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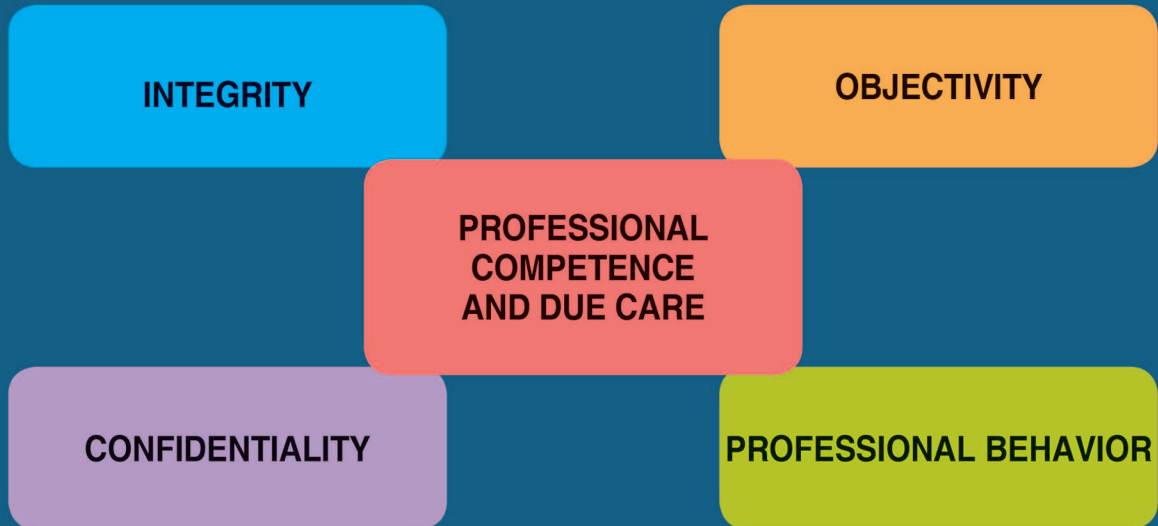


नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्था

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL

Established under the Nepal Chartered Accountants Act, 1997

Fundamental Principles of Professional Accountants



Strategic Direction of ICAN



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Editorial

Increase Effective Regulation of Co-operative Sector

The Constitution of Nepal has recognized cooperative sector as third pillar of our economy as it plays key role in poverty alleviation, promoting self-reliance, use of scattered local skill and capital, development of micro industries etc. Currently, cooperatives are regulated by three level of government i.e. federal, provincial and local. In the 15th Five Year Plan (2019/20-2023/24) the role of cooperative sector has been recognized to assist in increasing employment and income and alleviating poverty by extensively mobilizing local resources, labor, skills, and capital maintaining good governance in the cooperative institutions.

The Cooperative movement stresses the need to put people at the center of development. Its overriding objectives include the conquest of poverty, the goal of full employment and the fostering of stable, safe and just societies. A study conducted by the Department of Cooperatives in 2077(2020) revealed that there are about 30 thousand cooperatives across the country and its membership exceeds 7.3 million. The aggregate share capital is Rs.94.10 billion, deposit collection is Rs. 4.77 billion and total loan of Rs. 4,26,26,23,11,381/- is floated by them. These cooperatives have generated direct employment opportunities to 88,309 persons, more than half employees being women. In this backdrop, the cooperative sector is emerging as one of the key player of the financial and economic ecosystem of the country.

In recent months, news about cooperatives have been making headlines for wrong reasons. In one instance, depositors protested against a cooperative, demanding to return their hard-earned saving from cooperatives that frauded and misused the depositor's money. In a number of cases, Directors of the saving and credit cooperatives have gone out of contact as they were unable to pay back the money of depositors. In some cases, the Credit and Information Bureau has blacklisted some cooperatives that failed to clear their outstanding dues with the banks. It is also found that in some cases a single loanee has obtained loans from several cooperatives and micro-finance companies.

The main reason for systemic problems noted in cooperative sector is due to blatant misconduct of leadership, lack of transparency and deficit in financial good governance. The regulatory and supervisory mechanism is also not robust as desired. The problems are aggravated due to drive for undue profit through a largely unregulated business environment, lack of knowledge and sense of responsibility among the cooperative managers to carry the business in the true spirit of cooperatives, and unethical squandering of depositors money in risky portfolios by persons in leadership role etc. The National Risk Assessment Report 2020 reveals that the overall cooperative sector's vulnerability to money laundering is rated as medium-high due to the implementation issues of existing AML/CFT laws.

The activities of cooperatives should be minutely monitored so as to improve their management, beef up their internal control and, more importantly, check irregularities for the growth of the cooperative sector. Only increasing bottom-line profit should not be the sole objective but service with high integrity should be the guiding principle. Moreover, the competitiveness of cooperatives can be enhanced through capacity building, mergers with other cooperatives, product diversification and collaboration with other business. However, unless the management carries out the business with high ethics and with strict compliance of legal and regulatory framework, there are bound to be pitfalls. Therefore, it is up to the leadership team to rise up to the occasion and set the right tone at the top.

Similarly, the regulatory and supervisory framework need be institutionalized and strengthened for effective monitoring and regulation of cooperatives. The government should relook on the current legal and the regulatory framework of cooperatives for their sustainability and greater protection of members and the public interest.



President's Message



CA. Bhaskar Singh Lala
President

Dear Professional Colleagues,

It is my pleasure to welcome you to the 3rd quarter edition of The Nepal Chartered Accountant for 2022/23. This edition features some articles on current and topical issues having professional significance. In order to update the members, we have also attempted to include the key activities like the 5th Convocation Ceremony, Celebration of 26th Anniversary, International Webinar on Foreign Direct Investment and other key activities of the Institute that were performed during the period from January – March 2023.

Professional Development

The Institute has been working to enhance, promote and protect the reputation of the members

and establish ICAN members as an efficient and effective accounting service provider in the government and corporate sector. During the period, the Institute organized a national conference on topic "Role of Professional Accountants in Shaping Economic Growth of Nation" that provided a platform for discussion about the role of Accounting Professionals on national revenue and GDP and corporate governance. Moreover, an International Webinar on Foreign Direct Investment (FDI) in Nepal was also organized in coordination with the US Chapter of the Institute.

Similarly, as a continuity to strengthen member's capabilities and competencies through regular training and development program a post



qualification course on Forensic Accounting and Fraud Detection (FAFD) and Certification Course on Information System Audit (ISA) was organized for the members of the Institute.

Education

The Institute with the intend to deliver international level CA Education to the Students in Nepal, has undertaken CA Curriculum upgrading initiative in technical support from the Institute of Chartered Accountants in England and Wales (ICAEW). During the period, the Institute organized 5th Chartered Accountants' Convocation Ceremony whereby, Members were convocated. I congratulate all the new members and wish them success in their career ahead.

With the objective to provide international exposure to students and help them to explore their potential at international level, Institute hosted a SAFA Quiz and Elocution Contest, 2022 at Kathmandu whereby students from India, Bangladesh, Sri Lanka along with Nepal made their participation.

National Relation: Public and Government

The Institute organized a pre-budget interaction program at head office and at all its branch offices, the suggestion collected during the interaction program has been presented before Government as the Institute's suggestion in upcoming Federal Budget 2080/81. With a bid to strengthen the Public Financial Management (PFM) in Nepal, the Institute has prepared a concept paper on proposed PFM certification course and organized an interaction program focusing on the paper with the stakeholders including representatives from Government Bodies for defining the way forward of the course.

As a continuity to promote and regulate high quality financial reporting and develop competence of accounting professionals the Institute in coordination with the Public Expenditure and Financial Accountability (PEFA) Secretariat organized a four-day training on "NFRS Gaps Identified in NFRS Implementation Status in State Owned Enterprises" for the staffs serving in State Owned Enterprise (SOE) in Nepal.

International Relation Global Positioning and Leadership

During the period, I along with other Council Members participated in SAFA Board and

Committee Meetings virtually. Besides, I along with Vice-President CA. Sujan Kumar Kafle physically attended SAFA Strategy Meeting hosted by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in Colombo, Sri Lanka.

Institutional Development and Sustainability

The 26th Anniversary celebration program of the Institute was organized at its head office and branch offices. On the occasion of the Anniversary celebration program, the Institute awarded five staffs with "Best Staff of the Year Award" by recognizing their performance in the Institute. In order to provide exposure to the Institute sent five of its staff to the Institute of Chartered Accountants of Bangladesh and one staff to the Institute of Chartered Accountants of Sri Lanka. Similarly, the Institute has also been organizing various training and skill development programs for the staff at head office and branch offices.

Concluding Remarks,

Before I conclude, I urge the entire membership to discharge their professional responsibilities fairly as the accountancy profession is a key player that safeguards the public interest and play instrumental role in sustainable economies of the country.

Wish you all Happy New Year (2080 BS)

With Best Wishes,
CA. Bhaskar Singh Lala
President, ICAN

What Presently Ails the Nepalese Economy ?

Nepalese economy is currently experiencing deeper problems especially in the external, financial, and public finance fronts mainly caused by the deterioration in the saving-investment gap which, as percent of GDP, remained at -2.5 in 2020/21 and -5.3 in 2021/22. Recently, the sharp and sudden depletion of the forex reserve should have alarmed the policymakers for immediate review and taking timely corrective measures which, however, were nowhere in sight. Later actions for import controls besides the adoption of cautious stance of monetary policy for 2022/23 made the BOP favorable since the third month of 2022/23. Still, the borrowers have concerns that the credit flow has been affected due to the higher interest cost. However, the problem is fiscal, not monetary as generally perceived. The remedy calls for balancing saving and investment ratios. The fiscal deficit should be turned to surplus especially by correcting fiscal management, including drastic reduction of recurrent expenditure.



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1. Introducing the External Sector of the Economy

External sector transactions of the economy refer to the transactions between the residents of the economy and the residents of the rest of the world. The balance of payments (BOP) is a statistical statement that summarizes such transactions during a given period. As gross domestic product (GDP) is the sum of consumption, investment, government purchases, and net exports, with the net exports denoting the excess of exports of goods and services over the imports of goods and services, the direction and size of net exports would have significant impact on the GDP and deep implications throughout the economy.

Total trade of Nepal has shown significant rise over the years. In 2021/22, Nepal's total trade (imports and exports) in goods and services as percent of GDP was 48.4 percent (imports 41.8 percent and exports 6.6 percent). A decade earlier, viz., in 2011/12, the total trade as percent of GDP was 37.9 percent (imports 29.2 percent and exports 8.7 percent). The share of exports in the total trade fell from 23.1 percent in 2011/12 to 13.7 percent in 2021/22. In other words, the share of imports in the total trade went up from 76.9 percent in 2011/12 to 86.3 percent in 2021/22 (Source: Ministry of Finance, Economic Survey, 2022). This shows significant deterioration in the share of exports over the years. The net exports/GDP ratio for Nepal has always been negative, ranging between 10-20 percent during 2001/02 to 2006/07, between 20-30 percent during 2007/08 to 2016/17, and between 30-40 percent during 2017/18 to 2021/22. (Source: Nepal Rastra Bank, Current

Macroeconomic and Financial Situation, Various Periods).

During the past decade (2012/13-2021/22), with respect to goods and services trade, the annual compounded growth rates of exports, imports, and trade deficit were 7.6 percent, 14.7 percent, and 16.8 percent respectively. As ratios of GDP in 2011/12, the exports, imports, and trade deficit represented 8.8 percent, 29.2 percent, and 20.4 percent respectively which changed to 6.6 percent, 41.7 percent, and 35.1 percent respectively in 2021/22 (Source: Ministry of Finance, Economic Survey, 2022). Thus, imports have been speeding, exports have been decelerating, and the trade deficit has been accelerating year by year. This scenario must come to an end soon if the pace and process of economic development has to be accelerated in a sustained manner. The present article, besides reviewing the developments regarding the import capacity of Nepal's foreign exchange reserve, discusses the comparative developments with respect to the net exports of goods and services and examines the saving and investment gap in relation to current account balance before concluding that the macroeconomic risks arising from deficit in resource balance (i.e., Saving-Investment) as signalled by the recent developments of the economy merit urgent corrective actions.

2. Recent Indicators concerning Import Capacity of Foreign Exchange Reserve

The Nepal Rastra Bank (NRB), in its annual monetary policy announcements, targeted that the foreign exchange reserve be maintained at a level sufficient for importing a minimum of seven months' imports of goods and services for years since 2019/20 to 2022/23. This seven months' imports target



was scaled down from the eight months' target prevailing for the years before 2019/20. Looking at the effects of the COVID-19, it was perhaps found convenient to continue an accommodative target from the earlier eight months to seven months so as to facilitate economic transactions in the post-COVID period. However, the logic for the NRB Board decision to lower the eight months' target prevailing before 2019/20 to seven months since 2019/20 needed to be verified in the light of the external sector risks being experienced by the economy consequent to the lack of timely re-correction of such decision. The nature and behavior of such reserve level that could arise from the likely policy-induced changes in the economy should have been predicted well in advance on the basis of detailed assessment of the implications of the new policy change.

Nepal's foreign exchange reserve in months of imports capacity witnessed a downward trend since mid-August 2020 when the reserve level was adequate to finance 15.6 months' imports. The foreign exchange reserve in terms of imports averaged 8.4 months during the first four months of 2022/23 (viz., mid-August to mid-November). This was an improvement from an average of 6.7 months' imports capacity in the last eight months of fiscal year (viz., mid-December 2021 to mid-July 2022). The foreign exchange reserve in terms of imports of goods and services had averaged 9.1 months during the previous eight months (viz., mid-April 2021 to mid-November 2021). During the earlier eight months (viz., mid-August 2020 to mid-March 2021), the foreign exchange reserve level was adequate to finance an average of 13.4 months' imports.

Such a steady decline in the foreign exchange reserve in terms of import-months indicates that the overall performance of the external sector remained far from satisfactory. Such a development raised concerns for the prospects of soundness, stability, and sustainability of the external sector. These concerns are quite valid given the fact that Nepal, a least developed country with narrow production base, low comparative advantage, volatility in exports, excessive dependence on essential imports, and ever-rising debt financing requirements, needed to carefully manoeuvre its economic development trajectory by optimizing the associated benefits of globalization as well as by coordinating and sequencing the policies and strategies in such a way that the favorable macroeconomic effects including the external sector viability are well ensured.

3. Nepal's Deteriorating Ratio of External Balance on Goods and Services as Percent of GDP in the Global Comparison

The World Bank data (<https://www.data.worldbank.org/> indicator) shows that the negative external balance on goods and services as percent of GDP in Nepal in 2021 (-33.4 percent, i.e. exports 5.2 percent and imports 38.6 percent) was one of the highest in the world, with only Republic of Yemen's ratio at -37.1 percent exceeding the ratio of Nepal among the whole of global economies. With such ratio at -29.0 percent,

The Gambia followed Nepal at a distance. The fourth highest negative balance was that of Bhutan with -20.9 percent while the fifth highest was of Burundi at -18.8 percent. Among the SAARC countries, such ratio was -6.4 percent in Bangladesh, -20.9 percent in Bhutan, -2.5 percent in India, +7.5 percent in the Maldives, -8.9 percent in Pakistan, and -7.3 percent in Sri Lanka. So, as compared to most of the countries around the world, the dependence on imports of the Nepalese economy is widening at a precarious level while production, productivity and exports have not seen relative progress. Thus, serious efforts need to be made for making widening imports more productive as well as utilizing the foreign trade and payments mechanism for the all-round interest and sound development of the economy.

4. Balance of Payments Developments in the Recent Months and the Remittance as a Large Component of BOP

As stated above, the BOP is a statistical statement of receipts and payments of external sector transactions that summarizes economic transactions between residents and non-residents during a specific time period. When receipts exceed payments, the BOP is said to be favorable or in surplus. When payments exceed receipts, the BOP is said to be unfavorable or in deficit. Nepal's BOP has come into increasing attention due to the sharp deterioration in the foreign exchange reserve capacity to sustain imports over the recent period. Excepting the two months of October-November, 2022, there had been BOP deficit in each of the rest 10 months in fiscal year 2021/22. The whole of fiscal year 2021/22 turned out the BOP deficit amounting to Rs. 255.3 billion. This resulted in the foreign exchange reserve level falling below the targeted seven months' import capacity. However, no corrective measures were in sight. The situation was like basking in the sea-shore without a hint of approaching Tsunami. Associated with such BOP deficit had been the workers' remittance which showed monthly decline during the first 9 consecutive months in 2021/22. On an annual basis, remittance had grown by 4.8 percent in 2021/22 as compared to the growth of 9.8 percent in 2020/21. Remittance as percent of GDP remained at 20.8 percent as compared to such ratio averaging at 22.4 percent during the previous five years (2016/17-2020/21). These data show how significant role the remittance has been playing in the BOP developments in Nepal. Such a heavy dependence on a single source of external sector earning (i.e., remittance) increases external sector vulnerability and macroeconomic risk to remedy which the process of diversifying the sources of earning needs to be given the highest priority.

5. Export Sector in Nepal's Constitution

Nepal's Constitution in the directive principles stipulates development visions like developing an independent, self-reliant, and prosperous economy in a sustainable manner by attaining rapid economic growth and development through maximum mobilization of the available means and resources

by all sectors of the economy. The State policy on economy, industry, and commerce as mentioned in the Constitution also envisages diversifying and expanding markets for goods and services while promoting exports through development and expansion of industries based on identified areas of comparative advantage. The policy also stipulates encouraging foreign capital and technological investment in areas of import substitution and export promotion in consonance with the national interest. Despite such constitutional provisions, the performance of Nepal's trade, industry, and commerce sectors is not desirable, which poses greater challenges to the national authorities in the area of economic management in the days to come.

6. 15th Development Plan and Foreign Trade

The 15th Plan (2019/20-2023/24) target is to raise the ratio of exports of goods and services as percent of GDP to 15 percent by the end of the Plan. The BOP will be favorable and the foreign exchange reserve will be maintained at a level sufficient for imports of seven months' imports. The strategies will comprise development of sectors having comparative advantage like agriculture, herbs, hydro-power, tourism, raising production of goods and services together with managing imports, expanding and diversifying product-wise and country-wise destinations, maintaining balance of payments and external sector balance, and maintaining and managing foreign exchange reserve. Since imports are estimated to reach 49 percent of GDP in 2023/24, the trade deficit will reach 34 percent, similar to the deficit at 35.1 percent in 2021/22. So, from the perspective of reducing trade deficit, the envisaged strategies and working policies of the 15th Plan do not seem to be so instrumental, according to the Plan document itself (15th Plan, 2019/20-2023/24, National Planning Commission).

7. Current Account and BOP as Percent of GDP

According to BOP statistics, since 2016/17, current account in the external sector has remained negative for all the six years till 2021/22 where the statistics are last available. The current account balance as percentage of GDP recorded -0.3 percent in 2016/17, -7.1 percent in 2017/18, -6.9 percent in 2018/19, -0.9 percent in 2019/20, -7.8 percent in 2020/21, and -12.8 percent in 2021/22, averaging -6.0 percent for the six-year period. The BOP as percent of GDP during these six years remained 2.7 percent in 2016/17, 0 percent in 2017/18, -1.7 percent in 2018/19, 7.3 percent in 2019/20, 0 percent in 2020/21, and -5.3 percent in 2021/22, averaging 3.0 percent for the six-year period. The current account balance as percentage of GDP recorded -0.8 percent in 2010/11, 4.3 percent in 2011/12, 2.9 percent in 2012/13, 4.0 percent in 2013/14, 4.5 percent in 2014/15, and 5.4 percent in 2015/16, averaging 3.4 percent for the six-year period. The BOP as percent of GDP during these six years remained 0.3 percent in 2010/11, 7.5 percent in 2011/12, 3.5 percent in 2012/13, 5.7 percent in 2013/14, 6.0 percent in 2014/15, and 7.2 percent



in 2015/16, averaging 5.0 percent for the six-year period. A comparative analysis of these two periods could be made as follows. As percentage of GDP, higher average current account deficit (-6.0 percent of GDP) was associated with lower average BOP (3.0 of GDP) during 2016/17 and 2021/22 while higher average current account surplus (5.4 percent of GDP) was associated with higher average BOP (5.0 of GDP) during 2010/11 and 2015/16 (Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation, March 2023, Annex Tables).

8. Saving and Investment Gap

By definition, the current account balance could be interpreted as the difference between saving and investment in the economy. Therefore, the situation of higher average current account deficit signals more investment in relation to saving while the situation of more current account surplus represents more saving as compared to investment. Saving can be raised when fiscal deficit is drastically reduced, and luxurious consumption is in the private sector controlled. Unnecessary administrative and recurrent expenditure should be reduced. Revenue net should be broadened while the tax process should be further simplified, and the tax rate should be reduced.

The revenue should exceed the recurrent expenditure by a wide margin. When fiscal balance is positive, it is called the fiscal surplus, which contributes to overall saving in the economy. Nepal's ongoing economic problem is mainly explained by the deterioration in the balance between the saving and investment. Raising the saving as the ratio of GDP would be a crucial step along the path of balanced, self-sustained, and healthy growth momentum. This means Nepal's current economic problem is more to do with fiscal management than with monetary management. Widening fiscal deficit can be financed only by higher interest rate. So, without curtailing the fiscal deficit, it would be impossible to curtail the interest level at ones desired level. Blaming the central bank or the banking sector for the interest rate rise is not fair when the fiscal deficit is maintained at unsustainable level. As a first step toward reducing the recurrent expenditure and reinvigorating the fiscal management, the Pradesh structure of the federal set-up



should be dismantled. Other expenditures of the government should be similarly rationalized. Otherwise, it would become quite impossible to revive the already fragile fiscal structure of the government.

The difference between the saving and investment as ratios of GDP could be noted as follows:

Table 1: Difference between Saving and Investment (As Percent of GDP)

Fiscal Year	As Percent of GDP		
	Gross National Saving	Gross Capital Formation (Investment)	Difference between Saving and Investment
2001/02	24.2	20.2	4.0
2002/03	23.8	21.4	2.4
2003/04	27.2	24.5	2.7
2004/05	28.2	26.5	2.0
2005/06	29.1	26.9	2.2
2006/07	28.6	28.7	-0.1
2007/08	33.2	30.3	2.9
2008/09	35.9	31.7	4.2
2009/10	35.9	38.3	-2.4
2010/11	27.5	27.7	-0.2
2011/12	33.9	28.6	5.3
2012/13	34.4	29.7	4.7
2013/14	39.1	31.0	8.1
2014/15	38.3	31.2	7.1
2015/16	34.8	28.3	6.5
2016/17	41.7	37.3	4.4
2017/18	40.5	39.6	0.9
2018/19	42.1	41.4	0.7
2019/20	32.2	30.5	1.7
2020/21	33.3	35.8	-2.5
2021/22	32.0	37.3	-5.3

Source: Economic Survey, 2021/22 (Appendix 1.8 and 1.9), Government of Nepal, Ministry of Finance

In 2020/21, Gross National Saving (GNS) rose 1.1 percent of GDP from 2019/20 while Gross Capital Formation (GCF) rose 5.3 percent of GDP from 2019/20. As a result, in 2020/21, difference between saving and investment (S-I) decreased 4.2 percent of GDP from 2019/20. In 2021/22, GNS decreased 1.3 percent of GDP from 2020/21 while GCF rose 1.5 percent of GDP from 2020/21. As a result, in 2021/22, S-I decreased 2.8 percent of GDP from 2020/21. The S-I as percent of GDP at -2.5 in 2020/21 and -5.3 in 2021/22 were the factors that

destabilized the Nepalese economy. So, the remedy calls forth restoring balance in the difference between saving and investment in the economy. Also, the above Table shows that S-I as percent of GDP was negative in 2006/07, 2008/09, and 2009/10. These were the years which were associated with negative current account balance, at -0.1 percent of GDP in 2006/07, -2.4 percent of GDP in 2009/10, and -0.9 percent of GDP in 2010/11. The BOP also turned negative at Rs. 3.3 billion in 2009/10. These years also saw the reduction in the equivalent months of goods and services imports from 9.7 in 2005/06 to 8.7 in 2006/07, 7.4 in 2009/10, and 7.3 in 2010/11.

9. Corrective Measures and Present State of the Economy

The significant deceleration in the foreign exchange reserve level in a short period of time should have served as the ringing bell among the policymakers to go for immediate review of the situation and take corrective measures at the opportune time. However, the timely corrective measures in the regular arsenal of monetary policy for regulating the excessive import controls were nowhere in sight. When the external sector of the economy started going out of hand, more potent means of import controls became inevitable. Accordingly, the Government of Nepal imposed ban on import of ten luxurious goods since April 26, 2022 in addition to the NRB's requirement to have 50 to 100 percent cash margin for opening letter of credit (LC) to import luxury goods. The adoption of cautionary monetary policy for 2022/23 also hardened the prevailing interest rates.

All these policy measures resulted in more interest rate, tighter liquidity, reduced bank credit, falling imports, slowdown in government revenue, and the rise in hue and cry from the business circles. Consequently, the BOP started to turn favorable since the third month of 2022/23. After the improvement in the foreign exchange reserves, the import ban imposed earlier on 10 luxurious goods was lifted since December 16, 2022. On January 19, 2023, the NRB removed the requirement of cash margin for the imports. From then onwards, the importers needed to maintain only the cash margin specified by the banks for opening LC. NRB also removed the ban on the payment for imports through Demand Draft (DD) and Telegraphic Transfer (TT). Importers could now pay up to US\$ 35,000 through TT for the imports from third countries while they could pay up to Rs 300 million through draft and TT for imports from India. BOP, which posted surplus amounts every month since mid-October 2022, registered the surplus of Rs. 148.1 billion during the eight months of 2022/23. Consequently, import capacity for goods and services for the eight months of 2022/23 averaged 8.6 months as compared to 6.7 months for the last eight months of 2021/22. The present state of the Nepalese economy could, therefore, be compared with the post-operation convalescing patient who had to be operated to normalize the excesses committed in the lifestyles based on unsustainable sources.

10. Conclusion

Nepal has traditionally been facing serious imbalance on the net export of goods and services. This has given rise to persistent current account deficit and caused occasional uncertainty. This has also resulted in the occasional BOP deficits, reduction in the import capacity of the foreign exchange reserve level, and related liquidity problems in the economy, especially hurting the investment climate in the country. To mitigate such environment, Nepal needs adequate homework for rejuvenating the economy and making the external sector sound and sustainable. As the remittance effect in the economy is ultimately destined to slow down, with its far-reaching short-term and long-term effects and implications, Nepal should prepare for the eventuality. Cutting excessive public sector consumption and unnecessary private sector consumption constitutes the viable remedy. Although it will be painful to bear the macroeconomic and microeconomic effects of such a move, in the long-term interest of the economy and for the interest of the future generations, there will be no other alternative except tightening the belt and making optimal utilization, especially focusing on investment, of the resources available in the economy.

The huge recurrent expenditure required in the process of implementing the federal set-up as per the new Constitution may not be consistent with such requirement for downsizing the recurrent expenditure. So, the test of leadership would comprise in smoothly managing the process of federalism. For this, making most productive allocation and use of the resources including promoting an enabling environment for the private sector investment besides requesting the donor community for necessary non-debt resources would constitute the priority national agenda and action for Nepal. The solution of the problem would comprise preventing or reversing the appreciation of real exchange rate of the currency. Faster rise in wages as well as prices of domestic inputs would make the domestic inflation exceed that of the world inflation, causing exporters' profits to decline. In most cases, the cure requires the government budget restructuring and strong restraints over money creation by the central bank, both aimed at economic stabilization.



The government needs to plan and undertake sensible, sound, well-targeted projects with prospects of high returns. Among the stabilization tools, Nepal's inflation should not exceed its trading partners' inflation so as to make the real exchange rate positive while expenditure would have to be reduced through restrictive fiscal and monetary policies that would also reduce inflation. These are the pre-requisites for attaining macroeconomic stability and soundness for sustainable development and prosperity of Nepal, especially building on the foundations of external sector viability and sustainability. Lastly, to avoid the macroeconomic instability as harshly experienced by the Nepalese economy in the recent months, the saving and investment ratios need to be regularly tracked for adopting timely measures so as not to allow the resource balance (i.e., S-I) to enter the negative region. Saving should be raised by drastically reducing the fiscal deficit and discouraging the import-based, superfluous/luxurious consumption in the private sector. Unnecessary administrative and recurrent expenditure should be structurally reduced.

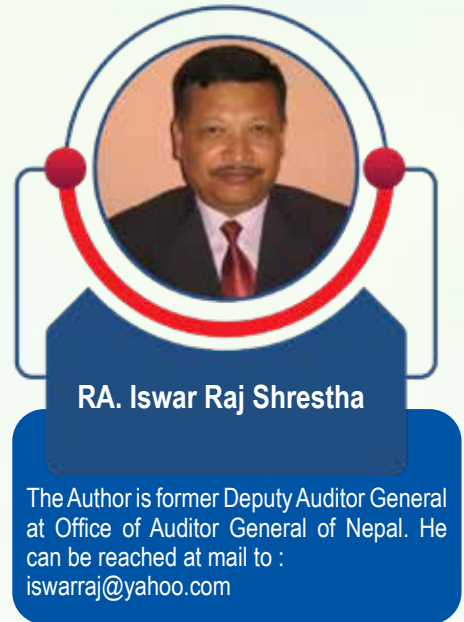
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Financial Management of Sub-national Governments

The subnational governments (provincial and local) have emerged as the foundation of Nepalese governance system after implementation of federalism. Newly created structures, lack of essential laws, lack of internal control system, inadequacy of financial/ human resources, low ethical values amongst the elected representatives, high turnover of staffs, etc. have increased the fiduciary risks in SNGs. They have weak fiscal accountability and discipline. They are excessively relying upon the federal grants to meet their growing expenditures. Budget and programs are prepared and goods/works are procured without complying with legal provisions. The officials/ staffs are getting remuneration and additional facilities without any legal basis. The irregularity percent of the SNG offices have been appearing higher than federal government offices. Hence it is high time to give attention in the improvement of financial management to enhance of the fiscal discipline and accountability in the SNGs.



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1. Background

Nepal has been transformed into a federal structure after the promulgation of the Constitution of Nepal in 2072 (2015). The Constitution provides the basis for functioning of the federal, provincial and local governments. In the spirit of federalism, the state powers have been exercised by the federal government, 7 provincial governments and 753 local levels. The exclusive and concurrent powers of the federation, provinces and local governments have been provided in the Schedules of the Constitution. The three tiers of governments are responsible for the overall governance, development, services delivery and mobilization of public resources.

After implementation of federalism, the provincial and local governments (subnational governments - SNGs) have emerged as the foundation of Nepalese governance system downsizing or revitalizing the roles of the federal ministries/ department. However, the newly created institutional foundation of SNGs has posed challenges in functioning and management of financial resources and exercise of powers by the elected authorities. There have been challenges in mitigating the fiduciary risks and enhancing the institutional and operational efficiencies/capabilities of the governments. This article intends to highlight and analyze on the aspects of financial management of the SNGs.

2. Institutional Arrangement

The SNGs, constituting all 7 provinces and 753 local levels, are vital pillars of Nepalese governance system. The local governments comprise of 460 Rural Municipalities, 276

Municipalities, 6 Metropolitans, and 11 Sub Metropolitans across the country. Constitutionally, the SNGs are empowered to make laws, take decisions, prepare policies, annual budget and programs, and implement plans and policies on the matters within their jurisdictions. They are empowered to raise revenues and utilize resources to meet the development needs and welfare of the people.

The SNGs mobilize huge amount of physical, human and economic resources of the country. There are more than 1 thousand 100 provincial level entities and 753 local level entities in all the seven provinces. Each rural municipality comprises of 5 to 15 ward offices and each municipality comprises of 9 to 35 ward offices. Out of the total 138 thousand approved employee positions of 3 tiers of government, the total numbers of approved position of the provincial and local governments are around 24 thousand (17.4 percent) and 67 thousand (48.5 percent) respectively. The Consolidated Financial Statement of 2021/22 prepared by the Financial Comptroller General Office (FCGO), shows that out of the total income and expenditures of the three tiers of governments, the shares of revenue receipts of the provinces and local levels have stood 13 percent and 24 percent respectively and the expenditure of the provinces and local levels 13 percent and 23 percent respectively.

3. Legal Frameworks

The Constitution of Nepal stipulates the basis for the operations of financial procedures of the SNGs, which includes - raising taxes, operating and making expenditures from the consolidated fund and projection of revenues and

expenditures. Every province has enacted the Provincial Financial Procedures and Fiscal Accountability Act specifying the legal basis of incurring expenditure, accounting, reporting and accountability etc. Intergovernmental Fiscal Arrangement Act 2074 (2017) has been enacted to define the areas of revenue collection and sharing between federal and SNGs. The Auditor General's Annual Report, 2022 mentions that the provinces have adopted 350 laws, but 406 laws are yet to be endorsed by the concerned provincial assemblies. Provinces are required to constitute a Province Coordination Council to coordinate between the province and local levels in matters of policy coherence, partnerships in planning, use of concurrent powers, and sharing of natural resources.

The Local Government Operations Act 2074 (2017) provides the basis for the unbundled constitutional functions mechanism for the operations of local governments including the financial procedures. Each local level is required to formulate more than 40 laws, but many have not yet enacted all essential laws, especially concerned with the financial procedures and fiscal accountability, resource mobilization, development works and services delivery. In addition, they still need to formulate necessary rules, directives, procedures and standards to streamline the financial operations. This has affected the financial operations and performances of the SNGs.

4. Major Financial Management Procedures

Major financial management procedures to be complied by each province and local level as per the constitution and prevalent laws are provided below:-

● Revenue and Resource Mobilization

- ✓ Generate tax and non-tax revenues from various sources as per the prevalent laws, (e.g. house and land registration fee, motor vehicle tax, wealth tax, house rent tax, entertainment tax, advertisement tax, service charge, tourism fee etc.),
- ✓ Prepare the revenue proposals assigning necessity, rationale and potential impacts,
- ✓ Make revenue projection of every fiscal year covering the revenues to be collected from internal sources, revenue sharing and grants, etc.,
- ✓ Obtain funds from the Federal and/or Provincial Government as revenue sharing and various form of grants,
- ✓ Raise internal loans as per laws remaining within the ceiling as fixed by National Natural Resource & Fiscal Commission,
- ✓ Obtain pre-approval of the Federal Government if any foreign loan is to be received,

● Formulation of Budget and Program

- ✓ Develop periodic and annual, strategic and sectorial

development plan,

- ✓ Prepare the Medium-Term Expenditures Framework (MTEF) along with the projection of income expenditure of next three fiscal years,
- ✓ Develop projects banks for implementation of projects/programs,
- ✓ Implement projects/programs on the basis of the prioritization, feasibility study and economic benefits or return from them,
- ✓ Prepare annual budget and program for every fiscal year based on periodic plans,
- ✓ Adopt participative approach in determining program and budget,
- ✓ Consider policies, goals, timeframe and process related to the good governance, environmental changes, disaster management, child friendly, gender responsive & social inclusion etc. while preparing budget,
- ✓ Follow Economic Code Classification and Explanations, 2017 for income and expenditure,

● Implementation of Budget and Program

- ✓ Implement the budget and programs remaining within budget ceiling approved by the concerned Assembly,
- ✓ Incur expenditures or withdraw money from the Consolidated Fund only after approval of the budget from the concerned legislature,
- ✓ Implement projects/programs as per approved budget and programs,
- ✓ Comply with the financial procedures in making expenditure,
- ✓ Comply with the procedures provided in procurement laws,
- ✓ Maintain fiscal & budgetary discipline,
- ✓ Maintain transparency and accountability in financial operations,

● Accounting, Recording and Reporting

- ✓ Operate financial transactions under Treasury Single Account (TSA) system managed by Provincial Treasury Comptroller Offices (PTCO),
- ✓ Maintain accounts of all revenues and expenditures as per prescribed AG formats,
- ✓ Use approved accounting software for budgetary expenditure and maintaining accounts of income and expenditure. Presently, the Computerized Government Accounting System (CGAS) and Sub-national Treasury Regulatory Application (SUTRA)



software system have been prescribed for the provinces and local level respectively,

- ✓ Prepare financial statements complying Nepal Public Sector Accounting Standard and using the form approved by AG,
- ✓ Submit the financial statements/reports to the concerned offices within specified time,

● Internal Controls, Internal Auditing and Final Auditing

- ✓ Establish an appropriate internal controls system based on nature and scope of work,
- ✓ Establish internal audit mechanism as required by laws,

- ✓ Complete the internal audit of all income expenditure through the specified auditors (PTCO in case of Provincial Government office and own internal auditors in case of Local Government),

- ✓ Settle internal audit observations prior to commencement of final audit,

- ✓ Complete the final audit from the Office of the Auditor General Nepal (OAGN),

- ✓ Settle audit observations pointed out by the internal audit and final audit within specified time by taking actions /following the prescribed procedures,

- ✓ Settle audit irregularities making deliberation in the concerned Assembly.

Each provincial assembly constitutes Public Accounts Committee (PAC) for discussion of Auditor General's annual reports. The audit report of each local level is discussed in the rural municipal or municipal assembly and the irregularities are settled by constituting the Accounts Committee.

5. Financial Accountability and Transparency

As per existing statutes, the executive of each province or local level needs to be accountable to its respective legislature. The finance minister of each province has to

get approval submitting the annual estimates of revenues and expenditures before the provincial Assembly. Each rural municipal/municipal executive has to get approval submitting the budget estimate before its respective Assembly. Upon approval of the budget, the provincial or local level executives issue the authority to spend the budget to the concerned Chief Administrative Officer, and such authorities are delegated to the division or section chiefs. Each responsible officer making expenditure is responsible to comply with prevalent laws, prepare accounts and financial reports, complete audits of all income expenditure and settle audit irregularities.

Each provincial office chief and departmental minister of provinces are responsible for maintaining overall accountability by monitoring projects, and each Chief Accountability Officer (CAO) (secretary) of each provincial ministry is accountable for

preparing the consolidated accounts and settling the audit irregularities. The provincial office chiefs, departmental ministers and CAOs need to be accountable for the budget execution. The executive of each rural municipality/ municipality has to be accountable to its respective Assembly. The Chief Administrative officer of each rural municipality/ municipality needs to be accountable to its rural municipal/ municipal Assembly for the budget expenditure. The AG's annual reports of each province submitted to the concerned Chief of Provinces are discussed in concerned provincial PAC after it tabled in Provincial Assembly by the Chief Minister. The audit reports issued by the OAGN are to

be discussed in the concerned rural municipal or municipal Assembly.

As per prevailing laws, each provincial/local level office needs to follow transparent procedures in preparing budget and making expenditure and procurement etc. They are required to disclose the details of revenue and expenditures and audit reports through their website. However, the audit reports of several SNGs include the findings on lack of transparency of income expenditure and financial affairs. Necessary Information has not been communicated to people by updating their website.

Major Financial Management Procedures of SNGs

- Impose taxes and collect revenues in accordance with law
- Generate revenues from internal sources
- Mobilize funds received as revenue sharing and various grants from federal and provincial government
- Raise internal loans as per laws
- Develop periodic and annual strategic sectorial development plan
- Prepare an annual budget estimate for every fiscal year
- Operate a Consolidated Fund for the management of revenues/funds
- Spend budget expenditures complying with prevalent laws
- Maintain transparency and fiscal/budgetary discipline in making expenditure
- Establish internal controls system as per nature or scope of works
- Maintain accounts of income and expenditure as per approved AG formats
- Complete internal audit through auditors as per laws
- Complete final audits through the Auditor General

6. The Financial Management Shortcomings

The effectiveness of the SNGs depends upon the successful implementation of the plan, policies, budget and programs. The financial management of the SNGs is vital to the citizens. Newly created structure, lack of essential laws, lack of institutional capacity, lack of appropriate internal control system, inadequacy of financial and human resources, low ethical values amongst the elected representatives, high turnover of staffs, etc. have increased fiduciary risks in the SNGs. This has created many challenges in the financial affairs along with the poor enforcement of financial laws and low-level fiscal accountability and discipline. Major financial management shortcomings are discussed below:

■ Revenue mobilization and management -

The SNGs have been generating low revenues from their internal sources. Many SNGs have not yet raised the tax or non-tax revenues from all potential taxpayers or sources as per their jurisdiction. Out of the total expenditure of FY 2020/21 of provinces, only 53.85 percent has been borne from their internal sources. Out of the total receipts of FY 2020/21 of local level, the share of internal source is only 6.22 percent. The provinces have collected only 75.83 percent of the estimated revenues. The SNGs have been excessively relying upon the federal grants to meet their growing expenditures.

The internal control systems of revenues have been witnessed ineffective. It is stated in the audit reports, 2019/20 of some of local levels that daily revenues raised by several sub-municipal/ municipal/ ward offices are not deposited within specified time (next day), but deposited lately - weekly, fortnightly, monthly basis. All necessary revenue accounts are not maintained in prescribed format, and the amounts deposited in divisible fund have not been allocated timely manner. Several SNGs have provided revenue remissions to various revenue contractors citing the Covid-19 and other causes.

■ Preparation of budget and program -

Auditor General's Annual Report 2022 stipulates that several SNGs have been preparing budget and programs without fulfilling necessary legal requirements. Many SNGs have not prepared periodic, strategic sectorial plan and Medium Term Expenditure Frameworks (MTEF). They have not prepared project banks of implementable projects, not prioritized projects/ programs, and not completed feasibility studies and impact evaluation. Small projects/programs have been implemented allocating nominal budget. There has been lack of coordination between the provincial and local level in including budget of programs, which has caused overlapping and duplication of programs/ activities. Projects/ programs are considered more on political grounds than on strategic

importance. Poor prioritization of projects and programs has led to spending in nonprioritized areas.

■ Budget Expenditure -

The SNGs have low capacity to utilize budgets. They have failed to utilize substantial portion of the approved budgets in last subsequent years. The consolidated financial statement of the FCGO of FY 2077/78 (2020/21) shows that as compared to the annual budgets, the provinces and local levels have spent only 62.86 percent and 75.39 percent respectively. Out of the total expenditures of the provinces, the portion of recurrent, capital and other expenditure has appeared 39.92 percent, 59.34 percent and 0.74 percent respectively. Out of the total expenditure of the local levels, the shares of recurrent, capital and other expenditure have been 60 percent, 39.93 percent and 0.07 percent respectively. The local levels are having high percent of recurrent expenditure than the provinces. The SNGs are incurring huge amount of unproductive or distributive expenditures.

The SNGs have high fiduciary risks due weak the budgetary controls system and low level of fiscal discipline. Major audit findings mentioned in AG's annual report, 2022, include - expenditure incurred in excess of budgetary allocation, ineligible virement done, budgets of some programs spent as per executive decision retaining as unallocated amount, recurrent expenditure borne from capital expenditure, future liabilities created incurring expenditure in excess of appropriated budget, ineligible expenses incurred from the federal funds/grants, various grants distributed without preparing criteria/procedures, social security allowances distributed to beneficiaries without assessing the eligibility, huge expenditures incurred in third trimester period/last month (Ashadh) of FY etc.

■ Official/Staff Facilities and Payroll Expenses -

The elected chief and members of the province and local level are entitled to get the facilities such as housing, vehicles and fuels, communication, entertainment expenses etc. as specified in prevalent laws. However, several officials of SNGs have received excess remuneration and facilities without legal basis. Many SNGs have used the federal grants in purchasing vehicles disregarding the federal directives. Most of provinces have purchased costly or expensive vehicles to their elected officials than the standards set by the federal government. They have not established any control mechanism to check the usage and maintenance of vehicles and fuel expenses.

Major audit findings on payroll expenses specified in Auditor General's Annual Report, 2022 include - payroll expenses incurred without passing annual payroll report, remuneration paid by appointing various staffs in unapproved posts, employees' contribution not deposited



in employees' welfare fund, necessary remuneration taxes not deducted or less deducted. Many local level officials have provided remuneration appointing personal secretaries/advisers without any legal basis. Regarding facilities, several provincial officials have received ineligible facilities, e.g. incentive allowances, meal/tiffin expenses, special allowances, etc. The officials of local level have also received ineligible facilities, e.g. festival expenses, clothing expenses, transportation & monitoring expenses, meeting allowance without any provision or in excess of provision. Many local levels have provided additional facilities to their staffs without pertinent decisions in the form of - communication, tiffin, monthly allowances, assembly allowances, extra-time allowances, incentive allowances etc.

■ Procurement Management-

Several problems have been witnessed in procurement planning, contract management, execution of contract. Majority of SNGs have not prepared the procurement master plan and have procured goods, services and works without complying the procurement procedures as required by Procurement laws. Most of SNGs have carried out the procurement goods and services through direct purchase method limiting the competition. Other shortcomings related to procurement management includes - procurement of goods without identifying needs, payment of works given without approval of variation orders, non completion of works within the contract period, non recovery of pre-determined liquidated damages as per the condition of contract, non-deduction of applicable taxes in making payments, actions not taken to the defaulters as per the condition of contracts and laws, procurement contracts made with user groups exceeding the amount limits fixed by procurement law, use of heavy equipment in the works undertaken by user groups, etc. All these inconsistencies have been reported in the Annual Report 2022 of Auditor General.

■ Accounting and Reporting -

Presently, the provincial government offices have been operating their financial transactions under Treasury Single Account (TSA) System managed by Provincial District Treasury Comptroller Office. Provincial Treasury Controller Offices are key institutions to overseeing the operation and controls of the Provincial Consolidated Fund and accounts of the provincial government offices. The Provincial offices have started to maintain of accounts in computerized accounting system. The Computerized Government Accounting System (CGAS) prescribed for all provinces. Most of the provincial ministries have yet to prepare the consolidated financial statements and Nepal Public Sector Accounting Standards (NPSAS) based financial statements. The SUTRA system used by local levels has still to capture all financial transactions of local level inclusive of revenue receipts and deposit

transactions.

In addition to the above mentioned software, some of local levels have procured separate IT software for recording revenue, budget expenditure accounting & reporting and inventory management without necessary approvals from the concerned federal IT department. It is mentioned in the Audit Reports 2019/20 of some local levels that they have not brought full operation to the procured software due to lack of essential infrastructures and skilled manpower. A number of local levels have prepared accounts without complying with the Chart of Account approved by AG.

■ Internal Controls and Internal Audit -

Despite of legal arrangements, most of SNGs have not established an appropriate internal controls system within their organizations identifying work scope and financial risks. They have not developed necessary standards, manuals, guidelines to check undue administrative and program expenditures. This has caused lapses in usage of financial resources and maintenance of fiscal discipline and accountability. It is mentioned in the audit reports of 2019/20 of several local levels that most of the offices have not introduced the control mechanism to safeguards assets and cash transactions. They have also not maintained proper inventory of their assets, such as land & buildings, vehicles, machinery & equipment and not prepared the consolidated statements of such assets.

Internal audits of the provincial government offices are conducted by the Provincial Treasury Comptroller Offices. But, several local levels have not established internal audit units/section as per legal arrangement and have also not completed internal audits timely basis. Similarly, a number of local levels have not completed audits despite of the establishment of internal audit unit or appointment of an internal auditor. The AG's annual report, 2022 stipulates that 250 out of 753 local levels have not been completed internal audits of the FY 2020/21. Most of provincial and local levels have also not developed necessary guidelines/ manuals for carrying out the internal audits.

■ Final Auditing -

In spite of the constitutional arrangements, some SNG entities have not been able to complete the final audits by submitting accounts and financial statements within specified time. AG's Annual Report 2022 stipulates that only 1,119 out of 1143 provincial government entities and 744 out of 753 local levels have completed the final audits of the FY 2020/21. However, 24 provincial governmental entities and 9 local levels have not completed the final audit of the FY 2020/21. The cumulative audit backlogs of the provincial and local government entities as of 2020/21 have been 15 and 59 entities respectively.

■ Irregularities and Settlements -

The irregularity rate is taken as a yardstick for measuring the level of fiscal discipline and accountability. As per the AG's annual report 2022, total irregularities of the federal, provincial and local government offices of the FY 2020/21 has been NRs. 49.47 billion, 7.48 billion and 43.91 billion respectively. If compared the irregularity figures of FY 2020/21 with the respective audited figures, the irregularity percent of the federal, provincial and local government entities become 1.75 percent, 2.50 percent and 4.18 percent respectively. This shows the irregularity percent of the SNG offices have been appearing higher than that of the federal government offices and the irregularity percent of local level has appeared significantly higher than that of the federal and provincial government offices. The Irregularity percent of the provincial and local level government offices of Madhesh Province in FY 2020/21 have appeared significantly higher than other provinces, which have appeared 5.42 percent 8.76 percent respectively, which are almost double than the respective average percent. Likewise, the irregularity percent of the metropolitans, Sub-metropolitan, municipality and rural municipalities of FY 2020/21 have been witnessed 6.13 percent, 4.22 percent, 4.33 percent and 3.68 percent respectively, which indicates that the irregularity percent of metropolitan cities is higher than other local levels.

The cumulative irregularities to be settled by the provincial and local government offices as of the FY 2020/21 have been NRs 18.27 billion and NRs. 136.32 billion respectively. The cumulative outstanding advances to be settled by provincial and local level government offices as of FY 2020/21 have been NRs. 4.10 billion and 5.10 billion respectively. The cumulative irregularities to be settled by the SNG's offices have been increasing every year, which have increased by 47 percent and 32 percent in the FY 2020/21 as compared to FY 2019/20. This indicates that the responsible officials of SNGs have taken less initiative to settle the irregularities reported in final audit reports. The PACs of provinces and accounts committees of local levels have not been found effective in settling

irregularities. Local levels lack independent legislative body to make scrutiny and settle irregularities as the Municipal Mayors or Rural Municipal Chairpersons have main role in decision-making both in the local assemblies and executives.

7. The Way Forward

In view of above mentioned high fiduciary risks, the concerned agencies including the federal government need to take strong measures for the improvement of fiscal discipline and accountability in the SNGs. The measures suggested below would certainly ease in improving the financial management environment of the SNGs:-

✓ The concerned ministry of the federal government should play of a catalyst and facilitator's role in formulating the essential financial laws, directives and guidelines, establishing an effective control mechanism and enhancing management capabilities of the SNGs.

✓ The Provincial Ministries should focus its roles in monitoring and evaluation. The role of Provincial Coordination Council should be strengthened to have better coordination between the province and local level governments.

✓ All essential laws inclusive of the financial procedures and fiscal accountability should be finalized to systematize and regularize the financial operations and procedures.

✓ The laws related to the financial procedures, procurement, tax and non-tax regulations etc. need to be effectively implemented by preparing essential operating regulation and guides.

✓ The employee's positions of the SNGs should be revisited on the basis of work scope and Organization & Management Survey, and actions are to be taken to fulfil all vacant positions of staffs including the accountants and internal auditors.

✓ Necessary orientations should be given to all elected representatives and staffs on the financial compliance, financial accountability and settlement of audit irregularities.

Financial Management Shortcomings of SNGs

- Low income generation from internal sources leading high dependency on the federal grants
- Budget allocation without prioritization of projects / programs leading to spending in nonprioritized areas
- Overlapping of activities between the provincial and local level in program implementation
- Project/programs implemented without preparing periodic plan/strategic sectorial development plan/MTEF
- Incur of unproductive expenditure
- Huge budget expenditure at the end of fiscal year
- Expenditures incurred without complying with prevalent laws
- Procurement done without complying procurement procedures
- Weak fiscal discipline & accountability
- Internal controls system not established in most of the offices as per laws
- All transactions are not included in accounting software
- Internal audits of some offices not completed
- Final audits of some of offices not completed
- High irregularity percentages
- Timely actions not taken for settling irregularities as per laws



- ✓ It would be appropriate to conduct a study to identify the needs-capacity gap of the staffs working in the SNGs. Separate institutional arrangements should be made to provide trainings, orientation etc.
- ✓ There should be consensus amongst the major political parties to implement aggressive anti-corruption campaign and improve integrity. In addition, efforts need to be taken to create civic awareness against corruption.
- ✓ SNGs should intensify their internal revenue generation efforts as well as prepare realistic budgets and revenue targets to enhance their future performance. So, necessary national policy standards should be developed to make the revenue collection systematic, effective and trustworthy and harmonize between all provinces and local levels. Internal revenue generating capabilities need to be strengthened by establishing and enhancing the capabilities of making revenue projection and revenue collection.
- ✓ Periodic Plan should be prepared in line with sustainable development goals and periodic plans, and the MTEF should be implemented to bridge the gaps between provincial periodic plan and annual plan. Programs are to be implemented on the basis of prioritizations preparing project banks.
- ✓ The role of provincial policy and planning commission pursuant to the policy, plan and program formulation, preparation of project banks and monitoring and evaluation of projects should be strengthened.
- ✓ Steps are to be taken to increase capital budget expenditure, and necessary guidelines and standards are to be prepared to check the unproductive budget expenditure and promote budgetary discipline.
- ✓ Effective mechanism need to be established to monitor the works performance of contractors and user groups, quality of works and program cost etc.
- ✓ Efforts are to be made to establish an effective internal control system in all SNG's entities.
- ✓ Necessary steps are to be taken to make the internal audit independent, reliable and effective by creating a separate legislature committee for overseeing the affairs of internal audit.
- ✓ Appropriate IT software systems should be developed to meet the requirements of all provincial and local level entities. The CGAS and SUTRA accounting software being used in provincial and local government offices respectively should be modified to capture all financial transactions.
- ✓ There should be clear legal arrangements to present

and hold timely discussions of the Auditor General's annual reports of provincial governments and the audit reports of local levels in the concerned legislative bodies.

- ✓ The process of irregularity settlement of local levels should be made independent and free from conflict of interest by formulating appropriate procedures and mechanism.
- ✓ There should be arrangements to monitor the implementation of PAC decisions effectively.

8. Conclusion

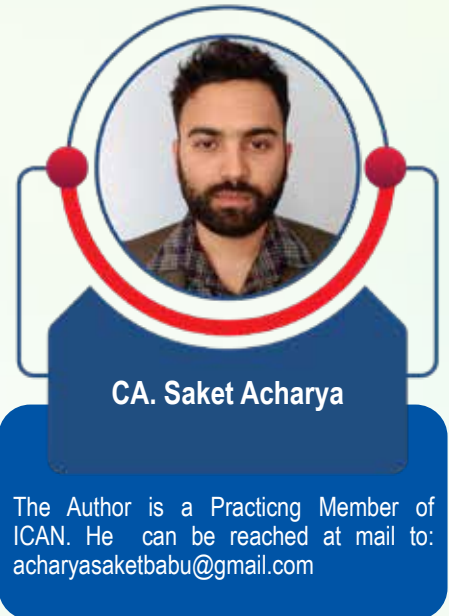
Though the SNGs stand as an important pillar of the federalism and the agent of channelizing of resources for social welfare and development, they have not yet become effective in fulfilling the constitutional responsibilities. The situation of financial management of the SNGs seems weak due to various reasons. This has affected the performance and outcomes of the SNGs. Hence, it is high time for all concerned agencies including the federal government to consider in improving the current situation of financial management by enhancing the capabilities and maintaining the fiscal discipline and accountability in the SNGs. In this connection, some initiatives should be taken like preparing necessary laws, guidelines and establishing effective control mechanism. There should be a proper monitoring system for making self-assessment of accountability of public financial managers on regular basis. The federal government should also support the SNGs to enhance the overall financial management capabilities.

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The Boon or Bane of Remittance for Nepal's Economy

Remittance increases the purchasing power of the public and there is huge import. But on the flip side, this creates pressure on the country's foreign exchange reserves as imports for consumption are mostly financed by remittance. This increased household consumption due to remittance is rather becoming a white elephant for our economy. If we overlook the longer run, remittance is a blessing to the country. As the economy of Nepal is highly dependent on remittance, there is no other option but to rely on and expect remittance to grow. In contrast, Remittance in the long run is the bane. Remittance is not the sustainable solution as we can't always depend on other countries solely, rather the country must move towards being more independent. The high dependency of remittance reflects the unemployment, low production rate and no development of the economic sector.



Keywords: Remittance, Export, Import, GDP, Investment

Background

Remittance means the transfer of income in terms of money, especially by migrant workers to their home country. Remittance benefits not only the migrants and their families but also their home country as well. It is one of the most stable sources of income for developing countries. Remittances play a significant role in improving a country's creditworthiness for external borrowing, expanding innovative financial mechanisms, enhancing access to capital, and stimulating economic growth. Remittance flows to low- and middle-income countries (LMICs) are estimated to have increased by 4.9 percent to reach \$626 billion in 2022. The strong growth rate is noteworthy, coming as it does after a surge of 10.2 percent in 2021. For the world, remittance flows are expected to reach \$794 billion in 2022 (The World Bank, 2022).

In developing countries like Nepal, remittances have become one of the most important sources of external finance. Nepal is one of the least developed countries having high remittance receipts. The economy of Nepal is highly driven by remittances; moreover, the Nepalese economy can be termed as Migration Driven Economy. Remittance has a significant contribution to the GDP of Nepal's economy. According to the latest data by NRB (2021), around one-fifth of the total population, about 6 million Nepalese are in foreign countries, and on average 696 people have left the country per day for foreign employment in the last five years. So, it won't be wrong to say remittance is the backbone of the economy of Nepal. With the increase in labor migration, remittance has also been increasing and so is

the share of remittance in Gross Domestic Production (GDP). Money sent by the thousands of Nepali migrant workers abroad amounts to approximately 25% of the country's GDP, making it one of the most dependent countries on remittances in the world. From 2002 to 2021, remittance inflows to Nepal have increased at an average annual rate of 17.2 percent (NRB, 2021). Remittance in 1995 was 1.29% of GDP and increased to 28% in 2018/19.

However, a massive portion of remittance is spent on daily consumption, followed by repayment of loans, household property, education, and in capital formation. The portion of savings is insignificant in the distribution of remittances by use. Thus, the remittance is unable to fulfil the widened resource gap of the domestic economy.

Remittance as a boon

The benefit of remittance is not only confined to the migrants and their families but their home country as well. Remittance helps to develop various positive effects on the economy. For developing countries like Nepal, Remittance plays a significant role at both the micro and macro levels. In the context of Nepal, Remittance is one of the major sources of foreign earnings and income that acts as a catalyst in the development of the economy. One of the most significant contributions of Remittance is Poverty reduction. With the consistent contribution of remittance, Nepal witnessed a compelling reduction in poverty level and thus justification in the distribution of income. Similarly, Remittance results in increased investment in the education sector which generates human capital and has a future social return. Remittance at the



household or the micro level is also increasing a household's financial literacy. With the increase in income and access to finance, education and other facilities, remittance resulted in an improvement in living standards.

The remittance, being a stable source of foreign earnings, helps to stabilize the economy of the developing countries. Out of the top five countries receiving remittances as a percentage of GDP, four are low-income countries (The World Bank). The inflow of remittance has increased the number of funds in the domestic market and eased liquidity constraints. The liquidity crisis post-Covid-19 also revealed that remittances ease liquidity. Remittance income helps to push up consumption. According to the Central Bureau of Statistics, in the last fiscal year that ended mid-July, Nepal's final consumption expenditure at current prices amounted to Rs 3.98 trillion, representing 93.38 percent of the gross domestic product. Remittance as a major source of foreign currency to the developing nation has become a substantial component of making a current account surplus in the balance of payments. Remittance if used in the productive sector helps to boost the entire economy.

So, we can conclude without any second thought that Nepal's economy is dependent on remittance to a greater extent. Thus, this indicates how important remittance is for the Nepalese economy to sustain.

Remittance as a Bane

According to the current scenario remittance is a blessing to a developing country like Nepal. However, no country can always depend on remittance in the long run. Remittance should not be the backbone of the economy, rather the country should be self-sufficient. Remittances must not be a substitute for a sustained development effort. High remittance increases the dependency of the nation on foreign countries and high dependency cannot be good. If some countries change their policy and stop receiving migrant workers from Nepal, then it would be a huge economic problem for Nepal. The sudden halt in the remittance would lead to a huge economic and fiscal crisis. Also, the brain drain affects the development of the nation. Large-scale migration and brain drain hurt domestic labor markets, particularly when those leaving are mostly skilled workers. The majority of youths applying for foreign employment is sabotaging the economy which the nation could have benefitted from with industrious and adventurous demography. Since the number of youths is out of the country, fertile land goes barren as there is no labor force available for the cultivation of land. It's further hampering the agriculture industry as people are abandoning fertile land and enjoying perceived stable sources of income as a remittance.

Various studies have shown that there is a negative correlation between remittance and GDP growth rate. Since remittance is a compensatory transfer, not profit-driven, in the developing economy it has been unable to increase the domestic private investment, rather has increased the larger household consumption.

Remittance increases the purchasing power of the public and there is a huge import. But on the flip side, this has been exerting pressure on the country's foreign exchange reserves as imports for consumption are mostly financed by remittance (Prasain, 2021). The increased conspicuous consumption of luxury items and the country's inability of manufacturing is fueling the trade deficit.

Another issue arisen in this reference is the huge number of students preferring foreign countries for further studies. The first preference of the students after passing school level is moving to a foreign country in search of better study and opportunities. The amount which is being taken by these students is increasing and the ratio of students returning back is very low in comparison to going abroad. We can feel most of our family members complaining regarding the lack of opportunities in the country and their wish to move to a foreign country. Earlier the trend of moving out was limited to the younger section of society, however, in recent times it has been scattered to every section. The huge interest and the long queue for filing the Electronic Diversity Visa Lottery (E-DV) for moving to the United States of America (USA) is increasing day by day.

The amount remitted back to the country is being decreased as of now as informally we have observed the amount is being invested in electronic money such as cryptocurrencies and owning foreign assets. Also, the reduction of remittance is due to the migration of the whole family of the migrant to the country where they have gone for employment. Getting a Green card, Permanent Residence (PR) etc. is taken as a matter of high pride in society, which is not a good sign for civilized society. Brain drains and a shortage of skilled manpower can also be observed due to an increase in migration.

Impact of COVID 19 on Remittance

The global Pandemic caused due to COVID 19 created an enormous impact on every sector. Beyond a global human health tragedy on a scale, the measures required to deal with the COVID-19 pandemic have led to a massive disruption to economic activity. In 2020, the UN's International Labor Organization stated that because of COVID-19, some 25 million jobs were lost, and migrant workers were extremely affected. Over the course of 2020 and 2021, migrants' jobs declined by 30 percent in the United Arab Emirates and Malaysia and 20 percent in Qatar and Saudi Arabia. Half a million migrant workers were expected to return home. This resulted in a decline in remittance.

In the wake of the Pandemic, the amount of money sent home by Nepalese abroad shrank by 7.6 percent to Rs 239.32 billion in the first quarter (mid-August 2021 to mid-October 2021) compared to a 12.7 percent increase in the same period of the previous fiscal year (NRB,2021). The overall remittance inflow from mid-July 2021 to mid-January 2022 was 5.5 % less than the amount received in the same period last fiscal year.



Because of Covid 19, hundi, an illegal way of transferring funds that helps with money laundering, came to a complete halt following the Covid outbreak due to movement restrictions in the migrant destinations. This also resulted in a high remittance inflow through legal mediums. One of the major reasons for the liquidity crisis is the decrease in remittances due to Covid. Amid concerns over the possible impact on foreign exchange reserves due to a decline in remittance, the government banned the import of peppercorns, betel nuts, peas, peas, and date fruits. Also, high-value gadgets and vehicles among others were also banned by the government to increase the foreign exchange reserve. Other sources of revenue generation shall be given priority and emphasis should be given to them rather than this source. The impact of COVID-19 has taught a developing country like ours that it is not safe to be fully dependent upon remittance income and we need to wake up from our sleep and mobilize the amount remitted back towards the productive sector.

Extract of Remittance

From Current Macroeconomic and Financial Situation of Nepal, published by Nepal Rastra Bank Economic Research Department, Baluwatar, Kathmandu Nepal on February 6, 2023 (Based on Six Months' data ending Mid-January

2022/23) has indicated as follows:

1. Remittance inflows increased 24.3 percent to Rs.585.08 billion in the review period against a decrease of 5.0 percent in the same period of the previous year. In the US Dollar terms, remittance inflows increased 13.9 percent to 4.50 billion in the review period against a decrease of 5.7 percent in the same period of the previous year.
2. Number of Nepali workers (institutional and individual-new) taking approval for foreign employment increased 64.6 percent to 275,643 in the review period. The number of Nepali workers (Renew entry) taking approval for foreign employment increased 9.5 percent to 142,548 in the review period. It had increased 298.1 percent in the same period of the previous year.
3. Net transfer increased 22.7 percent to Rs.644.72 billion in the review period. Such a transfer had decreased 4.4 percent in the same period of the previous year.

The number of Nepalese going abroad for employment to various countries can be viewed from the following table published by Nepal Rastra Bank:

Number of Nepalese going for Foreign Employment (Countrywise)

S.N.	Country	2020/21		2021/22 ^R		2022/23 ^F	Percent Share Six Months		Percent Change During Six Months	
		Annual	Six Months	Annual	Six Months		2021/22	2022/23	2021/22	2022/23
a) Institutional and Individual (New)										
1	Malaysia	106	6	25770	151	142425	0.1	51.7	-	-
2	UAE	11611	4768	53846	25537	24024	15.2	8.7	-	-5.9
3	Qatar	22131	1177	76822	45293	24023	27.0	8.7	-	-47.0
4	Saudi Arabia	23324	4934	125374	76906	22968	45.9	8.3	-	-70.1
5	Kuwait	2	0	22786	2807	18447	1.7	6.7	-	-
6	Romania	1954	249	6423	2159	6831	1.3	2.5	-	216.4
7	South Korea*	16	14	4253	750	5715	0.4	2.1	-	-
8	Malta	64	46	1275	516	4178	0.3	1.5	-	-
9	Japan	553	498	2478	64	2214	0.0	0.8	-87.1	-
10	Bahrain	3146	432	7592	3300	2124	2.0	0.8	-	-35.6
11	Cyprus	1003	271	3222	1577	1818	0.9	0.7	-	15.3
12	Maldives	1009	393	2735	1306	1723	0.8	0.6	230.6	32.1
13	Poland	453	148	1512	627	1605	0.4	0.6	323.6	156.0
14	Oman	1556	298	3627	1635	1417	1.0	0.5	-	-13.3
15	Israel	0	0	306	2	732	0.0	0.3	-	-
16	Jordan	930	151	927	115	370	0.1	0.1	-23.8	221.7
17	Turkey	710	301	856	620	81	0.4	0.0	106.0	-86.9
18	Lebanon	2	1	3	2	0	0.0	0.0	100.0	-
19	Afghanistan	1073	388	125	125	0	0.1	0.0	-67.8	-
20	Other	2438	972	14728	4021	14946	2.4	5.4	313.7	271.7
	Total	72081	15049	354660	167513	275643	100.0	100.0	-	64.6



b) Renew Entry										
1	Qatar	32785	11869	108191	56109	42442	43.1	29.8	372.7	-24.4
2	Saudi Arabia	23636	7934	63607	27298	31305	21.0	22.0	244.1	14.7
3	UAE	28866	9326	68798	33292	31114	25.6	21.8	257.0	-6.5
4	Malaysia	1028	773	10557	1142	20642	0.9	14.5	47.7	-
5	Kuwait	1012	603	12803	4332	7723	3.3	5.4	-	77.3
6	Japan	1526	430	3178	1256	2104	1.0	1.5	192.1	67.5
7	Bahrain	1794	487	4477	2065	1987	1.6	1.4	324.0	-3.8
8	Oman	1577	504	3231	1542	1521	1.2	1.1	206.0	-1.4
9	Romania	193	23	1057	507	529	0.4	0.4	-	4.3
10	Cyprus	243	39	959	426	486	0.3	0.3	-	14.1
11	Maldives	621	313	1121	614	421	0.5	0.3	96.2	-31.4
12	Malta	251	35	647	271	330	0.2	0.2	-	21.8
13	South Korea*	18	5	890	41	251	0.0	0.2	-	-
14	Jordan	49	5	253	91	249	0.1	0.2	-	173.6
15	Israel	26	8	293	117	155	0.1	0.1	-	32.5
16	Poland	232	66	353	220	123	0.2	0.1	233.3	-44.1
17	Turkey	65	17	143	46	67	0.0	0.0	170.6	45.7
18	Lebanon	9	3	54	22	29	0.0	0.0	-	31.8
19	Afghanistan	0	0	0	0	0	0.0	0.0	-	-
20	Other	667	264	1841	801	1070	0.6	0.8	203.4	33.6
Total Renew Entry		94618	32706	282453	130212	142548	100.0	100.0	298.1	9.5

*Including G2G

Source: Department of Foreign Employment

Recommendation

Since the remittance is being highly spent on luxury items that are imported, money earned as remittance is again going outside of the nation because of increase in import. Similarly, the huge portion of remittance is being spent on household properties, conspicuous consumption, and loan repayment and very less in capital formation. We are not being able to capitalize on it. Remittance has not been able to fulfill the widened resource gap of the domestic economy. It is not possible to eradicate remittance but the dependency of our nation on remittance can be minimized. Government should realize that it's not just the policy or ministers who make the economy, rather it is the youths who shape the economy. Government should focus on generating employment opportunities within the country itself and utilize the workforce or the students who return to their home country with the knowledge and experience from foreign countries.

Government should encourage investment and convert the money into an investment. The country must be able to invest the money from remittance in the productive sector like the agriculture industry, manufacturing industry, and service sector. The collaboration of migrant workers with investment forums further encourages investment. The recent proposal of the government of providing reservations to the remittance contributor for the Initial Public Offering is also a positive sign indicating the seriousness of the government to convert the remittance to the productive sector. It is high time that policymakers should analyze the situation and develop some concrete remittance-focused policies to convert household consumption towards capital formation reaching out to a maximum number of contributors and direct users of the fund. The national level framework developed by the Ministry

of Finance with the involvement of all other stakeholders such as Nepal Rastra Bank, Ministry of Labor, Employment and Social Security, Ministry of Foreign Affairs and other business houses and organizations should be contributed for the attainment of the common goal. This issue can't be solved alone by one entity. Brazil, Mexico, India, and the Philippines had employed an array of inducements to attract these funds to specific saving and investment vehicles, including migrant pension plans, preferential loans or grants for business ventures, preferential access to capital goods and raw material imports for recent returnees, and investment and advisory services for business start-ups. Nepal can learn a great deal from the experiences of these countries. The right direction for the use of amounts by increasing financial literacy with active support from financial institutions such as Banks, Microfinance companies, Cooperative societies, and Remittance Company is necessary for the proper use of resources. The Institute of Chartered Accountants of Nepal (ICAN) along with its stakeholders such as the Association of Chartered Accountants of Nepal (ACAN), and Auditors' Association of Nepal (AUDAN) among others should increase and seek its role from being passive participants to an active participant for the economic development of the country by contributing to developing a national level framework for the optimum utilization of remittances.

Conclusion

If we overlook the longer run, remittance is a blessing to the country, however, it is a curse in the longer run. In the current scenario, Remittance is a blessing as it contributes to approximately 1/4th of the GDP of the nation. As the economy



of Nepal is highly dependent on remittance, there is no other option but to rely on and expect remittance to grow.

In contrast, Remittance in the long run is the bane. Remittance is not a sustainable solution as we can't always depend on other countries solely, rather the country must move towards being more independent. The high dependency on remittance reflects the unemployment, low production rate and no development of the economic sector.

Occasional issuance of Foreign Employment saving bonds alone is not enough. Also, it is to be noted that fractional savings in the bank do not do well as expected for productivity. The investment should be attracted from them for the development of a project of national pride which gives them a sense of belongingness and ownership. They can feel like the contributor to nation building in a true sense not

only by remitting their hard-earned money to the country. Bringing recipient households into the formal economy by channeling their savings will be the first step for making the remittance boon in the true sense. The bottom line however is that remittances cannot be a substitute for a sustained, domestically engineered development effort.

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मिति: २०८०/०२/०२

सूचना !!

Handbook of Code of Ethics for Professional Accountants- 2023 लागु गरिएको बारे ।

यस संस्थाको मिति २०७९/११/१३ मा बसेको परिषदको २९५औं बैठकको निर्णय अनुसार सदस्य तथा पेशागत प्रमाणपत्र प्राप्त सदस्यहरुको पालनाका लागि पेशागत आचारसंहिता तथा मार्गदर्शन “Handbook of Code of Ethics for Professional Accountants including International Independence Standards-2023” मिति २०८०/०४/०१ बाट लागु हुने व्यहोरा जानकारी गराइन्छ । उक्त आचारसंहिता तथा मार्गदर्शन संस्थाको वेबसाइटको Member खण्ड भित्र रहेको Code of Ethics उप-खण्ड माफत अथवा लिङ्क <https://en.ican.org.np/site/show/code-of-ethics> माफत सोभै हेर्न सकिने व्यहोरा समेत जानकारी गराइन्छ ।



The Evolution of Money and Crypto Currency

Cryptocurrencies, such as Bitcoin and Ethereum, have been a rapidly evolving technology that have disrupted traditional financial systems and gained significant attention in recent years.

One of the key features of cryptocurrencies is their decentralized nature, which allows for peer-to-peer transactions without the need for intermediaries such as banks. The impact of cryptocurrencies on the monetary system has been significant. While some experts argue that they could potentially replace traditional currencies, others see them as a complementary system that could improve the efficiency of existing financial systems. However, there are still challenges to be addressed, such as the volatility of cryptocurrency prices and the lack of regulation in some jurisdictions. On a global scale, Cryptocurrencies offer a means of conducting cross-border transactions without the need for traditional financial institutions, which could disrupt the current system of international payments and settlement.



Money has been a part of human civilization since the beginning of time. It has evolved over the years from the barter system to coins, paper bills, and now digital currencies like cryptocurrencies. The evolution of money has been driven by the need for more efficient and convenient forms of exchange. With increase in globalization and integration of monetary systems has necessitated the modern world to introspect into pros and cons of traditional monetary system, so as to seek for any possible system which can solve the complications of traditional system like foreign exchange complication, multiple regulatory organization etc. Those complications appear to be slowing down global economy often acting as a hurdle for smooth functioning of global trade. Efforts made in this direction has led to the breakthrough evolution of Cryptocurrency. In this article, we will explore the evolution of money and the emergence of cryptocurrencies.

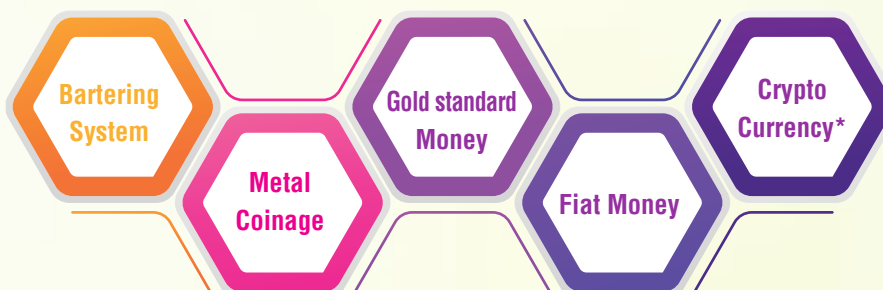
Money is a commodity accepted by general consent as a medium of economic exchange. It is the medium in which prices and values are expressed. Money serves three basic functions:

A Medium of Exchange: The basic function of money is to separate buying from selling, thus permitting trade to take place without double coincidence of barter.

A Unit of Account: Money serves as a unit of account, which is a consistent means of measuring the value of things.

A Store of Value: The third function of money is to serve as a store of value, that is, an item that holds value over time.

Money has been a part of human civilization for thousands of years and has undergone significant changes in form and function over time. The evolution of money is a long and fascinating journey that has taken place over centuries. Starting from the bartering system in ancient times, the concept of money has undergone many transformations and advancements to reach its current form. In this article, we will take a comprehensive look at the evolution of money and crypto currency and understand how it has impacted the financial world over the years. Development taken place over the years can be summarized as follow:



* Cryptocurrency can be considered a form of digital currency, as it can be used to store and transfer value like traditional fiat currencies. However, there is still some debate about whether cryptocurrency can be considered a fully-fledged currency in the same way as government-issued currencies, such as the US dollar or the Euro.

One of the reasons for this is that cryptocurrency is still a relatively new and volatile asset class, with its value subject to large fluctuations based on market demand and sentiment. This can make it difficult to use as a stable store of value or unit of account, which are two key features of traditional currencies. Another issue is that not all cryptocurrencies are widely accepted as a means of payment, with many merchants and businesses still reluctant to accept cryptocurrency due to its volatility and lack of regulatory oversight.


That being said, many proponents of cryptocurrency believe that it has the potential to revolutionize the way we think about money and finance, and it is already being used by millions of people around the world as a form of digital currency. As the technology and infrastructure supporting cryptocurrency continues to evolve and mature, it is possible that it may become more widely accepted as a legitimate currency in the future.

1. Barter System: The barter system was the earliest form of exchange that was used by early human societies. People traded goods and services directly for other goods and services, without the use of any intermediary currency. However, this system had its own limitations as it was not always possible to find someone who had what you wanted and who wanted what you had to offer.

2. Metal coinage: To overcome the limitations of the Barter System, metal coins were introduced as a medium of exchange. These coins were made up of metals like gold, silver or a mixture of the two and were stamped with the symbol of the ruler to establish their authenticity.

3. Gold standard money: The next stage on the evolution of money was the introduction of paper money. The first paper money was used in China during the Tang dynasty (618-907 CE). The Chinese government issued paper money as

a replacement for metal coins, which were becoming scarce due to their extensive use and the cost of mining for metal. The paper money was backed by the Chinese government, and its value was guaranteed by the state. As trade between nations increased, paper money became more widespread, and different nations started issuing their own currencies. However, the value of these currencies was often backed by a physical commodity such as Gold and silver and its value was tied to the value of commodity it represents i.e. Gold or Silver, rather than being backed by the government. This was known as the gold standard, and it ensured that the value of money was consistent across different countries. Even though gold standard provided better solutions over metal coin system, it came with its own problems. The pros and cons of Gold standard money in comparison with fiat money is discussed below:

Pros	Cons
<p>Stability: Gold-backed currency is more stable than fiat money, as its value is tied to the value of the underlying physical commodity, such as gold. This can provide greater stability and security for individuals and businesses, as the value of the currency is less likely to be affected by economic or political factors.</p> <p>Trust: Gold-backed currency is trusted by individuals, as the value of the currency is tied to the value of the underlying physical commodity, such as gold. This can increase trust in the currency, as the value is not subject to the same level of political interference as fiat money.</p> <p>Limited Supply: The supply of gold-backed currency is limited, as the supply of gold is finite. This can help prevent inflation and ensure the stability of the currency, as the supply of money cannot be increased arbitrarily by the government.</p>	<p>Inflexibility: Gold-backed currency is less flexible than fiat money, as the supply of gold is limited. This can make it difficult for governments to respond quickly to changes in the economy, such as inflation or economic growth, and can harm the economy and the well-being of individuals.</p> 



4. Fiat money: Fiat money is a type of currency that is issued by a government and is accepted as a legal tender in the country. The term “fiat” comes from the Latin word “fiat”, which means “let it be done”. In other words, fiat money is money that has value because the government says it does. It is not backed by a physical commodity such as gold or silver, but instead relies on the trust and credibility of the issuing government. The introduction of fiat money had a profound impact on the world economy. It made trade and commerce easier, as people no longer had to carry large amounts of metal coins. It also allowed governments to finance wars and other expenses by printing more money. However, the widespread use of fiat money also had its downsides, as governments were able to manipulate the money supply and inflate the currency, leading to inflation and economic instability. Despite its many flaws, fiat money has become the dominant form of money in the modern world and is widely used as a medium of exchange and store of value.

Under fiat money system, Central banks play a crucial role in managing the monetary policy of a country, and one of the key ways they do this is by creating money. This process of creating money is known as “monetary expansion” or “money printing”. There are two main ways that central banks create money:

■ **Through Open market operations:**

Open market operations refer to the central bank buying or selling government securities in the open market.

■ **Lending to Commercial Banks:**

Another way central banks create money is by lending to commercial banks. When a commercial bank needs to borrow money, it can turn to the central bank for a loan. The central bank then creates new money to loan to the commercial bank, increasing the money supply. When the commercial bank repays the loan to the central bank, the central bank removes that money from circulation, reducing the money supply.

The purpose of these monetary expansion techniques is to influence the economy. By increasing the money supply, central banks can reduce interest rates, making borrowing cheaper and encouraging economic growth. On the other hand, by reducing the money supply, central banks can increase interest rates, making borrowing more expensive and slowing down economic growth. It's important to note that central banks have to balance the need to stimulate economic growth with the need to maintain price stability. If the money supply is increased too much, it can lead to inflation, which can erode the purchasing power of money and harm the economy in the long run.

In conclusion, the central bank’s monetary policy decisions and its ability to create money can influence interest rates, encourage economic growth, and maintain price stability, making it a key player in managing the financial health of a country. The pros and cons of Fiat money system in comparison with gold standard money system/ cryptocurrency system is explained below:

Pros	Cons
<p>Widespread acceptance: Fiat money is widely accepted as a medium of exchange, as it is backed by the government’s authority and is recognized as legal tender. This makes it convenient for individuals to transact with each other and with businesses.</p> <p>Stabilization: Fiat money can help stabilize the economy, as the government can use its authority to control the money supply and prevent inflation or deflation. This can provide greater stability and security for individuals and businesses.</p> <p>Government support: Fiat money is backed by the government, which can provide support and stability in times of economic hardship. This can help prevent financial instability and ensure the continued functioning of the economy.</p> <p>Legal protection: Fiat money is protected by the law, and individuals who hold it are entitled to legal protection. This can provide greater security and stability for individuals and businesses, as they can rely on the government to enforce contracts and resolve disputes.</p>	<p>Inflation: One of the biggest risks of fiat money is inflation, which occurs when the money supply increases faster than the production of goods and services. This can result in a decrease in the purchasing power of money and can harm individuals and businesses.</p> <p>Political interference: Fiat money is subject to political interference, as the government that issues it has the authority to control the money supply and influence the economy. This can lead to corruption and abuse of power, and can harm the economy and the well-being of individuals.</p> <p>Lack of privacy: Fiat money transactions are not private, as they can be tracked and monitored by the government and financial institutions. This can raise concerns about privacy and the protection of personal information.</p>

5. Cryptocurrency: It is a digital or virtual currency that uses cryptography to secure and verify transactions. Unlike fiat money, Cryptocurrency is not backed by a government or central authority, and it operates on a decentralized system that allows for peer-to-peer transactions without the need for intermediaries. One of the main advantages of Cryptocurrency is its decentralization. Because it operates on a decentralized system, it is not subject to the control of a central authority, which makes it less susceptible to government intervention and manipulation. Additionally, the use of cryptography and secure digital transactions makes it a very secure form of currency that is difficult to counterfeit or manipulate. The first cryptocurrency was Bitcoin, which was created in 2009 by an unknown person or group using the pseudonym Satoshi Nakamoto. Bitcoin was initially used by a small group of enthusiasts, but it quickly gained popularity as more people began to recognize its potential as a secure, decentralized, and borderless form of money. Over the years, other cryptocurrencies have emerged, including Ethereum, Litecoin, Ripple, and Bitcoin Cash, among others.

The working of Cryptocurrency Network is explained below:

■ **Blockchain technology:**

The backbone of most Crypto Currencies is the Blockchain, a decentralized and distributed ledger that records all transactions across a network of computers. The Blockchain allows for secure and transparent tracking of digital assets, and eliminates the need for a central authority to verify transactions.

■ **Transactions:**

When a user wants to send Crypto Currency to another user, they initiate a transaction by sending the funds to the recipient's digital wallet address. This transaction is verified and processed by network nodes and is then added to the Blockchain as a new block.

■ **Verification:**

The network nodes, also known as miners, use complex algorithms to verify the transaction and prevent fraud. Once the transaction is verified, it is added to the Blockchain and becomes part of the permanent ledger of all past transactions.

■ **Mining:**

Crypto mining is the process of generating new units of a cryptocurrency, such as Bitcoin or Ethereum, by solving complex mathematical problems using specialized computer hardware. When these problems are solved, the miner is rewarded with a certain amount of the cryptocurrency. In order to mine cryptocurrency, a miner needs to have access to powerful computer hardware that is capable of performing the calculations required to solve the mathematical problems. These calculations are necessary to validate and confirm transactions on the

cryptocurrency network. The mining process is essential for the functioning of the cryptocurrency network, as it helps to secure the network and validate transactions. Miners compete with each other to solve the mathematical problems and add new blocks to the block chain, which is the public ledger that records all transactions on the network. While crypto mining can be a lucrative way to earn cryptocurrency, it can also be a resource-intensive process that requires significant amounts of electricity and computing power. As a result, many cryptocurrencies are transitioning to more energy-efficient and sustainable methods of validating transactions, such as proof of stake (POS) consensus algorithms.

■ **Scarcity:**

Scarcity is a key feature of many cryptocurrencies, and it is typically achieved through a mechanism known as a "limited supply". This means that there is a finite amount of the cryptocurrency that can be created, which helps to maintain its value over time. In the case of Bitcoin, for Example, there is a hard cap on the total number of bitcoins that can ever be created, which is set at 21 million. This is achieved through a process known as "Mining", which involves solving complex mathematical problems to add new blocks to the Block chain and earn a reward in the form of new bitcoins. Over time, the reward for mining new bitcoins decreases, which means that the rate of new supply growth slows down until it eventually reaches zero, at which point the total supply of bitcoins will be fixed at 21 million. Other cryptocurrencies use different mechanisms to achieve scarcity, such as "burning" tokens (i.e., destroying them) to reduce the total supply, or imposing transaction fees that are collected and removed from circulation. Overall, the goal of ensuring scarcity is to maintain the value of the cryptocurrency over time by preventing inflation and excessive supply growth. By limiting the supply of the cryptocurrency, it becomes a more scarce and valuable asset, which can make it more attractive to investors and users.





Pros and cons of Cryptocurrency in comparison with Traditional Fiat Money system is explained below:

Pros	Cons
<p>Decentralization: Crypto Currency operates on a decentralized system, meaning it is not controlled by a single entity or government. This decentralization allows for greater freedom and autonomy for users in terms of financial transactions and makes it more difficult for governments or financial institutions to manipulate the system.</p> <p>Security: Crypto Currency transactions are secure due to the use of encryption and a distributed ledger technology called Blockchain. This technology ensures that once a transaction has been recorded on the Blockchain, it cannot be altered or deleted, providing a high level of security for users.</p> <p>Anonymity: Crypto Currency transactions allow for greater privacy and anonymity compared to traditional financial transactions. This is because Crypto Currency transactions do not require personal information to be shared, and the identities of the parties involved in a transaction are not directly linked to their addresses on the Blockchain.</p> <p>Borderless transactions: Crypto Currency allows for borderless transactions, as it operates on a decentralized system that is not tied to any particular country or jurisdiction. This makes it easier for individuals to transact with others in different countries, without the need for intermediaries such as banks or money transfer services.</p> <p>Lower transaction fees: Crypto Currency transactions typically have lower fees compared to traditional financial transactions. This is because the decentralized nature of Crypto Currency eliminates the need for intermediaries, such as banks, which often charge high fees for their services.</p>	<p>Volatility: Crypto Currency is known for its high volatility, which can make it difficult for individuals to plan and budget effectively. The value of Crypto Currency can fluctuate rapidly and unpredictably, making it a risky investment option for those looking for a stable and secure financial asset.</p> <p>Lack of regulation: Despite its growing popularity, Crypto Currency is still largely unregulated, and there is a lack of legal framework in place to protect individuals and businesses that use it. This lack of regulation makes it easier for individuals to engage in fraudulent or illegal activities, and also makes it more difficult for law enforcement agencies to investigate and prosecute these activities.</p> <p>Security risks: Despite the security features of Blockchain technology, there is still a risk of hacking and theft in the world of Crypto Currency. For example, if a user loses access to their private keys, they will be unable to access their Crypto Currency, making it vulnerable to theft or hacking.</p> <p>Adoption: Crypto Currency is still not widely adopted, and many individuals and businesses are hesitant to use it due to its lack of regulation and volatility. This lack of adoption makes it difficult for individuals to use Crypto Currency in everyday transactions, such as paying bills or purchasing goods and services.</p> <p>Complexity: Crypto Currency can be a complex and confusing concept for many individuals, especially those who are not familiar with the underlying technology. This complexity can make it difficult for individuals to understand and effectively use Crypto Currency, and may also discourage adoption.</p>

The creation of new cryptocurrencies often results from the desire to improve upon existing cryptocurrencies, offer different features and benefits, or address specific issues such as scalability, privacy, or security. The open-source nature of many cryptocurrencies also means that anyone can create a new cryptocurrency by forking an existing one and making changes to the code. The result is a diverse and growing market of cryptocurrencies, each with its own unique features and strengths i.e. some are created to be more flexible, some are created to be more secure, some are created to be more scalable etc.

Comparison among Bitcoin Vs. Ethereum Vs. Ripple

Bitcoin, Ethereum, and Ripple are three of the most well-known cryptocurrencies, but they differ in several key ways.

Purpose: Bitcoin was designed primarily as a decentralized digital currency, Ethereum was designed as a platform for creating decentralized applications and executing smart contracts, and Ripple was designed as a global payment network for financial institutions.

Technology: Bitcoin uses a technology called proof of work (POW) to validate transactions and secure the network, Ethereum is in the process of transitioning to a proof of stake (POS) system, and Ripple uses a consensus protocol called the Ripple Protocol Consensus Algorithm (RPCA).

Market Cap: Bitcoin has a larger market capitalization than Ethereum or Ripple, meaning that it has a higher overall value based on the number of coins in circulation and their current market price.

Transactions: Bitcoin can process around 7 transactions per second, Ethereum can handle around 15 transactions per second, and Ripple can handle around 1500 transactions per second.

Target Audience: Bitcoin and Ethereum are more geared towards individuals and businesses who are interested in decentralized applications or storing value, while Ripple is primarily targeted at financial institutions and banks who are interested in cross-border payments and settlements.

Some people view Bitcoin as a store of value and a hedge



against inflation, while others see Ethereum as a more versatile platform for building decentralized applications and experimenting with new use cases for Block chain technology. Ripple, on the other hand, is often seen as a way to streamline cross-border payments and reduce costs for financial institutions.

Is Cryptocurrency legal in Nepal?

Nepal Rastra Bank (NRB), issued a notice in Bhadra and Magh of 2078 clarifying “investment in or transactions for cryptocurrency or hyper funds” as illegal, stating risk of fraud and illegal outflow of domestic capital, other risks associated with the use of cryptocurrency, mining and Virtual currency. NRB in the notice stated above issued warning that any Nepalese or foreigner living in Nepal and Nepalese abroad, dabbling in virtual currencies or anyone from above encouraging the use of crypto currency shall be liable to prosecution.

Conclusion:

In conclusion, the impact of cryptocurrencies on the global economy and monetary system is not fully understood, and there are still challenges to be addressed, such as the lack of regulation in some jurisdictions and the high volatility of cryptocurrency prices. However, the growing acceptance and adoption of cryptocurrencies in global market suggest that they will continue to be a disruptive force in the financial world.

Overall, the evolution of cryptocurrency is a testament to the power of technological innovation to transform the way we conduct financial transactions. While there are still uncertainties and challenges to be addressed, the potential

benefits of cryptocurrencies cannot be ignored. It is important for regulators and industry leaders to work together to develop a regulatory framework that can harness the potential of cryptocurrencies while managing their risks.

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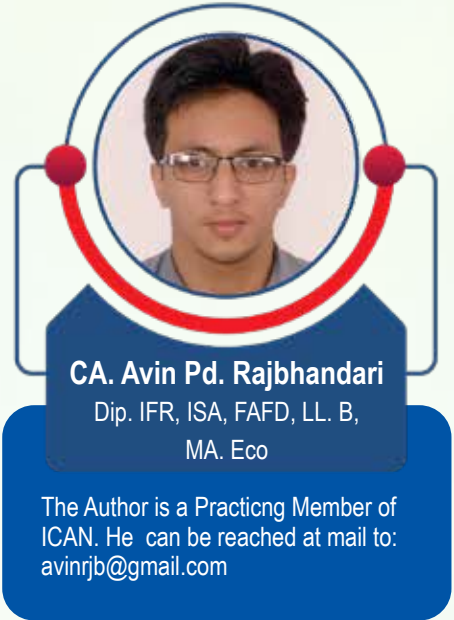
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Lessons Learned from Fall of Arthur Anderson

Arthur Anderson, one of the biggest accounting firms of the world, collapsed after a series of accounting scandals came into limelight in the early 2000s. The major accounting frauds that took down Arthur Anderson were WorldCom and Enron. What happened in these companies that led to the auditor's fall? Was it accounting fraud or a management internal control issue? Was the auditor to blame? What can we learn from these scandals and frauds? Is it the responsibility of the auditor to detect fraud? This article is a short description of how things went down in WorldCom and Enron and how its aftermath led to the fall of Arthur Anderson.



Introduction

The Big Four are the leading accounting firms in the world (accounting and audit firms will be used to denote the same nature of service providers in this article). Although there is no affiliation or members of the Big Four in Nepal. These firms are Deloitte, Ernst & Young (EY), KPMG and PricewaterhouseCoopers (PwC). These firms are the pinnacle of audit, assurance, taxation, accounting and consulting. However, the Big Four is not immune to scandals and accounting frauds. They have been subject to negative publicity of laying off workers, data breach, corporate crimes, being penalized for conflict of interest and not maintaining proper documentation hampering quality of audits. In India, the Bar Council of Delhi banned the Big Four from practicing law in India hampering the legal-services arm of the Big Four. China has also been reluctant to involve the Big Four in the audit of state-owned enterprises citing data security concerns. No matter the restrictions and negative publicity; these accounting firms assert dominance throughout the entire global audits and accounting.

Before the Big Four, there were the Big Five (even before that, there were the Big Eight). In fact, the largest and perhaps the most successful of them all, was **Arthur Andersen** with over 85,000 employees spanning over 84 countries at the peak of its success. Arthur Andersen founded Arthur Andersen & Co. in 1918 and ever since then, the firm was dedicated towards maintaining the highest standards of accounting. Before this, Arthur Andersen had also partnered with Clarence Delany to form Andersen, DeLany & Co. Arthur Andersen was one of

the leading firms to introduce newer and broader concepts in the areas of accounting standards. Although it faced a few setbacks in the 1970s and in the 1980s, the firm was considered one of the best up to the late 1990s. The accounting firm had a separate consulting unit; Andersen consulting which was considerably more profitable as compared to the accounting firm. The shift from audit to consulting may have been better for the partners but the initial intention of providing quality audit services was suppressed by the profits and hefty bonuses. Accounting frauds and scandals mostly relating to **WorldCom** and **Enron** finally led to the collapse of Arthur Anderson by the mid of 2000s. This showed the world that there is no such thing as Too Big To Fail; well, at least in the accounting world.

Main Causes of Failure

Accounting scandal is basically an intentional manipulation of the books of account leading to fraudulent financial reports that ultimately mislead the investors with the intention of making money for the executives. Misappropriation of assets, incomes, hiding losses, misrepresenting debts and painting a fake bright picture of the financial performance from creative accounting techniques lead to accounting scandals. External auditors are appointed to provide opinion on the true and fair view of the financial statements which the shareholders rely on. Auditors are considered to be independent experts whose report read with the financial statements can help investors or potential investors to understand the state or position of any company. Arthur Andersen was considered one of the best in the field of audit.

So, how did such a big firm collapse? Was it really due to

WorldCom or Enron? Was this some Domino effect or a ticking time bomb that finally exploded? Accounting firms are subject to such scandals and reputation damages from time to time. But what was so detrimental in these cases that led to the downfall of Arthur Andersen? For this, let us try to understand what the accounting frauds were in case of WorldCom and Enron and how Arthur Andersen was involved.

WorldCom

WorldCom was a telecommunication company of the United States of America (whenever we talk of big accounting frauds, surprisingly we talk of USA). WorldCom merged with MCI communications in 1997 to conclude one of the biggest corporate mergers of its time. However, when any company becomes big, the owners always want themselves to be bigger. Earning manipulation and asset inflation were the basic techniques used by WorldCom for achieving their targets. The fraud scheme involved deferring the expenses to show that the company was financially well off. By the late 1990s, the actual financial position of WorldCom was actually deteriorating. The company started to make acquisitions including UUNet Technologies Inc. in 1996, MCI Communication Corp., Brooks Fiber Properties in 1998 and Digex Inc. and Intermedia Communications Inc. in 2001. Worldcom would overvalue the net assets acquired on such acquisitions inflating their values. Using such accounting techniques, WorldCom would then amortize the inflated assets over a large number of years reducing the expenses and recording profits. When this could not provide the results, the deferring of expenses started to help the company hide its actual losses and rather swell its assets. This helped to present a pretty picture to the investors and prospective buyers in Wall Street. Eventually once the buyers see what they want, the prices start to go up. This in turn made the investors happy and this made the board of directors happy as well. So, what was the problem if everyone was happy? Well, the basis on which the share prices rose was false.

Accounting is a very funny and delicate science. Everyone knows to Debit what goes in and Credit what goes out. Debit the expenses and credit the income. Also, Debit the asset and Credit the liability. However, a simple double entry where the expenses, which had to be debited is replaced by Asset can cause havoc in the financial statements. The very matter which had to affect the profit or loss of the company; may by a simple accounting error, give a better picture of net worth by booking asset in place of an expense. Worldcom used the technique of line cost capitalization that involved capitalizing the expenses that should have been recorded as an expense in the income statement. As per the report of investigation by the special investigative committee dated March 31, 2003, Worldcom had reduced its line costs by USD 3.852 billion and transferring the same to assets in 2001 and 2002. As per the

report, from the second quarter of 1999 upto the first quarter of 2002, WorldCom allegedly reduced its reported line costs (and increased pre-tax income) by over **USD 7 billion**. Reduction of line costs by Worldcom was possible by releasing accruals; which was not done in normal course of day to day business; rather during the quarter ends for reporting purposes.

Under International Financial Reporting Standards (IFRS) and even considering the US Generally Accepted Accounting Principles, some expenses may be deferred or capitalized if they meet certain criteria. The conditions are mentioned in the then accounting standards (now reporting standards) and guidelines.

Expenses can be amortized over a period of years, rather than recognizing the expense when incurred. From a layman's perspective, we can give examples of long-term assets such as property, plant, and equipment, where the cost of acquiring or constructing the asset is spread out over its useful life. Although accountants know the difference between assets and expenses, this may not be clearly distinguishable to the average Joe.

Other expenses may also be deferred especially when they relate to future transactions considering the Matching concept. As per the report of investigation by the special investigative committee dated March 31, 2003, Worldcom violated its capitalization policy and the generally accepted accounting standards by reducing its line costs and capitalizing such operating expenses inflating the assets (Other Long term assets). Hence, by capitalizing such operating expenses, WorldCom shifted these costs from its income statement to



its balance sheet and increased its accounting income and earnings per share. To get an understanding of how this was possible, let us take an example; prepaid expenses, such as insurance premiums or rent payments. Such prepaid expenses are disclosed under assets on the statement of financial position (or the Balance Sheet) and are expensed over the period to which they relate. However, if the expenses are wrongly capitalized and not expensed off when occurred, this may inflate the assets as well as the profit of any company.



However, not all expenses can be deferred under IFRS or the US GAAP. Expenses not meeting the aforementioned conditions are to be disclosed as expenses in the period they are incurred affecting the profit or loss of the company. This is very important to understand as there are detailed standards for recognizing and deferring expenses depending on the nature of such expense. This was very well understood by the accountants and the senior management team of WorldCom. The CEO Bernard Ebbers and the CFO Mr. Scott Sullivan, the budget controller Mr. David Myers used these techniques to hide the real picture of WorldCom.

So, if this is a very simple matter of inflating the assets and hiding the expenses, how come the auditors did not find the matter in their review. Or was it a result of sampling error or a matter of reasonable assurance in place of absolute certainty. The special investigative report mentions that the auditors had expressed interest in reviewing the asset accounts as part of normal field work of audit. The report further states that it could not be identified whether the external auditors were aware of the incorrect capitalization of the line costs as most of the documents of the audit were intentionally destroyed by the external auditor: Arthur Andersen. The report ultimately blames the external auditor for not being vigilant enough of the data provided by the team of Worldcom during the audit. Basically, the external auditors did not devise sufficient auditing procedures to address the risks at Worldcom. Arthur Andersen approach could not adequately test the control environment of Worldcom and overlooked the deficiencies in documentation relating to the capitalization and controls issue. Although external auditors could not identify any misappropriation or issues in the accounting, the internal auditors conducted an audit of such capitalized expenditures in 2001. Even if this was not life threatening to the company, the conflict of interest of the CEO Bernard Ebbers led to further financial frauds in the company. The Board of Directors provided the CEO with multiple loans to fund the margin calls of the CEO which ultimately the CEO couldn't pay back. CEO had taken out loans against the shares of WorldCom that he owned and once the real picture of WorldCom started to appear to Wallstreet, the share price started to plummet and banks started the margin call. To pay back these loans, the CEO was funded by the Board, and ultimately WorldCom itself.

Finally, it was the internal audit department that uncovered all this entanglement and irregularities and identified the accounting fraud happening in the company. The internal auditing led to further investigations of the matters and this led to identifying billions of fictitious assets in the books of account. Later on, KPMG were appointed to carry out a review by the Audit Committee. The SEC (Security and Exchange Commission – similar to SEBON of Nepal) and the FBI

(Federal Bureau of Investigation) launched an investigation in this matter and finally led to the largest bankruptcy filing in history at the time it happened. Ultimately, it was not the external auditors who reported the fraud, but whistleblowers inside WorldCom who reported the suspicious entries in the books of account. Finally, the CEO, CFO and the senior management were removed from their positions.

Very basically, the CEO of WorldCom, namely Bernard Ebbers inflated the earnings of the company so as to manage and influence the share price. Is this a rare practice today? Are we in Nepal facing such practice without knowing? Was WorldCom the first company in the world to do this? Or was WorldCom unlucky to be caught? Or are the auditors to blame? Perhaps these questions have to be self-answered by auditors and the regulatory bodies. We have to understand that an audit is not an investigation and an audit cannot identify frauds and errors completely. This may be due to the inherent limitations of accounting and auditing. However, audits can help to exercise control and act as a checkmark for the management practice. There will always be experts who are committed to Arthur Bowman, editor of Bowman's Accounting Report rightfully said, "Historically, it is difficult for an accounting firm to find fraud, if not impossible, when executives collude." This is to be deeply understood and taken seriously by everyone.

The auditors missed the warning signs such as the multiple acquisitions within a short span of time, its effect on the financial statements, the deteriorating profitability or cash flow and understanding basic accounting entries such as recording assets in place of expenses. Of course, the media coverage may not be able to capture the complexities involved. But the size of the misappropriations spanning billions and huge consulting fees taken by the auditors may ultimately put the auditors in absence of a quality audit. Organizational culture and corporate governance also play crucial factors that affect any audit. Perhaps this is why our regulatory bodies such as Nepal Rastra Bank, Insurance Authority or SEBON focus on corporate governance also.

Enron

If WorldCom was not enough to put Arthur Andersen out of business, then came Enron. Enron was a huge energy, commodities and service company of USA. Kenneth Lay formed Enron after the merger of two different gas transmission companies in 1986. Enron was involved in many sectors from wholesale services, energy service, broadband services, transportation services to online markets as well. Enron started to make trades of the energy derivative contracts and the fluctuation of the prices of energy. Enron turned into a trading company with majority of its profits from price fluctuations rather than being an energy-based company. This was perhaps the very initial sign which showed the persistent



Lesson Learned - In the backdrop of the case above, some of the key audit risk factors that need to be considered by auditors and management are:

- a. Rapid acquisitions
- b. Deferring of incurred expenses
- c. Loans to the top-level executives
- d. Uneven financial performance over a short span
- e. Proper understanding of management assumptions and estimates

greed of the owners. Derivative contracts of electricity, coal, paper, steel and any if not all energy-based commodities were traded by Enron. Another name associated with the scandal is Jeffrey Skilling who later became CEO of the company. He also had a big hand in the company moving towards trading commodities.

Let us first understand what a derivative is. A derivative is a financial contract whose value is dependent on another asset although it is not active in Nepal. Derivatives are considered as the most traded instruments in the foreign markets. It is what made Wall Street what it is today. The prices of the derivatives are affected by the prices of the underlying assets. Although initially introduced to hedge one's position, many use these instruments for speculative purposes. These instruments helped Enron to book huge profits. Skilling also advocated the use of mark to market accounting leading to booking of profits which were not actually earned.

Mark to market accounting, basically says to account for the fair value of the asset or liability based on the current market price or price of similar assets depending on the case rather than its historical cost. This was termed as Fair Value Accounting by the US GAAP and IFRS also accepts this accounting treatment. If the market fluctuates rapidly, this in turn affects the volatility of this accounting practice. Hypothetical and manipulative consideration of the market price painted a picture that actually did not exist in Enron. It was almost impossible for an investor reading the financial statements to understand the assumptions used for booking of earnings based on mark to market accounting. This very issue of management estimation and assumption and the involved complexity of accounting inflated the revenue of Enron which an average investor could not figure out. Following the Enron Scandal, the Financial Accounting Standards Board raised ethical conduct.

Enron's revenue grew in a very high rate from the mid-1990s which was very extraordinary for any company. Was the company really doing this well or was this some accounting trick? This was the magic of accounting using the above-

mentioned mark to market accounting. Besides this technique, Enron was also at fault of using Special Purpose Entities which were essentially shell companies. Enron used these shell companies to manage its debt which ultimately presented a pretty picture of the financial position of the company. The Special Purpose entities lent money to Enron which was not disclosed as debt by Enron. Further, many accounts or assets in the books of Enron were of suspicious nature and had to be written off. However, the management was able to carry such assets through maintaining fraudulent contracts and agreements which the auditors didn't question.

Use of loopholes in the US GAAP created opportunities for Enron to fool its investors and shareholders, all the while making big bucks for the senior managers. Skilling stepped down as CEO of Enron giving personal reasons, but the truth was that he had sold majority of his shares of Enron knowing that the bubble would soon burst leading to the eventual collapse of Enron. The short-term booking of profits using the mark to market accounting and special purpose entities could only hold the financial position of Enron for so long and it was sure to explode once the actual position of the company started to come in the limelight. Enron scandal was so huge that it led to many documentaries, books (most notably The Smartest Guys in the Room by Bethany Mclean).

Lesson Learned - In the view of above case, some of the factors to be taken into consideration in an audit are:

- a. Mark to market accounting
- b. Special Purpose entities
- c. Absence of proper Corporate Governance
- d. Conflict of interest of the Auditors
- e. Expired agreements and validity of available contracts
- f. Documentation and storage of working papers

Corporate Governance was an issue at Enron as well. The Board did not consider the accounting tricks or techniques and focused on the profits of the company rewarding the management for achieving such high growth with stock options. This was done so that the management would be encouraged to inflate the share prices of the company making everybody happy. Even the auditors were accused of breaching auditing standards and conflict of interest. At one time, Arthur Andersen were being paid 1 million USD a week as consulting fees. Arthur Andersen was ultimately blamed for not fulfilling their professional responsibilities in connection with the audit of the financial statements of Enron. This was further ignited when the staff of Arthur Andersen were accused of shredding the documents and workings relating to the audit of Enron.



Conclusion

The fall of Arthur Andersen from the WorldCom and Enron frauds will forever be considered a learning chapter for all the auditors and accounting firms over the world. Arthur Andersen was also involved in accounting frauds at Waste Management and Sunbeam Products among others. Even the Sarbanes–Oxley Act was passed owing mostly to scandals such as WorldCom and Enron. Sarbanes–Oxley Act focusses on standards of auditing, restriction of auditors from providing non auditing services, independence of the audit committee and so on. Even in Nepal, we can see the impact of the Act in most of the directives issued for our banking system and insurance sector.

Arthur Andersen lost its license to practice which was eventually overturned by the Supreme Court. However, the damage had been done. Turns out not all publicity is good publicity in the accounting game. Their reputation was impaired to the point of no return. To be fair, it was not just the auditor, but the credit rating agencies and even some regulators, who were involved in this entire debacle.

The remaining Big Four are still surviving, thriving and even growing in today's world, however not immune from reputational damages that come and go. KPMG was given a 1-year ban in Oman, fined in Bermuda, fined in the UK and USA. Similarly, PwC was involved in accounting scandal in Italy, fined by the US and Mexico; Deloitte fined in Japan, UK and Malaysia; EY's involvement in Germany's Wirecard Scandal, fined in UK. These are considering some of the cases of the later part of the last decade. However, these accounting firms have not faced life threatening accounting scandals as done by Arthur Andersen till date. Only to show that maybe some accounting firms have become too big to fail.

Can we relate this in Nepal? Only time will tell. We can learn a lot from these cases and there are a lot more to learn from. Can we really blame only the auditors? Or can auditors really use sampling and reasonable assurance as defense

mechanism? The debate will be never ending. NSA 240 on the Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements mentions that the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. However, an auditor conducting an audit in accordance with NSAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The inherent limitations of audit make identifying fraud an unavoidable risk. Further, risk of not detecting material misstatement resulting from fraud is more than the risk of not detecting that resulting from error. So, clearly NSA 240 mentions that it is not the responsibility of the auditor to identify the frauds.

Perhaps it is luck or perhaps it is carelessness, but the fall of Arthur Andersen should be a lesson to all of us to understand that the auditors have a responsibility towards the shareholders and investors and perhaps saving oneself or safeguarding one's own head may not be enough to maintain professional integrity in the long run.

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Embracing Environment, Social and Governance (ESG) in Business

We are living in an increasingly urban, digital, rapidly warming and inequitable world where business has larger responsibilities to society and the planet. Twenty-first century businesses are much more than creating job, increasing economic activities, making products and services and paying taxes. Companies are now aware of the issues beyond business such as climate change, biodiversity, inequity, vulnerability and communities that are associated directly/indirectly. Being part of global environment, no business cannot operate with disregard to nature and human civilization as they relate to larger global problems. Sustainability is everyone's responsibility. A business does not exist for profits only, is not limited to the owners, shareholders, customers, employees, suppliers, communities and a specific geography. The business concept, processes, pathways and destinations are intertwined with various biological and social systems. Businesses start and operate with certain principles and processes and create value. Businesses today set environmental, social and governance goals to assist them to manage their impacts on society and the environment.



Key Words: Environment, social, governance, business, sustainable development

1. Introduction

ESG is an acronym for Environmental, Social, and Governance. The term ESG was coined by the Global Compact in 2004. However, the notion of incorporating all non-financial factors in business has been around for much longer; some mark 2001 as the beginning of mainstreaming ESG with the launch of FTSE4Good index. The FTSE4Good Index Series is a series of ethical investment stock market indices launched in 2001 by the FTSE Group which reports on the performance of companies which demonstrate “strong Environmental, Social and Governance practices (FTSE Russell, FTSE4Good Index Series, 6 September 2022).

ESG takes the holistic view that sustainability extends beyond environmental issues. It is a concept that was first developed by the United Nations, working with the finance industry. Officials of the United Nations argued that ESG could help protect organizations from financial risks arising from various issues like worker disputes, human rights compliances, poor governance, gender discrimination and climate change. ESG in relation to the UN is a subset of goals developed by the UN to help guide companies and organizations through achieving sustainable development practices. There are currently 17 goals which have been established as development goals for 2030. ESG can be described as a set of practices (policies,

procedures, metrics, etc.) that organizations implement to limit negative impact and enhance positive impacts on the environment, society, and governance bodies. In addition, the ESG refers a holistic approach of the organization in managing the risks and promoting opportunities for sustainable financing.

ESG considers how a company safeguards the potential negative consequences of its investment in the social and environmental spheres. It is an umbrella framework and policy of the organization to address investment risk in environment and for promoting sustainable financing. In addition, it addresses how the company manages its relationships with the community, customers, employees, and suppliers. It also reflects the company's leadership, internal controls, audits, and shareholder rights. In recent years, businesses have become more aware of the importance of ESG standards in their investment decisions and business process engineering. As a result, they have begun integrating ESG in their operations and business strategies.

2. Key elements of ESG

ESG is a subset of sustainability, which is defined by the UN World Commission on Environment and Development as “meeting the needs of present generations without compromising the ability of future generations to meet their own needs” (Brundtland Report, 1987). The three pillars of



sustainability are the environment, society, and the economy; those were first mentioned in the Brundtland report in 1987.

Environmental

Environmental factors refer to an organization's environmental impact(s) and risk management practices. The environmental aspect considers environmental issues, such as energy use, waste, animal treatment, and natural resource conservation, among others. Environment also refers climate change, carbon emission reduction, water/air pollution and greenhouse gas emission. ESG can help organizations evaluate environmental risks that they or their third parties may encounter. It is, therefore, an opportunity to defend against the challenges faced by the organization and for promoting sustainability.

Social

The social aspects refer customer care/relationship, employees' welfare, grievance handling, data hygiene and security, mental health and gender and social inclusion. In addition, it includes a company's corporate ethics, social justice, policies to tackle sexual harassment/discrimination, encourage diversity and to promote ethical and social consciousness. The social part looks at the organization's relationships with both internal and external stakeholders to make sure suppliers are also being held to its standards. One of the investment strategies used is socially responsible investing (SRI), which is associated with ESG. SRI investors look for companies that promote ethical and socially conscious themes. A sign of sound ESG is how social impact expectations have extended outside the walls of the company and to supply chain partners.

Governance

Corporate governance is the system by which companies are directed and controlled. Governance standards ensure that companies are using accurate and transparent accounting methods and that leadership is appointed using the correct processes. Governance is intended to lessen and eliminate corruption and conflicts of interest within organizations. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. ESG analysis seek to understand how leadership's incentives are aligned with stakeholder expectations, how shareholder rights are viewed and honored, and what types of internal controls exist to promote transparency and accountability on the part of leadership.

3. Key pillars of ESG

ESG encompasses the people, processes and products as its key pillars. Equal employment opportunity and gender diversity

is related to people working at the companies. Promoting social inclusion can enhance organizational effectiveness and facilitate a healthy work environment. The processes involved are those used for screening impacts through multiple criteria. They seek to ensure that investment is less harmful to the community and environment and does not result negative consequences in society. It also indicates the governing system and democratic processes within the organization. The product encompasses the organizations accountability and responsiveness of the investors to customers where considerations included are complaint handling procedures and customer's choice of freedom and benefits.

The foundation of sound ESG practices and sustainability are values, governance, transparency and stakeholder inclusiveness. Broadly, the pillars of sustainability can be categorized as:

- ✓ Ecological footprint of operation
- ✓ People at the workplace
- ✓ Product and customer stewardship
- ✓ Supplier responsibility
- ✓ Systematic social issues
- ✓ Community engagement
- ✓ Disclosure as a transformative catalyst, and
- ✓ Advocacy

4. Importance of ESG

While the influence of ESG has grown rapidly in recent years, sustainable investing is a mature concept. Impact investing—the practice of making investments that generate not only financial returns, but also positive social and environmental impacts—has its origins in religious groups who placed ethical parameters on their portfolios. ESG in investing establish criteria and indicators to mitigate risk and ensure sustainability. The screening process ensures identification of potential negative impacts in society and on the environment and provides opportunities to mitigate the risks through proper management plans.

ESG is important for a variety of reasons that can result in multiple benefits to the organization, employees, society and customers. It raises awareness about different climate-linked negative impacts, which are the parts of investment. It also encourages businesses to adopt practices and policies that fit with the environment. For the social part of ESG, employees and shareholders are treated equally, and their health and safety are considered. These measures help to avoid bad business practices and also force companies to innovate and uncover previously undiscovered opportunities and can open up extended employment opportunities. It is also associated with managing reputational risks of organizations and sound ESG symbolized good governance. Due considerations of ESG while investing can promote sustainability and also enhance trust of stakeholders on organizations while



also creating opportunities for contributing to meeting the Sustainable Development Goals (SDGs) adopted by the United Nations member countries in 2015.

There are various strategies of ESG investing — exclusionary screening, positive screening, and ESG integration, impact investing and active ownership.

There are strong reasons for adopting ESG. ESG is growing, and gives companies a choice – they can be either a part of the solution or a part of the problem. The ESG lens helps to assess how an organization manages the risks and opportunities created by changing conditions, such as shifts in environmental, economic, and social systems. Using the ESG framework can bring tangible benefits to both businesses and investors. For businesses, it opens up a pool of capital and promotes a stronger brand identity, and investors can enjoy the low-risk investments associated with an ESG-centric brand. Research speaks that ESG links to cash flow in important ways like: facilitating top-line growth, reducing costs, minimizing regulatory and legal interventions, increasing employee productivity, and optimizing investment and capital expenditures.

If we look at ESG investment trends, today, the global value

exclusion factors, corporate culture and impactful investments.

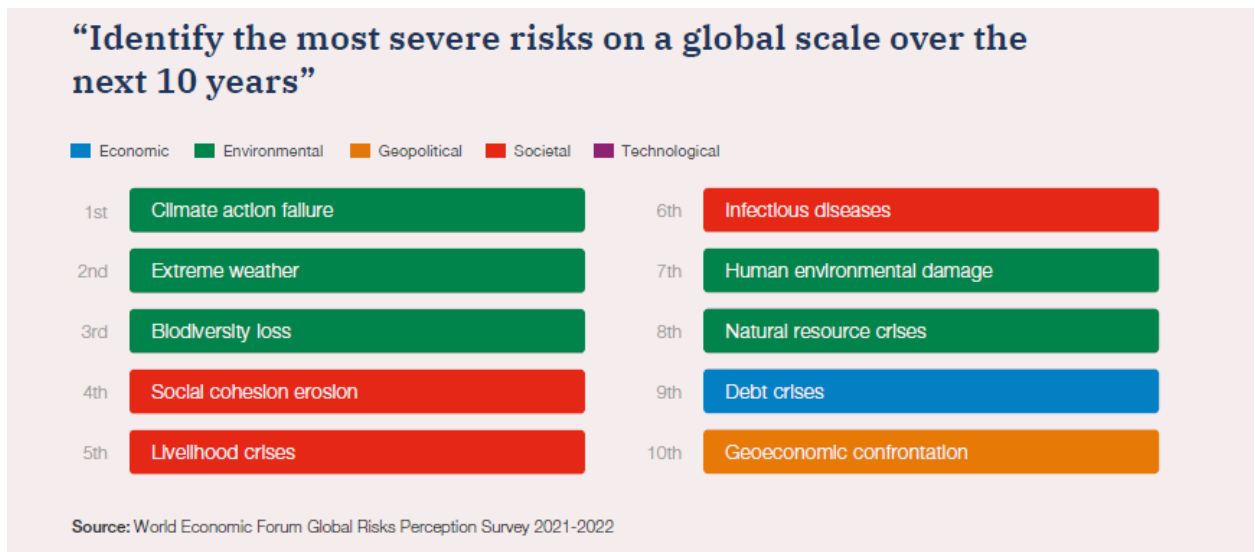
Some of the most commonly used ESG frameworks and standards include:

- ✓ Global Reporting Initiative (GRI)
- ✓ Carbon Disclosure Project (CDP)
- ✓ Climate Disclosure Standards Board (CDSB)
- ✓ Sustainability Accounting Standards Board (SASB)
- ✓ Task Force on Climate-related Financial Disclosures (TCFD)
- ✓ UN Principles for Responsible Investment (PRI)
- ✓ World Economic Forum (WEF) Stakeholder Capitalism Metrics

5. Business and ESG compliance requirement

The ecological footprint of Business Operations has a larger than general business process diagram.

The top economic business risks based on a global survey highlights environmental and social risks along with economic, geographical and technological. (World Economic Forum Global Risk Perception Survey 2021-2022).



of assets that use ESG-based investment decisions is US\$ 40 trillion, an 8-fold increase in the last decade. Reputation and ESG contribute meaningfully in a company’s market value.

Dow Jones Sustainability Index (DJSI) is a leading and globally accepted index that annually assesses 7,300 companies (representing approximately 95% of global market capitalization). The assessment framework is sector specific and covers 61 industry sectors.

ESG covers issues that are, for the most part, longer-term considerations. Therefore, there should be a clear ESG approach for risk management and adaptation. ESG strategy needs to be designed for integration, inclusion factors,

Some difficult questions for businesses:

- What does business owe to society and the planet? Does it need to do more than create jobs, make and deliver useful products and services and pay taxes?
- Why should companies worry about what is happening outside – climate change, biodiversity loss, inequity, vulnerable communities, etc.? Or, what would be the problems if businesses were to shut out the external world and focus on what they know and do best?
- This leads to some ethical questions: Is it possible to be a strong company in a weak society? What professional



and moral dilemmas does such a situation pose? And how can they be overcome?

In addition, there are more difficult questions that businesses face. These relate to their purpose and the values they are seeking to promote while doing business. There are no easy answers, which, perhaps, the additional questions below will get businesses thinking about them.

- Why does a company exist? Whom does it exist for – owners/shareholders, customers, employees, suppliers, communities and the public? Where businesses exist for everyone, who among them are priorities?
- The next set of questions after ‘Why’ are the ‘What’ and the ‘How’ – or the pathways and the goals or destinations.
- Finally, another question relates to the core – what fundamental values does the company live by? How does it create value for its various stakeholders? Are the two consistent with each other? What is more important – valuation assigned to it by markets or value derived by its stakeholders?

Therefore, finding answers to the questions above can help open our eyes and observe situations that never arose within traditional businesses. Since business, development, society and nature need to coexist without harming other socioeconomic functionalities, ESG becomes very crucial for planning and operations.

No business can operate in isolation and no development can take place at the cost of another segment of society. Therefore, businesses and their economic activities need to operate with minimum impairment to nature, bio-diversity, social harmony, eco-systems and the governance system.

The earth is common home for biodiversity, geography, and human kind who share the soil, air, water, and other various elements for sustaining civilization. This is why the health of the planet needs to be a concern for everyone, including businesses.

Sustainability benefits for businesses

There are significant benefits that embracing sustainability can bring to businesses, which are listed below:

a. Revenue / cost impacts

- ✓ Significant cost savings can result from resource efficiency or the use of energy, materials, water, etc.
- ✓ Expanded business portfolios that can result from new (green) products, markets, etc.

a. New business models

- ✓ The choice to contribute to sustainability can lead to adoption of new business models based on circular economy: remanufacturing, Refurbishing, etc.
- ✓ Lease and shared ownership models with suppliers and associated stakeholders.

a. Risk mitigation

- ✓ Allows businesses to anticipate and mitigate risks to business continuity: water scarcity, resource depletion, climate change, social unrest, etc.
- ✓ Insulates them from regulatory and market risks that have also been forced by sustainability considerations such as, legislative mandates, structural changes e.g., rising cost of property insurance, etc.





a. Reputation

- ✓ Can result in significant brand and reputation benefits e.g., inclusion in ESG indices, enhanced public (customer) perception, brand equity, etc.

6. Development of the ESG concept in Nepal

International Financial Corporation (IFC), a member of the World Bank Group, and Nepal Rastra Bank (NRB), the central bank, released the country's first Environmental and Social Risk Management (ESRM) guidelines in 2018. NRB's guidelines on ESRM apply to banks and financial institutions (BFIs). The core objective of the ESRM Guideline is to require BFIs to integrate environmental and social risk management in the overall credit risk management process. Since the financial sector can support growth of the economy, the BFIs have immense potential to influence environmental sustainability and narrow the gap between development and environmental degradation through environmentally-aware project financing.

The guideline was prepared to fully inform the credit authorities of environmental and social risks prior to the financing decisions on individual transactions. Direct financial institutions like BFIs, including International Finance Corporation (IFC), Dutch Development Bank FMO etc that operate in Nepal, require their borrowers to follow prescribed ESG compliance standards.

The ESRM guideline sets standards for the identification, assessment, and management of risks and lists acceptable thresholds of environmental and social performance. It contains general and sector-specific checklists and sector-wise lists of permits and licenses that financial institutions can apply to make their evaluations. Other sectors like infrastructure development, manufacturing, transportation, etc. are also adopting international guidance notes for safeguarding environmental and social aspects of their operations.

The ESG framework is therefore a lens through which the viability of an enterprise can be assessed. The integration of ESG in the financial sector can pave a path that all stakeholders would be required to consider in the decision-making processes and therefore can result in tangible impact. There have been increased efforts to attract foreign direct investment (FDI) in Nepal, which can be possible only if ESG metrics are given due importance as is the case in developed countries. Sustainable investing has become the mainstream globally, with more and more foreign investors using ESG requirements as an internal part of their investment process. Nepal also needs to step up efforts to make it standard practice, as ESG adoption remains slow.

7. Conclusion

As development and business attitudes begin to migrate from the short-term gains to the concept of long-term value creation for all stakeholders, ESG integration will become a fiduciary duty for everyone responsible for managing other people's money. ESG is growing and evolving rapidly, so investors need to incorporate ESG factors in the investment processes. Companies need to step out of the conventional ways of doing business and begin taking more interest in the communities they function. The benefits of this approach can be reflected in the company's growth and success. Consistent and regular reporting through associated procedures are essential to inform stakeholders of the goals and demonstrate the achievements. International regulations also require investors to comply with new legislations on integrating ESG portfolios and mandatory reporting. The ESG framework has begun shaping investments and is fast becoming the norm. Therefore, businesses, including those in Nepal, have no choice to begin adopting ESG parameters, even voluntarily, in the interest of long-term sustainable growth and profitability.

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Managing Personal Finances

We are living in an increasingly urban, digital, rapidly warming and inequitable world where business has larger responsibilities to society and the planet. Twenty-first century businesses are much more than creating job, increasing economic activities, making products and services and paying taxes. Companies are now aware of the issues beyond business such as climate change, biodiversity, inequity, vulnerability and communities that are associated directly/indirectly. Being part of global environment, no business cannot operate with disregard to nature and human civilization as they relate to larger global problems. Sustainability is everyone's responsibility. A business does not exist for profits only, is not limited to the owners, shareholders, customers, employees, suppliers, communities and a specific geography. The business concept, processes, pathways and destinations are intertwined with various biological and social systems. Businesses start and operate with certain principles and processes and create value. Businesses today set environmental, social and governance goals to assist them to manage their impacts on society and the environment.



Introduction

Personal financial management is about managing individual finances. Financial management basically has three aspects of financing i.e., collecting funds, using the collected funds and rewarding the contributor of funds, with the overall objective of wealth (not profit) maximization. So, personal financial management is individual accounting and managing of finances, which we know is something largely associated only with businesses.

Most of us have gone through text books and even passed examinations on Corporate Financial Management. Throughout this article we shall substitute the “corporate” with an individual, a natural person. We shall assess the need, process, and techniques of managing personal finances. This will involve discussion on how a person can collect/generate funds, what are the possible application of funds and how the sources are rewarded?

You might be thinking why we need to manage personal finances. Financial management is not necessary only for a business. Behind every business or corporate undertaking there are human beings. A person is involved as shareholder, executive, employee, stakeholder or in any other form of association. For a business or corporate entity to be financially healthy, every person associated with it must be financially sound. We need to manage personal finances as we have a system of living where finance is important. Simply put,

we need to manage our money. We need personal financial management to stabilize our individual lives as we do that for corporate entities. With this background, we shall draw principles of managing finances from corporate practices to our individual lives in order to have an organized, better and balanced life.

We humans have been supporting to maximize the wealth of the corporations, but what about ourselves? If we are financially healthy, we can lead business houses and contribute to enable it to do well financially. Ask yourself, but are we maximizing our wealth? Are we doing it the right way? Are we, as individuals, financially healthy? If an individual is financially unhealthy, how can he/she operate a business in a healthy way? Let's assess ourselves and then judge what we are doing for ourselves.

Personal Financial Management

Personal financial management can be grouped in three aspects as is the case of corporate financial management. The three aspects are collecting/generating funds, using funds and finally rewarding the contributors of the funds. Personal financial management is all balancing these three aspects.

Collecting funds

Collecting fund involves dealing with the sources of funds. What are the possible sources of fund? How can we acquire them and what are the obligations associated with the funds.



Any person has two basic sources of funds i.e., earning and borrowing. Either you work to earn funds or you borrow from somebody. You need to pay a price for both. You work for somebody or operate a business or invest somewhere or just get lucky with your lottery ticket. You pay the price first and then own your earnings. In case of borrowing, you borrow first and then starting paying the cost. Flow of funds and settlement of obligations moves the reverse way when we compare borrowing with earning.

It is your choice, you pay now and have funds later or have funds now and pay later or have a mixed approach by setting up a proportion for each type. Collecting funds is the first aspect of personal financial management. Your obligations depend on how you decide to collect the fund, a choice between have it today, pay tomorrow or pay today have it tomorrow.

Using funds

Once collected, the funds must be applied or used. It is obvious to use the funds, as they have been collected for a purpose. Money is liquid, it flows. Generally, the collected funds has two applications i.e., spend it or make an investment. Expenses will eliminate cash/funds and can be used to procure what you need except cash/funds. Expenses can feed you, can cure you, can entertain you, and facilitate your child's education/games, etc. But, expenses will never create any resource for future cash flows. Investment, on the other hand, helps to retain funds and develop a resource that can pay you additional funds in future. It will generate cash flows in the form of business or investment income. Although not part of this article, one must learn to assess investment opportunities such that, the investment does not itself turn down towards losses.

How you allocate your fund for expenses or investment is your choice. Your habit of saving, expending nature, pattern, your needs, future plans, goals, retirement plans, etc. determine what proportion of funds you spend and what portion you save for investment. Your choices and decisions will determine your financial health.

In a larger context, the habit of spending is good for economic development. Cash keeps flowing in the market and economic activities keep growing. Theoretically, if every individual in an economy allocates funds only towards expenses, the level of economic activities will peak. No person holds funds, everybody spends as soon as funds are received. The other aspect of this scenario is that nobody will have fixed or long-term deposits at banks. The resulting situation will be one of a shortage of long term deposits and cause banks to lose capacity for providing long-term credit. Such an economy will go short on investment and finally dip because there is no fund generation.

A different situation can result, if we suppress expenses and only focus on investing the funds. We might have huge investible funds, with prospects for investing but the market

does not have adequate consumers. In situations, the investible funds will eventually fail to generate adequate cash flows and could result in a waste of the hard earned savings. Hence for an economy to be healthy, individuals must have balance of the use of funds – expenses and investments – in a balanced manner. Extreme decisions either way is dangerous to the economic system. After all, it is balance that can lead to a contented life.

Rewarding contributors

Here reward is repayment. It is general rule of money that we need to pay back the sources of funds. Nothing comes for free. Just as we can collect funds from two different sources, we also need pay them back. Rewards are paid to the two points of collection of funds i.e. earned and borrowed. Either you pay back to your earning i.e., to yourself or you pay the source you borrowed from. Paying yourself is a reward which increases your wealth. As, you have the earnings and you need to pay yourself, which many of us do not care about. Similarly, when pay back debtors, we reduce our liability. This is external payment and is visible while the reward you give yourself is not. We keep notes on our dealings with creditors.

Rewarding is not a choice but is mandatory. The rate of the reward is confirmed at the time one collects funds. The thing you need to manage is the timing of the reward. You have limited flexibility with respect to rewarding the contributors of fund. There is higher flexibility with own funds as compared to borrowed funds.

Managing personal finances

In this section we discuss how to manage personal finances to sound financial health. Any person can be considered financially sound if he/she is managed with monetary affairs, has positive cash flow, and honors payables on time. Financial soundness is a status, which may change at any moment. Suppose, one has a job with fixed salary, and suddenly high inflation hits the economy. Now, the person previously financially sound may not qualify soundness. Only a financially healthy individual can lead an entity and ensure that it is financially sound. There is a saying among these in Ayurveda that those who are diseased are not eligible to try to cure others. Taking cue from this, let us learn how we can become financially sound.

Funds can be collected by earning or borrowing. Among the options, borrowing appears as one can obtain funds on demand. We can borrow money against three bases i.e., current request, future commitment, and credibility. These bases also appear simple but they are not, especially in Nepal now when the banking sector has just begun emerging from a liquidity crisis. (<https://myrepublica.nagariknetwork.com/news/liquidity-crisis-to-worsen-in-january-nrb-governor-adhikari/>)

The alternative to borrowing is earning. One can earn funds from one of the four ways shown below.



Earning Source/ option	Requirement		Extract
	Time	Money	
Employment	Yes	No	Only put time, no money
Business	Yes	Yes	Put both time and money
Investment	No	Yes	No Time, only put money
Casual gain	No	No	No Time, No Money. Cannot be managed.

newspapers, online media, posters, hoarding boards, social media and other forms of advertising. These cause us to make purchases, which ultimately end up unused, within weeks of the acquisition. The goods or services may have seemed useful before the purchase but can be of little use after the purchase.

To avoid unnecessary expenses, you need to prepare a budget. A budget is telling your money where to go, instead of wondering where it went. By preparing a budget, you can control unnecessary expenses and reduce spending. The saving can then be used to invest.

Option 1: You dedicate only time, do not invest any amount and earn remuneration based on your time and input. This is what is generally known as employment earnings.

Option 2: You dedicate your time and/or skills, also invest some funds and earn profits based on your time and fund input. This is what we know as business or professional earnings.

Option 3: You do not dedicate your time, only invest fund and earn interest, or dividends based on your investment. This is known as investment earnings.

Option 4: You neither you dedicate time nor you invest any funds, and earn by chance such as a lottery or some similar gains based on no significant inputs. This is known as casual gain earnings.

Option 1 to 3 can be controlled and can be relied upon as source of earning. Option 4 has higher uncertainty and cannot be considered as reliable source.

How you use of funds is very important in personal financial management. This is the execution phase, and therefore, how you use funds can determine if you do very well – become a millionaire – of fail and go bankrupt? This is the phase that determines the success or failure of you and your finances. The major decisions to be made on using the funds are:

1. Proportion of expense and investment
2. Which expense to incur?
3. Where to invest?
4. Balancing liabilities and assets

We need to save at least 10 percent of our net proceeds for investing and this proportion should increase over time. The more you earn, the higher your expenses. So, set aside the proportion you want to invest before starting your expenses.

If you review your recent expenses, you can prepare a list of expenses that could be avoided or were unnecessary. Our expenses today are influenced guided by advertisements and social media. Demand is created through television,



Investment options

Going by the approach above, you now have the mandatory saving of the month and the leftover amount of previous month available for investment. This can be invested anywhere, provided you have analyzed the risk return parity and involvement required by the investment. With investment, you are actually creating an asset. An asset is a resource that generates cash flows for you in future. Before investing, you must be clear about the project (how will it provide you cash flows), persons executing the project (is the management capable enough to operate the project), governance and other factors that could affect earnings.

Investment is better when it is passive. If your investment requires active involvement, it becomes a business. In Nepal, we have different investment options – fixed deposits, mutual funds, securities market, real estate, etc. Even a bank deposit on compound interest pays you well. If you invest Rs. 1,000 each month for 30 years at eight percent interest per year, you will have contributed Rs. 360,000, but your bank account will have a balance of Rs. 13,59,000. Famous quote by the great scientist Albert Einstein goes this way, “Compound Interest is the 8th wonder of the world. He who understands it, earns it. He who doesn’t.....pays it.”



Assets that are liabilities

When we hear the term asset, we normally understand them to be land, building, vehicle, plant, machinery, furniture, etc. This is where there is need for caution. Accounting standards today defines an asset as a resource that generates cash flows. Anything invested on, which does not generate earning or does not reduce expense is not an asset. If any of your investment consumes more than it earns, it is a liability, not an asset. This is why one needs to make sound estimates of the cash flows before investing.

Rewarding fund contributors

We have two contributors of the fund, yourself and others and you need to pay them back from your investment proceeds. If returns from investment fall short, you can console yourself that you had benefited from the proceeds. But, others need to be paid for borrowed funds along with the agreed interest. For this you need the earnings from the investment. With borrowed funds, you will realize the real obligations only at the end of the process, particularly if you have not calculated the possible returns well in advance. This is why we need to calculate the reward earned so as to assess how successful we were in the investment and whether or not to continue with the project.

Conclusion

We need to think about our personal cash flow for effective use and wealth maximization. We can collect resources

from two sources i.e., earning and borrowing and use it for two purposes: expense and investment. We then reward the contributors i.e., self and others for which we need to ensure higher earnings from the fund used for investment. The idea is to save first and then start spending.

For spending, one needs to prepare budget and use funds accordingly taking care to cut down on unnecessary expenses. We also need to pay back the contributors of the fund on time. Taking these simple steps to manage personal finances can help in eliminating financial stress. Sound personal financial management at the individual level is also good for the larger economy as it can contribute towards increasing savings and investible funds.

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विषय: करचुक्ता प्रमाण पत्र अनिवार्य पेश गर्ने सम्बन्धमा

लेखा व्यवसाय संस्था (फर्म) सम्बन्धी कार्यविधि २०७९, दफा ५(क) बमोजिम फर्म नविकरण गर्दा संस्थाका सदस्यहरूले कर चुक्ता प्रमाणपत्र अनिवार्य रूपमा पेश गर्नुपर्ने व्यवस्था रहेको छ । सोही व्यवस्था बमोजिम आगामी आर्थिक वर्ष २०८०/८१ देखि लागू हुने गरि लेखा व्यवसाय पेशामा संलग्न व्यक्तिले पेशागत प्रमाणपत्र तथा फर्म नविकरण गर्दा कर चुक्ता प्रमाणपत्र अनिवार्य रूपमा पेश गर्नुपर्ने सूचित गराइन्छ ।

साथै प्रचलित आयकर ऐन बमोजिम आय विवरण बुझाउनु पर्ने अन्तिम मिति भन्दा अगावै लेखा व्यवसायी फर्म नविकरण गर्न निवेदन दिएको अवस्थामा सो भन्दा अघिल्लो आर्थिक वर्षको कर चुक्ता प्रमाणपत्र पेश गर्न सकिने छ । त्यस्तै गरि नविकरणका लागि पेश गरिएको आर्थिक वर्षको अघिल्लो आर्थिक वर्षमा दर्ता भएका नयाँ लेखा व्यवसायी फर्मको हकमा स्थायी लेखा नम्बर प्रमाणपत्रको प्रतिलिपि पेश गरि नविकरण गर्न सकिने छ ।



JUDICIAL UPDATE

Case-I: Value Added Tax Act, 2052

Supreme Court Decision Date: 2079/10/15

Parties: Inland Revenue Office, Dharan Vs Pinky International, Dharan

Supreme Court Case No.: 074-RB-0221

https://supremecourt.gov.np/cp/assets/downloads/supreme_179241.pdf



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The procedural provisions which have been prescribed by law as mandatory to be followed are not of discretionary nature for the tax officers or employees which may or may not be followed. Any work which does not accomplish the legal procedure becomes void in the eye of law. With regard to the concerned dispute, rule 55 of Value Added Tax Rules, 2053 has prescribed about the search procedure to be complied with while searching anyone's house, shop for the purpose of VAT. However, the IRO has not complied with such search procedure while undergoing the monitoring activities which have consequently violated the constitutional and legal rights of the assessee. In addition, as the IRO has not issued a notice of search to the assessee, its activities seem to be against the principle of natural justice as well.

NO TAX ON DEFICIT STOCK WITHOUT COMPLYING WITH PROCEDURAL LAW

Fact:

A monitoring team of Inland Revenue Office, Dharan (IRO Dharan) visited a warehouse and inspected stocks of assessee M/s Pinky International, Dharan at presence of its proprietor on 2066/07/18. While inspecting the stock of taxable goods, the monitoring team could observe the physical stock of NPR 29,93,741.00 only against the stock register value of NPR 92,76,839.00. So, the monitoring team prepared a Stock Detail Report and obtained a written self-declaration statement from the proprietor with a confession that the stock details mentioned in their report is correct & no any stock has been kept elsewhere.

Later on, the IRO Dharan issued a preliminary tax assessment notice related to the deficit taxable stock of NPR 62,83,098.00

on 2066/08/12. In the notice, the IRO Dharan had assessed tax of NPR 17,13,000 by allowing the assessee a time limit of 15 days for submitting its clarification upon such tax assessment, if dissatisfied. The tax amount NPR 17,13,000 had been assessed on following basis:

- ☞ As per the last audit report i.e. audit report of F/Y 2064/65 (as F/Y 2065/66 not being audited by then), the assessee had earned a net profit of 4.86% in F/Y 2064/65. So, on the basis of such net profit percentage, the IRO Dharan assumed that the deficit stock of NPR 62,83,098.00 as well could have been sold at 4.86% margin i.e. NPR 65,88,457.
- ☞ In the deemed sale proceed of NPR 65,88,457, the IRO Dharan charged 13% VAT amount of NPR 8,56,500 pursuant to Section 20 of the Value Added Tax Act, 2052 and its equal amount as fine NPR 8,56,500 pursuant to Section 29(2) of the idem Act which summation amounted to NPR 17,13,000.

The assessee submitted its clarification to the IRO Dharan on 2066/08/29. However, even after receiving a clarification letter on such deficit stock, IRO Dharan decided not to change its initial assessment verdict regarding the tax assessment amount and delivered a notice of final tax assessment with consistent provision on 2066/08/30.

Dispute:

The assessee, being dissatisfied with such tax assessment order made by the IRO Dharan, had applied to the Inland Revenue Department (IRD) for Administrative Review under Section 31A of the Value Added Tax Act, 2052. However, the IRD endorsed the tax assessment order of the IRO Dharan and rejected the claim of the assessee on the ground such tax assessment is in consonance with idem Act on 2066/11/18.

Hence, the assessee appealed to the Revenue Tribunal, Biratnagar against the endorsement decision of Administrative Review under Section 32 of idem Act on 2067/01/06.



Then, on the ground IRO Dharan had made the tax assessment decision without completing the search procedure prescribed under rule 55 of VAT Rules 2053, the Revenue Tribunal quashed the tax assessment order of IRO Dharan and upheld the claim of the assessee on 2069/7/17.

So, the IRO Dharan, being dissatisfied with the decision of the Revenue Tribunal Biratnagar, appealed to the Supreme Court claiming the Revenue Tribunal made the decision on the ground that search procedure was not complied with while inspecting the stock. The Tribunal did not analyze the evidences collected like Stock Detail Report accepted by the proprietor of the firm and the legal procedure adopted while deciding & corresponding to the assessee during the preliminary and final tax assessment.

Supreme Court Judgement:

The Supreme Court quashed the tax assessment order & claim of IRO Dharan and upheld the decision of Revenue Tribunal, Biratnagar stating that the **procedural provisions which have been prescribed by law as mandatory to be followed are not of discretionary nature for tax officers or employees which may or may not be followed. Any work which does not complete the legal procedure becomes void in the eye of law. With regard to the concerned dispute, rule 55 of Value Added Tax Rules, 2053 has prescribed about the search procedure to be complied with while searching anyone's house, shop for the purpose of VAT. However, the IRO Dharan has not complied with such search procedure while undergoing the monitoring activities which have consequently violated the constitutional and legal rights of the assessee. In addition, as the the IRO Dharan has not issued a notice of search to the assessee, its activities seem to be against the principle of natural justice as well.** Further, the IRO Dharan has complained against the assessee for making such additional sales. However, it has failed to provide evidences supporting which goods, at what price, at which place and to whom the assessee sold those goods. Section 20(1) of the Value Added Tax Act, 2052 prescribes different provisions for the recovery of tax. However, it has not clarified in its decision on the basis of which specific provision such tax has been levied. Hence, the IRO Dharan seems to have been assessed tax against the assessee just on the basis of estimate.

Case-II: Income Tax Act, 2058 & Bonus Act, 2030

Supreme Court Decision Date: 2079/04/16

Parties: Large Taxpayer Office, Lalitpur Vs Syakar Company Ltd, Kathmandu

Supreme Court Case No.:- 074-RB-0280

Link: https://supremecourt.gov.np/cp/assets/downloads/supreme_181303.pdf

PROVIDE STAFF BONUS FROM PROFIT BEFORE BONUS

Fact:

The assessee M/s Syakar Company Ltd had submitted its self-assessed Income Tax Return of F/Y 2062/63 pursuant to section 96 of the Income Tax Act, 2058 under Section 99 of the Act on 2063/09/28.

Subsequently, the Large Taxpayer Office (LTO) issued an initial tax assessment notice for F/Y 2062/63 against the assessee under Section 101(6) of idem Act on 2067/06/10. In the notice, the LTO had caused to addback, inter alia, the excess staff bonus provision amounting to NPR 11,42,925 by allowing the assessee a time limit of 15 days for submitting its clarification upon such tax assessment, if dissatisfied. The excess bonus provision amount NPR 11,42,925 had been assessed as follows:

- ☞ The assessee had claimed staff bonus provision of NPR 1,05,01,800 as an expense in its Income Tax Return which was 10% of profit before bonus of F/Y 2062/63.
- ☞ LTO claimed that as per section 5 of the Bonus Act 2030, 10% of profit before tax after deducting the entire expenses including the staff bonus provision should be provided as staff bonus, instead of profit before bonus. The staff bonus provision amount calculated in such a way i.e. profit before tax amounted to NPR 93,58,875 only. Hence, the assessee had claimed excess staff bonus provision of NPR 11,42,925 as an expense in its Income Tax Return of F/Y 2062/63.

The assessee submitted its clarification to the LTO denying the excess staff bonus claim as mentioned in the notice on 2067/06/20. However, even after receiving a clarification letter from the assessee, LTO decided not to change its initial assessment verdict regarding the tax assessment amount and delivered a notice of final tax assessment with consistent provision on 2067/06/25.

Dispute:

The assessee, being dissatisfied with such tax assessment order made by the LTO dated 2067/06/25, had applied to the Inland Revenue Department (IRD) for Administrative Review under Section 115 of the Income Tax Act, 2058 on 2067/09/06. However, the IRD endorsed the tax assessment order of the LTO and rejected the claim of the assessee on the ground such tax assessment is in consonance with idem Act on 2067/09/23. Hence, the assessee appealed to the Revenue Tribunal, Kathmandu under section 115(8)(9) & 116 of idem Act. The Revenue Tribunal quashed the tax assessment order of LTO on 2069/06/02. So, the LTO, being dissatisfied with such decision of the Revenue Tribunal, appealed to the Supreme Court against its decision.

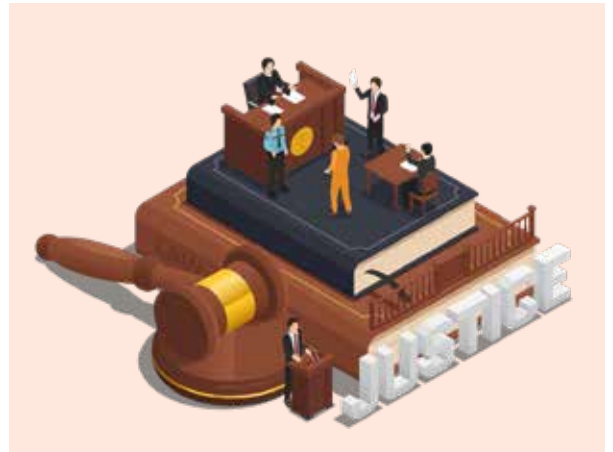


Section 5(1) of the Bonus Act, 2030 has clearly mentioned that the amount of bonus provision to be distributed for employees shall be 10% of net profit. The formula for computing such net profit has been provided clearly in section 5(2) of idem Act which states that while assessing the net profit for bonus calculation purpose, the following amounts have to be deducted from the net income assessed under section 12 of the Income Tax Act, 2058: (a) Any amount allocated to manage the quarter for personnel pursuant to Section 41(1) of the Labor Act, 2048 B.S. (Note: this provision of Labor Act, 2048 has been deleted by Some Nepal Acts Amending Act, 2075) and (c) The bonus amount distributed excessively under subsection (3) of Section 11. Hence, the afore stated legal provisions of Bonus Act, 2030 and Income Tax Act, 2058 do not have spirit that the net profit computed after deducting the bonus provision as expense shall be considered for calculating the staff bonus provision.

computing such net profit has been provided clearly in Section 5(2) of idem Act which states that while assessing the net profit for bonus calculation purpose, the following amounts have to be deducted from the net income assessed under Section 12 of the Income Tax Act, 2058: (a) Any amount allocated to manage the quarter for personnel pursuant to Section 41(1) of the Labor Act, 2048 B.S. (Note: this provision of Labor Act, 2048 has been deleted by Some Nepal Acts Amending Act, 2075) and (c) The bonus amount distributed excessively under sub-section (3) of Section 11. Hence, the afore stated legal provisions of Bonus Act, 2030 and Income Tax Act, 2058 do not have spirit that the net profit computed after deducting the bonus provision as expense shall be considered for calculating the staff bonus provision.

Supreme Court Judgement:

The Supreme Court quashed the tax assessment order of LTO in which the assessee was caused to addback the excess staff bonus provision of NPR 11,42,925 and upheld the decision of Revenue Tribunal, Kathmandu stating that **Section 5(1) of the Bonus Act, 2030 has clearly mentioned that the amount of bonus provision to be distributed for employees shall be 10% of net profit. The formula for**



लेखापरीक्षण गर्न पाउने रकम हदका सम्बन्धमा

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

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

STRATEGIC REVIEW

Regulation and Supervision

Quality Assurance Review

The Quality Assurance Unit of the Institute along with the steering and oversight of the Quality Assurance Board has been conducting quality assurance review of audit firms. During the period quality assurance review of total eight firms has been conducted by the QAU of the Institute.

Professional Development

National Conference on Role of Professional Accountants in Shaping Economic Growth of Nation

The Institute organized half day National Conference on "Role of Professional Accountants in Shaping Economic Growth of Nation" on 31st January 2023 at Everest Hotel, New Baneshwor, Kathmandu Nepal. The Conference was commenced with welcome remarks of CA. Bhaskar Singh Lala, President, ICAN, whereby, Former Minister of Finance, Dr. Yuba Raj Khatiwada was the Chief Guest and Keynote Speaker in the Conference.



CA. Bhaskar Singh Lala, President-ICAN delivering Welcome Remarks



Dr. Yuba Raj Khatiwada, Former Minister of Finance delivering Keynote Speech

The Conference featured two technical sessions as below:

First Technical Session: Role of Accounting Profession on National Revenue and GDP

The session was Chaired by Dr. Ram Prasad Ghimire, Secretary (Revenue), Ministry of Finance whereby, CA. (Dr.) Biswash Gauchan, Executive Director and Director of the Center for Economic Policy in IIDS was the paper presenter in the meeting. The presentation can be accessed from the link below:

https://en.ican.org.np/_browsable/file/general/Role_of_Accounting_Profession.pdf

Subsequent to the technical sessions a panel discussion was held on the theme "Role of Accounting Profession on National Revenue and GDP". CA. Yuddha Raj Oli, Immediate Past President, ICAN was the moderator of the panel discussion and following were the panelist in the session:

S.No.	Name of Panelist	Designation
1	Mr. Kewal Prasad Bhandari	Member Secretary, National Planning Commission
2	Mr. Dirgha Raj Mainali	Director General, Inland Revenue Department
3	Mr. Shekhar Golchha	President, Federation of Nepalese Chamber of Commerce & Industries
4	CA. Narendra Bhattarai	Past President, ICAN

Second Technical Session: Accounting Profession for Enabling Corporate Governance

The session was Chaired by Mr. Ramesh Kumar Hamal, Chairperson, SEBON whereby, Mr. Resham Raj Regmi, Advocate presented a paper in this session. The presentation can be accessed from the link below:

https://en.ican.org.np/_browsable/file/general/Accounting_Profession_for_Enabling_Corporate_Governance.pdf

After the paper presentation, a panel discussion was held on "Accounting Profession for Enabling Corporate Governance". CA. Madan Krishna Sharma, Past President, ICAN was the moderator of the panel discussion and following were the panelist in the session.

S.No.	Name of Panelist	Designation
1	Mr. Sunil KC	President, Nepal Bankers Association
2	Mr. Vishnu Kumar Agarwal	President, Confederation of Nepalese Industries
3	CA. Rajan Singh Bhandari	Chairperson, Citizens Bank International Ltd.

The Conference was concluded with vote of thanks from CA. Sujan Kumar Kafle, Vice-President, ICAN. The Conference was attended by 142 participants including Members and Stakeholders.



International Webinar on Foreign Direct Investment (FDI) in Nepal

The Institute in coordination with the US Chapter of the ICAN conducted an International Webinar on FDI in Nepal on 26th March 2023 Sunday from 7:30 PM to 9:00 PM to discuss on various aspects related to Foreign Direct Investment in Nepal. The main objective of the webinar was to address questions of Non-Resident Nepalese (NRN) population living in the United States and around the world who are unaware of legal framework, institutional structures, FDI processes including tax, repatriation, and other administrative aspects of FDI in Nepal. The webinar strives to address various queries of the participants relating to FDI in Nepal.



Glimpse of Panelist, Moderator and other Speakers in the Webinar on FDI

CA. Bhaskar Singh Lala, President, ICAN opened the webinar with a welcome remark after which a panel discussion was held to have a focused discussion on various aspect of FDI in Nepal. Mr. Dirgha Raj Mainali, Director General, Inland Revenue Department; Mr. Shankar Singh Dhama, Director, Foreign Investment & Technology Transfer Section, Department of Industry, Mr. Ramesh Kumar Hamal, Chairman, Securities Board of Nepal; Mr. Ramu Paudel, Executive Director, Foreign Exchange Department, Nepal Rastra Bank; Mr. Homa Kanta Bhandari, Economic Counselor, Nepalese Embassy in USA and Mr. Prem Sangroula, Economist, World Bank were the panelist in the program whereby, CA. Tika Acharya, President US Chapter, ICAN and CA. Ganesh Baniya, Past President US Chapter, ICAN were the moderator in the webinar. The program concluded with the vote of thanks by CA. Sujan Kumar Kafle, Vice-President, ICAN.

Certification Course on Forensic Accounting and Fraud Detection (FAFD)

The Institute has organized seven days Certification Course on Forensic Accounting and Fraud Detection (FAFD) as a post-qualification course for the members from 5th February to 11th February 2023 at ICAN premises physically in technical collaboration with the Institute of Chartered Accountants of India (ICAI).

The certification course mainly covered topics such as Financial Fraud, Interviewing Skills and Field Investigations, Data Analysis, Digital Forensics, Cybercrime and related

laws. Resource persons of the program were CA. Amish Thakkar, Mr. Sachin Dedhia, CA. Satyaprakash Jaiswal and Mr. Pashupati Ray. Altogether, 24 participants attended the certification course.



Group Photo of the participants with ICAN's Staffs at FAFD Certification Course

Virtual Training on “Data Analysis and Visualization with Microsoft Excel Power Tools and Power Business Intelligence (BI)”

The Institute in technical assistance of The Institute of Chartered Accountants of India (ICAI) organized a six days virtual training on “Data Analysis and Visualization with Microsoft Excel Power Tools and Power BI” from 19th to 24th March 2023. The training was focused on delivering the key concepts and techniques related to data analysis and visualization. Altogether 177 members of the Institute participated in the training.

Certification Course on Information System Audit (ISA3.0)

The Institute in technical collaboration with The Institute of Chartered Accountants of India (ICAI) has commenced a post qualification course on “Certification Course on Information System Audit (ISA 3.0)” from 23rd March 2023 for members of the Institute. The twelve days certification course will be organized till 3rd April 2023. Upon completion of course and passing the assessment, the Members of the Institute will be a certified as Information System Auditor.

Continuing Professional Education (CPE)

The Institute with the objective to enhance member's practical and theoretical knowledge on various contemporary issues has organized total 9 CPE program via physical mode at Kathmandu, Butwal, Kaski Banke, Dhangadi, Biratnagar and Birgunj. The CPE program covered topics related to NFRS For SMEs, NAS for NPOs, NSA For MEs, School Audit, Basic plus Advanced Excel, Unified Directives on Co-operatives, Nepal Standard on Quality Control (NSQC-1), Income Tax Act, Co-operative PEARLS practical demonstration, provision of various corporate laws and Forming an Opinion and Reporting on Financial Statement. The details of CPE have been depicted in table below:

Date of CPE	Location	Participants
20 th to 22 nd January, 2023	ICAN Premises, Satdobato	106
20 th to 22 nd January, 2023	Hotel Diyalo Foodland Butwal, Rupandehi	135
27 th to 29 th January, 2023	Deep Sagar Hotel, Pokhara Kaski	86
27 th to 29 th January, 2023	Nepalgunj, Banke	81
17 th to 19 th February, 2023	ICAN Premises, Satdobato	97
10 th to 12 th February, 2023	The Rubus Hotel Dhangadhi	81
24 th to 26 th February, 2023	Hotel Shree Krishna Biratnagar	124
17 th to 19 th March 2023	ICAN Premises, Satdobato	117
17 th to 19 th March 2023	Birgunj	54
Total Participants		881



Glimpse of CPE training inside Kathmandu valley (at ICAN Premises, Satdobato Lalitpur)

Education

5th Chartered Accountants' Convocation Ceremony

The Institute organized its 5th Chartered Accountants' Convocation Ceremony on 13th February 2023 at Hotel Yak and Yeti, Durbar Marg, Kathmandu, Nepal. CA. Bhaskar Singh Lala, President, ICAN, Dr. Swarnim Wagle, Chairman, Institute for Integrated Development Studies (IIDS) and Prof. Dr. Puskar Bajracharya, Member, Board of Studies of ICAN delivered speech in the Convocation Ceremony. Chief Guest, Hon'ble Auditor General Tanka Mani Sharma (Dangal) distributed Prize to Rank Holder Students of different levels of Chartered Accountancy Examinations and Convocation Certificate to all convocated members. The chief guest also delivered inspiring speech in this occasion.



Chief Guests and Guests of Honor at ICAN's Fifth Convocation Ceremony



Group Photo of the participants of 5th Chartered Accountants' Convocation Ceremony

SAFA Quiz and Elocution Contest, 2022

The Institute of Chartered Accountants of Nepal (ICAN) hosted the SAFA Quiz and Elocution Contest, 2022 on 13th February 2023 at Hotel Yak and Yeti, Durbar Marg, Kathmandu, Nepal. The objective of the Quiz and Elocution Contest is to promote the competitive learning and practical understanding of the International Financial Reporting Standards among the final level students of the Professional Accounting Organizations (PAOs) of the SAARC region and to groom the students to develop the future speakers of the profession. 14 Students from 5 Professional Accounting Organizations and 4 Countries participated in the SAFA Quiz and Elocution Contest, 2022. CA. Bhaskar Singh Lala, President, ICAN inaugurated the contest with his welcome remarks.



Glimpse of SAFA Quiz and Elocution Contest organized by ICAN

9 Students from 5 Professional Accounting Organizations and 4 Countries competed in the Quiz Contest, 2022 whereby, ICA Bangladesh was awarded with first position and ICAN became first runner up. Similarly, 7 Students from 4 Professional Accounting Organizations and 4 Countries competed in the Elocution Contest, 2022. In the Elocution Contest, Ms. Jayati Purwar from ICAI became the champion, Ms. Supekshya Neupane and Ms. Sangya Pant from ICAN stood as 1st Runner Up and 2nd Runners-up respectively.



Visit of ICAEW Consultants at the Institute

Consultants from the Institute of Chartered Accountants in England and Wales (ICAEW) comprising of Mr. Jonathan Mbewe and Ms. Pippa Riley visited the Institute from 31st January 2023 to 4th February 2023 in connection with the ongoing CA curriculum upgrading process of the Institute. During their visit they had meeting and consultation with the ICAN Management Team, Board of Studies of ICAN, Examination Committee of ICAN, The World Bank, Nepal office and PEFA Secretariat, Coaching Centers/ tuition providers of CA Education, and government officials regarding the proposed CA Curriculum.

Chartered Accountancy Examination, December 2022

The Institute of Chartered Accountants of Nepal conducted Chartered Accountancy CAP-I level December 2022 from 1st to 3rd January 2022 in Kathmandu Valley, Biratnagar, Butwal, Pokhara, Dhangadi and Chitwan. Altogether 2,051 students appeared in the examination out of total 2,220 applicants.

Chartered Accountancy Examination, December 2022 Result Published

The Institute had published the result of Chartered Accountancy Examination, December 2022 of CAP II and CAP III level conducted from 1st December 2022 to 11th December 2022 and CAP I level conducted from 1st to 3rd January 2023. Altogether, 39 students are qualified for the ICAN Membership. Details of students applied, appeared, passed (single or both group) and qualified in different level of CA Examination is presented below:

Level	CAP-I	CAP-II	CAP-III
Total Applicants	2,220	3,682	1,127
Total Appeared	2,051	3,222	1,007
Passed (Either Single or Both Group)	-	360	150
Qualified	1,116	240	39

General Management and Communication Skills (GMCS) Training

The 22nd batch of GMCS training was organized at ICAN Premises from 26th February to 15th March 2023 for the students who have passed or appeared both group of CAP III level examinations or passed the Accounting Technician examination. Participation in this training is a pre-requisite for obtaining membership of the Institute. The objective of this training was to enhance communication, presentation and interpersonal skills and to provide understanding of contemporary business environment and opportunities. Furthermore, the Institute intends to help students to prepare for a career either in employment or in practice by adopting the changes required to be competitive in their professional life. Total, 44 students participated in the GMCS training.



*Glimpse of GMCS Closing Ceremony at ICAN Premises
Satdobato, Lalitpur*

Pre-Articlesip Orientation Program

The Institute organized Pre-Articlesip Orientation Program for the students who have passed CAP II level examination of December 2022 on 23rd February 2023 at Hotel Yak and Yeti, Durbar Marg, Kathmandu, Nepal. The purpose of this orientation program was to enhance the skills and capabilities of students going to pursue three years articleship training by providing proper orientation and training on topics such as personality development, communication skills, professional behavior and culture at audit firms and clients' offices. The program was also broadcasted live through online platform of ICAN for the students residing outside of Kathmandu Valley.

CA. Bhaskar Singh Lala, President, ICAN and CA. Sujan Kumar Kafle, Vice President, ICAN jointly inaugurated the program by lightening the lamp whereby, CA. Sanjay Kumar Sinha, Executive Director, ICAN gave his opening remarks in the program. CA. Bhaskar Singh Lala President, ICAN delivered speech on objectives of the program.

In the program, CA. Prabin Kumar Jha, Council Member, ICAN presented on Professional culture, behavior, article assistants' and principals' responsibility and authority in audit firm & Environment and practices at audit firms and clients' office. Likewise, Mr. Rajan Koirala, Motivational Speaker delivered on Business Communication, Professional Attire, Etiquettes, Interpersonal Communication and Body Language. Similarly, CA. Himal Dahal, Deputy Director, ICAN presented on Policies and Procedures regarding Articleship Deed. The program also included experience sharing session by recently qualified Chartered Accountants Mr. Saugat Gautam and CA. Jayanti Bhandari.

The Certificate of Participation was given to the participants of the Pre-Articlesip Orientation Program. The program concluded with summarization and vote of thanks by CA. Sujan Kumar Kafle, Vice President, ICAN. Total 240 students participated in the program whereby, 231 had attended the program physically while 9 had attended it virtually.

Student's Participation in the 37th International CA Student's Conference

Two students of CAP III level namely Ms. Sofiya Shrestha and Mr. Sabin Dhakal represented the Institute and participated in the 37th International CA Students Conference on the theme "In it to Win it; Together Towards Tomorrow" organized by CA Students' Society, Sri Lanka on 28th February 2023 at Monarch Imperial, Colombo Sri Lanka. Ms. Sofiya Shrestha also addressed the Conference as one of the panelists during a panel discussion on topic related with importance of professional skills in changing corporate world.



Group photo of CA Students' Society, Sri Lanka with the foreign delegates in the Conference at Colombo, Sri Lanka

Joint Industrial Visit between ICAN Biratnagar Branch and ICAI Siliguri Branch under Student Exchange Program

The Institute of Chartered Accountants of Nepal, Biratnagar Branch conducted a Joint Industrial Visit between ICAN Biratnagar Branch and ICAI Siliguri Branch at Aarti Strips Pvt Ltd., one of the biggest metal manufacturing industries in Nepal on 12th of February 2023 along with a Student's Exchange Program.

CA. Ruhee Murarka, Biratnagar Branch Coordination Committee (BCC) Member, welcomed the officials and students of ICAI Siliguri Branch in the Biratnagar Branch of the Institute. CA. Kinjal Pokhrel, Member, Biratnagar BCC explained the officials and students about the CA Course of the Institute. During the Student's Exchange Program, students from the ICAN and ICAI shared their experience.

CA. Aswini Bansal, Coordinator, Biratnagar BCC extended vote of thanks to all ICAI officials for their participation in the program.

CA. Prakash Agrawal, Vice President, ICAI Siliguri Branch, thanked ICAN for the hospitality extended and invited Biratnagar Branch of the Institute in ICAI Siliguri Branch for future student exchange program Similarly, officials of ICAI comprising of CA. Ashis Bansal, CA. Rajesh Goyal, CA. Manish Jaiswal also expressed their views regarding importance of such student exchange program. Altogether,

48 students and officials from ICAI Siliguri Branch and 28 participants including Member of Biratnagar BCC, Staffs and students participated in the program.



A Glimpse of Joint Industrial Visit between ICAN Biratnagar Branch and ICAI Siliguri Branch

Chartered Accountancy (CA) Membership Examination, March 2023

The Institute conducted CA Membership examination March 2023 on 15th and 16th March 2023 in Kathmandu Valley, Biratnagar, Birgunj, Butwal, Pokhara, Dhangadhi and Chitwan. Altogether 412 examinees appeared in the examination out of total 503 applied examinees.

Online Revision Classes for June 2023 Batch

The Institute with the objective to facilitate the students for the upcoming Chartered Accountancy Examination of June 2023, has started free online revision classes for the students those who are going to appear in June 2023 Examination from 27th March 2023.

Career Counselling

Dhangadi Branch Office of the Institute organized a career counselling program in three different Government Higher Secondary Schools of Dhangadhi namely Sharada Secondary School, Trinagar Secondary School and Basudevi Secondary School from 1st February, 2023 to 2nd February, 2023. The objective of this career counselling program was to disseminate the students about Chartered Accountancy Education, Syllabus, Fees, Scholarship opportunity, pass marks criteria and other relevant and useful information to generate their interest for pursuing Chartered Accountancy Course in Nepal. The queries raised by the students in the program were also addressed. This program was attended by total of 266 students from all these three schools.



National Relation: Public and Government

Training on “NFRS Gaps Identified in NFRS Implementation Status in State Owned Enterprises”

The Institute in coordination with the Public Expenditure and Financial Accountability Secretariat organized four days Training on “Mitigation of Gaps Identified in NFRS Implementation Status in State Owned Enterprises (SOE)” for staffs of SOEs from 23rd to 26th January 2023 at ICAN Premises, located at Satdobato, Lalitpur. The four days training was organized in total 12 technical session whereby, the training was facilitated by CA. Arun Raut and CA. Prabin Raj Kafle. In total 41 personnel from 24 SOEs participated in the training.



Group photo of participants of training with ICAN Officials and Resource Person

Interaction Program on “Concept Paper of Public Financial Management (PFM) Qualification in Nepal”

The Institute in coordination with the Public Finance and NPSAS Committee organized an interaction program on Concept Paper of PFM Qualification in Nepal on 12th March 2023 at ICAN Premises, Satdobato, Lalitpur. The Concept Paper on proposed PFM qualification in Nepal that comprised of need assessment for PFM Qualification in Nepal and synopsis of proposed PFM Courses for the Members of Institute and other stakeholders was discussed in programme.

The program started with opening remarks of CA. Bhaskar Singh Lala, President, ICAN. The program was organized in two sessions, the first session was related with the paper presentation and second session was open forum discussion. CA. Prabin Kumar Jha, Council Member, ICAN and Chairman, Public Financial and NPSAS Committee presented paper on “Concept Paper of PFM Qualification in Nepal” and Mr. Baburam Subedi, Joint Secretary, National Planning Commission and Council Member, ICAN presented paper on “Public Financial Management: An Aid to Fiscal Policy”.



Glimpse of interaction program on PFM Qualification in Nepal at ICAN Premises, Satdobato, Lalitpur

Representatives from the Office of Auditor General, Financial Comptroller General Office, Public Financial Management Training Center, Nepal Administrative Staff College, Public Procurement Monitoring Office, Public Debt Management Office, Nepal Rastra Bank, National Natural Resources and Fiscal Commission, Public Accounts Committee along with the Past Presidents, Council Members, Public Finance and NPSAS Committee Members gave their comments and suggestions on the concept paper. The program was attended by total 42 participants.

Pre-Budget Interaction Program, 2079

The Institute in continuity to extend its assistance on economic and financial policy of the Government, organized a “Pre-Budget Interaction Program” with the Members of Institute at its head office and branch offices. The program was organized in coordination with the Fiscal Taxation and Research (FTR) Committee and respective Branch Coordination Committee (BCC). The objective of this program was to collect inputs and suggestions from the Members for the upcoming Federal Budget 2080-81 of the Government of Nepal. The details of the program have been given below:

At Kathmandu, on 27th March 2023

The program started with the welcome remarks of CA. Bhaskar Singh Lala, President, ICAN. The program was organized in two sessions, in the first session a panel discussion was held related to Federal Budget and Amendment required in existing Taxation Laws of Nepal. The panel discussion was moderated by CA. Peeyush Anand, Chairman Fiscal, Taxation, and Research Committee whereby, CA. Sudarshan Raj Pandey, Past President, ICAN; CA. Jagannath Upadhyay (Niraula), Past President ICAN; Mr. Baburam Subedi, Joint Secretary, National Planning Commission and Council Member, ICAN; Dr. Biswash Gauchan, Executive Director, Institute for Integrated Development Studies (IIDS) and CA. Shashi Satyal, Practicing Chartered Accountant were the panelist in the program. Likewise, the second session was related with open forum discussion. The program concluded with vote of thanks by CA. Sujan Kumar Kafle, Vice-President, ICAN. Altogether 43 members participated in the interaction program.



Glimpse of Pre-Budget Interaction Program at Kathmandu

At Biratnagar, on 19th March 2023

The pre-budget interaction program was organized in Chairmanship of CA. Aswini Bansal, Coordinator of BCC whereby Mr. Shyam Prasad Bhandari, Secretary of Ministry of Economic Affairs and Planning Koshi Province was Chief Guest of the program. Moreover, Mr. Damodar Khatri, Chief of Provincial Treasury Comptroller, Koshi Province; Mr. Ashok Guragain, Tax Officer; Mr. Ankit Sharma, Custom Officer and Mr. Chudamani Bhattarai, Director General of Chamber of Industries, Morang were the Guests in the program.



Glimpse of Pre-Budget Interaction Program at Biratnagar

CA. Aswini Bansal started the program with his opening remarks whereby, RA. Bholanath Pathak, Council Member and Member of FTR Committee and RA. Jhalak Mani Lamsal, Member of FTR Committee also addressed the program. Similarly, Mr. Chudamani Bhattarai and CA. Suraj Timsina presented paper on “Economic constraints and recommendations for upcoming budget based on the recommendations collected from small level business entities of Biratnagar area” and “Contemporary taxation issues and suggestion on upcoming budget”. The program concluded with vote of thanks from RA. Vijaya Hari Sharma, member of Biratnagar BCC. Altogether 60 participants attended the program.

At Butwal, on 19th March 2023

The pre-budget interaction program was organized in the Chairmanship of CA. Sheo Hari Sharma, Coordinator of Butwal, BCC whereby, CA. Laxmi Prasad Luitel, Member of Butwal BCC was the Chief Guest in the program and RA. Madhu Sudan Bhattarai, Member of FTR Committee was the Special Guest in the program. Altogether 60 participants actively participated in the program.



Glimpse of Pre-Budget Interaction Program at Butwal

At Pokhara, on 19th March 2023

The pre-budget interaction program was organized in the Chairmanship of CA. Lakshman Adhikari, Coordinator Pokhara BCC. In the program Mr. Rajendra Aryal, Under-Secretary of Ministry of Economic Affairs, Gandaki Province presented a paper on “National Budget Formulation Process”. Representatives from the Association of Chartered Accountants of Nepal (ACAN) and Auditors Association of Nepal (AUDAN) presented their suggestions in the program. Altogether, 33 participants including Members and representatives from various bodies of corporate sector attended the program.



Glimpse of Pre-Budget Interaction Program at Pokhara

At Dhangadhi, on 19th March 2023

The pre-budget interaction program was organized in the Chairmanship of CA. Chiranjeevi Pathak, Coordinator, Dhangadhi BCC whereby, Mr. Gauri Shankar Upadhyay, Chief Tax Officer and CA. Suman Kumar Bohara, Joint Director, ICAN attended the program as Chief Guest and Special Guest respectively. In the program, CA Janma Raj Timsina, Member Dhangadhi BCC gave a paper presentation on “Nepalese Budget and Tax Structure” highlighting budget practice in Nepal, current budget and taxation structure of Nepal. An open forum discussion was held whereby participants shared their suggestion and recommendation for upcoming budget. Altogether 41 participants attended the program.



Glimpse of Pre-Budget Interaction Program at Dhangadhi

At Nepalgunj, on 8th March 2023

The pre-budget interaction program was organized in the Chairmanship of CA. Bishwa Ram Bhandari, Coordinator, Nepalgunj BCC whereby RA. Gokarna Prasad Ghaire, Member, Nepalgunj BCC gave his opening remarks on the program. The program was attended by altogether 22 participants including the representatives from District Treasury Controller Office, Nepal Rastra Bank, Inland Revenue Office, ACAN and AUDAN along with the members of the Institute.



Glimpse of Pre-Budget Interaction Program at Nepalgunj

The suggestion and recommendation collected shall be submitted to the Ministry of Finance for consideration while preparing federal budget of 2080/81.

International Relation: Global Positioning and Leadership

Participation in SAFA Board Meeting

President, CA. Bhaskar Singh Lala and Vice – President, CA. Sujan Kumar Kafle virtually attended 77th SAFA Board Meeting held on 7th January 2023 that was hosted by The Institute of Chartered Accountants of India.

Participation in SAFA Strategy Meeting

President CA. Bhaskar Singh Lala and Vice-President CA. Sujan Kumar Kafle attended the SAFA Strategy Meeting

hosted by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) on 18th February 2023 at Colombo, Sri Lanka. Also, the Council Member of ICAN and Chairperson of “Committee to Study Fiscal Regimes and other Statutory Requirements of Business in SAFA Countries”. CA. Peeyush Anand attended the meeting virtually.

Exposure Visit to the Institute of Chartered Accountants of Bangladesh (ICAB)

A five member delegation of ICAN staff comprising of CA. Kiran Kumar Khatri, Technical Director; CA. Bharat Nepal, Deputy Director; CA. Manoj Ghimire, Assistant Director; Mr. Sanoj Bhattarai, Officer and Bhakta Bahadur Karki, Officer had an exposure visit to the ICAB on 21st and 22nd March 2023. The objective of the visit was to have an understanding about the overall operation of ICAB specially focused on Quality Assurance and Regulation, Education, Examination, Administration and Other operation areas.



Group photo of ICAN delegation presenting a token of love to the Mr. Md. Moniruzzaman FCA President, ICAB at ICAB Premises located at Dhaka, Bangladesh

During the visit the delegation from Institute had a cordial meeting with President, Vice Presidents, CEO, COO, Department heads and QA team of the ICAB and also visited one of the practicing audit firms in Dhaka, Bangladesh.

Exposure Visit to the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Association of Accounting Technician of Sri Lanka (AAT Sri Lanka)

CA. Amrita Thapa, Assistant Director of the Institute has an exposure visit to the CA Sri Lanka and AAT Sri Lanka on 2nd March 2023. The objective of visit was to obtain knowledge with regard to implementation of financial reporting and auditing standard and system at CA Sri Lanka and to understand about the Accounting Technician Course offered by the AAT Sri Lanka



Left: Group photo of ICAN delegation with the Chair and Member of SLASC. Right: Group photo of ICAN delegation with the President and CEO of AAT Sri Lanka along with technical staffs of CA Sri Lanka

During the visit she had meeting with Chair of Sri Lanka Accounting Standard Committee (SLASC) and Past President of CA Sri Lanka, Manil Jayasinghe, FCA; Nishan Fernando, FCA, member SLASC and technical staffs at CA Sri Lanka. Likewise, a meeting with the Mr. Naleen Dhammika De Silva, FCA, President, AAT Sri Lanka, and Mr. Tishanga Kumarasinghe, FMAAT, Chief Executive Officer was also held at the premises of AAT Sri Lanka. During this visit she also had a visit at one of the practicing firms at Columbo in Sri Lanka to obtain knowledge of firm's operation system.

Institutional Development and Sustainability

Celebration of 26th Annual Day of the Institute

Head Office

The Institute celebrated its 26th Anniversary on 31st January 2023 at Kathmandu, Nepal. The program was Chaired by CA. Bhaskar Singh Lala, President, ICAN. The Chief Guest was Hon'ble Deputy Prime Minister and Finance Minister, Mr. Bishnu Prasad Paudel whereby, Hon'ble Auditor General Mr. Tanka Mani Sharma Dangal and Governor, Nepal Rastra Bank, CA. Maha Prasad Adhikari were the Guest of Honor in the program.

The program was formally inaugurated by Chief Guest of the program by lightening the lamp. The Chief Guest delivered his speech congratulating the Institute for celebrating its 26th year of establishment and elaborated the role of Institute for economic development of the country.

In this occasion, CA. Bhaskar Singh Lala, President ICAN delivered his speech by welcoming the Chief Guest, Guest of Honors, Dignitaries and Distinguished Guest, ICAN Past President, Council Members, Members and all the participants in the program. During, his remarks, he also highlighted the key achievements and milestones achieved by the Institute during FY 2078/79. After the welcome remarks by President CA. Bhaskar Singh Lala, Hon'ble Auditor General released

the Institute's Annual Report of FY 2078/79. Immediate Past President, CA. Yuddha Raj Oli also gave his congratulatory speech in the program.



Hon'ble Deputy Prime Minister and Finance Minister, Mr. Bishnu Prasad Paudel inaugurating the program.

Similarly, Guest of Honor, CA. Maha Prasad Adhikari, Governor, Nepal Rastra Bank delivered his speech and applauded the contribution of pioneers for establishment of the Institute and stressed on the inevitable role of professional accountants for shaping the economic development of the nation. Likewise, Guest of Honor, Hon'ble Auditor General, Mr. Tanka Mani Sharma Dangal also emphasized on maintaining quality of work of auditors and suggested to implement of outcome derived out of various conference and program. During his speech, he also stressed the need for robust operation of Institute's regulatory and supervisory function.



Hon'ble Auditor General unveiling the Institute's Annual Report of FY 2078/79

During the program, the Institute felicitated five staffs comprising of Mr. Mahesh Chitrakar (Deputy Director), Ms. Samita Dangol (Officer), Mr. Takendra Upadhyay (Officer), Mr. Ram Kumar Nepal (Senior Assistant) and Mr. Anjani Chaudhary (Assistant) in recognition of their outstanding performance with "Best Staff of the Year". Moreover, the Institute also awarded the winners of Chess and Futsal Competition organized by the Employee Union of the Institute during celebration of 26th Annual Day. Likewise, the Institute also presented token of love to Mr. Naresh Joshi, photographer of ICAN in recognition of his continued association with the Institute.

In the program, President CA. Bhaskar Singh Lala presented token of love to the Chief Guest and Guest of Honors. The



program concluded with vote of thanks and closing remarks from CA. Sujan Kumar Kafle, Vice-President, ICAN. The 26th Annual Day celebration was attended by over 300 participants including Members and Stakeholders.

Pokhara Branch Office

Pokhara branch office of the Institute on the occasion of 26th Anniversary organized a blood donation program with the technical support of Nepal Red Cross Society on 31st January 2023 at branch office premises. A total of 23 individual donated blood in the program.

Butwal Branch Office

Butwal branch office of the Institute also organized 26th Anniversary Celebration program on 31st January 2023. The program was Chaired by Coordinator of Butwal Branch Coordination Committee (BCC), CA. Sheo Hari Sharma whereby, CA Rupesh Kumar Maheshwari was the Chief Guest in the program. The program was attended by representatives from Association of Chartered Accountants of Nepal (ACAN) and Auditor's Association of Nepal (AUDAN). A total of 40 participants attended the program.

Dhangadi Branch Office

Dhangadi branch office of the Institute also organized 26th Anniversary Celebration program on 31st January 2023. The program was Chaired by Coordinator of Dhangadi BCC, CA. Chiranjeevi Pathak. The program was attended by total 11 participants including branch office staffs.

Birgunj Branch Office

Birgunj branch office of the Institute organized an interaction program on "Working Capital" on auspicious occasion of celebration of 26th Anniversary on 31st January 2023. The program was Chaired by Coordinator of Birgunj BCC, Ramesh Agrawal whereby, CA Arvind Kumar Khetan, RA. Gajendra Man Singh were the Chief Guest in the program. The program was organized at the branch office where 40 individuals participated.

Nepalgunj Branch Office

Nepalgunj branch office of the Institute also organized 26th Anniversary Celebration program on 31st January 2023. The program was Chaired by Coordinator of Nepalgunj BCC, CA. Bishwo Ram Bhandari whereby, Mr. Bipin Acharya, Chief District Officer of Banke district was the Chief Guest in the program. Likewise, Mr. Suman Kumar Nepal from Nepal Rastra Bank, Nepalgunj Office; Mr. Sudish Kumar Aryal, Chief Tax Officer, Inland Revenue Office Nepalgunj and Mr. Abdul Wahid Mansuri, President, Nepalgunj Chamber of Commerce and Industry were the Special Guest in the program. Moreover, Member of Nepalgunj BCC, RA. Md. Juber Rai and RA. Gokarn Prasad Acharya also addressed the program. The program was attended by altogether 55 participants.

Besides, the Nepalgunj branch office also organized a futsal competition among participants from branch office, ACAN Banke Chapter, AuDAN, Inland Revenue Office and Nepalgunj Chamber of Commerce and Industry located in Nepalganj.

Biratnagar Branch Office

Biratnagar branch office of the Institute also organized 26th Anniversary Celebration program on 31st January 2023. The program was Chaired by Biratnagar BCC, CA. Aswini Bansal whereby, Mr. Nagesh Koirala, Mayor of Biratnagar Metropolitan City was the Chief Guest of the program. Similarly, Mr. Tirtha Raj Bhattarai, Chief District Officer (CDO) of Morang District and Dr. D.B Chhetri, Chief Tax Officer of Inland Revenue Office, Biratnagar were the Guest of Honor in the program. Moreover, Prof. Dr. Biju Kumar Thapaliya, DEAN of Management Faculty of Purbanchal University; RA. Mohan Subedi, Past Council Member and CA. Manoj Adhikari, ACAN Province President also addressed the program. The program was attended by 68 participants.

Besides the above, the Biratnagar branch office also organized a paper presentation competition on three different topics including "Digital Currency- A way forward for Cashless Economy", "Future of Sustainability" and "Accounting and Audit Evidence- The Backbone of Auditor". Twelve students of CAP III level participated in the competition whereby, Ms. Sujata Mahat, Ms. Pranasha Shrestha and Ms. Anuja Roy secured the first, second and third position respectively.

ICAN –Employee Union Day Celebrated

The 8th Foundation Day of ICAN- Employee Union was celebrated on 25th January 2023 at ICAN Premises. Various events were conducted to mark this occasion.

Program organized by the Employee Union

on the occasion of 26th Anniversary of the Institute the Employee Union of the Institute organized a futsal competition, chess competition and a blood donation program. The futsal and chess competition was held among the staffs of the Institute, whereby, blood donation program was held at the premises of the Institute on 20th January 2023 and total 59 individuals including members, students and general public donated blood in the blood donation program.

Staff's Annual Residential Refreshment Program

The Institute organized an annual residential refreshment program for the staffs of head office from 10th to 11th March 2023 at Dhulikhel. Coinciding with the refreshment program a half-day training to staff on "Work Stress Management" was also organized. The training session was facilitated by Mr. Binod Prasad Neupane, Director (Administration).



Glimpse of training session organized during the staff refreshment training at Dhulikhel

Staff training on “Microsoft Office Suite”

The Institute organized seven days training on Microsoft Office Suite training for the Assistant and Senior Assistant Level Staffs from 26th February to 5th March 2023. The training was organized at the Computer Lab of Institute at its head office.

ICAN NOTICE

Notice Regarding Listing by Auditors

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

https://en.ican.org.np/_uploads/_downloads/_files/3/7ed4fdcd812a49b7ca9013d15bf3b419.pdf

Notice Regarding details of Accounting and Auditing Standards and Applicable Carve-out

The Institute has issued notice regarding the effective application date of NFRS, NFRS for SMEs, NAS for MEs, NAS for NPOs / NSAs and applicable carve out on the Standards. The notice can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/85def6092607f52a2ae2cadcc005fd6e.pdf

Revision in Forms Related to Articleship Training

The Institute has issued a notice regarding revision in Annexures 14 to 19 forms related to the articleship and Industrial Training of CAP III level students. The notice can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/95b7a486ee66c54392630ff08d36a115.pdf

Notice Regarding Student GPA Insurance Policy

The Institute has issued a notice regarding the Student GPA Insurance Policy procured by it. The notice can be viewed

from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/dbcaf7df022d90e18d6b1c3b32897b01.pdf

Notice Regarding Submission of Form for Registered Auditor (RA) Upgrading

The Institute has issued notice for all eligible RA Members of ‘C’ and ‘D’ Class for upgrading their Membership either through submission of experience documents or by appearing in the upgrading examination to be held in June 2023. The form was opened from 31st March 2023 till 20th April 2023 by submission of normal fees and till 25th April 2023 by submission of late fees. The notice can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/2674921779fb038adc3777c296d4b5f3.pdf

Link for RA Upgrading Information and Syllabus Details:

https://en.ican.org.np/_uploads/_downloads/_files/3/64263419cf635330e540a9df41664ffb.pdf

Link for application form for RA Upgrading Examination, June 2023 (Upgrading through experience)

https://en.ican.org.np/_uploads/_downloads/_files/3/d472146e481cca1521fdf78b2b1089c7.pdf

Link for application form for RA Upgrading Examination, June 2023:

https://en.ican.org.np/_uploads/_downloads/_files/3/f43ee522f6e9031b2fd393442772edf2.pdf

Notice Regarding Submission of Online Examination Form for Chartered Accountancy (CA) June 2023 Examination

The Institute has issued notice regarding submission of online examination form for CA June 2023 examination for CAP-I, CAP-II and CAP-III levels. The online form was opened from 31st March 2023 till 20th April 2023 by submission of normal fees and till 25th April 2023 by submission of late fees. The notice can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/7130b9daa5c6a8c050cbfa5fad670d4f.pdf



NATIONAL UPDATES

Unified Directives 2079 for A, B and C Class Financial Institutions

Nepal Rastra Bank has issued unified Directives 2079 for A, B and C Class Financial Institutions. The Directives can be viewed from the link below:

<https://www.nrb.org.np/contents/uploads/2023/02/Circular-No-9-ABC-Unified-Directives-2079.pdf>

Amendment In Unified Directives 2079 Issued To A, B And C Class Banks And Financial Institutions

Nepal Rastra Bank has issued Circular regarding amendment made in of Unified Directives 2079 issued to A, B and C Class Banks and Financial Institutions. The Circular can be viewed from the link below:

<https://www.nrb.org.np/contents/uploads/2023/02/Circular-no-10-ABC-MP-for-half-yearly-review.pdf>

Guidelines on Working Capital Financing, 2079 (First Amendment)

Nepal Rastra Bank has issued first amendment on Working Capital Financing, 2079 Guidelines. The Guidelines can be viewed from the link below:

<https://www.nrb.org.np/contents/uploads/2023/01/WC-Guidelines-1st-Amendment-upload.pdf>

Public Consultation on Proposed Draft "Provision for Interest Capitalization during Moratorium Period"

Nepal Rastra Bank has issued public consultation on proposed draft Provision for Interest Capitalization during Moratorium Period. The notice along with the proposed draft can be viewed from the link below:

<https://www.nrb.org.np/contents/uploads/2023/01/notice-11.pdf>

Financial Literacy Framework 2079

Nepal Rastra Bank has issued Financial Literacy Framework, 2079 to all the licensed Bank and Financial Institutions. The Framework can be viewed from the link below:

<https://www.nrb.org.np/contents/uploads/2023/03/Financial-Literacy-Guideline-2022.pdf>

Refinancing Guidelines, 2077 (Fifth Amendment)

Nepal Rastra Bank has issued fifth amendment to Refinancing Guidelines 2077. The Guidelines along with the notice can be viewed from the link below:

<https://www.nrb.org.np/contents/uploads/2023/02/Nepal-Rastra-Bank-Punarkarja-Karyabidhi-2077-Fifth-Amendment.pdf>

Amendment in Taxation Laws

The Inland Revenue Department has issued amended taxation laws incorporating the provision amended by Finance Act 2079. The amended taxation laws can be viewed from the link below:

Income Tax Act, 2058: <https://ird.gov.np/public/pdf/313979372.pdf>

Income Tax Rules, 2058: <https://ird.gov.np/public/pdf/933830445.pdf>

Value Added Tax Act, 2052: <https://ird.gov.np/public/pdf/935499267.pdf>

Value Added Tax Rules, 2053: <https://ird.gov.np/public/pdf/1654722653.pdf>

Excise Duty Act, 2058: <https://ird.gov.np/public/pdf/658810626.pdf>

Excise Duty Rules, 2059: <https://ird.gov.np/public/pdf/521246977.pdf>

Liquor Act, 2031: <https://ird.gov.np/public/pdf/883425571.pdf>

Liquor Rules, 2033: <https://ird.gov.np/public/pdf/388911105.pdf>

Compilation of Cases Decided by Revenue Tribunal, 2078 (Part 4)

The Inland Revenue Department has published compilation of cases decided by Revenue Tribunal, 2078 (Part 4). The Compilation can be viewed from link below:

<https://ird.gov.np/public/pdf/1827653616.pdf>

Directives for Operation of Branch Office by Securities Broker, 2079

Securities Board of Nepal (SEBON) has issued Directives for Operation of Branch Office by Securities Broker, 2079. The Directives can be viewed from the link below:

<https://sebon.gov.np/02/17/3DFPslPxqsW5d4kb7zfAFjIRhP1R7HRK259vYI5N.pdf>

Insurance Agent Examination Directives, 2079

Nepal Insurance Authority has issued Insurance Agent Examination Directives, 2079. The direction can be viewed from the link below:

<https://nib.gov.np/wp-content/uploads/2023/01/Agent-Exam.pdf>

Micro Non-Life Insurer Investment Direction, 2079

Nepal Insurance Authority has issued Micro Non-Life Insurer Investment Direction, 2079. The direction can be viewed from the link below:

<https://nib.gov.np/wp-content/uploads/2022/12/5.->



Micro Life Insurer Investment Direction, 2079

Nepal Insurance Authority has issued Micro Life Insurer Investment Directions, 2079. The Direction can be viewed from the link below:

<https://nib.gov.np/wp-content/uploads/2022/12/4.>

Reinsurance Investment Direction, 2079

Nepal Insurance Authority has issued Reinsurance Investment Direction, 2079. The Direction can be viewed from the link below:

<https://nib.gov.np/wp-content/uploads/2022/12/3.>

Non-Life Insurer Investment Direction, 2079

Nepal Insurance Authority has issued Non-Life Insurer Investment Direction, 2079. The Direction can be viewed from the link below:

<https://nib.gov.np/wp-content/uploads/2022/12/2.->

Life Insurer Investment Direction, 2079

Nepal Insurance Authority has issued Life Insurer Investment Direction, 2079. The Direction can be viewed from the link below:

<https://nib.gov.np/wp-content/uploads/2022/12/1>

INTERNATIONAL UPDATES

IAASB Opens Public Consultation on Less Complex Group Audits

The International Auditing and Assurance Standards Board (IAASB) opened the public consultation for a group audit-specific section of the proposed auditing standard for less complex entities (LCEs). The proposed section, Part 10, Audits of Group Financial Statements, is intended to form part of the proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) when finalized. The exposure draft is open for public comment until May2, 2023.

Further details can be viewed from the link below:

<https://www.iaasb.org/news-events/2023-01/iaasb-opens-public-consultation-less-complex-group-audits>

IAASB Begins Work on Global Standards for ESG Assurance

The International Auditing and Assurance Standards Board (IAASB) has published a public consultation for its 2024-27 proposed strategy and work plan, with it wishing to develop an overarching standard for assurance on sustainability reporting.

Further details can be viewed from the link below:

<https://www.iaasb.org/news-events/2023-01/iaasb-begins-work-global-standards-esg-assurance>

IAASB Digital Technology Market Scan: Robotic Process Automation

The IAASB's Disruptive Technology team has published sixth market scan on "Robotic Process Automation", a technology used for executing repetitive tasks that has applications across the audit process, from data transformation to workpaper creation, as well as potential for forming part of an audited entity's IT environment.

Further details can be viewed from the link below:

<https://www.iaasb.org/news-events/2023-01/iaasb-digital-technology-market-scan-robotic-process-automation>

New Technology Focused FAQ Now Available From IAASB

The Technology Consultation Group of the International Auditing and Assurance Standards Board (IAASB) today released non-authoritative support material to help address certain frequently asked questions about investigating exceptions and the concept of performance materiality when performing audit procedures using automated tools & techniques (ATT). Further details can be viewed from the link below:

<https://www.iaasb.org/news-events/2023-02/new-technology-focused-faq-now-available-iaasb>

IAASB Digital Technology Market Scan: Digital Assets

The International Auditing and Assurance Standards Board (IAASB) has issued the seventh Market Scan from the IAASB's Disruptive Technology team. Market Scans cover exciting trends, including new developments, corporate and start-up innovation, noteworthy investments and what it all might mean for the IAASB. Further details can be viewed from the link below:

<https://www.iaasb.org/news-events/2023-03/iaasb-digital-technology-market-scan-digital-assets>

IESBA Plans Global Roundtables on Sustainability Project

The International Ethics Standards Board for Accountants (IESBA) will hold a series of four global roundtables to obtain stakeholder input to help shape the development of new ethics and independence standards for sustainability reporting and assurance.

Further details can be viewed from the link below:

<https://www.ethicsboard.org/news-events/2023-01/iesba-plans-global-roundtables-sustainability-project>

Joint Statement From The IESBA And IAASB Chairs On The ISSB's Progress Toward Inaugural International Sustainability Standards

The International Ethics Standards Board for Accountants and the International Auditing and Assurance Standards



Board applaud the recent announcement by the International Sustainability Standards Board (ISSB) that final decisions for all technical content related to ISSB's inaugural sustainability standards have been made and that the ISSB is entering the final stages of the standards development process ahead of an expected issuance at the end of Q2 2023. Further details can be viewed from the link below:

<https://www.iaasb.org/news-events/2023-02/joint-statement-iesba-and-iaasb-chairs-issb-s-progress-toward-inaugural-international-sustainability-0>

Upcoming Event - Three IESBA Webinars Explaining The Proposed Revisions To The Code Addressing Tax Planning And Related Services.

The International Ethics Standards Board for Accountants (IESBA) will hold three webinars on the upcoming Tax Planning and Related Services Exposure Draft (ED), which is due to be released for public consultation in mid-February 2023. Further details can be viewed from the link below:

<https://www.ethicsboard.org/news-events/2023-02/upcoming-event-three-iesba-webinars-explaining-proposed-revisions-code-addressing-tax-planning-and>

IESBA And IAASB Highlight Commitment to Deliver On Recommendations in New IOSCO Report on a Global Assurance Framework for Sustainability-Related Corporate Reporting

The International Ethics Standards Board for Accountants (IESBA) and International Auditing and Assurance Standards Board (IAASB) has released the report by the International Organization of Securities Commissions (IOSCO) on developing a global assurance framework for sustainability-related corporate reporting. The IOSCO report reflects extensive research and feedback from key stakeholders. The report calls for timely development of ethics and assurance standards for sustainability reporting by the IESBA and the IAASB, respectively. Further details can be viewed from the link below:

<https://www.iaasb.org/news-events/2023-03/iesba-and-iaasb-highlight-commitment-deliver-recommendations-new-iosco-report-global-assurance-0>

IESBA Staff Releases Q&As to Spotlight Key Changes to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code

The Staff of the International Ethics Standards Board for Accountants (IESBA) has released a questions and answers (Q&As) publication on the revisions to the definitions of listed entity and public interest entity (PIE) in the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code). The development of the Q&As has been informed by the extensive discussions

and consultations with a wide range of stakeholder groups and the IESBA's own deliberations during the development and finalization of the PIE revisions. Further details can be viewed from the link below:

<https://www.ethicsboard.org/news-events/2023-03/iesba-staff-releases-qas-spotlight-key-changes-definitions-listed-entity-and-public-interest-entity>

Global Ethics Board Raises Expectations of Ethical Conduct In Tax Planning

The International Ethics Standards Board for Accountants (IESBA) released for public comment the Exposure Draft Proposed Revisions to the Code Addressing Tax Planning and Related Services. Further details can be viewed from the link below:

<https://www.ethicsboard.org/news-events/2023-02/global-ethics-board-raises-expectations-ethical-conduct-tax-planning>

IESBA Strengthens and Clarifies Independence Requirements for Group Audits

The International Ethics Standards Board for Accountants (IESBA) released final revisions to the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) to address holistically the various independence considerations in an audit of group financial statements. Further details can be viewed from the link below:

[IESBA Strengthens and Clarifies Independence Requirements for Group Audits | IFAC \(ethicsboard.org\)](https://www.ethicsboard.org/news-events/2023-02/global-ethics-board-raises-expectations-ethical-conduct-tax-planning)

IPSASB Seeks Comments on Concessionary Leases Proposals for the Public Sector

The International Public Sector Accounting Standards Board (IPSASB) has released Exposure Draft (ED) 84, Concessionary Leases and Right-of-Use Assets In-kind (Amendments to IPSAS 43 and IPSAS 23) for comment. Comments are requested by May 16, 2023.

Further details can be viewed from the link below:

<https://www.ipsasb.org/news-events/2023-01/ipsasb-seeks-comments-concessionary-leases-proposals-public-sector>

IPSASB, IFAC & Accountancy Europe Host Interactive Discussion and Reception on Public Sector Sustainability Reporting

IPSASB, IFAC and Accountancy Europe will host an interactive discussion around key ideas the IPSASB is exploring related to the development of sustainability standards and the resources necessary to deliver the urgently needed public sector reporting guidance. Equipping the Public Sector for Sustainability Action: Advancing transparency, comparability, and accountability through public sector sustainability reporting will be held in Brussels, Belgium on April 4, 2023,



from 4:00pm-6:00pm followed by a networking reception until 7:00pm. Further details can be viewed from the link below:

<https://www.ifac.org/news-events/2023-02/ipsasb-ifac-accountancy-europe-host-interactive-discussion-reception-public-sector-sustainability>

ISSB Ramps Up Activities To Support Global Implementation Ahead of Issuing Inaugural Standards At End Of Q2 2023

The International Sustainability Standards Board (ISSB), at its meeting held on 16 February 2023 in Montreal, has taken its final decisions on all the technical content of its initial Standards, informed by feedback it received during extensive consultation last year. With the substance of the Standards now fully agreed, the ISSB unanimously approved entering the thorough drafting and formal 'balloting' process of the Standards, ahead of their expected issuance at the end of Q2 2023. Further details can be viewed from the link below:

<https://www.ifrs.org/news-and-events/news/2023/02/issb-ramps-up-activities-to-support-global-implementation-ahead-of-issuing-inaugural-standards-end-q2-2023/>

Exposure Draft and comment letters: International Tax Reform—Pillar Two Model Rules

The International Accounting Standards Board (IASB) has proposed amendments to IAS 12 Income Taxes. The proposed amendments aim to provide temporary relief from accounting for deferred taxes arising from the imminent implementation of the Pillar Two model rules published by the Organization for Economic Co-operation and Development (OECD). The comments letter period is open until 10 March 2023. And Exposure Draft can be accessed from below link:

<https://www.ifrs.org/content/dam/ifrs/project/international-tax-reform-pillar-two-model-rules/exposure-draft-and-comment-letters/iasb-ed-2023-international-tax-reform-pillar-two.pdf>

Further details can be viewed from the link below:

<https://www.ifrs.org/projects/work-plan/international-tax-reform-pillar-two-model-rules/exposure-draft-and-comment-letters/#consultation>

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

The International Accounting Standards Board (IASB) has published proposals to update the IFRS for SMEs Accounting Standard—to reflect improvements that have been made in full IFRS Accounting Standards, while keeping the Standard simple for small and medium-sized entities. The comment letter period is open until 7 March 2023. And Exposure Draft can be accessed from below link:

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

Further details can be viewed from the link below:

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

Exposure Draft and comment letters: Amendments to the Classification and Measurement of Financial Instruments

The International Accounting Standards Board (IASB) has published proposals on amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures in response to feedback received as part of the Post-implementation Review of IFRS 9—Classification and Measurement. The Exposure Draft is open for comment until 19th July 2023. And Exposure Draft can be accessed from below link:

<https://www.ifrs.org/content/dam/ifrs/project/amendments-to-the-classification-and-measurement-of-financial-instruments/iasb-ed-2023-2-amendments-classification-and-measurement-financial-instruments.pdf>

Further details can be viewed from the link below:

<https://www.ifrs.org/projects/work-plan/amendments-to-the-classification-and-measurement-of-financial-instruments/exposure-draft-and-comment-letters/#consultation>



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



च. नं. ११७६/०७३/०
Ref. No.

मिति: २०७९/१२/२६

सूचना!!

कम्पनी ऐनमा भएको जरिवानाको सम्बन्धमा लेखापरीक्षकले अपनाउनुपर्ने सजगता सम्बन्धी सूचना ।

कम्पनी रजिष्ट्रारको कार्यालयद्वारा यस संस्थालाई प्रेषित मिति २०७९/१२/१५ च.नं. १९१० को पत्रमा कम्पनी ऐनको दफा ८१ (२) मा कम्पनीले कम्पनी रजिष्ट्रारको कार्यालयलाई तोकिएको समयमा विवरण, सूचना, जानकारी वा जवाफ उपलब्ध नगराएको अवस्थामा आकर्षित भएको जरिवाना कम्पनीको सञ्चालक वा पदाधिकारीले भुक्तानी गर्नुपर्ने व्यवस्था रहेको भएतापनि सो दायित्व कम्पनीको तर्फबाट व्यहोरिएको हुनसक्ने देखिएको व्यहोरा उल्लेख गरेको हुँदा लेखापरीक्षणको क्रममा कम्पनीबाट हुन सक्ने यस्ता कार्यहरूप्रति सजग भई प्रचलित कानूनमा रहेको व्यवस्थाको परिपालना भए नभएको सम्बन्धमा नेपाल लेखापरीक्षणमान बमोजिम यथोचित सम्बोधन गर्नुहुन यस संस्थाका सदस्यहरूलाई सूचित गरिन्छ ।

संलग्न:

१. कम्पनी रजिष्ट्रारको कार्यालयको पत्र

Sajan S. Saha

सिए. संजय कुमार सिन्हा
कार्यकारी निर्देशक

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Birgunj : Tel: 977-051-522660, E-mail: icanbrj@ican.org.np | Pokhara: Tel: -977-061-587679, E-mail: icanpkr@ican.org.np
Nepalgunj: Tel: 977-081-530050, E-mail: icannpj@ican.org.np | Dhangadhi : 977-091-527493, Email: icanhgd@ican.org.np



नेपाल सरकार
उद्योग, वाणिज्य तथा आपूर्ति मन्त्रालय
कम्पनी रजिष्ट्रारको कार्यालय
(.....शाखा)

त्रिपुरेश्वर काठमाडौं, नेपाल ।

पत्र संख्या :- २०७४/८०

चलानी नम्बर :- १६१०

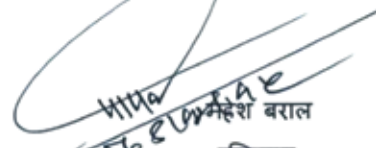
मिति: २०७९/१२/१५

विषय: कम्पनी ऐन बमोजिम जरिवाना गणना गर्ने सम्बन्धमा लेखापरीक्षण गर्ने अनुमति प्राप्त सदस्यहरूलाई जानकारी गराइदिने सम्बन्धमा ।

श्री नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्था,
सातदोवाटो, ललितपुर ।

उपरोक्त विषयमा, कम्पनी ऐन, २०६३ ले सो ऐन बमोजिम स्थापित हुने कम्पनीहरूलाई कानुनी व्यक्ति (Legal Person) को मान्यता दिएको र कम्पनीलाई आफ्नो उद्देश्य प्राप्तिको लागि प्रचलित कानूनको रीत पुर्याई पेशा, व्यवसाय वा उद्यम गर्ने स्वतन्त्रता दिएको कुरा विदीतै छ । कम्पनिको उद्देश्य प्राप्तिका लागि कम्पनीको तर्फबाट संचालन गरिने कृयाकलापको कारणले सिर्जना हुने दायित्वको विषयमा प्रचलित कानूनमा कम्पनी उत्तरदायी हुने व्यवस्था रहेको भएतापनि कम्पनी स्वयंको संचालन तथा व्यवस्थापनको विषयमा कम्पनीका संचालक तथा पदाधिकारी नै उत्तरदायी रहने व्यवस्था उक्त ऐनले गरेको छ ।

कम्पनी ऐनको दफा ८१(२) को व्यवस्था बमोजिम कम्पनीले कार्यालयलाई तोकिएको समयमा विवरण, सूचना, जानकारी वा जवाफ उपलब्ध नगराएको अवस्थामा जरिवाना आकर्षित हुने र उक्त जरिवाना भुक्तानी गर्ने दायित्व कम्पनीका संचालक वा त्यसका पदाधिकारीमा रहने व्यवस्था गरेको छ । कार्य संचालनका क्रममा भने यस्तो जरिवाना कम्पनीको संचालक वा पदाधिकारीले वहन नगरी कम्पनीको तर्फबाट व्यहोरिएको हुनसक्ने देखिएको छ । ऐनको उपरोक्त व्यवस्था विपरित कम्पनीले जरिवाना रकम व्यहोरेको हुन सक्ने भएको हुँदा लेखापरीक्षकहरू समेत यस विषय प्रति चनाखो हुन आवश्यक देखिएको छ । अतः लेखापरीक्षकहरूले लेखापरीक्षणको क्रममा यस्तो जरिवाना रकम कम्पनीले व्यहोरेको पाएमा प्रचलित कानून तथा नेपाल लेखापरीक्षणमान बमोजिम यथोचित सम्बोधन गर्न आवश्यक भएको व्यहोरा प्रति त्यस संस्थाबाट अनुमति प्राप्त सम्पूर्ण लेखापरीक्षकहरूलाई सजग गराइदिनुहुन अनुरोध गरिएको छ ।


महेश बराल
रजिष्ट्रार

बोधार्थ: श्री सूचना प्रविधि शाखा, कम्पनी रजिष्ट्रारको कार्यालय,
त्रिपुरेश्वर: सम्बन्धित सरोकारवालाहरूको जानकारीकोलागि यो पत्र कार्यालयको वेब पेजमा अपलोड गर्नु हुन ।



Name and Membership Number of New Chartered Accountants Members

The Institute registered Chartered Accountants pursuant to Section 16(2) of Nepal Chartered Accountants Act, 1997. During the period of January 2023 to March 2023, the newly enrolled Chartered Accountants are as follows:

S.No	Membership Number	Name of Members
1	CA-1972	AASHISH RAI
2	CA-1973	SUNIL ACHARYA
3	CA-1974	NIRAJ GHIMIRE
4	CA-1975	MANISH BASNET
5	CA-1976	BISHNU PRASAD TIMILSINA
6	CA-1977	SITARAM SAPKOTA
7	CA-1978	BIKASH K.C SAPKOTA
8	CA-1979	SUBASH PRASAD GYEWALI
9	CA-1980	BIMAL DHUNGEL
10	CA-1981	DHANPATI PANDEY
11	CA-1982	ASHISH LAMSAL
12	CA-1983	ROSHAN KUMAR GUPTA
13	CA-1984	BIPIN SHRESTHA
14	CA-1985	AARYA PATHAK
15	CA-1986	ASHISH SUNUWAR
16	CA-1987	SANDHYA MAHARJAN
17	CA-1988	DEEPAK SHARMA
18	CA-1989	AMRIT PANT
19	CA-1990	BIKASH BHATTARAI
20	CA-1991	BINOD BANJADE
21	CA-1992	MOHAN KHATRI
22	CA-1993	ANANTA KAFLE
23	CA-1994	SHAILENDRA BHUSAL
24	CA-1995	SITARAM TAMANG
25	CA-1996	KIRAN K C
26	CA-1997	KAMAL PANTHI
27	CA-1998	GANESH LAL BABU THAKUR
28	CA-1999	MILAN KUNWAR
29	CA-2000	MOONLIGHT SHRESTHA
30	CA-2001	KUMAR SUBEDI
31	CA-2002	SUJAN MAHARJAN
32	CA-2003	ANANTA BIJAYA DAULIYA

33	CA-2004	PRAVIN DEVKOTA
34	CA-2005	RISHAB AGRAWAL
35	CA-2006	ANISH ADHIKARI
36	CA-2007	SUMAN UPRETY
37	CA-2008	AASHISH LAMICHHANE
38	CA-2009	BIKASH ACHARYA
39	CA-2010	SANCHITA NEUPANE
40	CA-2011	BIJAYA TIWARI
41	CA-2012	SANJEEV BHAKTA ACHARYA
42	CA-2013	YUBARAJ UPRETI
43	CA-2014	PRAJWOL SAYAMI
44	CA-2015	SITAL CHAND
45	CA-2016	BISHAL KANDEL
46	CA-2017	UMESH PRASAD BHATT
47	CA-2018	UMESH BHATTARAI
48	CA-2019	ACHYUT HUMAGAIN
49	CA-2020	ROJAN SHRESTHA
50	CA-2021	SAUGAT GAUTAM
51	CA-2022	SUBINA BHATTA
52	CA-2023	SUJAN BHATTARAI
53	CA-2024	SAUGAT KARKI
54	CA-2025	KABITA WAGLEY
55	CA-2026	SURAJ JOSHI
56	CA-2027	AAKASH GUPTA
57	CA-2028	BIJAYA SHAH
58	CA-2029	SAMMAN DEVKOTA
59	CA-2030	SWOPNIL PANDEY
60	CA-2031	SUMAN KHADKA
61	CA-2032	MILAN RUMBA
62	CA-2033	RAJAN SAPKOTA
63	CA-2034	SUJAN TIMALSINA
64	CA-2035	LUJALA MAHARJAN



Effective date for implementation of NFRS, NFRS for SMEs, NAS for MEs, NAS for NPOs and NSAs

Background

ICAN has been continuously working on improving quality of accounting and developing credibility of accounting profession in the society. In line with achieving the objective and developing consistency in the accounting profession, ICAN has pronounced various standards to be implemented for accounting and auditing. The date of effectiveness of such standards are listed below under 3 sections:

Section 1

Nepal Financial Reporting Standards (NFRS 2018)

S.No.	NFRS	Name	Effective Date	Effective FY
1	NFRS 1	First-Time Adoption of Nepal Financial Reporting Standards	July 16, 2020	2077/78
2	NFRS 2	Share based Payment		
3	NFRS 3	Business Combination		
4	NFRS 4	Insurance Contracts		
5	NFRS 5	Non-Current Assets Held for Sale & Discontinued Operation		
6	NFRS 6	Exploration for and Evaluation of Mineral Resources		
7	NFRS 7	Financial Instruments: Disclosure		
8	NFRS 8	Operating Segments		
9	NFRS 9	Financial Instruments	July 16, 2021	2078/79
10	NFRS 10	Consolidated Financial Statements	July 16, 2020	2077/78
11	NFRS 11	Joint Arrangements		
12	NFRS 12	Disclosure of Interests in other Entities		
13	NFRS 13	Fair Value Measurements		
14	NFRS 14	Regulatory Deferral Accounts		
15	NFRS 15	Revenue from Contracts with Customers	July 16, 2021	2078/79
16	NFRS 16	Leases	July 16, 2024	2081/82
17	NFRS 17	Insurance Contracts		
18	NAS 1	Presentation of Financial Statements	July 16, 2020	2077/78
19	NAS 2	Accounting Policies, Changes in Accounting Estimated and		
20	NAS 7	Statements of Cash Flow		
21	NAS 8	Accounting Policies, Changes in Accounting Estimates and Errors		
22	NAS 10	Events after Reporting Period		
23	NAS 12	Income Tax		
24	NAS 16	Property, Plant and Equipment		
25	NAS 19	Employee Benefits		
26	NAS 20	Accounting for Government Grants and Disclosure of Government Assistance		
27	NAS 21	The Effects of Changes in Foreign Exchange Rates		
28	NAS 23	Borrowing Cost		
29	NAS 24	Related Party Disclosures		
30	NAS 26	Accounting and Reporting by Retirement Benefits Plan		
31	NAS 27	Separate Financial Statements		
32	NAS 28	Investment in Associates and Joint Ventures		
33	NAS 29	Financial Reporting in Hyperinflationary Economics	July 16, 2021	2078/79
34	NAS 32	Financial Instruments: Presentation	July 16, 2020	2077/78
35	NAS 33	Earnings Per share		
36	NAS 34	Interim Financial Reporting		
37	NAS 36	Impairment of Assets		
38	NAS 37	Provision, Contingent Liabilities and Contingent Assets		
39	NAS 38	Intangible Assets		
40	NAS 39	Financial Instruments: Recognition and Measurement		
41	NAS 40	Investment Property		
42	NAS 41	Agriculture		



Section 2

NFRS for SMEs, NAS for MEs and NAS for NPOs

S.No.	Applicable Standards	Original Effective Date	Revised Effective Date	Revised Effective F.Y.
1	NFRS for SMEs	July 16, 2021	July 17, 2023	2080/81
2	NAS for MEs			
3	NAS for NPOs			

Applicability of the above standards

For financial reporting purpose the entities can be classified as

1. Those having public accountability: NFRS shall be applicable
2. Those NOT having public accountability: NFRS for SME shall be applicable
3. Those NOT having public accountability other than SMES:

Micro Entities- NAS for MEs

NPOs- NAS for NPOs

1. Entities having Public Accountability

- a. Whose debt or equity instruments are traded in public market or is in process of issuing such instruments (except listed Micro Finance not having economic significance)
- b. It holds assets in a fiduciary capacity for broad group of outsiders as one of its primary businesses:
 - i. banks, credit unions, insurance companies, security dealers and mutual funds, investment banks (except Micro Finance and Cooperatives not having economic significance)
 - ii. Pension and retirement funds
- c. Government Business Enterprises (GBEs), Public entities established under special acts not preparing financial statements under NPSAS
- d. Entities having economic significance
 - i. Borrowings from banks or financial institutions or public funds or from entities holding assets in fiduciary capacity of NRs 500 million or more;
 - ii. Statement of Financial Position (Balance Sheet) total (without off-setting current liabilities with current assets) of NRS 1000 million or more;
 - iii. Employing more than 300 employees including workers in an average or
 - iv. Annual Turnover (Revenue of Entity) of NRS

1000 million or more;

- v. Holding assets in fiduciary capacity in excess of NRs 500 million (includes security brokers handling demat account, micro finance and cooperatives),

An entity which attains at least 1 of these limits in 2 consecutive years shall be deemed to be an entity having economic significance to qualify as an entity with Public Accountability and once qualified, must fall below all of these limits for 2 consecutive years to cease to qualify.

2. Small and Medium Sized Entities

Small and Medium Sized Entities are those entities that:

- a. Do not have public accountability; and
- b. Publish general purpose financial statements for external users

3. Micro Entities:

Micro entities are those entities with the following thresholds (all):

- vi. Annual Turnover (Revenue of Entity) of NRs 100 million or less;
- vii. Borrowings from banks or financial institutions or public funds or from entities holding assets in fiduciary capacity of NRS 50 million or less;
- viii. Statement of Financial Position (Balance Sheet) total of NRs 100 million (without off-setting current liabilities in current assets) or less; and
- ix. Holding assets in fiduciary capacity of NRS 50 million or less (includes security brokers handling demat account, micro finance and cooperatives).

An entity must meet all of these limits in 2 consecutive years to qualify as a micro- entity and once qualified, must exceed at least 1 of these limits for 2 consecutive years to cease to qualify.

**Section 3****Nepal Standards on Auditing (NSA)**

S.No.	NSA No.	Standards	Effective Date
NEPAL STANDARDS ON QUALITY CONTROL(NSQCs)			
1	NSQC 1	Nepal Standard on Quality Control (NSQC) 1 : Quality Control For Firms that Perform Audits and Reviews Of Financial Statements, and Other Assurance and Related Services Engagements	July 17, 2019
Audits of Historical Financial Information			
200-299 GENERAL PRINCIPLES AND RESPONSIBILITIES			
1	NSA 200	Overall Objective of the Independent Auditor and the conduct of an Audit in Accordance with Nepal Standards on Auditing	July 17, 2019
2	NSA 210	Quality Control for an Audits of Financial Statements	
3	NSA 220	Audit Documentation	
4	NSA 230	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	
5	NSA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	
6	NSA 250	Consideration of Laws and Regulations in an Audit of Financial Statements	
7	NSA 260 (Revised)	Communication with Those Charged with Governance	
8	NSA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	
300-499 RISK ASSESSMENT AND RESPONSE TO ASSESSED RISKS			
9	NSA 300	Planning an Audit of financial statements	July 17, 2019
10	NSA 315(Revised)	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment	
11	NSA 320	Materiality in Planning and Performing an Audit	
12	NSA 330	The Auditor's Responses to Assessed Risks	
13	NSA 402	Audit Considerations Relating to an Entity Using a Service Organization	
14	NSA 450	Evaluation of Misstatements Identified during the Audit	
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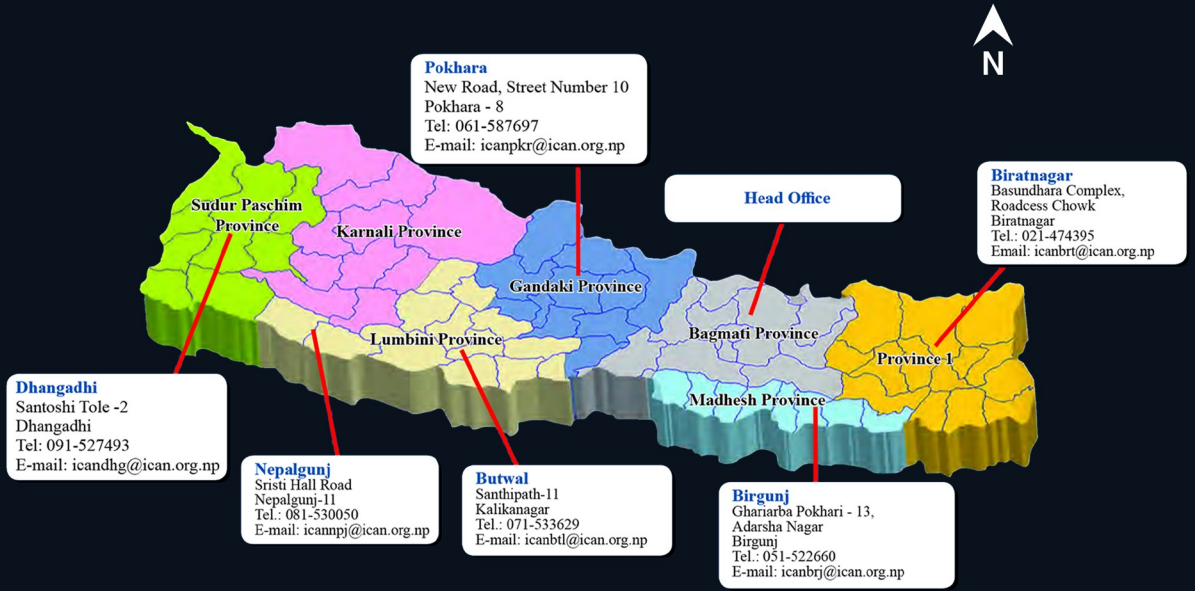
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