



# THE NEPAL CHARTERED ACCOUNTANT

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# 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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# THE NEPAL CHARTERED ACCOUNTANT

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

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# Editorial

Ease of Doing Business (EDB), which is seen as a barometer of simpler regulations for businesses and stronger protections of property rights, shows bright signs for Nepal. Nepal is ranked 94 among 190 economies in the ease of doing business, according to the latest World Bank annual ratings. The rank of Nepal improved to 94 in 2019 from 110 in 2018, which is 3<sup>rd</sup> position in South Asia.

Nepal has reformed in four fronts mainly: dealing with construction permits, getting credit, trading across borders and enforcing contracts whereas, starting a business and property registration still remains difficult. Nepal made dealing with construction permits easier and less costly by reducing fees for building permits and improving the online e-submissions platform. Access to credit information was improved by expanding the coverage of the credit bureau. Moreover, time and cost to export and the time to import was reduced by opening the Integrated Check Post Birgunj at the Nepal-India border. Enforcement of new Civil Codes made enforcement of contracts more easier. On the bright side, Nepal also improved the quality of its land administration system by publishing the official service standards for delivering updated cadastral maps.

The doing business parameters include starting a business, dealing with contractual permit, getting electricity, registering property, getting credit paying taxes, trading across border, enforcing contracts and resolving insolvency. In this connection, the major initiatives includes passing of Labor Act, 2074; digitization in some regulatory bodies such as the tax authority especially launching of e-filing platform for filing returns; and arrangement of submitting annual returns to Company Registrar Office electronically as stipulated by the Companies Act, 2066. Other significant achievements include overcoming of power shortage that Nepal faced, during which time the load shedding was for more than 18 hours a day which had direct impact in normal life and industrial and commercial activities and eventually caused negative impact in the economy of the country. Moreover, the condition of road network and to a large extent banking system and communication system has improved. However, there is much scope to enhance EDB with proactive policy matters for creating a confidence of people and help change perception and investors' confidence towards the government.

The report is a litmus test for the efforts of the government in ameliorating the political and economic situation, particularly after the formation of new government through general election held in 2017 under federal regime. It is

notable that political stability and peace is a pre-condition for doing business. In the short period after the formation of the new government various initiative have been undertaken to attract local and foreign direct investment.

However, voices of discontent have been heard from private sector regarding some provisions of Labor Act, 2074 such as gratuity, medical and accident insurance. It places an economic and administrative burden on companies. Moreover, private sector has also showed bland response to the much hyped Social Security Fund scheme of the government.

Vigorous private sector is a major pillar of a vibrant economy. When local businesses flourish, they create jobs and generate income that can be spent and invested domestically. So, now our agenda should be development and prosperity rather than carrying the political agenda. In the budget speech of 2019/20, the Finance Minister had announced to establish Nepal as an international investment destination by attracting foreign investment as component of domestic capital formation. The FM had stressed on industry and business registration processes, infrastructure building, land acquisition, tax payments, adherence to labor laws, and reformation of dispute resolution system.

We should not rest on laurels. Nevertheless, the above scenario signals that the government is committed to address the constraints and bottlenecks that hinder investment and to offer better and secure investment opportunities in doing business in Nepal. This small leap has encouraged the government to take even bold reformatory steps. We have much to do to reform our system. With honest efforts, we can attain much more.

EDB is a multipronged strategy. Improvement in EDB not only contributes improved business environment, it leads to higher investment, employment and revenue generation. It also necessitates contribution from various stakeholders. The role of professional accountants is vital for sound accounting and reporting system. The Institute is committed to improve the EDB through high-quality corporate reporting that helps in improving transparency, facilitates in the mobilization of domestic and foreign investment, creates a sound investment environment and provides confidence to potential investors. As a national regulator of accounting profession the Institute is always supportive in making proactive contribution in development initiatives of the government.



# President's Message

## **Dear Professional Colleagues,**

As a President of the Institute of Chartered Accountants of Nepal this is my first message on behalf of the Institute to our members, students and other stakeholders in our quarterly journal, "The Nepal Chartered Accountant".

It is a matter of pride for me to take over the prestigious position of 23<sup>rd</sup> President of the Institute. I am thankful to the Council Members, Past President, ICAN Members and Stakeholders for reposing trust in my leadership.

Continuing with our commitment, in the first quarter, we have focused on optimizing the number of non-standing committees limiting to ten committees from twenty-six to support Council in the areas of policy decision making and development and implementation of travel guidelines and some improvement in employees' bylaws and financial administration bylaws with an intention to empower and delegate authority of administrative decision making to management.

Members being the back bone of the Institute and representing the image of the Institute in the society, our plan to support their professional capacity development by providing Online CPE Training, Capacity Building Training especially for Registered Auditors, and Post Qualification Courses to members on continuous basis will be on priority. In this regard an initiative to devise new Continuing Professional Education (CPE) training modules to impart need based training to the members has already been taken up, whereas for post qualification courses to the members an understanding with the International Professional Accounting Body to organize NFRS, Business Valuation, AML/CFT, Forensic Accounting and Auditing and ISA Certification courses has already been agreed upon.

An effort to strengthen the regulating role of the Institute has been taken up through re-structuring of the Institute, injecting qualified technical staffs, empowering and capacity building for existing employees, identifying the amendment requirement in ICAN Act and Rules, developing and implementing SOPs for departmental function. To strengthen the monitoring and



supervision function, quality assurance review process will be further extended to the all practicing members. We have introduced the concept of technology based monitoring through implementing Unique Document Identification Number (UDIN) which is mandatory from the first of Kartik, 2076.

The objective of the Institute to provide International level education to its students by updating syllabus of ICAN with the technical support of International Professional Accounting Body is going on besides, development of e-learning portal, online registration and examination form submission has been initiated. In an effort to proceed with supporting students to have their study through electronic gadgets soft copies of study materials and compiled suggested question answers have been made available in the ICAN website. Restructuring of the General Management and Communication Skills training module for newly qualified Chartered Accountants to take up the opportunities with full professional commitment was an effort which proved to be successful.

Our vision to cater specialized and focused services to specific areas and stakeholders has got momentum as the process of establishing Center for Professional Excellence to take up Research and Development activities, to play advisory role to Government of Nepal in the areas of policy formation, law reform, budget planning and financial policies, to identify the areas of professional development, and to provide quality capacity building training and post qualification courses for members.

With an intention to develop accounting profession in Nepal, we are planning to open branches in the capital of all states. Further to support in implementation of NPSAS in Government sector we are planning to introduce the various modules of training and certification courses and professional qualification courses in the field of PFM with the support of International Professional Accounting Body.

As the quality of the accounting profession impacts overall development of the Nation, devising a balanced coordination with all sectors whether it is Private or Government is mandatory. Our effort to address issues of National concern by organizing national level conferences and continuing dialogue with other stakeholders to reach at an understanding to exchange pertinent information and sharing of data has already taken place.

Accounting profession is a global education module, pace to keep track of all the global advancement in this area is always on priority and for this participation in the various IFAC, CAPA, SAFA and other National and International Conferences, Workshops and Meetings have been taken up on priority. Mutual Recognition Agreement with International Accounting Bodies for member's pathway and technical collaboration agreement to exchange the advancement in the profession shall always be on priority during my tenure.

As the success of mission and vision formulated by the Governing Body of any Institution rest on the strong management and with this perception we have initiated process of organization re-structuring, amendment of employees By-laws and Financial and Administrative By-Laws. Further, to empower management we have reduced the number of non-standing committees and will provide more capacity building training and foreign exposure to the employees.

We are hopeful that our aim to accelerate Institute's all corner improvement will get full support from the Council Members, Past Presidents, Stakeholders and Management team which will ultimately uplift the image of the Institute Nationally and Internationally.

At last, I would like to assure all that our ambition to see ICAN as a strong regulating Institute will prove to be a dream comes true during my Presidency.

## Quality Assurance Review an Audit of Audit

*The objective of Quality Assurance Review (QAR) is to determine whether the audits conducted by members of ICAN comply with the Nepal Auditing Standards, Code of Ethics (COE) etc. and encourage them to further improve the audit performance. The major focus of the reviews is on compliance with technical standards, relevant laws & regulations, quality of reporting and firm's quality control framework.*



### 1. Introduction

*“..... surgery without audit is like playing cricket without keeping the score”,* HB Devlin, Founding Director of the Surgical Epidemiology and Audit Unit, Royal College of Surgeons of England.

Quality, in every profession, is the rule and not an exception. The above quote shows the importance of audit is given in medical profession. Audit profession is no exception. The audit profession is rapidly changing due to change in expectations of the stakeholders and due to disruptions and innovation in the profession.

The regulators too have raised the bar of audit. To bridge this gap, improving the quality of audit is *sine qua non* of the profession.

Everyday many new technical challenges are being faced by audit professionals in their field. The International Federation of Accountants (IFAC) has made mandatory for a member Professional Accountancy Organizations (PAO)s to adhere to accounting and auditing standards and Code of Ethics. As a member of IFAC, it is obligatory for the Institute of Chartered Accountants of Nepal (Institute or



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ICAN) to comply with Statement of Members' Obligation (SMO1) which requires that International Standard on Quality Control (ISQC1) be adopted and implemented by all auditing firms, which addresses the design of a system for Quality Assurance (QA) for audit, including the practical application of the system.

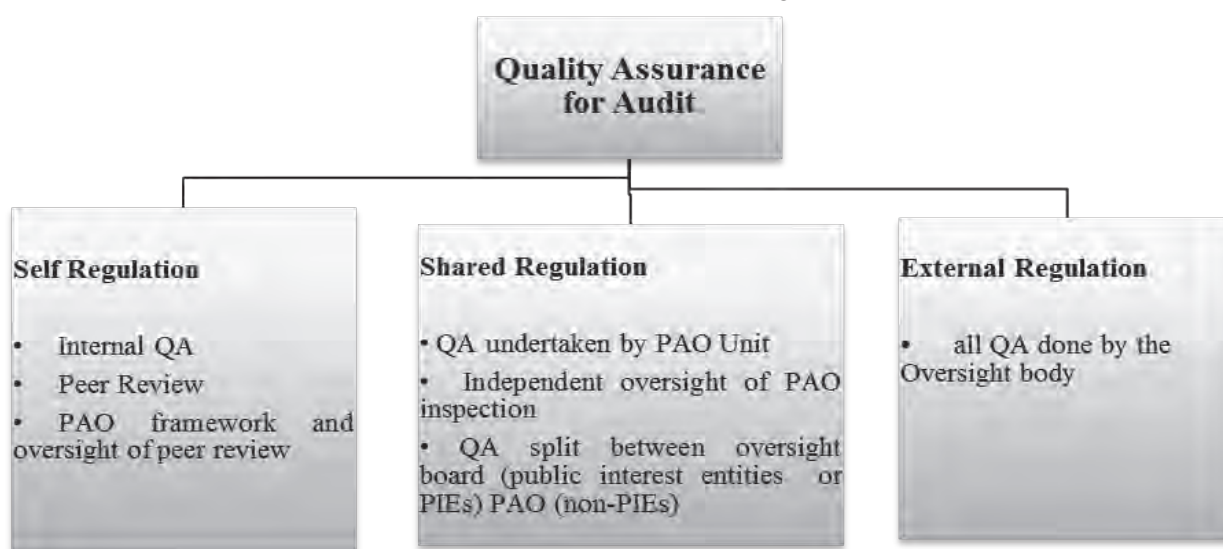
In the view of this, the quality of services rendered by members of the Institute has been on the radar of the Institute. Towards this end, the Institute has been issuing standards, statements, guidance notes, etc. to provide guidance to auditors to enable them to discharge their duties in the most efficient, effective and qualitative manner. The Institute, recognizing this need, established Quality Assurance Board (QAB) on 2072/09/03 B.S. to

evaluate an audit firm's system of quality assurance. Since then the QAB has been undertaking quality assurance review of the audit firms that have conducted the audit of listed companies.

This article attempts to explain in brief the QAB institutional governance, process of quality assurance review system, areas of improvement, challenges of quality assurance review, new development in quality assurance in international level, Institute's development initiatives etc. for the consumption of the stakeholders.

## 2. Models of Quality Assurance for audit

The models of QA currently in operation around the world range from self-regulation through shared regulation to external regulation.



Self-regulation includes three types i.e. internal QA only, peer review and Professional Accounting Organization (PAO) framework and oversight of peer review.

The Shared regulation includes QA undertaken by PAO Unit, Independent oversight of PAO inspection and QA split between oversight board (public interest entities or PIEs) and PAO (non-PIEs) whereas external regulation include all QA done by the Oversight body. Shared regulation is the most common system, some higher income countries have moved in recent years towards external regulation. Each of the models of QA for audit has

its own benefits and costs. In our case, shared regulation has been adopted and QA is undertaken by separate QA Unit of the Institute. Prior to this model Peer Review Board was in operation which comes in self-regulation model.

## 3. Legislation and regulation for Quality Assurance Review

The Nepal Chartered Accountant Regulation, 2061 has given authority to establish Quality Assurance Board which makes QA system to be legally binding.



The objective of Quality Assurance Review (QAR) is to determine whether the audits conducted by members of ICAN comply with the Nepal Auditing Standards, Code of Ethics (COE) etc. and encourage them to further improve the audit performance. The major focus of the reviews is on compliance with technical standards, relevant laws & regulations, quality of reporting and firm's quality control framework. Additionally, the review team also assesses the Audit Quality Control System of practicing firms in order to recommend the Institute for further strengthening the quality of audit. In view of the above, the QAR does not intend to find out deficiencies but to improve the quality of audit services rendered by members of the profession.

#### 4. Rationale for Quality Assurance Review

It is the responsibility of the Institute to ensure that the members engaged in public practice comply with the standards that have been made mandatory and, to have in place a proper system for maintaining quality of attestation service. As per the rule 103(7) of the Regulation, the QAB is required to conduct the quality assurance review of every accounting professional and practicing firm (PU) compulsorily for the effectiveness of the accounting profession. In course of the quality assurance review, it evaluates an audit firm's system of quality assurance, audit approach, and its working papers. The benefits that can be derived from an effective quality assurance function include:

- Ensure a high standard of audit work by improving audit performance and results
- Ensure the compliance with the accounting and auditing standards
- Improve the capability of the practicing firm
- Maintain a high degree of integrity, accountability and competence
- Enhance the credibility and reputation of the profession
- Improve training and identification of additional training needs
- Facilitate self-assessment of audit work performed

and

- Avoid possible litigation by ensuring that practicing firm maintains high standard and quality.

#### 5. Institutional Governance for Quality Assurance Review

As per the CAPA Quality Assurance for Audit, A Good Practice Guide suggests that a QA Board or committee, ideally independent, is required to oversee QA for audit. The Quality Assurance Board constituted by ICAN comprises of seven persons that include a Chairperson, two Council Members, two Institute members other than Council members, Chairperson of Security Exchange Board or a Director assigned by him and one representative from Office of the Auditor General. As per the Rule 103(5) the Institute is required to provide financial, physical and manpower to the QAB for the proper functioning of the QAB. On approval of annual budget and program of QAB, the Board undertakes its activities in an autonomous manner. Within the organizational structure of ICAN there is Quality Assurance Unit (QAU) 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. As per the Institute of Chartered Accountants Rules, 2064 the function, duties and rights of the Quality Assurance Board (QAB) are to:

- Prepare policy and program for QA review,
- Enforce and conduct monitoring of Practice Unit in accordance with the QA policy and program and conduct its effective monitoring,
- Acknowledge to the Council in order to notify the PU about the areas of improvement if observed while conducting QA of PU,
- Recommend the Council to prohibit the PU for the audit of related entity or audit of the particular sector on the basis of errors if observed through QA of PU
- Carryout the other functions as assigned by the Council

The Council of the Institute has approved Audit Assurance Quality Procedure, 2073 as basic guiding tool

for conducting QA activities of practicing firms. QAB commenced review activities in the last quarter in fiscal year 2074/75 by covering listed companies. Further QAB has developed QAR checklist to be applied at firm level and audit level.

## 6. Operational Capacity

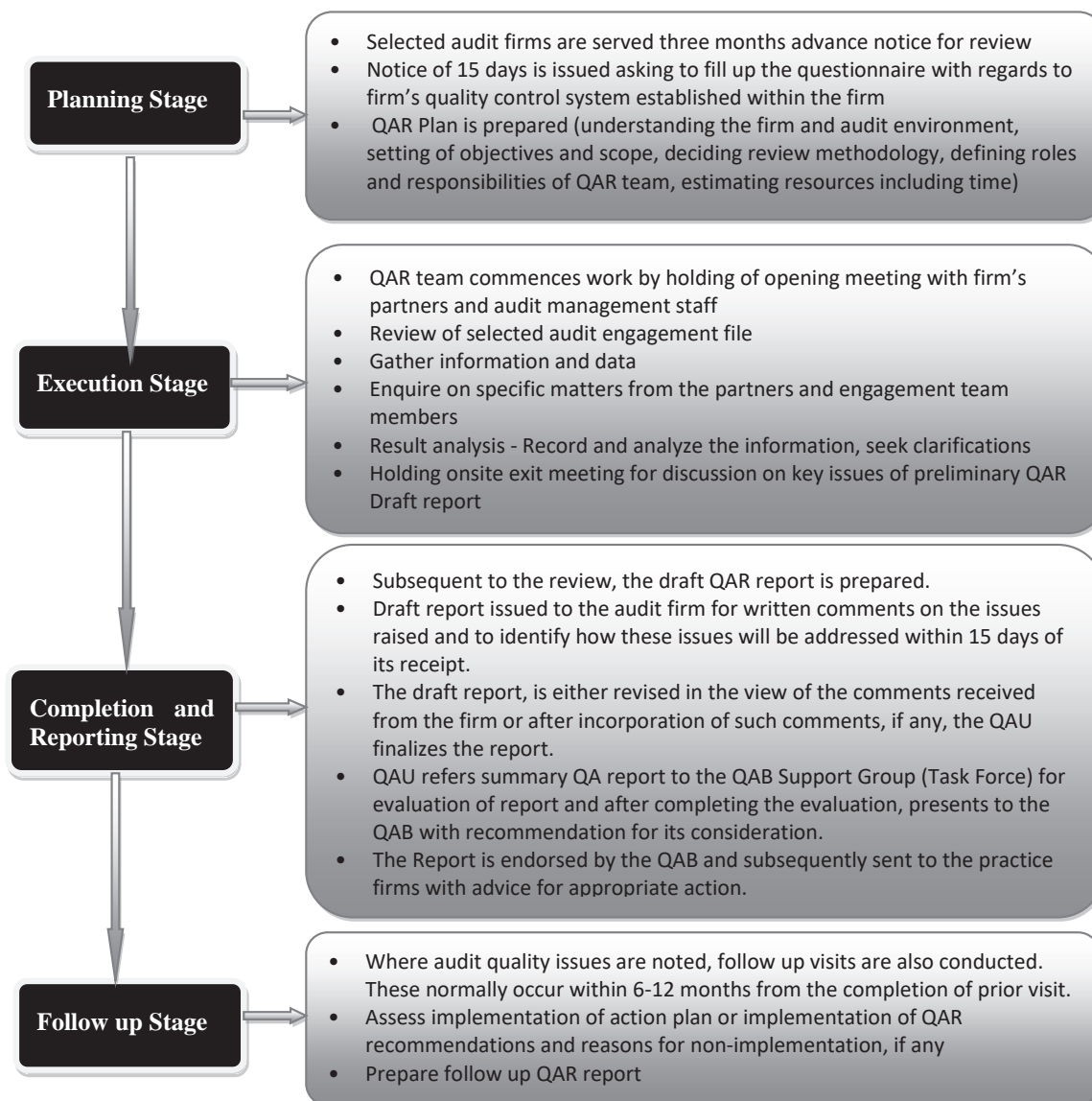
Adequate people with a background in audit and trained in QA is pre-requisite to conduct audit reviews. The QAU is equipped with two Chartered Accountants as reviewer who examines audit files and quality control policies of the audit firm. However, the number of staff is too minimal to cover even the Public Interest Entity (PIE) and to achieve the objectives of QAR.

## 7. Policies and procedures

ICAN has formulated the QAR Procedure, 2073 for operation of quality assurance activities. Similarly, QAB has developed QAR manual in line with NSQC1 for undertaking quality review process. These are policy procedural documents and set out how the QA system will work transparently. These documents specify the frequency of inspections, review methodology, sanction and remedial measure etc. required for QA.

## 8. Quality Assurance Review Methodology

Generally there are four stages in quality assurance review process. The review stages and steps involved are shown below:



## 9. Matters for Improvement

The Areas of improvement in terms of policies and certain aspect relating to planning, team building, documentation etc. Some of the major areas which are directly related to the quality of audit where the audit firms need significant improvement are given below:

**9.1 Quality control policy** – It is the requirement of NSQC 1 to have a written Policy and procedure on Quality Control and office operations for the audit firms that need to be complied with by the firms.

**9.2 Proper audit plan** – Audit planning is the most important stage that determines the level of quality and efficiency of audit. Audit plans should be prepared on the basis of auditing standards to achieve the audit objectives. Generally, audit plan and program of the firms indicate where they have to go but not mention how they got there. The Audit plan should not be only for planning sake but needs to cover the major contents like risk assessment procedures to be applied, identification of significant risk, how to response those risks, determining the materiality levels, sampling and determining the sample size etc.

**9.3 Proper documentation** –Inadequate audit documentation for work performed is a common weakness in most of the audit firms. The quality of audit depends on the documentation of audit file. Documents are evidence and tell the story of audit procedure applied by the firms. In the absence of documents in audit file, it is difficult to rely that audit was conducted in a planned manner and it complied with the standards. It is very impossible to understand from the audit file about the risk and how such risks are mitigated. This in turn creates difficulties on the part of reviewers in gathering appropriate documents/evidence due to non-maintenance of working papers in the audit file.

One reason might be the gathering of appropriate evidence is costly. However, non-compliance with regulation is not advisable. The issue of cost should be decided prior to accepting the audit and cannot be taken as an substitute for improper documentation.

**9.4 Audit team building** – Audit is a teamwork and is an important aspect as far as quality of audit is concerned. Audit team are often comprises of young and they are no match with experienced staff. There is high dependency of practicing firms in articles students and deploy them in audit work because recruiting and mobilizing experienced staff cost more. It is therefore important to form the team in a manner that each team has necessary skill-mix to conduct audit engagement. Similarly intensive training on different aspect of quality audit should be also be arranged so as to enrich understanding of auditors and sensitize them.

**9.5 Acceptance of engagement-** The audit appointment should be accepted with reasonable fees considering the size, complexity of transactions and nature of risk involved in business of the entity being audited and by assessing the resource strength, time availability and capacity of the firm to comply with ethical requirements.

## 10. Challenges of QAR practice

**10.1 Inadequate QAR staff** -The QA team should collectively possess the competencies like analytical skills, ability to synthesize, interpersonal skill, communication skills, facilitation skills, audit experience in all areas and managerial abilities. However, QAU lacks adequate technical staff to conduct the quality assurance review of the firms for wider coverage as a result it has limited the coverage of listed companies only. There is also difficulty in retaining qualified review staff.



**10.2 Training opportunity** - There are limited training opportunities to reviewers so there is compulsion of conducting QAR by learning by doing. So in-house and external training and exposure to the staff is needed to better meet the requirement of QAR.

## **11. Other Roadblocks of QAR**

**11.1** Lack of awareness or poor understanding of clients about high quality of audit and its importance due to which there is low demand of quality audit by stakeholders

**11.2** There is low demand of quality audit because delivering quality audit services demands high cost and resources to the smaller enterprises, which have limited demands for audits other than the statutory requirement.

**11.3** Poor monitoring system of audit service by regulators and lack of synergy among regulators with regards to audit services

## **12. Some Solution to the problems and Challenges**

**12.1 Increase dialogue** – The Institute needs to increase dialogue with key persons of some stakeholders like MOF, SEBO, CRO, OAG and partners of some selected firm individually to obtain their expectations, commitment and bilateral support to conduct QAR activities by holding a warm up meetings, workshop, and seminars and so on. It will be wise to make presentation on QAR system and processes.

**12.2 Conduct awareness campaign** - It is required to give priority to awareness for members and key stakeholders about QAR across the country and develop and publish awareness educational materials for them.

**12.3 Initiate QAR with documentation system** - As we know that the quality of audit depends on the documentation of audit file. Considering this fact, instead of conducting QAR fully

pursuant to NSQC process or best practice, it would be appropriate to focus review of audit documentation aspect of audit firm assuming it as situation analysis exercise.

**12.4 Organize Seminar on root cause analysis-** On completion of documentation review of firms selected, workshop can be organized to disseminate the results of review and collect feedback to improve the situation for future course of action.

**12.5 Instruct Members-** Council need to direct its members to only accept audit engagement, if the client gives consent to accept QCR processes in course of audit or after completion of audit.

**12.6 Increase Collaboration-** The level of collaboration with Nepal Accounting Standards Board, Nepal Auditing Standards Boards, concerned Committees of ICAN, and regulating agencies should be increased for exchange of information in order to improve the quality assurance review activities. In particular, it is necessary to integrate CPE and quality assurance system that will add perspective of QCR-based findings in the training and will reduce noncompliance with NSQC 1 and QC policies of the audit firms.

**12.7 Authority of the QAB** - QAB has authority to make aware to the firms or to recommend for any audit restrictions however, the authority conferred to the Board is unclear.

## **13. Development Initiatives of the Institute for QAR**

The ICAN has signed MoU on 15<sup>th</sup> July 2018 with PEFA Secretariat to strengthen the Institute. The MOU also contain the activities related to Quality Assurance Review that include Quality Assurance Board operation, Preparation/review of Quality Assurance Review Manual, and Training on Quality Assurance Review and implementation. The amount required to undertake the activities under MOU within two years commencing

from 2018/19 will be funded by MDTF. Similarly QAU has also developed Quality assurance grading system developed with setting of marks.

## 14. New Development in Audit Quality Management

In the field of quality management in audit the International Audit and Assurance Standards Board (IAASB) of International Federation of Accountants (IFAC) has prepared new international standard in quality management and has released 3 exposure draft on quality management standards for public for inputs with a deadline which expired on 1 July 2019. Out of the 3 exposure draft 2 drafts on quality management will replace the existing ISQC1 and ISA 220 has been revised making it compatible to new ISQM 1 and ISQM 2. As per IAASB the main reasons behind the firm need to change the way manage quality include evolving corporate governance, regulators continue to find gap in firm's system, stakeholders expectation of firms have increased, a number of high-profile audit failure etc. The brief outline of the three exposure draft issued is given below:

**14.1 International Standards on Quality Management 1 Quality Management for Firm's that perform Audit or Review of Financial Statement or other Assurance or related Service Engagement (Formerly ISQC1).** This Exposure Draft includes a new proactive risk-based approach to an effective system of quality management that establishes the foundation for consistent engagement quality.

**14.2 International Standards on Quality Management 2 Engagement Quality Review.** This includes a new proposed standard on engagement quality reviews that includes enhancements regarding: the eligibility criteria to perform the engagement quality review; and the engagement quality reviewer's performance and documentation.

**14.3 International Standards on Auditing 220 (Revised) - Quality Management for an Audit of**

Financial Statement. This includes the matters regarding: highlight the importance of the public interest role of audits, professional judgment and exercise of professional skepticism; clarify the role and responsibilities of the engagement partner etc.

The above standards on quality management will effect firms by the end of 2021. The practicing audit firms are expected to start developing their implementation plan now. Being a member of IFAC, our Institute is also obligated to comply with the new ISAs as suggested by IFAC. Considering the upcoming challenges we need proper planning and must take initiatives right in time to demonstrate our commitment to quality of audit and professional excellence.

## 15. CAPA Maturity Model

The Confederation of Asian and Pacific Accountants (CAPA) Guidance Series is produced to support the CAPA Maturity Model for the Development of Professional Accountancy Organizations publication. The Maturity Model is a support tool that allows PAOs to take a systematic approach to their organizational development, helping them make necessary decisions and carry out their commitment to excellence, easily tracking their progress along with the way. The series of Guidance include Quality Assurance for Audit Good Practice Guide which was published in August 2017. This guide is intended for all those responsible for the regulation of accounting and auditing, including policymakers, regulators, and PAOs. It mentions that if QA for audit is to be effective, it must have all of the following pillars.

- Legislation and regulations -These are essential if a QA system is to be legally binding
- Institutional governance - A QA Board or committee, ideally independent, is required to oversee QA for audit
- Policies and procedures- These set out to all how the QA system will work transparently
- Operational capacity -People with a background in audit and trained in QA to conduct audit reviews

In the view of Guidance series of CAPA with regard to QA, we have been able to develop few infrastructure needed for conducting the QA activities however, a lot of work has to be done for effective system of QA and its sustainability.

## 16. Conclusion

In the fast changing business landscape audit has become complex and facing risk day by day. Over standardization or standards overload and comply with these has created pressure on auditors. Compliance with Code of Ethics, rules and regulation is also equally important to auditors. Similarly proper documentation of audit performed is a core activity to ensure the compliance with technical standards and as evidence to the audit. The audit file must speak the entire process of audit performed and in the absence of proper documentation the reviewer cannot assure the quality of audit. So all this demands a structured audit process is to be followed and proper documentation of audit conducted as the best remedy to maintain quality of audit and avoid any controversy. In the view this it worth to note that “**what we do and how much we do is**

**not important but how do we do is more important”.**

We know that proper audit planning helps in cutting audit work time, increases audit efficiency, minimizes in supervision time, helps in complying with standards etc. which not only saves audit cost but also gives peace of mind. QAB has yet to develop some more infrastructure such as regulations, policies and procedures, operational capacity; and does not have adequate experience in QAR system, so a systematic approach is needed to operate the QA activities in the days to come.

## References:

Nepal Chartered Accountants Rule, 2061

CAPA Quality Assurance for Audit - Good Practice Guide  
Peer Review Guide, Peer Review Board, ICAN

Technical Guide on Conducting Quality Review QRB  
India

International Audit and Assurance Standards Board  
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## नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्थाको अत्यन्त जरूरी सूचना

नेपाल चार्टर्ड एकाउन्टेन्ट्स ऐन, २०५३ तथा नेपाल चार्टर्ड एकाउन्टेन्ट्स नियमावली, २०६१ को पुनरावलोकन गरेर आवश्यक भएका समयानुकूल संशोधनको लागि प्रक्रिया अपनाउने प्रयोजनको लागि यस संस्थाको परिषदले गठन गरेको कार्यदलले कार्य सुरु गरिसकेको हुनाले उक्त कार्यदलको अध्ययनार्थ उक्त ऐननियममा संशोधन गर्न आवश्यक देखिएका विषयमा आफ्नो सुझाव कारण सहित संस्थाका कार्यकारी निर्देशकलाई पत्र वा इमेल (ican@ntc.net.np) मार्फत शिघ्र उपलब्ध गराई दिनुहुन यसै सूचना मार्फत सम्बन्धित सबैलाई अनुरोध गरिन्छ ।



## Use of Non-GAAP Measures in Reporting

*Non-GAAP performance measures are generally aimed at presenting a more positive picture of financial performance, often by way of ad-hoc adjustments to GAAP numbers. Even commonly used measures such as EBITDA can be non-comparable from business to business—or in the same company from one year to the next—because of the differences in what’s included or excluded in the calculation.*



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For General Electric (GE), a company founded by Thomas Edison more than 125 years ago and recognized as one of the most iconic businesses, 2017 turned out to be a tumultuous year. Precipitous fall of its share price continued into 2018 – plummeting to around \$8 from \$32 merely a year ago. Though recovered slightly, its share price today is a shadow of its former self. As part of the restructuring plan, among other things, the management

admitted that the use of “industrial cash flow from operating activities” was inappropriate and promised to replace it with a more widely used measure ‘free cash flow’. A company of GE’s reputed ditching one non-GAAP measure in favor of another simply shows the challenges posed by non-GAAP measures.

### Non-GAAP Measure

In simple terms, a non-GAAP financial measure is one which

adjusts the most directly comparable GAAP measure reported in financial statements. It is generally described as a numerical measure of historical or future financial performance, financial position, or cash flow that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable GAAP measure so calculated and presented.

The often cited justification for use of non-GAAP measures is the limitation of the IFRS measures, due primarily to inclusion of non-recurring or non-cash transactions. Accordingly, non-GAAP financial measures eliminate large, unusual, or nonrecurring transactions that are deemed transitory, uncontrollable, or irrelevant by management.

Some of the common non-GAAP performance and liquidity measures are Funds from operations (FFO), Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA), free cash flow (FCF) and Cash available for distribution (CAD). In the context of North America, FFO and EBITDA, with variations (adjusted, normalized, etc.), are probably the most extensively used two non-GAAP measures.

Analysts consider non-GAAP measures such as EBITDA, FFO and FCF to better reflect an entity's ability to generate cash in the future and rely heavily on these measures to forecast its share price. EBITDA multiples is increasingly being used to come up with an enterprise value of a company. It is also used by lenders to calculate leverage ratio (e.g. total debt to EBITDA) as part of bond covenant. FFO is used both as a liquidity measure and a performance measure.

Non-GAAP financial measures are presented in the management's discussion and analysis (MD&A) section

of an entity's interim and annual reports. These measures are also reported in earnings releases and other forms of communication that companies use to provide additional insight into their business beyond that found in the financial statements.

Operating and statistical measures calculated without using financial information e.g. unit sales, number of employees, number of subscribers, gigawatt hours as well as performance measures that are calculated without adjusting GAAP numbers e.g. same-store sales, average revenue per customer and sales per square foot are not non-GAAP measures.

## **Dos and Don'ts**

There is no doubt that when used in conjunction with GAAP measures, non-GAAP measures provide information useful to readers. Securities regulators such as Securities Exchange Commission (SEC) of the United States recognize the relevance of non-GAAP measure. However, they are wary of the potential for misuse when non-GAAP measures are used in a way to confuse or obscure directly comparable GAAP measure. Calculation of non-GAAP measures is highly subjective, not least because of the use of words such as Adjusted and Normalized. The amount calculated using non-GAAP measures are not amenable for comparison across companies or industries.

To address the issues associated with non-GAAP measures and ensure that the information provided is not confusing or misleading, securities regulators such as SEC have prescribed certain requirements for non-GAAP measures, which include:

- Define and state explicitly that the non-GAAP financial measure does not have any standardized meaning and therefore may not be comparable to similar measures presented by others.
- Explain why the non-GAAP measure provides useful information to investors.

- Name the non-GAAP financial measure in a way that distinguishes it from disclosure items specified, defined or determined under GAAP.
- Do not present with equal or greater prominence (precede GAAP measure, bold font, etc) of the most directly comparable GAAP measure.
- Reconcile to most directly comparable GAAP financial measure.
- Do not present non-GAAP measures on a per share basis except for FFO.
- Do not use titles or descriptions of non-GAAP financial measures similar to titles or descriptions used for GAAP measures.
- Do not eliminate items as non-recurring, infrequent or unusual, when there was similar charge or gain within the prior two years or is reasonably likely to recur within two years.
- Present the non-GAAP financial measure on a consistent basis from period to period.
- Do not present non-GAAP financial measures on the face of or notes to the financial statements.

### IFRS Perspective

IAS 1, *Presentation of Financial Statements* (IAS 1) allows 'additional line items, headings and subtotals' in the face financials when such presentation is relevant to an understanding of the entity's financial position or financial performance. *Disclosure Initiative* (Amendments to IAS 1), issued in December 2014 added IAS 1.55A, IAS 1.85A and IAS 1.85B which prescribe requirements when such additional line items, headings or subtotals are used. Accordingly, EBIT and EBITDA calculated as mere sub-totals of the items presented as per IFRSs, without massaging any of the numbers, can be presented in financial statements themselves and not confined to MD&A section.

However, in practice EBIT and EBITDA are rarely used as such. One justifiable reason, to modify the definition is

to reflect cash-earnings from investments in partly-owned entities – (i) earnings from equity-accounted investments or (ii) net income attributable to non-controlling interests. In addition, it is not only interest, tax, depreciation and amortization that are excluded but also a host of other items which management considers as unusual, nonrecurring, etc. As such EBITDA is often modified as Adjusted EBITDA or Normalized EBITDA and so on. Stretching even further some entities make widespread use of the so-called "Adjusted" GAAP measures e.g. Adjusted Revenues, Adjusted net income and so on.

Non-GAAP performance measures are generally aimed at presenting a more positive picture of financial performance, often by way of ad-hoc adjustments to GAAP numbers. Even commonly used measures such as EBITDA can be non-comparable from business to business—or in the same company from one year to the next—because of the differences in what's included or excluded in the calculation. And when entities use non-GAAP measures which are subjected to ad-hoc adjustments, the very objective of making financial information useful and relevant gets defeated.

Lately, the IASB appears to have come to terms with the fact that non-GAAP measures are here to stay. Accordingly, one of the objectives of its latest research project 'Primary Financial Statements' is to define subtotals such as operating profit and earnings before interest and tax. In addition to these subtotals, the project is also aiming to define the traditional Non-GAAP subtotals and label them as Management Performance Measures (MPMs). A step in the right direction, it is unlikely to address a number of issues including earnings attributable to equity-accounted investments and earnings attributable to non-controlling interests – leaving intact a part of the gray area.



## Competency Framework: Can it be a Tool for Improving Public Administration in Nepal

*The existing traditional job-based approaches to human resource management in western countries is being replaced by competency-based systems in which public administrators are assigned tasks based on their abilities and competencies rather than the hierarchical positions they occupy.*



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### Significance of the Competency Framework in Public Sector Accountability

Rapid changes in the public sector environment largely instigated under the banner of 'New Public Management (NPM)' demand flexible human resource strategies. In many contexts, reforms have remained ineffective in practice and resulted in unintended consequences as the focus was more on structural and procedural improvements. For instance, the implementation of accrual accounting, international public sector accounting standards (e.g. IPSASs) and performance budgeting, reporting and auditing have continued to pose several challenges at the implementation phase in a large number of developing countries (Adhikari et al., 2019). Public administrators are at the central position in implementing any changes and it

is rather naïve to believe that any such changes would be materialised without shifting a focus at the agency level. Empowering public administrators by keeping them in a learning loop has become an issue of utmost importance.

As a result, the existing traditional job-based approaches to human resource management in western countries is being replaced by competency-based systems in which public administrators are assigned tasks based on their abilities and competencies rather than the hierarchical positions they occupy. The idea of the competency framework contradicts a traditional approach to determining the eligibility of public administrators for a particular post and grade on the basis of their meritocracy, seniority and experience. The competency framework has been mainly used in the public sector of western

countries to ensure a right match between the skills and tasks assigned to public administrators, determine cost-benefit links between their appointment, training and job performance and improve the mechanisms for their performance appraisals. The benefits of the competency framework at different levels are clearly specified. At the individual level, the competency framework provides public administrators with the opportunity to know what is expected in their assigned role. This will make them aware of the skills, knowledge and behaviours that are paramount for performing the delegated duties and moving to other jobs. At the managerial level, the conceptual framework benefits in setting up broader objectives for public administrators, providing feedback on performance and identifying individual learning needs and career development paths. In a similar vein, at the ministry level, the competency framework can be applied to target resources for staff learning, recruiting the right people and shaping organisational culture of learning and development. The framework has provided a tool for many western governments to institutionalise citizen-centric governance and discharge wider forms of accountability beyond the vertical one, as codified in the functioning of representative democracy. In particular, the significance of the competency framework in discharging accountability downwards to citizens by ensuring the results and outputs of resources used is widely acknowledged in the western country contexts.

### **The Competency Framework in the UK**

The UK civil service competency framework is developed to support the civil service reform plan and the performance management system. Competencies in the UK civil service are understood as the skills, knowledge and behaviours that lead to successful performance of public administrators. The framework has identified ten core competencies, which are grouped into three main clusters; set direction, engage people and deliver results. Each competency has been elaborated on in detail explicating what it is meant in practice with examples of effective and ineffective behaviours at different administrative echelons (CSHR, 2017). Recruitments of civil servants, their professional development and decisions on their progression, all are guided by the competency framework. The framework provides the

civil servants a clear indication what they are expected to achieve over the year and sets out directions which they need to follow to realise the set targets. Civil servants depending upon their positions are required to adhere to a number of competences, usually around six, which are identified upon discussion with their manager.

Different UK public sector entities have set their individual competencies for human resource management. For instance, the Department of Education has developed a competency framework consisting of 16 competencies, which are further grouped under the headings of six key features of effective governance as outlined in the Governance Handbook: strategic leadership; accountability; people; structures; compliance and evaluation. The Ministry of Justice has in its competency framework sets out five main competence areas, including focusing on the customer, developing people, using evidence to make decisions, planning and managing resources and working as a team. These competencies are also part of the Ministry's professional skills for governance (PSG) framework, the aim of which is to ensure that public administrators have the right mix of skills and expertise essential to deliver the department's priorities.

### **The Competency Framework in Other OECD Countries**

The OECD competency framework classifies jobs into different families stating that such classifications will help the organisation determine whether it has adequate capacity to achieve maximum impacts and to locate the required capabilities (The OECD, 2014). Job families are applied to determine requirements for similar jobs at the corporate level, identify a potential matches and bridges for inhouse mobility and offer corporate learning and career development programmes. Each available job at the corporate level falls within one of the three job families: executive leadership, policy research, analysis and advice, and corporate management and administration. Typical jobs within the family of executive leadership are director, deputy director, head of division and counsellor with the assigned tasks of designing, leading and steering the OECD and its staff members to achieve their strategic objectives. Within the family of policy research analysis

and advice are economists, analysts and statisticians who are involved in producing key outputs indispensable for realising the OECD's strategic objectives. Jobs embedded in the family of corporate management and administration, for instance marketing managers, HR officers, and logistic officers, just to mention a few, are crucial for the day-to-day operation of the OECD and the generation of expected results and outputs efficiently and effectively. In addition, the competency framework also covers specific technical competencies which are required to perform a specific job incorporated in a job family. Core Competencies, which are important across all jobs, are particularly outlined in the framework. Fifteen core competencies are displayed putting them into three clusters; the delivery-related competencies; interpersonal competencies; and strategic competencies.

Within the OECD region, some countries have adopted the competency framework for a special purpose. For instance, Belgium governments have adopted the framework after they struggle to fill out vacancies in some areas (Brans and Hondeghem, 2005). The competency framework enabled local administrations to develop an attractive image in the labour market and to signal their commitment towards greater flexibility in career development. On the contrary, the use of the competency framework in the Netherlands was associated to wider objectives of promoting innovation and addressing the old issue of fragmentation (Page et al., 2005). In the USA, the implementation of the competency framework was connected to the issue of civil rights.

### **The Competency Framework in India**

Public administration in India has experienced a series of changes in the last decade. An increasing emphasis is now being placed on result rather than rule-based approaches in the delivery of public services and the discharging of government's accountability. As part of these reforms, a number of financial measures, including performance reporting, zero-based budgeting, and more recently, output-based budgeting, have been introduced across public entities. Central to public administration reforms has been the professionalisation of public administration. The twelfth five-year plan and the report of the Administrative Reforms Commission (ARC)

issued in 2008 had urged state governments to search for initiatives to professionalise public administration, as part of establishing more service-oriented and citizen-centric governance (IMG, 2018). It is acknowledged in the ARC report that the quality of public servants has a direct bearing on the outputs and outcomes of administrators and that the professionalism is indispensable to deliver better public services. In particular, the professionalisation is envisaged as a way of making public administrators more accountable by focusing on result-based approaches and output-oriented performance management.

In 2014, the Ministry of Personnel, Public Grievances and Pensions, in collaboration with the UNDP, set up a project, 'the Pathways for an Inclusive Indian Administration' (PIA), to search for the measures to professionalise public administration. The PIA team released a report emphasising the competency-based administrative reforms for Indian Civil Services (ICS) (IMG, 2018). Central to the report was a dictionary of competencies for public administrators reflecting both public service values and the essence of good governance and citizen-centric service delivery underpinning the four building blocks of the Indian Civil Services (ICS) – ethos, ethics, equity and efficiency (IMG, 2014). Following these initiatives at the state level, the Institute of Management in Government (IMG), an apex administrative training institute in Kerala, launched an ambitious project of developing competencies for public administrators operating at a cutting-edge level. Three state departments – the Police, the Social Justice and the Schedule Tribes Development – were selected for the first phase of piloting the competency framework. The piloting of the competency framework gained a further momentum in 2016 after it was extended to the Local Self Government Department (Panchayats). The state government of Kerala has internalised the importance of competency management in its new training policy released in 2017. The central government has encouraged other state governments to adopt the competency framework, as part of reinventing their public administration. It is believed that the competency framework would be a key human resource management strategy in the public sector of India in the next decade.



## Can the Competency Framework be used in Nepal ?

Public trust in the politics and public administration has eroded in Nepal in the last decades. Performance of public administrators have drawn substantial criticisms and this poor performance has been linked to the escalation of many, if not all, malpractices, including corruption, patronage politics and neopatrimonialism. However, the blame cannot be simply put to public administrators as the traditional merit-based system of civil servant recruitment, training, transfer and promotion has remained intact in the public sector. Attempts to impart public administrators with required competencies despite such being recommended in the reports of several successive administrative reform commissions are virtually non-existent. As such there is a need for articulating broader structural and cultural changes in the public sector human resource management of the country. The competency framework can certainly serve as an effective tool to materialise such changes in practice. The experience of many other countries which have adopted the competency framework in their public administration shows that the framework has helped them build capable workforces by ensuring a good match between their tasks and skills and the procedures set for their recruitment, training and performance appraisal. In western countries, the competency framework has resulted in a change in the way accountability is discharged by promoting continuous learning. The learning aspect of accountability is paramount to make public administrators more responsive to the needs of citizens. They would be aware of what is expected from them, what works and what does not. In the literature it is claimed that ensuring learning accountability is the only way to legitimatise governments' authority and citizens confidence in contemporary societies in which the dissonance against governance and accountability is abound (Bovens, 2007).

The way how the competency framework is being developed and implemented in India in general and the state of Kerala in particular can be a valuable lesson to Nepal. Indeed, implementing reforms in the public sector of developing countries is not without challenges; delay, tensions and resistance have been key features of public

sector reforms in developing countries (Adhikari and Jayasinghe, 2017). However, the potential benefits of the competency framework far outweigh such perceived challenges, thereby offering a pathway for Nepalese sector public entities to transform into, what Bovens (2007) has mentioned, 'intelligent organisations'.

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## Know Bleeding Points before You Fall Down .....

*Corporate Governance and Strict Penalties to lawbreakers have been neonatal concepts in Nepal but corporate deceptions have been very much seasoned. While we keep our brain sharp for external misfortunes, naively we close our eyes to internal world.*



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We all know that high-profile frauds have shaken investor confidence in world economy. Everything looks perfect and functioning till the time of exposure. Various undiagnosed infections can be impairing health of institution internally but the world fails to notice such cancerous disease till it reaches the point of incurability. In ENRON SCANDAL of 2001, CEO Jeff Skilling and former CEO Ken Lay kept huge debts off balance sheets for years. Investors lost USD 74 billion and thousands of employee lost job/retirement accounts when it fell

down. In SATYAM COMPUTERS case of 2009, revenue was falsely boosted by USD 1.5 billion and that inflated size exploded company into pieces. In Nepal also, we have witnessed various corporate shakes like Kist Bank CEO arrest case, NB Group case to various banks and insurance, Oriental Co-Operative troubles, Heli Rescue frauds, hundred cases of caught corruptions and abuse of authority. Corporate Governance and Strict Penalties to lawbreakers have been neonatal concepts in Nepal but corporate deceptions have been very much

seasoned. While we keep our brain sharp for external misfortunes, naively we close our eyes to internal world. We concentrate in high level strategy and targets, but we fail to identify tiny energy drainers.

Let me rephrase old sayings 'Lock and keys are made for gentleman. Thieves tend to break doors anyway. Doors are locked so that gentleman's intention not be spoiled.' Corporate governance and adequate internal control system must be placed to identify, safeguard and block bleeding points of organization.

We know well that no matter how much revenue we fill from top, if there are leakage points in a vessel, nothing is going to be stowed. Almost all companies give maximum focus on sales and revenue, they fail to realize that even



tinest hole is draining out positivity steadily. Purchase, production, sales, supply chain, finance and human resource are important chunks but thin line of monitoring and control be needed in their base. Unintentional errors or intentional frauds not only harm organization's operation plan but also hinders overall strategy. Effective internal control mechanism must be designed and implemented to pinpoint imminent loop holes and detailed procedures to be adopted to block each bleeding points. Identifying those seepage opportunities, designing a system that ensures proper authorization and recordation procedures for financial transactions, and regular monitoring are needed in every organization for building confidence.

Let's list out possible bleeding centers in a company's physique so that precautions could be taken or treatments be done in time. Every activity is crucial for corporate life but every zone is prone to get stung by energy drainers. All departments like Human Resource, Procurements, Manufacturing units/ core production wing, Supply Chain, Sales and Marketing, Information Technology, Administration, Accounts and Finance, Travel Protocol, Recovery Team, Legal and Compliance etc needs to be immunized for possible leakages. Few areas are explained as follows:

## 1. Human Resource

HR is a face of every organization. Strong company is built by strong human capital and HR has vital role to make strong foundation for this capital. From the time of onboarding to separation, HR is associated closely in development and management of each human resource. Areas like recruitment, selections, trainings, events etc have hold fragile sections where off the record arrangements can be done crossing integrity level. Commission sharing occurrences not only smash company financially, but also fertilize soil for multiple scams. If HR itself is failed to hold professional standards, then others will lose faith in system.

## 2. Procurements

Purchase is key factor for every manufacturing, trading or construction companies. Every company wish to have strong procurement manual and zero tolerance for leakage. But still we can get instances of deceitfulness in various cases. Some examples are:

- a. Batch of 10000 promotional items are delivered in 10 lots and same items of previous batch are rolled over. Invoice are made for total contract numbers and payments be done as well. Over invoicing is present in many activities which could not be flourished without channelized corruptions.

- b. Branding costs of wall paint etc holds bills of painting or decoration of personal properties as well.
- c. Procurement contracts with unreasonable rates and quality standards
- d. Approving payments above contract value

### 3. Manufacturing Units

In a factory level, size of activities are too big to monitor completely. When factory operates 22 hours in a day and hundreds of skilled/unskilled labors work, volumes of work makes it impossible to be controlled from every angle. Finished goods are dispatched in higher volume than sales invoice. Direct material, labor and direct costs are consumed more than standards because of larceny. Loop holes of ERP and security systems are developed for personal benefits. Arrangements are made for stealing from store, loading with confidence, material outward from system and unloading at some private locations for selling without invoice. Whole chain of sleaze is unique depending upon value of goods/ services. Since production center is core component of business, majority of financial activities revolve around it so does the grey areas.

### 4. Others

Just like front level activities, back office activities are also prone to imaginable swindles. Forge bills acceptance and payments, account transfer from one head to head etc can be done from financial reporting department. For examples – advance or income received for ancillary verticals can be settled against some casual advances of management team. Similarly in elite nature of products, pressure of demand is encashed by supply chain individuals. Heafy amount is taken from debtors to release products in priority basis. Promotional items gets sold at grey market. In every department, there are chances of making personal benefits in contracts and payments. In least monitored units, store in-charge

lease out or even sell items without record of corporate. Forge letter heads, bill pads, stamps or payment receipt notes are made and utilized for making personal benefits with company resources. Individual pockets are filled from company recovery etc. Transportation cost of one consignment can be billed and paid multiple times in absence of proper internal control.

Non-financial corruption can be witnessed various activities. Various business decisions are made in subjective manner where one person's opinion can be biased as per his interests. Lack of scientific methodology, quality control mechanism, concurrent review and control can lead to disastrous situation. Within stakeholders, there are some talents reaping benefits by creating troubles. Cunning intelligence can easily create puddles in a road map and later on he gets rewards and recognition for helping out organization to cross that ditch, which can be in addition to invisible revenues he generate from that process. Board representing investors must ensure establishment of adequate mechanism for audit, risk assessments and remedies. Other stakeholders like governing authority, financing banks, auditors, strategic partners, creditors, employees shall be vigilant too for plausible corporate wounds.

Developing internal control mechanism and zero revenue leakage is not a magic stick trick, it's about a complete





culture. Forming one department for watch dog can never be worthwhile without enrolling every level into system. Old short story can be preamble for brisker lights. Once upon a time, there was a complaint from loyal man against cow herd for adding water to master's milk. Master instructed loyalist to work closely with cowherd and make sure that no water be added to milk. Loyalist exhilarated and started new responsibilities immediately. Both milk man and loyalist were stationed at cow shed where milk man was depressed but continued to work. After few days, milk man expressed his anxiety and said that both of them were going to die. On curiosity of loyalist, he explained that shed is full of mosquitoes and chances of fatal infections is extremely high. Second one became worried and asked how milk man been survived for these many years. Milkman explained gently that he used to take one liter of milk at each milking session and

drink for best immunity. After thinking for a while, watch dog sighed 'Listen! From tomorrow take two liters of milk at every milking session because survival is must for any kind of service.' From that day, milk was pilfered double than earlier and equivalent water was added to outward supply.

Commerce can't move without human capital and human holds intrinsic dark qualities as well. Strengthening one section or mechanizing some activities can never safeguard leaking veins. Developing proper system, nurturing corporate culture, building values and clasping best practices are only formulae for long run. This formulae is time consuming and look bureaucratic, but once implemented in complete form – it can give better confidence and transparency.

## Financial Sector Reform: We Learnt a Costly Lesson !

*Financial stability is crucial for sustained economic growth and cannot be achieved without strong financial systems. Even with sound macro-economic management, weak financial systems can destabilize economies making them more susceptible to economic shocks. Only effective supervision can successfully counteract this behavior by announcing adequate capital standards, risk management, and transparency.*



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### Background

In 1912 the shipbuilder, Harland & Wolff had managed to convince the public that their latest creation, the Titanic, was unsinkable. Today, the architects of Nepalese economy are spreading the same propaganda about the financial sector reform scorning any thought of lifeboats or a muster station. The lack of exit strategy and lack of adjustment mechanism are problems for financial sector reform. Architects of reform have been shy of examining what might go wrong. Such questions are regarded as “disloyal.” Now economists have emerged who dare to ask the question “what if?”

This is a sensible risk-management question. The dissent is divided into two schools. The bottom-up approach says that market believes that reform has not been planned in proper manner, and they are looking for what will break the system. The top-down approach, which is more sensible, is that, there will be economic and political tension and the “Tycoon effect” will be expanded in the financial market. This effect is like a pressure cooker with the safety valve welded shut! They believe, when the economy takes a downturn, regulator will not respond quickly as there are many threads of economic and market history that were working themselves through the market, consisting of personality,

decisions, and market events that could not be examined.

It is important to remember that reforms were, and are, not instituted in a vacuum but are very clearly linked to certain economic conditions and plans. We should establish the background by asking a few question-What? Who? Why? The answers will enable us to gain some insight into the entire question of financial reforms.

The first question: What are financial reforms and what are we reforming? One could broadly say that financial reforms deal with changes in the structures and operations of money, capital and exchange market and institutions operating in the market. The reforms are intended to relax administrative control and move towards more market oriented systems that are relatively more efficient and yield better utilization of scarce resources. Generally, reform in emerging market relate to banking reforms, deregulation of interest rates, removal of ceiling on credit, removal of sectoral direction of credit, and the development of securities market and private debts market. However, it must be clearly understood at the outset, that the financial reform or deregulation does not imply the elimination of all regulations. This would lead to market anarchy. Adequate regulation, to ensure systemic stability, is vital if the reform process is to be successful.

The second question- 'Who' reforms? Yields surprising answers. We the public are responsible for reforms. We should understand that reforms are not limited to the financial sector and are not a one-off act, but a continuing process.

We now come to the crucial question of 'why' reforms are needed. The financial sector reform is expected to enhance the efficiency of resources allocation and promote growth. While this has perhaps been the most important reason for financial reforms in most countries, in practice several additional reasons have also been identified by many economists. A few that immediately come to mind are the desire to encourage the development of financial sector and the need to conform to external requirements as a

response to financial crisis. For example, it is generally felt that in the cases of Singapore and Hong Kong, which have virtually no natural resources, financial liberalization was intended to build on their comparative advantage and create a vibrant banking sector.

Have the reforms been uniform? Has there been no adverse effect? Unfortunately, the answer to both questions is negative. The reforms have not progressed smoothly due to various problems and there have been instances of adverse effect.

A question that one might wish to ask at this stage is whether financial reforms have been uniformly successful. The answer to that is 'No'. Some countries such as Argentina, Chile, Uruguay, encountered difficulties as a result of liberalization though it has been often argued that this was due to policy inconsistencies, errors in implementation, and/or a lack of proper regulation, rather than due to a fundamental flaw in the concept of financial liberalization. In general, however, countries that liberalized their financial sector have been rewarded with a success. Furthermore, if a country is to be a part of the development in the economy of the rest of the world, reforms become essential.

### **Nepalese Experience**

Financial stability is crucial for sustained economic growth and cannot be achieved without strong financial systems. Even with sound macro-economic management, weak financial systems can destabilize economies making them more susceptible to economic shocks. Only effective supervision can successfully counteract this behavior by announcing adequate capital standards, risk management, and transparency. This requires a skilled watchdog that can understand the risks in financial activities; identify the best ways to anticipate, manage and control these risks; and establish an adequate framework of prudential regulation.

The Nepal Rastra Bank (watchdog) has been far more successful in developing and implementing monetary

policies than in supervising and regulating commercial banks. The major shortcoming in the financial sector during the past years can be attributed, in good measure, to the apex bank's weakness in performing its supervisory function. Bank failures are widely perceived to have greater adverse effects on the economy and are thus considered more important than the failure of other types of business firms. The failure of an individual bank introduces the possibility of system wide failures or systemic risk

The watchdog has developed approaches for assessing the adequacy of bank's Credit Risk Management, including the collection of information on banks' credit risk exposures and the evaluation of the adequacy of bank's loan loss provisioning and allowances for risk, but they are not sufficient. Situations may occur where banks fail to meet supervisory requirements or where solvency comes into question. Therefore the current scenario also emphasized the limited comfort that can be drawn from real estate collateral - the value and marketability.

The real estate market witnessed two critical points during the past few years: the easy access to the credit and economic impact of political stability. One year before signing of peace treaty and until last year the price for real estate properties kept growing. Now, the growth ceased, and the investments in real estate are trembling. This situation called for redefining Financial Service. Moving away from traditional "Collateral Based Lending" to "Cashflow Base Lending" and customary technique of supervision to "Risk-Based Supervision". From "Creditors Right" to "Debtors Transparency". From "Internal Credit Risk Evaluation" to use of "External Credit Assessment Institution" (ECAI). Banking continue to evolve in the light of experience.

Normally watchdog enjoy an independent status and are backed up by institutional and legal support to help them enforce regulations and apply corrective measures. Therefore, the watchdog should primarily, promote effective implementation of the transparency for efficient

financial system. Secondly, it must enhance its ability to adopt necessary changes. Thirdly, it must provide latest information on market products, practices, and techniques to help financial institutions to adapt to rapid innovation in risk management, finance and regulation. Fourthly, the watchdog must evolve solutions to multiple challenges by sharing experience. Finally, they must employ the practices and tools that will allow meeting everyday demands and tackling goals that are more ambitious.

In the light of recent experience, it is believed that the watchdog's role and guidance to Financial Institutions should be reviewed. However, the solution to the problem does not lie in the formation of a new watchdog, or in the conduct of parallel supervisory exercise. But in strengthening watchdog's abilities to supervise and regulate Financial Institutions. Despite tight market conditions and painful transition, there is an air of hope Nepalese Financial system may stay afloat.

### **Lesson learnt**

Let us summaries the development. From a macro-economic perspective, some change has taken place, there has been some structural change in economy and new employment opportunities have been created. However, due to various reasons banking sector has not been able to play lead role to improve productivity of the economy. We understand that one of our objectives in introducing financial sector reforms was to increase productivity of the economy. This has not been achieved.

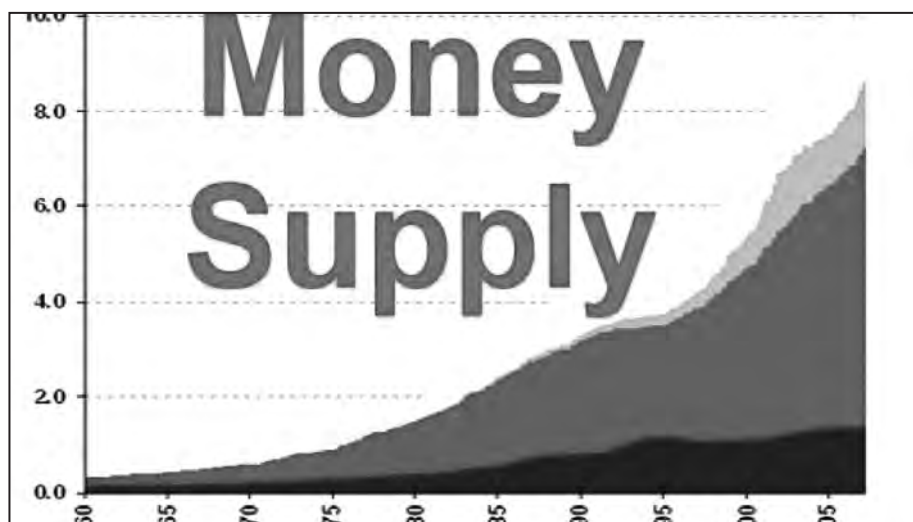
About 'what' next we foresee a continuation of reform process. In essence, we learnt three things. Firstly, reforms are beneficial, but must be handled carefully, as there can be pitfalls. Secondly, we cannot progress or compete with the rest of the world without engaging in reform. Finally, reforms are a continuing process, not something that is a one-off deal. We learnt a costly lesson. As is often said, one has to pay for one's education !

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## Money Supply in Nepal: Theoretical and Practical Aspect

*Money supply refers to the amount of domestic currency that circulates in a national economy during a specified period. Money supply includes cash, coins, and money held in savings and checking accounts for short-term payments and investments.*



**Abstract:** This article analyzes the theoretical and practical aspects of money supply of Nepal. The knowledge of theory of money demand makes easy to know the factors of money supply. While determining money supply that means expedient limit in Nepal gross income, rate of interest, price level, monetization, development of banking sector, money substitution and income distribution shall have to be considered. After determination, it is necessary to have the knowledge of theory of money supply that means the method of quantity of money. Quantity of money is clear by two methods (a) Balance Sheet

Method and (b) Money Multiplier Method. Quantity of money in Nepal is out of the control of Nepal Rastra Bank, but to keep quantity of money within expedient limit Nepal Rastra Bank is adopting various methods. Effort to keep quantity of money within expedient limit is being made through adjustment of bank rate and mandatory cash reserve ratio, issuance bonds of the Government of Nepal and open market transaction in foreign currency. The treasury bills of Government of Nepal which are used for open market trading to influence quantity of money through reserve money were not adequate in the past. Thus, from Mid-June



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*1998 to Mid-March 2002, special bonds approximately 17 billion rupees have been converted to marketable treasury bills.*

## **Introduction:**

Money supply refers to the amount of domestic currency that circulates in a national economy during a specified period. Money supply includes cash, coins, and money held in savings accounts for short-term payments and investments. In other words, it refers to the total quantity of money in the country at any time period. Money supply is the entire stock of currency and other liquid instruments in a country's economy as of a particular time. The money supply can include cash, coins and balances held in savings accounts.

Money supply data are collected, recorded and published periodically, typically by the country's government or central bank. Public and private sector analysis is performed because of the money supply's possible impacts on price level, inflation and business cycle.

Most of the countries have adopted the narrow and broad concepts of the money supply. According to the narrow approach, the money supply ( $M_1$ ) comprises of the currency with the public (C) and demand deposits with the banks (D) while the major components of the broad money supply ( $M_2$ ) comprise the currency with the public, demand deposits with the banks and time deposits with the banks. Balance Sheet (accounting) and Reserve Currency (money multiplier) are being used for the analysis of quantity of money supply.

### **(1) Balance Sheet (Accounting) Method**

Several nations, including Nepal, are adopting the balance sheet method for money supply analysis. This method in the context of Nepal is based on the balance sheet of Nepal Rastra Bank and the balance sheet of commercial banks. The monetary survey shall be prepared on the basis of balance sheet of NRB and balance sheets of commercial banks. From the monetary survey, monetary sum (quantity of money) can be obtained. In Nepal, two monetary sums are described till date; (a) narrow money quantity ( $M_1$ )

and (b) broad money quantity ( $M_2$ ). Narrow quantity of money is the sum of money that is on the transaction with the public outside the bank and current deposit of public with the bank. Broad quantity of money is the addition of a narrow quantity of money and periodic deposits with commercial banks.

The factors affecting the quantity of money can be divided into two parts according to the model of the balance sheet: (a) Factor affecting the broad impact and (b) Factors affecting narrow impact. The factor affecting broad impact can again be divided into two parts (a) Foreign source of money supply and (b) Internal source of money supply. If the net foreign property of the monetary sector is expanded or contracted the quantity of money shall increase or decrease respectively. Net foreign assets of the monetary sector shall depend on the balance of payments of the nation. If export compared to import, foreign currency inflow received from net service, remittance of the private sector, foreign loan obtained by the Government of Nepal and foreign investment is increased, the net foreign assets of monetary sector shall increase. In the nation like ours where there is a fixed exchange system, the central bank does not have control over the source of this type of quantity of money. The role of net foreign assets in monetary expansion in Nepal is the principal. For example, the contribution of net foreign assets on a comprehensive quantity of money on Mid-July 2019 was 21.6 percent and narrow quantity of money was 160.7 percentage.

Among the internal source of the quantity of money the bank loan that goes to the Government of Nepal from the monetary sector has an effective role. Commercial banks flow loan to the Government of Nepal by investing on debentures whereas Nepal Rastra Bank flows loans by purchasing debenture and providing overdraft. Before the enactment of Nepal Rastra Bank Act, 2058 as there was a provision that the Government of Nepal can obtain overdraft not exceeding one billion rupees. However, more overdrafts were taken time to time. It is well known that Nepal Rastra Bank does not have control over the expansion of the quantity of money due

to the reason of overdraft to date. Nepal Rastra Bank Act, 2058 has restricted that the Government of Nepal cannot take overdraft more than 5 percent of the total revenue of the previous fiscal year. In upcoming days the financial discipline of the Government of Nepal shall determine whether Nepal Rastra Bank shall have control on the expansion of the quantity of money. The bank loan that goes to governmental organization from the monetary sector after financial sector liberalization has no significant role in monetary expansion. But the loan that is flowed to the private sector from the monetary sector has a significant role in monetary expansion. The loan flowed to the private sector depends on the status of industrialization, tourism, import and export.

The non-monetary liabilities of monetary sector where capital, reserve, profit reserve, bad debts, etc. are included narrow the quantity of money. In recent years the non-monetary liability has a remarkable impact on the quantity of money. The periodic deposit with commercial banks shall also make a narrow impact on the narrow quantity of money.

According to accounting (balance sheet) method by analyzing the ups and downs in the broad and narrow factors of monetary policy, the quantity is analyzed.

#### (i) **Money Multiplier (Reserve Currency) Method**

According to the money multiplier method, there are two factors (a) Reserve money and (b) Money multiplier. If reserve money and money multiplier increase, money expands and they decrease, money will be narrow.

##### ➤ **Reserve Money**

On the monetary expansion that happens in Nepal, the reserve money shall have an effective role. Reserve money decreased by 1.5 percent in the year 2018/19 compared to a rise of 8.1 percent in the previous year 2017/18.

Narrow money is the liability of the central bank (Nepal Rastra Bank). Principally, as own liability is in own

control, Nepal Rastra Bank should have its control on reserve money. But it is learned that Nepal Rastra Bank does not have control over reserve money. To determine whether Nepal Rastra Bank has control over or not to reserve money, the following factors affecting reserve money shall have to be discussed:

In Nepal, the monetary authority has the principal role to decrease and increase the reserve money of net foreign assets. The net foreign assets (NFA) after adjusting foreign exchange valuation gain/loss) decreased by Rs. 67.40 billion (6.4 percent) in the year 2018/19 compared to an increase of Rs.0.96 billion (0.1 percent) in the previous year 2017/18.

Due to having a fixed exchange rate in Nepal, Nepal Rastra Bank does not have control over net foreign assets.

The loan that goes to the Government of Nepal has remained as a second significant factor that has an impact to reserve money by net foreign assets. During the time of having expenditure more than the revenue, the Government of Nepal utilizes the overdraft facility from Nepal Rastra Bank. Despite having a legal provision in the past that the Government of Nepal shall not utilize overdraft more than one billion rupees, there are several examples of utilizing overdraft exceeding the threshold. As per the Nepal Rastra Bank Act, 2058 the Government of Nepal cannot utilize overdraft more than 5 percent revenue of the previous year. The matter of the Government of Nepal whether to be or not to be within that limit determined whether Nepal Rastra Bank has or have not to control on narrow money. In the present days, the loans that flow to the government from Nepal Rastra Bank are not up to that amount. This is happened due to the policy of privatization. The loans that flow to commercial banks from Nepal Rastra Bank are also not in huge amount. But repo provision has been made from April 1997, so commercial banks are taking repo loan. In other nations the share of loan to commercial banks from the central bank is huge but in Nepal the huge share of loan flows to the Government of Nepal from Nepal

Rastra Bank. It clearly indicates that Nepal Rastra Bank does not have control over narrow money. Due to the loan that is flowed to the Government of Nepal, Nepal Rastra Bank is itself issuing bonds to stop reserve money, trading debenture on secondary market and changing mandatory cash ratio and trying to control reserve money.

### ➤ *Money Multiplier*

Another factor to affect quantity of money is money multiplier. The method of affecting quantity of money by money multiplier can be discussed below:-

$$M = RM (mm) \dots\dots\dots (1)$$

Where, M = Quantity of Money, RM = Reserve Money and mm is money multiplier.

The aforementioned equation that is used to calculate money multiplier can be written as under:-

$$mm = \frac{M}{RM} \dots\dots\dots (2)$$

Let's take M as narrow money for analysis. When keeping the parts of narrow money or reserve money, the equation (2) can be written as under:-

$$mm = \frac{C+DD}{C+R} \dots\dots\dots (3)$$

Where, C = currency outside bank, DD = nominal demand deposit and R = balance of commercial banks with Nepal Rastra Bank and total balance of cash balance in own treasury. Governmental authorities excluding commercial banks in Nepal keep demand deposit with Nepal Rastra Bank. Compulsory cash ratio on R includes RR and excess reserves, ER. By separating this, equation (3) can be written as under:-

$$mm = \frac{C+DD}{C+RR+ER} \dots\dots\dots (4)$$

The right hand side of the equation can be written as under by dividing by DD

$$mm = \frac{C/DD+DD/DD}{C/DD+RR/DD+ER/DD} \dots\dots\dots (5)$$

The aforementioned equation on ratio can be written in small letter

$$mm = \frac{c+1}{c+RR+ER} \dots\dots\dots (6)$$

While keeping equation (6) on equation (1),

$$mm = RM \frac{c+1}{c+RR+ER} \dots\dots\dots (7)$$

According to the aforementioned equation, the reserve money has a positive relationship with the quantity of money and negative relation with RR and ER. RR is the ratio determined by the central bank. ER is the ratio maintained by commercial banks. If other factors remain the same, if the money ratio (c) increases, the number of money decreases. Such ratio depends on the rate of interest. The central bank by studying the economic and monetary status of the nation can change the mandatory cash reserve ratio (RR). Commercial banks by studying the rate of the loan, bank rate, environment of investment and position, etc. can maintain the economic ratio.

According to the theory of money multiplier (a) behavior of central bank, that resembles in reserve money (b) behavior of commercial banks, that resembles the position of more / less liquidity and (c) behavior of public that shows by money ratio, shall increase or decrease quantity of money.

In Nepal, monetary data are available since 1957.  $M_1$  was observed 9.7 percent of growth rate in 1958. In some years, there was a rapid expansion in all monetary aggregates. The highest growth rates of monetary aggregates were recorded in 1960. Both  $M_1$  and  $M_2$  had shown about 40.0 percent growth rate in that year. Nearly the same growth rate was observed in time deposits, the other component of  $M_2$ . The monetary history of Nepal  $M_1$  had registered the lowest growth rate of 3.9 percent in 1971.



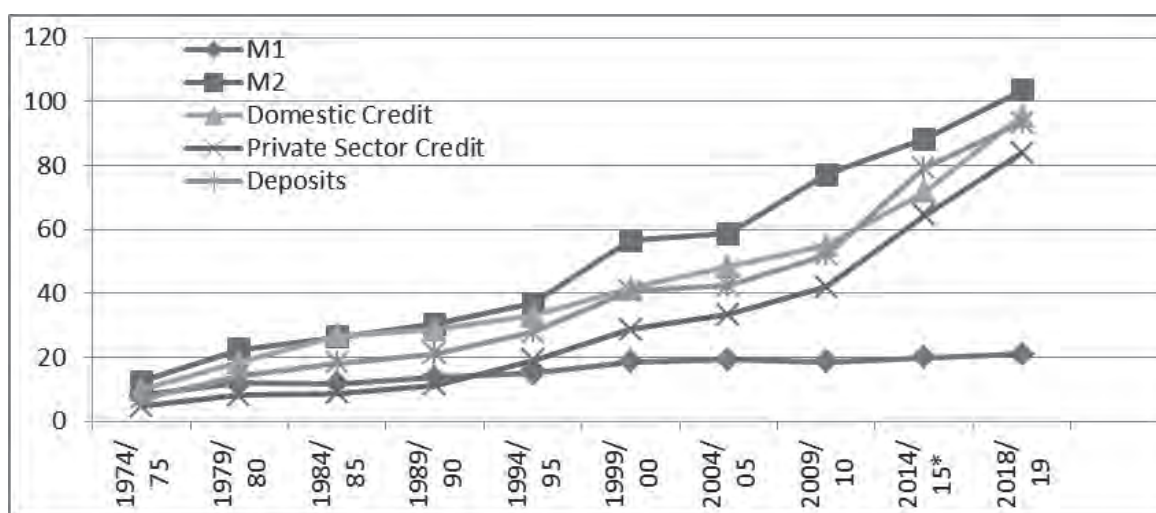
**Table 1: Monetary Indicators of Nepal**  
(As percentage of Nominal GDP at Producers' Price)

Fiscal Year	Nepalese Year	M <sub>1</sub>	M <sub>2</sub>	Domestic Credit	Private Sector Credit	Deposits
1974/75	2031/32	8.1	12.5	9.9	4.7	7.0
1979/80	2036/37	12.1	22.6	18.4	8.2	14.3
1984/85	2041/42	11.8	26.4	26.9	8.7	18.3
1989/90	2046/47	13.8	30.5	28.7	11.3	21.2

1994/95	2051/52	15.0	36.9	32.9	19.1	27.9
1999/00	2056/57	18.6	56.5	41.6	28.8	40.7
2004/05	2061/62	19.2	58.8	48.4	33.4	42.5
2009/10	2066/67	18.6	77.2	54.9	42.0	52.0
2014/15*	2071/72	19.9	88.2	71.7	64.5	79.3
2018/19	2075/76	21.0	103.4	95.5	84.0	93.4

\* Including Development Banks and Finance Companies, since 2010/11

Source: Current Macroeconomic and Financial Situation –Tables (Based on Annual Data of 2018/19), Nepal Rastra Bank



**Figure 1: Monetary Indicators of Nepal**

From table 1, M<sub>2</sub> money growth rates of nominal GDP at producers price was highest in FY 2075/76 and lowest in 2031/32. This means M<sub>2</sub> money and M<sub>1</sub> money have continuously increased since 2031/32 to date for the increase in nominal GDP. M<sub>1</sub> money growth rates of nominal GDP at producers' price was highest 24.1 percent 2065/66 and lowest in 2075/76. M<sub>1</sub>, M<sub>2</sub> and domestic credit, private sector credit and deposits recorded 21.0 percent, 103.4 percent, 95.5, 84.0 percent and 93.4 percent respectively in FY 2075/76.

In this context, it would be appropriate to highlight the determinants of money supply in Nepal.

### Factors Affecting Quantity of Money in Nepal

According to the theory of money multiplier, the factor having an impact on the quantity of money of Nepal shall be as under:-

- Among two factors (reserve money and money multiplier), reserve money is the factor that has more impact on quantity of money.
- Reserve money is influenced more by net foreign assets of Nepal Rastra Bank and loans to the Government of Nepal. In other nations, the loans flowed to commercial banks influence the reserve

money. This indicates whether the central bank has or has no control over reserve money.

- (c) Few years back, among the factors that influence money multiplier, the mandatory cash reserve ratio was also bringing change. This instrument is used for the medium and long term. In the recent years by changing the mandatory cash reserve ratio effort has been made to the expected impact on money. It is clear that the change of mandatory cash reserve ratio depends on the monetary behavior and stand of the central bank.
- (d) Excess Liquidity Ratio: This depends on the behavior of commercial banks. In the past, commercial banks used to have excess liquidity. Due to the reason of status of obtaining loan from central bank, controlled rate of interest and limited investment, the commercial banks had to maintain excess liquidity in past, but various facilities like secondary market, repo and miscellaneous refinancing are available from Nepal Rastra Bank, bonds of the Government of Nepal are available adequately and there is no restriction to the commercial bank to deposit into the foreign bank. Thus, the position of excess liquidity is not seen in commercial banks.
- (e) Ratio of Money: The decision of the public to keep cash with them or deposit into bank determines the ratio of money. Development of banking sector, acceleration in economic activities and increasing in banking habit of public decrease the ratio of money. But for some time back, due to the reason peace and security acts of shutting and shifting, bank branches has increased.

## Conclusion

For skillful monetary management, it is necessary to determine the money supply (Quantity of money) is clear by two methods (a) Balance Sheet Method and (b) Money Multiplier Method. Quantity of money in Nepal

is out of the control of Nepal Rastra Bank, but to keep quantity of money within expedient limit, Nepal Rastra Bank is adopting various methods. Effort to keep quantity of money within expedient limit is being made through adjustment of bank rate and mandatory cash reserve ratio, issuance bonds of the Government of Nepal and open market transaction in foreign currency.

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## APPENDIX 1

### Monetary Indicators

(As percentage of Nominal GDP at Producers' Price)

Fiscal Year	Nepalese Year	M <sub>1</sub>	M <sub>2</sub>	Domestic Credit	Private Sector Credit	Deposits
1974/75	2031/32	8.1	12.5	9.9	4.7	7.0
1975/76	2032/33	8.4	14.5	10.1	4.1	9.2
1976/77	2033/34	10.7	18.7	12.3	5.0	12.3
1977/78	2034/35	10.4	19.1	14.7	5.4	12.8
1978/79	2035/36	11.3	20.3	15.9	6.0	13.1
1979/80	2036/37	12.1	22.6	18.4	8.2	14.3
1980/81	2037/38	11.7	23.1	18.9	9.1	15.2
1981/82	2038/39	11.7	24.1	19.5	8.5	15.8
1982/83	2039/40	12.9	27.3	25.2	8.0	18.6
1983/84	2040/41	12.5	26.5	24.9	8.1	17.9
1984/85	2041/42	11.8	26.4	26.9	8.7	18.3
1985/86	2042/43	12.6	27.2	27.5	9.3	18.4
1986/87	2043/44	12.7	27.4	27.9	9.6	18.5
1987/88	2044/45	12.5	27.9	26.6	10.3	19.4
1988/89	2045/46	13.2	29.8	29.8	11.6	21.2
1989/90	2046/47	13.8	30.5	28.7	11.3	21.2
1990/91	2047/48	13.5	31.3	28.7	11.7	22.2
1991/92	2048/49	13.0	30.6	27.8	11.9	22.3
1992/93	2049/50	13.9	34.0	28.8	12.4	25.4
1993/94	2050/51	14.3	35.0	29.0	14.9	26.2
1994/95	2051/52	15.0	36.9	32.9	19.1	27.9
1995/96	2052/53	14.7	37.2	35.9	22.3	28.6
1996/97	2053/54	16.1	45.1	36.0	23.1	29.1
1997/98	2054/55	17.0	50.8	38.5	25.5	34.0

1998/99	2055/56	17.8	54.4	39.4	26.5	37.1
1999/00	2056/57	18.6	56.5	41.6	28.8	40.7
2000/01	2057/58	17.5	50.7	42.6	28.7	41.0
2001/02	2058/59	18.2	53.5	45.1	29.0	40.0
2002/03	2059/60	19.1	56.3	46.4	30.7	41.2
2003/04	2060/61	18.7	56.0	46.8	32.1	43.3
2004/05	2061/62	19.2	58.8	48.4	33.4	42.5
2005/06	2062/63	19.4	60.5	50.1	37.2	44.3
2006/07	2063/64	21.2	68.1	50.2	37.6	46.0
2007/08	2064/65	24.1	77.3	54.2	41.7	51.7
2008/09	2065/66	22.1	72.8	56.7	44.4	55.7
2009/10	2066/67	18.6	77.2	54.9	42.0	52.0
2010/11*	2067/68*	16.3	67.4	66.6	53.2	60.2
2011/12	2068/69	17.3	74.0	65.1	53.0	66.2
2012/13	2069/70	17.8	77.6	68.8	57.4	70.1
2013/14	2070/71	18.1	79.7	66.9	58.6	71.6
2014/15	2071/72	19.9	88.2	71.7	64.5	79.3
2015/16	2072/73	22.3	99.6	80.1	75.1	89.5
2016/17	2073/74	21.3	96.9	81.4	74.7	86.0
2017/18	2074/75	22.1	102.1	90.9	80.6	90.5
2018/19	2075/76	21.0	103.4	95.5	84.0	93.4

\* Including Development Banks and Finance Companies, since 2010/11

Source: Current Macroeconomic and Financial Situation –Tables (Based on Annual Data of 2018/19), Nepal Rastra Bank

# NEWS

## Activities

### Oath Taking Ceremony of Newly Elected President and Vice President

CA. Krishna Prasad Acharya, along with CA. Madan Krishna Sharma took the oath of office and secrecy respectively as the President and the Vice President for 2nd term of the 8th Council of the Institute in the "Oath Taking Ceremony" organized at Hotel Radisson, Lazimpat, Kathmandu on 23 July, 2019. Deputy Auditor General of Nepal Mr. Babu Ram Gautam, in the presence of Chief Guest Honorable Finance Minister Dr. Yuba Raj Khatriwada, administered the oath to newly elected President and subsequently President administered the oath to newly elected Vice President.



*President elect CA. Krishna Pd. Acharya is taking Oath of Office of president form Deputy Auditor General Mr. Babu Ram Gautam.*

The ceremony was attended by Council Members, Past Presidents, Prominent Government Officials, Representatives from Regulatory Authorities, ICAN members, Students and Employees of the Institute.

President CA. Jagannath Upadhyay (Niraula) handed over the President Medallion to the newly elected President CA. Krishna Prasad Acharya after he took oath of office and secrecy. Addressing the ceremony, Then President

thanked Council Members, Past Presidents and Institute's management for their continued support during his tenure in fiscal year 2075/76.



*President CA. Krishna Pd. Acharya is accepting President medallion from then President CA. Jagannath Upadhyay (Niraula)*

He also highlighted the various milestones achieved by the Institute during his tenure such as online Continuing Professional Education (CPE) examination, online Renewal of Membership and Certificate of Practice (COP), launching of Unique Document Identification Number (UDIN) application, signed MoU with Inland Revenue Department (IRD) for information sharing, ongoing Quality Assurance Review of audit practices, Memorandum of Understanding (MoU) with Association of Chartered Certified Accountants (ACCA), Association of International Certified Public Accountants (AICPA), members and students affairs.

Congratulating to new President CA. Upadhyay expressed with best wishes for his successful tenure, he also urged him to continue activities initiated but yet to be completed on priority. He finally concluded his speech with commitment of continued service to the Institute and profession in coming days.

Recognizing the contribution of the then President CA. Jagannath Upadhyay (Niraula) Executive Director, CA.



Sanjay Kumar Sinha presented a token of love to him, on behalf of the Institute.



*President CA. Krishna Pd. Acharya is in Acceptance Speech.*

Similarly, President CA. Krishna Prasad Acharya, in his acceptance speech, stressed that he is committed to strengthening Institute's regulatory function as well as restructuring the Institute's Governance, Management and Operational Aspects as a foundation to better discharge the duties entrusted to Institute by Nepal Chartered Accountants Act, 1997. He mentioned that it will be an honor to serve as a President of the ICAN and thanked Council Members and ICAN Members for providing him this opportunity.

### **Audit Practice Manual Released**



*Honorable Finance Minister Dr. Yuba Raj Khatriwada is releasing Audit Practice Manual at the Ceremony.*

In order to achieve the objectives of regulating and developing the accounting profession and complying with the Statements of Membership Obligation (SMOs) issued by IFAC, Institute is committed to monitor the quality

of audit and assurance work conducted by its member firms. In the light of this, Institute has released the Audit Practice Manual in occasion of Oath Taking Ceremony of Newly Elected President and Vice President. The manual was released by Chief Guest Honorable Finance Minister Dr. Yuba Raj Khatriwada.

This Audit Practice Manual is designed for use by audit firms registered with the Institute, especially those who do not have an audit manual of their own to carry out the audit in conformity with the Nepal Standards on Audit (NSAs) and other technical standards. The APM is recommended to be followed as a good guidance for the practicing members / firms registered with the Institute.

### **NFRS, 2018 Recommended for Pronouncement**

Accounting Standards Board (ASB), accounting standard setter of Nepal, has handed over Nepal Financial Reporting Standards (NFRS), 2018 for pronouncement by the Institute. These standards were handed over by Chairman of Accounting Standards Board and ICAN Past President CA. Mahesh Khanal to President CA. Krishna Prasad Acharya in the occasion of Oath Taking Ceremony of Newly Elected President and Vice President.

### **Conference on Contemporary Issues of Accounting Profession**

The Institute organized a full day Conference on "Contemporary Issues of Accounting Profession" coinciding with Oath taking Ceremony on 23 July 2019 held at Radisson Hotel, Lazimpat Kathmandu. The Conference was started with the welcome speech of ICAN Immediate Past President (Then President) CA. Jagannath Upadhyay (Niraula). Conference comprised of three difference technical sessions as under:

#### **Session 1 : Ethical Values and Accounting Profession**

This session was focused to reinforce ethical practices, develop and promote an ethical culture, foster trust

and transparency and professional accountant's duty to present true picture to the stakeholders.



*A Glimpse of the First Session at the Conference.*

CA. Madan Krishna Sharma, Vice President elect presented a paper on ethical values including matters of Handbook of Code of Ethics for Professional Accountants, 2018 and related guidelines, applicable to ICAN members from Shrawan 01, 2076 as per the Council's decision. Queries from the floor were answered by Session Chair CA. Kaushalendra Kumar Singh, ICAN Past President and Chairman of Ethics Committee of Institute and the Paper Presenter.

### **Session 2 : Determining Whether an Arrangement Contains a Lease**

This session was related to International Financial Reporting Interpretation Committee's Interpretation (IFRIC – 4): Determining Whether an Arrangement contains a lease. The Interpretation specifies that an arrangement that meets the prescribed criteria is, or contains, a lease that should be accounted for in accordance with NAS 17 Lease.



*A Glimpse of the Second Session at the Conference.*

The session was Chaired by ICAN Past President and former Chairman of Accounting Standards Board (ASB) CA. Narendra Bhattarai. CA. Manil Jayasinghe, Vice President Institute of Chartered Accountants of Sri Lanka (ICA Sri Lanka) and CA. Ashish Garg, General Secretary, Independent Power Producers Association Nepal (IPPAN) jointly presented technical paper in this session.

### **Session 3: Service Concession Arrangement (IFRIC 12)**

This session was related to International Financial Reporting Interpretation Committee's Interpretation (IFRIC – 12): Service Concession Arrangements. IFRIC 12 allows for the possibility that both types of arrangement may exist within a single contract: to the extent that the Government has given an unconditional guarantee of payment for the construction of the public sector asset, the operator has a financial asset; to the extent that the operator has to rely on the public using the service in order to obtain payment, the operator has an intangible asset. The session was Chaired by ICAN Past President and former Chairman of Accounting Standards Board (ASB) CA. Narendra Bhattarai. CA. Manil Jayasinghe, Vice President Institute of Chartered Accountants of Sri Lanka (ICA Sri Lanka) and CA. Ashish Garg, General Secretary, Independent Power Producers Association Nepal (IPPAN) jointly presented technical paper in this session. Queries raised by participants of session 2 and 3 were jointly answered by session chair and paper presenters.



*Participants at the Conference.*

More than 180 accounting professionals participated at the conference.



## National Best Presented Annual Report Award 2018 Distributed

Coinciding with the Oath taking Ceremony, the Institute awarded National Best Presented Annual Report Award for the fiscal year 2017/18. The National BPA Award 2018 was arranged under the category of Banking Sector (Private and Public Sector), Financial Sector (Including Development Banks and Finance Companies), Insurance Sector, Public Interest Entity, General Sector, Service Sector, Manufacturing Sector and Others. Organizations having their audited financial statements based on Nepal Financial Reporting Standards (NFRS) and having fulfilled minimum standards were only considered for evaluation and selection.

The details of winner and the runner ups were as follows:

Category	Winner	1 <sup>st</sup> runner up	2 <sup>nd</sup> runner up
Banking Sector (Private and Public Sector)	NIC Asia Bank Limited	NMB Bank Limited	Citizen Bank International Limited
Financial Sector including Development Banks	Mahaxami Bikas Bank Ltd.	First Micro Finance Ltd	-
General-Service Sector	Oriental Hotels (Radisson Hotel Limited)	Nepal Telecom (Nepal Doorsanchar co. Ltd)	-
General-Manufacturing Sector	Butwal Power Company Limited	Bottlers Nepal Limited	-
General-Other	Karja Suchana Kendra Limited (Credit Information Bureau Limited)	Nepal Clearing House	-



The Winner of National BPA Award is Receiving Award at the Ceremony.

The Best Presented Annual Report Awards were presented by Honorable Finance Minister Dr. Yuba Raj Khatiwada in the special ceremony organized at Radisson Hotel Lazimpat, Kathmandu, Nepal on 23 July, 2019 in the presence of Guest of Honor Deputy Auditor General Mr. Babu Ram Gautam, Guest of Honor Chairman, SEBON Dr. Rewat Badadur Karki and ICAN first President CA. Komal Bahadur Chitrakar.



Honorable Finance Minister delivering Speech at the Program.

Addressing the ceremony, Honorable Finance Minister Dr. Yuba Raj Khatiwada congratulated BPA Award winners and advised ICAN members, as auditors and senior executives, to advocate fair presentation and disclosure of organization's financial and other affairs.

The award distribution ceremony was also addressed by Special Guest and Guest of Honor. They stressed the requirement of increased coordination among regulators to promote good governance and financial discipline.

On behalf of the Institute President CA. Krishna Prasad Acharya presented token of love to the Honorable Finance Minister.

## Interaction Program on Future Direction of ICAN

The Institute organized a half day interaction program with the stakeholders on "Future Direction of ICAN" on 26 August 2019 in Lalitpur. The objective of interaction program was to collect suggestions and feedbacks for

improvement of ICAN from the stakeholders. The program was participated by President, Vice president, Council Members, Past Presidents, Representatives of Office of Auditor General, Financial Comptroller General Office, Office of the Company Registrar, Nepal Rastra Bank, Securities Board of Nepal, Beema Samiti, Association of Chartered Accountants of Nepal, Auditor Association of Nepal, Accounting and Auditing Standard Board of Nepal, Committee Members, Quality Assurance Board, Members of ICAN, Senior Officials of ICAN.



*Resource Person is Presenting at the Interaction Program.*

The program started with the opening speech and the briefing of the objectives of the program by ICAN President CA. Krishna Prasad Acharya. During his speech he outlined the current scenario and functioning of ICAN and mentioned about the threats from external factors. He hoped that this forum will provide an insight on the issues to be addressed for the long term benefit of the Institute and will lay down milestones to be achieved in days ahead.

In addition to this, Immediate Past President also shared his experiences in the program.

A concept paper was presented by Dr. Min Bahadur Shrestha to elaborate the idea of long term vision of the Institute and rational to look back for setting way forward, whereas, CA. Nanda Kishor Sharma made a presentation explaining rational behind expected changes and its long term impact on the functioning of the Institute.



*A Glimpse of Interaction Program.*

After technical session five groups were formed to collect feedback from the participants of the groups and member of each group was allowed to present collective opinion on the group on the proposed institutional reform in the Institute. Mr. Babu Ram Subedi- Representative of FCGO, CA. Sudarshan Raj Pandey- Past President, CA. Prakash Lamsal- Past President, CA. Ananda Sharma Wagle- ACAN President, CA. Umesh Raj Pandey, CA. Ashmita Gorkhali- Representative of NRB provided their group views as feedback on the concept papers presented in the program.

Similarly, CA. Komal Bahadur Chitracar, First President of ICAN had also gave his feedback for institutional development.

The interaction program concluded with a consensus to focus on strengthening Institutes' regulatory function as first priority besides strengthening management, branding of the Institute, facilitating students through qualitative study materials, introducing post qualification courses for the members, supporting Government, establishing Institute's image at International arena etc.

President assured that the present Council is committed to proceed with collective decision making process and will not favor unilateral decision that might hinder the path of progress of the Institute.

The program concluded with the Vote of thanks by ICAN Vice President CA. Madan Krishna Sharma. More than 40 participants participated the program.



## Participation in Nepal Infrastructure Summit, 2019

Confederation of Nepalese Industries (CNI) had organized Nepal Infrastructure Summit, 2019 from 11-12 September, 2019 in Kathmandu with the objective of attracting large private investments. President CA. Krishna Prasad Acharya represented the Institute in this conference and participated as panelist of panel discussion “Government Policies on Infrastructure and Financing”.

## Unique Document Identification Number (UDIN)

The Institute of Chartered Accountants of Nepal introduced UDIN system application to its members. ICAN allowed the member to use UDIN system in voluntary basis from Shrawan 2076. It has been made mandatory from Kartik 1, 2076 all practicing members of ICAN.

UDIN application that allows generation of 18 digits Unique Document Identification Number (UDIN) for every certification / audit service provided by ICAN members having Certificate of Practice (CoP).

## Interaction Program to Address Issues of Implementation of Standards



*Resource persons & Officials on the Dias.*

The Institute organized an “Interaction Program on Issues observed in Adoption of Standards in Hydropower Sector” on 25th August, 2019 at ICAN Building, ICAN Marg, Satdobato, Lalitpur. This program was aimed

to discuss on the issues observed in implementation of Nepal Financial Reporting Standards (NFRS) by the Hydro Power Companies.

Program started with welcome remarks by the President CA. Krishna Prasad Acharya where he stressed that this interaction program could be the appropriate platform to derive a common conclusion regarding efficient ways to implement NFRS in Hydro Power Sector in Nepal.

The program witnessed two sessions.

In first session, CA. Ashish Garg, General Secretary, Independent Power Producer Association of Nepal (IPPAN) presented a paper on Nepalese Hydropower Sector, difficulties of shifting from Nepal Accounting Standards (NAS) to NFRS. During this presentation, he pointed various areas where compliance to NFRS and IFRS Interpretation Committee’s interpretation IFRIC -12 is difficult. The presentation also covered impact of NFRS compliance on taxation, dividend and bonus expense of Hydro Power Companies.

Chairman of Security Board of Nepal Dr. Rewat Bahadur Karki thanked the Institute for organizing interaction program on the burning issue of corporate sector. During his address, he focused on the corporate governance issues in Hydro Power Sector and importance of proper corporate governance to attract foreign investment in this sector.



*Participants at the Interaction Program.*

The second session of the program was a open floor discussion where queries of the participants were responded by representatives of subject specific regulators such as Inland Revenue Department (IRD), Accounting Standards Board (ASB), Nepal Electricity Regulatory Commission and IPPAN.

The program concluded with vote of thanks by ICAN Vice- President CA. Madan Krishna Sharma. The interaction program was attended by the ICAN Council Members, representatives from IRD, Hydro Power Companies and Senior Officials of ICAN. More than 60 participants participated in the program.

### **Meeting with Nepal Rastra Bank**

President CA. Krishna Prasad Acharya along with Vice President CA. Madan Krishna Sharma and Executive Director CA. Sanjay Kumar Sinha had a courtesy meeting with Governor of Nepal Rastra Bank Dr. Chiranjivi Nepal on 11 August, 2019.

During the meeting, ICAN and NRB stressed on requirement to monitor NFRS compliance by Bank and Financial Institutions after ICAN granted carve outs on NFRS to Banks and Financial Institutions. The meeting also agreed to reassess the requirement of carve outs in present scenario and to organize an interaction program to discuss on this matter. ICAN and NRB agreed to organize joint information sharing program to facilitate NFRS compliance by banks and financial institutions. ICAN also agreed to review the level of fundamental risk involved in the audit of banks and financial institutions and auditors involved in it.

### **Meeting with Inland Revenue Department**

President CA. Krishna Prasad Acharya along with Vice President CA. Madan Krishna Sharma and Executive Director CA. Sanjay Kumar Sinha had a meeting with Director General, Inland Revenue Department (IRD) Mr. Bishnu Prasad Nepal on 11 August, 2019.

ICAN had entered into Memorandum of Understanding (MoU) with IRD for information sharing between two Institutions, to develop format of tax audit report and other documents to standardize tax administration and to strengthen regulatory function of both the Institutions. In this context, recent meeting agreed to upgrade present system of information exchange as a permanent mechanism to facilitate instant reporting of any misconduct by ICAN members by IRD.

The meeting also agreed to conduct joint programs targeted to disseminate information regarding taxation and tax audit in 7 provinces. ICAN, on request of IRD, agreed to conduct courses on tax audit for making more fair and transparent tax audit as a support to IRD in its objective.

### **Meeting with Insurance Board**

President CA. Krishna Prasad Acharya along with Vice President CA. Madan Krishna Sharma and Executive Director CA. Sanjay Kumar Sinha had a meeting with the Insurance Board on 11 August, 2019 at Office of the Insurance Board. Chairman of Insurance Board Mr. Chiranjibi Chapagain and Senior Officials of the Board represented Insurance Board in the meeting.

The meeting was focused to identify avenues of coordination between the Institute and the Board to strengthen regulatory function of both the Institutions and to enhance scope of ICAN members as well as insurance business in Nepal. Discussion was specifically concentrated on identification of areas of improvement in insurance sector that includes auditing and accounting of insurance companies, utilizing expertise of ICAN members in insurance sector, employment of Chartered Accountants by Insurance Board for monitoring and regulation of insurance business. ICAN, on request of Insurance Board, agreed to conduct certification courses to address the gap of manpower requirement in emerging insurance business. ICAN also agreed to organize

an interaction program to address problems faced by insurance companies while preparing NFRS compiled financial statements.

### **Coordination Workshop on Updates in Financial Reporting Standards and Auditing Standards**

The Institute organized a “Coordination Workshop on Updates in Financial Reporting Standards and Auditing Standards” on 29 July, 2019 at Hotel Radisson, Kathmandu. The program was focused on exploring gap between the Nepal Financial Reporting Standards (NFRS), Nepal Standards on Auditing (NSA), Nepal Public Sector Accounting Standards (NPSAS) and existing curriculum of various Universities and Higher Secondary Level.

The program started with welcome remarks by President CA. Jagannath Upadhyay (Niraula). Chief Guest of the program was Secretary – Education, Ministry of Education, Science and Technology Mr. Khaga Raj Baral.

Chief Guest during his address, mentioned that curriculum update is continuous process and all universities should update their course of study with latest changes in real scenario including financial reporting and auditing.

The workshop was also addressed by Special Guest Mr. Ramesh Prasad Shiwakoti, Coordinator, Public Expenditure and Financial Accountability (PEFA) Secretariat.

Following, opening ceremony, Joint Secretary of Ministry of Education Science and Technology Mr. Ram Saran Sapkota, CA. Arun Raut, CA. Ramesh Dhital and Under Secretary, Financial Comptroller General Office (FCGO) Mr. Baburam Subedi, presented respectively on education policy of Government of Nepal, Nepal Financial Reporting Standards (NFRS), Nepal Standards on Auditing (NSA) and Nepal Public Sector Accounting Standards (NPSAS).

During second technical session, representatives of faculty of management of Tribhuvan University,

Pokhara University, Far Western University, Nepal Open University and Purbanchal University presented briefly on their curriculum related to Accounting and Auditing.

The last session was a panel discussion on “Exploring Need for Updating Curriculum” which was moderated by Joint Secretary of Ministry of Education, Science and Technology Mr. Ram Saran Sapkota. Other panelists were ICAN Past President CA. Prakash Lamsal, Mr. Rajesh Kumar Thagurathi -Executive Director, Curriculum Development Center of Pokhara University, Associate Prof. Nawaraj Adhikari, Assistant Dean, Faculty of Management, Tribhuvan University and Mr. Baburam Subedi, Under Secretary, Financial Comptroller General Office (FCGO). The panel discussion concluded that curriculum revision/update requires continuous coordination between ICAN, Ministry of Education, Science and Technology, Universities, Curriculum Development Center and other stakeholders.

The closing ceremony of the program was addressed by Vice President CA. Krishna Prasad Acharya where he mentioned that ICAN is always committed to help education sector of the Nation to accommodate latest changes in Financial Reporting Standards and Auditing Standards. More than 60 participants including representatives of faculty of management of various universities, representatives of Ministry of Education, Science and Technology and teachers/ lecturers of various colleges. The program was also attended by Council Member and Member of Board of Studies RA. Bahadur Singh Bista, Executive Director CA. Sanjay Kumar Sinha and other officials of the Institute.

The program concluded with presentation of Certificates to University Representatives. This workshop was organized in coordination with Ministry of Education, Science and Technology, in partnership with Public Expenditure and Financial Accountability (PEFA) Secretariat and was supported by the World Bank.

## Participation in the Meetings

President CA. Jagannath Upadhyay (Niraula) participated in the meeting organized by the Department of Revenue Investigation on 9 July, 2019 in Kathmandu. The meeting was related to Vehicle Consignment Tracking System. Speaking on the meeting, President appreciated such initiative of the Government and further said that the Vehicle Consignment Tracking System could be an additional block for economic development of the Nation. President CA. Jagannath Upadhyay (Niraula) also participated in a joint meeting organized by Department of Revenue Investigation and Nepal Rastra Bank on 9 July, 2019.

The meeting was organized to tackle the problems in financial reporting system of private sector and president expressed his views on behalf of the Institute.

## Workshop on NFRS for Governance and Management

The Institute has organized a “Workshop on NFRS for Governance and Management” exclusively focused for state owned enterprises (Companies and Corporations) required present their financial statements as per Nepal Financial Reporting Standards (NFRS). The workshop was organized at Indrendi Foodland, New Baneshwor, Kathmandu on 08 July, 2019. Welcome remarks of the program were delivered by President CA. Jagannath Upadhyay (Niraula) and the Chief Guest of the program was Mr. Bhuwanhari Aryal, Registrar, Office of Company Registrar.

Chief Guest, during his address, mentioned that all corporations and companies need to comply with the requirements laid down by Company Act, and other related legislations. He stressed that Companies and Corporations should prepare their financial statements based on NFRS because Company Act, 2063 and Nepal Chartered Accountant Act, 2053 has made its compliance

mandatory. He further mentioned that compliance to NFRS promotes financial discipline and good corporate governance in the organization. He also hoped that Office of Company Registrar and ICAN will always cooperate in matter of common interest. The program was also targeted to impart experiences of adoption of NFRS to State Owned Enterprises especially in context of ICAN extending technical support for preparation of financial statement adapting NFRS by Nepal Oil Corporation Limited.

Following the opening ceremony, three different technical sessions related to NFRS were organized. First technical session was the Information Session on NFRS where member of Accounting Standards Board CA. Satish Chandra Lal presented brief information about NFRS, its history, process of formulating accounting standards in Nepal, legal and regulatory requirement to comply with NFRS, consequence of non-compliance to NFRS etc.

In second session CA. Surya Bhakta Pokhrel, CA. Nirjal Shrestha and CA. Sanjeev Shrestha shared experience of NFRS implementation in one of the SOEs i.e. Nepal Doorsanchar Company Limited.

The last technical session was presentation on Model Financial Statement based on NFRS which was facilitated by CA. Arun Raut. Closing remarks of the workshop was delivered by Vice President CA. Krishna Prasad Acharya and program ended with certificate distribution to participants. The workshop was participated by more than 60 representatives from different state owned enterprises, regulatory agencies and development partners and was also attended by Executive Director CA. Sanjay Kumar Sinha, Member Secretary of PEFA Secretariat Mr. Mun Kumar K.C. and Senior Financial Management Specialist of World Bank Mr. Yogesh Bom Malla. This workshop was organized in association with Public Expenditure and Financial Accountability (PEFA) Secretariat and supported by the World Bank.



## **Nepal Accounting Standards for Not for Profit Organization (NAS for NPOs) 2018 and Nepal Accounting Standards for Micro Entities (NAS for MEs) 2018**

The Institute announced Nepal Accounting Standards for Not for Profit Organization (NAS for NPOs) 2018 and Nepal Accounting Standards for Micro Entities (NAS for MEs) 2018 from 1 Shrawan 2076 in voluntary basis while it will be fully implemented mandatorily from 1 Shrawan 2077.

### **Members Activities**

#### **Capacity Development Training on Cooperative**

The Institute has organized a two-day “Capacity Development Training on Audit Process of Cooperative Institutions” from 6-7 September, 2019 in Dhangadi, Kailali. This training covered various topics such as Acts and Regulations governing operation of cooperative institutions, guidelines to cooperative institutions, accounting policies adapted by cooperative institutions, code of ethics applicable to auditors of cooperative institutions, and model financial statements of cooperative institutions. Altogether 57 members of ICAN participated in the training.

The opening ceremony and closing ceremony of this training was addressed by Council Member RA. Bahadur Singh Bista.

Similarly, the Institute also organized a two-day “Capacity Development Training on Audit Process of Cooperative Institutions” from 23-24 September and 25-26 September, 2019 in Janakpur and Lahan respectively. The training covered various topics such as Acts and Regulations governing operation of cooperatives, guidelines applicable to cooperatives, accounting policies adapted by cooperatives, code of ethics applicable to auditors of cooperatives, and model financial statements of cooperatives. Altogether 42 and 21 members of

the Institute participated respectively in the capacity development training in Janakpur and Lahan.

The training in Janakpur was addressed by the Vice President CA. Madan Krishna Sharma.

#### **Training on NFRS for SMEs**

The Institute organized a three-day “Capacity Development training on Nepal Financial Reporting Standards for Small and Medium Sized Entities (NFRS for SMEs)” for its Registered Auditor members from 9-11 July, 2019 at ICAN Building, ICAN Marg, Satdobato, Lalitpur.

The training was focused on various aspects of NFRS for SMEs that includes its introduction, presentation of financial statements, accounting policies, related party disclosure, inventories, intangible assets, property plant and equipment, impairment of assets, employee benefit, revenue recognition, translation of foreign currency, accounting for income tax etc. Closing ceremony of the training was addressed by President CA. Jagannath Upadhyay (Niraula) and Vice President CA. Krishna Prasad Acharya.

Closing remarks of the program was delivered by Chairman of Registered Auditors Member Capacity Development Committee RA. Kedar Nath Poudel. Altogether, 39 members of ICAN participated in this training.

#### **Orientation Program for the Upgraded RA Members**

The Institute organized a half day orientation program for the recently upgraded Registered Auditor Members in the presence of Executive Director CA. Sanjay Kumar Sinha on 12 July 2019 at ICAN Building, ICAN Marg, Satdobato, Lalitpur. This is the first time such formal orientation program has been organized for upgraded Registered Auditor Members of the Institute.

Acting Director Mr. Binod Prasad Neupane, in addition to orienting upgraded RA Members, congratulated them

and briefed them about the updates in code of ethics, new circulars issued by the Institute, various technical standards and other matters related to profession. The program was participated by 7 upgraded RA members.

### CPE Training Organized

The Institute has organized a three- days continuing professional education (CPE) training from 4-6 September, 2019 at ICAN Building, ICAN Marg , Satdobato, Lalitpur. This training covered various topics relating to Auditing, Accounting, use of Information Technology in audit, Taxation etc. More than 95 members of the Institute participated in this training.

## Students Activities

### Participation in International Conference

Three students of CAP – III level participated in the “International CA Students Conference 2019” in 26 September, 2019 at Karachi, Pakistan. Students were selected after evaluation of essay and presentation on “Navigate: Master the Chaos”, theme of the conference.

### Registration of New Chartered Accountant at ICAN

The Institute registered 4 chartered accountants pursuant to Sec 16 (2) of the Nepal Chartered Accountants ACT, 1997. During the period of July 2019 to September 2019, the newly chartered accountants are as follows:

Name	Soni Rai	Narayan Chaulagain	Bikesh Madhikarmi	Swastika Khanal
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### CA Membership and AT Examination Conducted

Chartered Accountant Membership and Accounting Technician (AT) examination of September, 2019 has been concluded. Altogether 151 students appeared for the CA membership examination whereas 12 students appeared for AT examination. CA Membership Examination was conducted in Kathmandu and Butwal and AT examination was conducted in Kathmandu and Birgunj.

### GMCS Training Concluded

The Institute organized 16th Batch of General Management and Communication Skills (GMCS) training from 08-22 September 2019 at ICAN Building, ICAN Marg, Satdobato, Lalitpur. The training was targeted to enhance presentation, communication and interpersonal skills of the newly qualified Chartered Accountants. The training was also aimed at imparting understanding of contemporary business environment and career opportunities.



*President CA. Krishna Pd. Acharya is speaking on the closing Ceremony of GMCS Training.*

The closing ceremony of the training was addressed by President CA. Krishna Prasad Acharya, Vice President CA. Madan Krishna Sharma, Member of Executive Committee RA. Meera Shrestha and Executive Director CA. Sanjay Kumar Sinha. Closing ceremony of GMCS also witnessed participation of Council Members / Members of Board of Studies CA. Surendra Shrestha, CA. Yuddha Raj Oli and RA. Bahadur Singh Bista.



*Participating Students at the Training.*

Altogether 49 newly qualified Chartered Accountants from ICAN and 1 newly qualified Accounting Technician participated in this training.

### Crash Course

The Institute conducted an intensive Crash Course for Chartered Accountancy Professional – II (CAP – II) and Chartered Accountancy Professional – III (CAP – III) level from 1st September, 2019 with major objective to support students appearing CA examination in December 2019. Altogether 62 students in CAP II and 15 students of CAP III attended the course.

### Orientation Program to CAP-I Students

The Institute has organized an orientation program for newly enrolled CAPI students appearing for December 2019. The orientation was organized at Butwal and Pokhara Branch of the Institute on Shrawan 05, 2076. Deputy Director CA. Gaurav Khwaunju Shrestha and Deputy Director CA. Himal Dahal presented to students about Chartered Accountancy Course and the Institute during the orientation.

### One year Internship for Foreign CA Degree Holders

Pursuant to Nepal Chartered Accountants Regulation, 2061, Rules 41(KA) of its 5th amendment, The Institute of Chartered Accountants of Nepal has made mandatory provision of one year internship to the foreign CA degree holders for getting Membership and Certificate of Practice. During the period of July 2019 to September 2019, total number of 24 chartered accountants member from ICAI have joined one year internship.

### Student Registration

Chartered accountancy course is being attraction to the student interested to make their career in accounting and auditing profession. From July 2019 to September

2019. Altogether 962 new students enrolled in different level of chartered accountancy course and accounting technician course. Details are as follows:

Level	CAP I	CAP II	CAP III	AT
No of Student Registration	50	700	209	3

## International News

### Participation in SAFA Foundation Day Conference

President CA. Krishna Prasad Acharya has participated in SAFA Foundation Day Conference on the theme “Emerging Challenges and Opportunities for Professional Accountants in South Asia” on 22nd August, 2019 at Hyderabad, India. The Institute of Cost Accountants of India (ICAI) had hosted this event in occasion of South Asian Federation of Accountants (SAFA) foundation day celebration.

President CA. Krishna Prasad Acharya was panelist in panel discussion on “Emerging Challenges and Opportunities for Professional Accountants in South Asia” besides presenting a paper on the above theme where he stressed on the recognition of the profession and need for proper monitoring and supervision of members.

### Participation in the Conference

CA. Krishna Prasad Acharya, Vice President CA. Madan Krishna Sharma and Past President and SAFA Coordinator CA (Dr.) Suvod Kumar Karn has participated in South Asian Federation of Accountants (SAFA) Board and Committee Meeting organized from 29 - 30 July, 2019 at Colombo, Sri Lanka. President CA. Krishna Prasad Acharya presented a paper on the topic “Nepal’s Prospective on Combatting Bribery and Corruption” in this forum.

### Applicable Nepal Standards on Auditing

As per the decision of 224th Council meeting, the following Nepal Standards on Auditing revised and

drafted based on IAASB hand book 2016 edition, are applicable voluntarily from 1st Shrawan 2075 & mandatory from 1st Shrawan 2076 except for NSA 701 - Communicating Key Audit Matters in the Independent Auditor's Report.

## Nepal standards on Auditing (Based on IAASB Hand Book 2016 Edition)

### LIST OF STANDARDS

S.No.	NSA No.	Standards
<b>NEPAL STANDARDS ON QUALITY CONTROL(NSQCs)</b>		
1	NSQC1	Nepal Standard on Quality Control (NSQC) 1 : Quality Control For Firms that Perform Audits and Reviews Of Financial Statements, and Other Assurance and Related Services Engagements
<b>AUDITS OF HISTORICAL FINANCIAL INFORMATION</b>		
<b>200-299 GENERAL PRINCIPLES AND RESPONSIBILITIES</b>		
1	NSA 200	Overall Objective of the Independent Auditor and the conduct of an Audit in Accordance with Nepal Standards on Auditing
2	NSA 210	Agreeing the Terms of Audit Engagements
3	NSA 220	Quality Control for an Audits of Financial Statements
4	NSA 230	Audit Documentation
5	NSA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
6	NSA 250	Consideration of Laws and Regulations in an Audit of Financial Statements
7	NSA 260 (Revised)	Communication with Those Charged with Governance
8	NSA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
<b>300-499 RISK ASSESSMENT AND RESPONSE TO ASSESSED RISKS</b>		
9	NSA 300	Planning an Audit of financial statements
10	NSA 315(Revised)	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
11	NSA 320	Materiality in Planning and Performing an Audit
12	NSA 330	The Auditor's Responses to Assessed Risks
13	NSA 402	Audit Considerations Relating to an Entity Using a Service Organization
14	NSA 450	Evaluation of Misstatements Identified during the Audit
<b>500-599 AUDIT EVIDENCE</b>		
15	NSA 500	Audit Evidence
16	NSA 501	Audit Evidence-Specific Considerations for Selected Items
17	NSA 505	External Confirmations
18	NSA 510	Initial Audit Engagements—Opening Balances



19	NSA 520	Analytical Procedures
20	NSA 530	Audit Sampling
21	NSA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
22	NSA 550	Related Parties
23	NSA 560	Subsequent Events
24	NSA 570 (Revised)	Going Concern
25	NSA 580	Written Representations
<b>600-699 USING THE WORK OF OTHERS</b>		
26	NSA 600	Special considerations-Audit of Group Financial statements (including the work of component Auditors)
27	NSA 610(Revised)	Using the work of Internal Auditors
28	NSA 620	Using the work of an Auditors Expert
<b>700-799 AUDIT CONCLUSIONS &amp; REPORTING</b>		
29	NSA 700 (Revised)	Forming an opinion and Reporting on financial statements
30	NSA 701	Communicating Key Audit Matters in the Independent Auditors Report
31	NSA 705 (Revised)	Modifications to the opinion in the Independent Auditors report
32	NSA 706 (Revised)	Emphasis of Matter Paragraphs and other Matter Paragraphs in the Independent Auditors Report
33	NSA 710	comparative information-corresponding Figures and comparative Financial Statements
34	NSA 720 (Revised)	The auditor's responsibilities relating to Other information in Documents Containing Audited Financial statements.
<b>800-899 SPECIALIZED AREAS</b>		
35	NSA 800 (Revised)	special Considerations-Audit of financial statements Prepared in accordance with special Purpose Frame works
36	NSA 805 (Revised)	special Considerations-Audits of Single Financial statements and Specific Elements, Accounts or Items of a Financial statements
37	NSA 810 (Revised)	Engagements to Report on Summary of Financial Statements
<b>NEPAL AUDITING PRACTICE NOTES</b>		
38	NAPN 1000	Special considerations in Auditing Financial Instruments
<b>AUDITS AND REVIEW OF HISTORICAL FINANCIAL INFORMATION</b>		
<b>2000-2699 NEPAL STANDARDS ON REVIEW ENGAGEMENTS(NSREs)</b>		
39	NSRE 2400	Engagement to Review Financial Statement
40	NSRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity

<b>ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR REVIEWS OF HISTORICAL FINANCIAL INFORMATION</b>		
<b>3000-3699 NEPAL STANDARDS ON ASSURANCE ENGAGEMENTS (NSAEs)</b>		
<b>3000-3399 APPLICABLE TO ALL ASSURANCE ENGAGEMENTS</b>		
41	NSAE 3000	Assurance Engagements Other than Audits or Reviews of Historical Financial Information
<b>3400-3699 SUBJECT SPECIFIC STANDARDS</b>		
42	NSAE 3400	The Examination of Prospective Financial Information
43	NSAE 3402	Assurance Reports on Controls at a Service Organization
44	NSAE 3410	Assurance Engagements on Greenhouse Gas Statements
45	NSAE 3420	Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus
<b>RELATED SERVICES</b>		
<b>4000-4699 NEPAL STANDARDS ON RELATED SERVICES (NSRSs)</b>		
46	NSRS 4400	Engagements to Perform Agreed-Upon Procedures Regarding Financial Information
47	NSRSs 4410 (Revised)	Compilation Engagements
48	AUDIT QUALITY	A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality
49	ASSURANCE FRAMEWORK	Amend Nepal Framework for Assurance Engagements



उपचार

सजिलै टर्छ

१००० भन्दा बढी प्रकारका रोगहरुको  
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रु. २० लाखसम्मको आपनो तथा  
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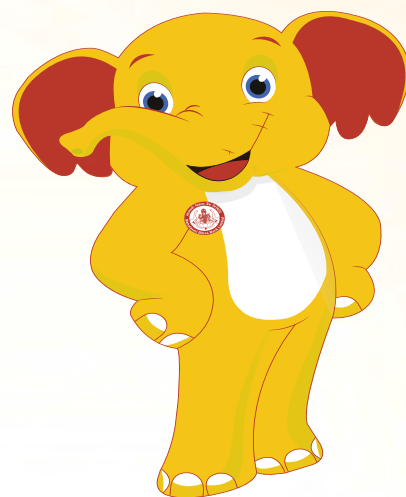


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## ग्याँस लिफ्टेज भएमा यसो गर्ने

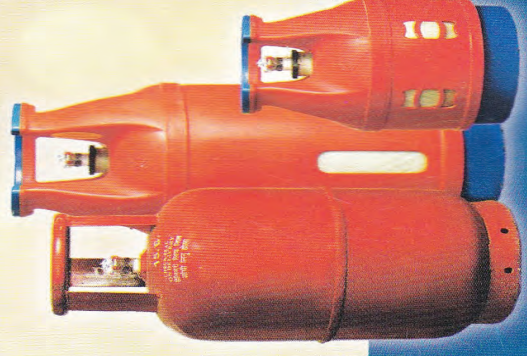
ग्याँसको तीस्रो गन्ध आइरहेको छ भने ग्याँस लिफ्टेज भएको बुझ्नुपर्दछ । ग्याँस लिफ्टेज भए पछिले रेगुलेटर बन्द गरेर चुल्हो बन्द गर्ने । आगोको किल्ला निस्कने : सलाई, लाइट, धुपजस्ता कुराहरु नबाल्ने । ग्याँस लिफ्टेज भएको सिलिण्डरबाट रेगुलेटर छुटाई सेफ्टी क्याप लगाएर बाहिर सुत्ला ठाउँमा राख्ने । आफूलाई अनुभव नभए तुरुन्त नजिकको तालिम प्राप्त ग्याँसस डिलर, उद्योग वा सुरक्षाकर्मीलाई खबर गर्ने ।

## ग्याँस दुर्घटनाबाट बच्ने उपायहरु

सिलिण्डर ल्याउँदा, लैजाँदा नगुड्नु, सुताएर वा घोटाएर प्रयोग नगर्ने । गुणस्तरीय रेगुलेटर, पाइप, चुल्हो र लाइट मात्र प्रयोग गर्ने । दुई/दुई वर्षमा ग्याँसको पाइप फेर्ने । सिलिण्डर र चुल्होको दूरी कम्तीमा २ मिटर राख्ने । ग्याँस प्रयोग गर्दा भ्याल र ढोका सुत्ता राख्ने । साना पकाउँदा आगो छिटो छिटो कपडा नलगाउने र धुनो प्रयोग गर्ने । मान्छामा सिलिण्डरसँग सेफ्टी क्याप अनिवार्य राख्ने । मान्छाको 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, कुटिएपछि, पुरानो सिलिण्डरहरु प्रयोग नगर्ने ।

## ग्याँस बचत गर्ने उपायहरु

चुल्हो बाल्नुभन्दा पहिले पकाउने । सामानहरु ठिक पारौं । खानेकुरा उठिलन थालेपछि आँच कम गरौं । जेझाजी पकाउनुभन्दा पहिले भिजाएर राखौं । सकभर परिवारका सबै सदस्यहरु एकैपटक खाना खान बसौं । खानेकुरा सकभर प्रेसरकुकरमा पकाऔं । नियमित रुपमा चुल्हो सफा राखौं । गुणस्तरीय ग्याँस चुल्हो, खबर पाइप र रेगुलेटर प्रयोग गरौं ।



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