal, Taxation and Research Committee, ICAN CA. Bidhya Baridhi Sigdel moderated the discussion session whereas, members of Fiscal, Taxation and Research Committee, ICAN CA. Kaushlendra Kumar Jha and CA. Umesh Raj Pandeya presented their papers in the program. Besides, Past President of ICAN CA. Sudarshan Raj Pandey and Director – IIDS Dr. CA. Biswash Gauchan elaborated on broad spectrum of the budget. The program was participated by more than 1,700 members, students and other professionals.

The program ended with summarization of program and vote of thanks by Vice-President CA. Madan Krishna Sharma.

Capacity Development Training on Cooperative Audit

The Institute organized 3 days online capacity development training on Cooperative Audit for it's members from 28 to 30 May 2020. The program started with the opening remarks of President CA. Krishna Prasad Acharya.

The training focused on various topics such as concept of cooperatives in Nepal, financial administration and accounting of cooperatives, budget formulation, internal control system and audit risk evaluation, important provisions of Cooperative Act, 2074 and Cooperative Regulation, 2075, audit of cooperatives, financial statements of cooperatives, audit processes, auditors report, Long Form Audit Report(LFAR), Directives for Cooperatives etc.

This training was delivered by CA. Badri Kumar Guragain and was participated by more than 900 members of the Institute.

Capacity Development Training on Nepal Accounting Standards (NAS) for Micro Entities (MEs)

The Institute organized two day capacity development training on ‘NAS for MEs' for its members from25-27 May 2020. The objective of this capacity development training was to educate the applicability of Nepal Accounting Standards while preparing and reporting financial statements of Micro Entities and to support professional development of members.

The program started with the opening remarks of President CA. Krishna Prasad Acharya.

The program imparted understanding of scope of the standard, components of financial statements of MEs, financial instruments, inventories, property, plant and equipment, leases, provisions and contingencies, equity, revenue, government grants, borrowing cost, related party disclosures etc.

CA. Surya Bikram Kunwar delivered this training and more than 900 members of the Institute participated in the training.

Global Webinar on Role of Professional Accountants in Business Continuity, Crisis Management and Financial Reporting: Post COVID – 19 Pandemic

The Institute organized Global Webinar on the topic “Role of Professional Accountants in Business Continuity, Crisis Management and Financial Reporting: Post COVID-19 Pandemic" on 22 May 2020.

In the Webinar, eminent and known personalities representing from Professional Accounting Bodies across the globe presented their views and ideas on the roles of Professional Accountants and initiatives taken for uniformity in reporting by Professional Accounting Bodies to overcome post COVID-19 impact.

The program started with the welcome and opening remarks of President CA. Krishna Prasad Acharya.

In the Program CA. Maha Prasad Adhikari, Governor of Nepal Rastra Bank, Prof. Dr. In-Ki Joo, President of IFAC, Mr. Zia-Ul-Mustafa Awan, President of SAFA, Fiona Wilkinson, President of ICAEW, Mr. Peter Rupp, President of CA ANZ, CA. Atul Kumar Gupta, President of ICAI, Elaine Hong, Executive Director, Stakeholders and Strategy, CAPA, Mr. Ram Subramaniam, Policy Adviser of CPA Australia, FCA. Sabbir Ahmed, Vice-President of ICAB, Dr. CA. Chamara Bandara, Consulting Entrepreneur, Sri Lanka presented their views on Monetary and Financial Sector Intervention against COVID-19 Pandemic, IFAC Initiatives for Accounting Profession in the light of COVID-19 Pandemic, Crisis Management by Professional Accountants arising from COVID-19 Pandemic, UK Perspectives on COVID-19 Supporting Members and Building Something Better, Impact of COVID-19 on Accounting Profession- Big 4 Perspectives, Role of Accounting Professionals in Stabilizing Economy - Post COVID 19 Pandemic, COVID-19 Impacts - Challenges Facing Professional Accountants in Asia Pacific, Role of Professional Accountants in Financial Reporting: Post COVID-19 Pandemic, Role of Professional Accountants in Revival of SMEs- Post COVID -19, Ways for SMEs to Evolve and Thrive from COVID-19 Environment- Role of Professional Accountants respectively.

Program was concluded with the closing remarks and summarization of the program by the Vice President of ICAN CA. Madan Krishna Sharma. More than 2500 professionals participated in the webinar through online platform of ICAN.

Training on Key Audit Matters and Code of Ethics

Considering the mandatory compliance of Nepal Standards on Auditing (NSA) – 701 “Communicating Key Audit Matters in the Independent Auditor's Report" in issuing auditor's report of Multinational Companies, Listed Companies and State Owned Enterprises after 1st Shrawan, 2077 and it's subsequent application in other sectors from 1st Shrawan, 2078, the Institute organized an online training on “Key Audit Matters" on 19th May 2020.

Simultaneously, the Institute also organized three hours online training program to impart understanding on Code of Ethics on 20th May, 2020. These online trainings had objective to educate it's members on requirements of NSA – 701 and various requirements of ethical compliance, understanding of interrelated provisions of guidelines issued for the Code of Ethics.

The program started with the opening remarks of President CA. Krishna Prasad Acharya. During his remarks, he enlightened the importance and the objective of the training.

The training was delivered by CA. Shashi Satyal, Practitioner and CA. Madan Krishna Sharma, Vice President on Key Audit Matters and Code of Ethics respectively. More than 900 members participated in the training.

Training Program on Audit Practice Manual

The Institute organized a five days online training on Audit Practice Manual for it's members from 10 to 14 May, 2020. The objective of the training program was to equip members with knowledge required to execute and document the complete audit system in compliance of professional standards.

The Audit Practice Manual on which the training was designed was provided by the Institute of Chartered Accountants in England and Wales (ICAEW) and is recommended for use by ICAN's practicing members and audit firms under a project “Strengthening Quality Assurance Review System" of the Institute.

Basically, the training covered fundamentals of Nepal Standards on Auditing (NSA) and Code of Ethics Compliant Audit, Meeting Quality Control Standards

(NSQC – 1), Planning and Control of audit, detailed procedures for audit work, review and completion of audit.

The program was addressed by President CA. Krishna Prasad Acharya. During his address, he stressed on the auditor's obligation to maintain the same level of audit quality even during the effects of COVID – 19 on businesses.

CA. Nanda Kishor Sharma delivered this training and more than 900 members of the Institute participated in the training.

Training on Nepal Financial Reporting Standards (NFRS)

The Institute organized eight days online training on NFRS from 11 to 18 May 2020.

The objective of the training was to provide in-depth knowledge of Nepal Financial Reporting Standards (NFRS). The training mainly focused on conceptual framework, consolidated financial statements and financial instrument aspects of NFRS.

The program was addressed by President CA. Krishna Prasad Acharya, who during his remarks, stated on importance of such trainings to help businesses comply with NFRS.

CA. Arun Raut, CA. Jitendra Mishra, CA. Mahesh Godar, CA. Ramesh Dhital, and CA.Bidur Luitel delivered the training and more than 850 members of the Institute participated in the training.

Training on NFRS for SMEs

The Institute organized a five days online training on NFRS for SMEs from 5 to 9 May 2020.

The training covered various requirements of NFRS for SMEs i.e. accounting policies, related party disclosures, inventory, intangible assets, property plant and equipment, model financial statements as per the NFRS for SMEs etc.

The program was addressed by President CA. Krishna Prasad Acharya. During his remarks, he stated that such programs are very important in building capacity of auditors and help business communities comply with the requirements of NFRS for SMEs.

CA. Surya Bikram Kunwar delivered the training and more than 1,000 members of the Institute participated in the training.

Training on Public Procurement

The Institute organized a four days online training on Public Procurement for it's members from 4 to 7 May 2020.

The training was designed to focus on requirements of various Acts and Regulations related to Public Procurement and to address the complication of interpretation of various interrelated clauses of the Act by the professionals. The training program was addressed by President CA. Krishna Prasad Acharya.

Advocate Baburam Dahal delivered the training and more than 900 members of the Institute participated in the training.

ICAN Advisory Note

The Institute has issued “ICAN Advisory Note on COVID – 19 Impact on Financial Reporting and Auditing" to provide guidance to business organizations in devising appropriate and uniform approach in preparing the financial statements. It also aims at guiding ICAN members in practice and service amid effects of COVID – 19 in business and economy.

It includes advisory on requirement of various Nepal Financial Reporting Standards (NFRS) standards, Nepal Standards on Auditing (NSA) standards, analysis of impact of COVID – 19 on compliance to these standards and Institute's recommendation.

Webinar on Digital Signature and Online Trading

The Institute organized a webinar on Digital Signature and Online Trading on 12 June 2020.

The program started with the opening remarks by the ICAN President CA. Krishna Prasad Acharya.

The objective of the webinar was to impart knowledge among members about digital signature, use of digital signature, benefit of digital signature and ways to get digital signature. The Webinar was facilitated by Mr. Biplav Man Singh, Co-Chairman, Nepal Certifying Company and Former President, Federation of Computer Association of Nepal as a resource person.

Webinar on Evolving Entrepreneurship, You and Business Success – SMEs Perspective

The Institute organized business coaching on Evolving Entrepreneurship, You and Business Success – SMEs on 14 June 2020.

The program started with the opening remarks by the ICAN President CA. Krishna Prasad Acharya.

The objective of the coaching session was to shed light on various techniques professional accountants are required to adopt for developing entrepreneurship. The coaching session was facilitated by CA. Dr. Chamara Bandara, CEO/Consulting Entrepreneur from Sri Lanka, as a resource person. He deliberated the coaching on theoretical and practical aspects of business success and failure to encourage in business with confidence.

Online Excel Training

The Institute with objective of equipping its members in information technology, organized a five days online Excel Training from 6 - 10 June 2020.

The objective of the training was to focus on conceptual understanding of the excel features, go to special, paste special, logical functions, data validation, power function, conditional formatting, text function, lookup function, pivot table and various complex features of the excel and more.

Online Training was facilitated by CA. Manoj Kafle as a resource person.

SAFA webinar on Managing Risk and Challenges of Financial Sector- Post COVID-19 pandemic

The Institute hosted a three hours online SAFA webinar on Managing Risk and Challenges of Financial Sector-Post COVID Pandemic on 16 June 2020.

The objective of the program was to focus on managing risk and challenges of financial sector that is caused by COVID -19 pandemic.

The program started with the welcome speech of ICAN President CA. Krishna Prasad Acharya and theme paper presentation. CA. Atul Kumar Gupta, President of ICAI, Mr. Zia Ul Mustafa Awan, President of SAFA, Mr. Sabbir Ahmed, Vice President of ICAB, Anil Bhandari, Central Council Member of ICAI, Mr. Anil Keshari Shah, CEO of Nabil Bank Ltd, Mr. Ather Saleem, Member of National Council ICMAP, Mr. Sanath Farnando, ICASL presented the papers on Financial Reporting on Risk and Challenges due to COVID-19 Pandemic, Managing Risk and Challenges due to COVID-19 Pandemic-South Asian Perspective, Managing Risk and Challenges Posed by COVID-19 Pandemic- Role of Chief Risk Officer, Managing Risk and Challenges Posed by COVID-19 Pandemic- Role of Internal Auditor, Managing Risk and Challenges Posed by COVID-19 Pandemic- Role of CEO, Committees and Board, Managing Risk and Challenges Posed by COVID-19 Pandemic- Role of Chief Financial Officer, Managing Risk and Challenges Posed by COVID-19 Pandemic- Role of External Auditor respectively in the respective area..

Mr. Tanka Mani Sharma Dangal, Hon'ble Auditor General of Nepal gave opening remarks on the program and appreciated the Institute for hosting the program for the possible strategies to be taken to fight with uncertainties in the future. Mr. Shiva Raj Shrestha, Deputy Governor of Nepal Rastra Bank gave closing remarks and appreciated the Institute for the effort to manage risk in financial sector.

The program ended with summarization of program and vote of thanks by Vice-President CA. Madan Krishna Sharma.

More than 500 participants attended the program.

Webinar on Impact of COVID-19 on Global Economy and Nepal Budget 2020/2021

Nepal US Chapter of the Institute organized a one and half hours online program on Impact of COVID-19 on Global Economy and Nepal Budget 2020/2021in association with the Institute of Chartered Accountants of Nepal on 14 June 2020.

The objective of the program was to discuss on the impact of COVID-19 on Global Economy and Nepal Budget 2020/21.

The Program started with the welcome speech of ICAN President CA. Krishna Prasad Acharya and Coordinator of US Chapter CA. Ganesh Chandra Baniya.

Dr. Ram Prasad Phuyal, Member, National Planning Commission, Nepal and Mr. Prem Sangraula, Economist, The World Bank, Washington DC were panelists in the program.

Members Activities

Registration of New Chartered Accountant at ICAN

The Institute registered 30 Chartered Accountants pursuant to Section 16 (2) of the Nepal Chartered Accountants Act, 1997. During the period of January 2020 to June 2020, the newly registered chartered accountants are as follows:

M. No	Name
1484	SAFAL SHRESTHA
1485	KRISPY TIMILSINA
1486	AAYUSHA GUPTA
1487	MUKESH KHADKA
1488	PREM SUBEDI
1489	DEV CHANDRA PRASAIN
1490	GOMEDH KOIRALA
1491	BHARAT SUBEDI
1492	SAGAR ACHARYA
1493	UMESH RIJAL
1494	HARI PRASAD KANDEL
1495	RAJU GUPTA
1496	DEEPAK BAHADUR SHETTY
1497	SANISH MAHARJAN
1498	PRITAM MITTAL
1499	SAHADEV PAUDEL
1500	PRABIN K.C.
1501	JAY PRAKASH YADAV
1502	BIBEK KHANAL
1503	SUMAN PANDEY
1504	DAMODAR BASTAKOTI
1505	BINU LUITEL
1506	MILAN RAI
1507	NIRANJAN GAUTAM
1508	BIKASH ADHIKARI
1509	VIVEK ANANDA RAUNIYAR
1510	PRABIN AGRAWAL
1511	NARAYAN PRASAD KANDEL
1512	SAGAR ARYAL
1513	NISHEDH SHARMA

Students Activities

CA Examination Result Published

On 15 February, 2020, the Institute has published results of Chartered Accountancy Professional – I (CAP – I), Chartered Accountancy Professional – II (CAP – II) and Chartered Accountancy Professional – III (CAP – III) level examinations held in December 2019 .

As per the notice published by the Institute, altogether 37 candidates are eligible for the Chartered Accountant membership of the Institute.

CA Membership and Accounting Technician Examination

The Institute conducted CA Membership Examination from 15 to 16 March, 2020 in Kathmandu, Butwal and Biratnagar. Similarly, the examination of Accounting Technician was conducted from 15 to 18 March, 2020 in Kathmandu.

Out of 306 candidates who applied for the membership examination, only 270 candidates appeared in the examination.

ICAN Quiz and Elocution Contest

The Institute organized “ICAN Quiz and Elocution Contest, 2020" from 16 to 17 January, 2020 in ICAN Building, ICAN Marg, Satdobato, Lalitpur. CAP III level students undergoing articleship and not more than 27 years of age on 3lst December, 2019 were eligible to participate in the contest.

Altogether 19 and 17 students of CAP – III participated in ICAN Quiz and Elocution Contest respectively.

Participation in International CA Students' Conference

Three students of Chartered Accountancy Professional (CAP) – III level nominated on the basis of essay writing and presentation on prescribed topics participated in International CA Students' Conference held on 11 February, 2020 at Colombo, Sri Lanka.

Student Interaction Program

The Institute organized interaction program with students of Chartered Accountancy Professional – II (CAP – II) and Chartered Accountancy Professional – III (CAP – III) level on 10 March, 2020 at ICAN Building, ICAN Marg, Satdobato, Lalitpur. The purpose of the program was to interact with students, understand their concerns regarding CA education and to receive suggestions and constructive feedback to uplift the education system.

Online Revision Classes for Students

The Institute, with objective to facilitate it's students to prepare for their forthcoming examination has started online revision classes. Such classes are available from 27 April, 2020 for all levels of Chartered Accountancy Courses.

ICAN President CA. Krishna Prasad Acharya inaugurated the Online Learning Classes on 27 April, 2020 with virtual presence of the Council Members, Members of Board of Studies, Executive Director and Students of the Institute.

Student Registration

During the period between April 2019 to June 2019,980 students enrolled for various levels of CA education course and Accounting Technician Course. The details of enrollment is tabulated below:

Level	CAP I	CAP II	CAP III	AT
No of Students	3	839	136	2

Chartered Accountancy Examination- December 2019

The Chartered Accountancy Examination of December 2019 was conducted from 1 to 9 December 2019.

Different level examinations were conducted at Kathmandu as well at branch office locations i.e. Biratnagar, Birgunj, Butwal and Pokhara. Details of the examination candidates were as follows:

S. No.	Level	Description	Both Group	First Group	Second Group	Total
1	CAP I	Total Applicants	1405			1405
		Total Appeared	1320			1320
		Total Passed	792			792
2	CAP II	Total Applicants	1283	459	254	1996
		Total Appeared	1226	341	210	1777
		Total Passed	91	76	75	242
3	CAP III	Total Applicants	266	259	271	796
		Total Appeared	262	230	235	727
		Total Passed	7	23	111	141


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नगद रहित उपचार, बिना झन्झट शतप्रतिशत भुक्तानी र सजिलै दाबी
रू. २ लाख देखि रू. २० लाखसम्मको आफ्नो तथा आफ्नो परिवारको स्वास्थ्य बीमा
थप जानकारीका लागी नजिकैको शिखर इन्स्योरेन्स कम्पनीका शाखाहरूमा सम्पर्क गर्नुहोस् । Hotline No.: 16600144441
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यसरी प्रयोग गरौं ग्याँस
ग्याँस लिकेज भएमा यसो गर्ने
ग्याँसको तीखो गन्ध आइरहेको छ भने ग्याँस लिक भएको बुझ्नुपर्दछ । ग्याँस लिक भए पहिले रेगुलेटर बन्द गरेर चुल्हो बन्द गर्ने । आगोको झिल्का निस्कने : सलाई, लाइटर, धुपजस्ता कुराहरु नबाल्ने । ग्याँस लिक भइरहेको सिलिन्डरबाट रेगुलेटर छुटाई सेफ्टी क्याप लगाएर बाहिर खुल्ला ठाउँमा राख्ने । आफूलाई अनुभव नभए तुरुन्त नजिकको तालिम प्राप्त ग्याँसस डिलर, उद्योग वा सुरक्षाकर्मीलाई खबर गर्ने ।
ग्याँस दुर्घटनाबाट बच्ने उपायहरू
सिलिण्डर ल्याउँदा, लैजाँदा नगुडाउने, सुताएर वा घोप्टाएर प्रयोग नगर्ने । गुणस्तरीय रेगुलेटर, पाइप, चुल्हो र लाइटर मात्र प्रयोग गर्ने । दुई/दुई वर्षमा ग्याँसको पाइप फेर्ने । सिलिण्डर र चुल्होको दूरी कम्तीमा २ मिटर राख्ने । ग्याँस प्रयोग गर्दा झ्याल र ढोका खुला राख्ने । खाना पकाउँदा आगो छिटो टिप्ने कपडा नलगाउने र एप्रोन प्रयोग गर्ने । भान्छामा सिलिण्डरसँगै सेफ्टी क्याप अनिवार्य राख्ने । भान्छाको काम सकिएपछि अनिवार्य रेगुलेटर बन्द गर्ने । ग्याँसको प्रयोग गर्दा सुरक्षासम्बन्धी ज्ञानहरु सिक्ने र परिवारका सबै सदस्यहरुलाई सिकाउने । सम्बन्धित कम्पनीको आधिकारिक डिलर (विक्रेता प्रमाणीकरण भएको) बाट मात्र ग्याँस खरिद गर्ने । Date Expire भएको, कुच्चिएको, पुरानो सिलिण्डहरु प्रयोग नगर्ने ।
ग्याँस बचत गर्ने उपायहरू
चुल्हो बाल्नुभन्दा पहिले पकाउने । सामानहरु ठिक पारौं। खानेकुरा उम्लिन थालेपछि आँच कम गरौं। गेडागुडी पकाउनुभन्दा पहिले भिजाएर राखौं। सकभर परिवारका सबै सदस्हरु एकैपटक खाना खान बसौं। खानेकुरा सकभर प्रेसरकुकरमा पकाऔं। नियमित रुपमा चुल्हो सफा राखौं। गुणस्तरीय ग्याँस चुल्हो, रबर पाइप र रेगुलेटर प्रयोग गरौं।
ग्याँसको प्रयोग सुरक्षित तवरले गरौं । आफू पनि बुझौं
अरुलाई पनि बुझाऔं । सम्भावित दुर्घटनाबाट बचौं र बचाऔं ।
Nepal Oil Corporation Ltd.
नेपाल आयल निगम लिमिटेड
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