
IMPLEMENTATION JOURNEY OF NEPAL PUBLIC SECTOR ACCOUNTING STANDARDS IN NEPAL

**CHALLENGES, LESSONS LEARNED,
AND FUTURE PERSPECTIVES**

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**Implementation Journey of Nepal Public Sector Accounting Standards
in Nepal: Challenges, Lessons Learned, and Future Perspectives**

A Study Paper

by

Public Finance and NPSAS Committee

The Institute of Chartered Accountants of Nepal

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Preface

Nepal's Government accounting system has undergone major reforms in past few years. It has transitioned from a manual accounting to a full fledged IT system based accounting. Apart from the software system the Government has undertaken various accounting reforms, for example, the implementation of Accounting Standard is a notable one. However, there are increasing concern amongst the civil servants and professionals about the adequacy and effectiveness of the accounting standard implementation and its compliance. This study aims to answer those question demonstrating the overall implementation status, its challenges and way forward for effective implementation and modernisation of the accounting system across all three spheres of Governments of Nepal. The initiative for preparation of this Study Report was taken by the Public Finance and NPSAS Committee formed by the Council of ICAN.

We are delighted to present this collaborative work led by Public Finance and NPSAS Committee, shaped by the dedicated efforts of the study team members, CA. Amrit Shrestha, Mr. Shiva Prasad Acharya, and Mr. Shekhar Sitaula. The valuable input provided by Dr. Pawan Adhikari during the review process has greatly enhanced the quality of this publication. Through meticulous research and analysis, we aim to provide readers with valuable insights and knowledge. We express our gratitude to all those who have supported and contributed to this endeavour.

Abbreviations

ACCA	:	Association of Chartered Certified Accountants
ASB	:	Accounting Standards Board
BE	:	Budgetary Entity
BFI	:	Bank and Financial Institutions
CGAS	:	Computerized Government Accounting Software
CIPFA	:	Chartered Institute of Public Finance and Accountancy
DTCO	:	District Treasury Controller Office
EB	:	Extra Budgetary Entity
FCGO	:	Financial Comptroller General office
FSDA	:	Financial Statement Discussion and Analysis
GBE	:	Government Business Enterprises
GFS	:	Government Finance Statistics
GoN	:	Government of Nepal
GPFR	:	General Purpose Financial Reporting
GPFS	:	General Purpose Financial Statement
IASB	:	International Accounting Standards Board
ICAN	:	Institute of Chartered Accountants of Nepal
ICGFM	:	International consortium of government finance management
IFAC	:	International Federation of Accountants
IFMIS	:	Integrated Financial Management Information System
IFRS	:	International Financial Reporting Standards
IPSASB	:	International Public Sector Accounting Standards Board
LDTA	:	Local Development Training Authority
MOEAP	:	Ministry of Economic Affairs and Planning
MoF	:	Ministry of Finance
MOFAGA	:	Ministry of Federal Affairs and General Administration
NASC	:	Nepal Administrative Staff College
NPSAS	:	Nepal Public Sector Accounting Standards
NRB	:	Nepal Rastra Bank
OAG	:	Office of Auditor General
PCGG	:	Provincial Center for Good Governance
PEFA	:	Public Expenditure and Financial Accountability
PFM	:	Public Financial Management
PFMTC	:	Public Financial Management Training Center
PSC	:	Public Service Commission
PTCO	:	Provincial Treasury Controller Office
RPG	:	Recommended Practice Guideline
SuTRA	:	Subnational Treasury Regulatory Application
TSA	:	Treasury Single Accounts
TU	:	Tribhuvan University

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1. Background

1.1 Introduction

Tracing the modern history of Nepalese Government Accounting, reforms undertaken in the last 6 decades are notable. The administrative and socio-political emanated 2007 B.S. having terminated the century long dictatorship by Rana rulers. The interim constitution, promulgated in 2008 B.S., had included for the first time the provisions for the budget system and a financial comptroller. With the starting of five-year development planning in 2013 B.S., concerns were raised about connecting the budget with the accounting system (Adhikari, 2005). An accounting reform programme was formally announced in 2018 B.S. under the Chairmanship of the Auditor General and consisting of the Under-Secretary of the Foreign-Aid Department of the Ministry of Finance, an accounting expert of the UN, and the public administration advisor of the USAID Nepal. Having spent six months searching for the appropriate accounting system, the project team submitted its report to the Finance Secretary and the Auditor General recommending a new accounting system (NAS) (Lohani, 1964; Adhikari and Mellemlvik, 2009).

The NAS was based on expenditure accounting, thereby strictly maintaining the limitations set by the budget and generating adequate data for the preparation of the forthcoming budgets. A key feature of this system was the use of the cash principle and the double-entry book keeping technique for expenditure accounting (Donnalley, 1967; Gould, 1969; Chatterjee, 1967). An agreement signed between the Office of Auditor General and USAID resulted in the enforcement of the NAS in different phases, after providing training to government accountants. By 2025 B.S., the NAS was installed in almost all government agencies across the country. Given that the NAS was extensively focused on expenditure management, the next decades of government accounting reforms were more focused on extending the scope of the NAS by incorporating provisions for the accounting of revenues, deposits, construction contracts, and foreign projects and aids. These reforms were further supplemented by other budgetary and auditing reforms including the medium-term expenditure framework and performance auditing (World Bank, 2002).

With the advent of federalism, the need for further changes in government accounting system was felt so as to realise the people's aspiration for good governance and sound accountability. Notable reforms undertaken in government accounting included the revision of OAG accounting formats, development of the charts of accounts and software system and implementation of Nepal Public Sector Accounting Standard (NPSAS), which corresponds to the Cash Basis International Public Sector Accounting Standard. The implementation of NPSAS started after the Council of Ministers approved its enforcement across public entities on 30th Bhadra 2066 B.S. Initially, two ministries were selected for piloting based on their budget allocation - "Ministry of Physical Planning, Works and Transport Management" and "Ministry of Women, Child and Social Welfare", which started from FY 2071/72 B.S (2013 A.D.). From the fiscal year 2074/2075 B.S., the NPSAS implementation was rolled out across provincial and local governments. The OAG has been providing audit opinions to central level agencies, which develop consolidated financial statements following the requirements laid down in NPSAS. However, given the limited

involvement of professional experts, both the preparation of NPSAS-based financial statements and their consolidation have proved to be a challenging task.

1.2 Methodology

This report is prepared through the analysis of the financial statements of selected government agencies of all 3 tiers and in-person consultation with stakeholders who are either directly or indirectly related to NPSAS implementation. Our stakeholders represent a variety of government agencies, including the OAG, the FCGO and the ICAN. Furthermore, the desk study has been conducted reviewing the published reports by the government and international organizations, as well as the literature covering the implementation of IPSASs in other developing countries.

1.3 Practical Implication

This study has been conducted with a view to providing a sound basis for the effective implementation of NPSAS across government entities at different tiers. The study will also provide valuable suggestions to the professional accounting bodies in the country, the ICAN and the ASB, to increase their participation in the implementation of standards directly and indirectly through facilitating training and capacity development programmes to government accountants.

1.4 An Overview of IPSASs implementation in developing countries and Nepal

The IFAC/CIPFA has published their second status report in 2021 A.D. showing the progress made in the adoption of accrual accounting and IPSASs across 165 jurisdictions (IFAC/CIPFA, 2021). Claims have been made that 30% of the jurisdictions included in the survey reported on accrual in 2020 A.D. It is also claimed that almost 40% of the survey jurisdictions have adopted some elements of accrual in their financial statements, whereas the cash reporting has continued in practice within 30% of governments. In terms of the adoption of IPSASs, the report states that 40 jurisdictions have adopted IPSASs with no modification, 16 have modified IPSASs to adjust them in their local contexts, 37 have followed national standards with reference to IPSASs, 3 have adopted national standards based on IFRSs and 69 have continued with their national standards. However, the report has provided a promising forecast in terms of the adoption of accrual and IPSASs in the next few years. For instance, it is anticipated that a total of 120 jurisdictions (73%) would be reporting on accrual by 2030 A.D. More recently, to provide detailed guidance to facilitate a smooth transition towards accrual, the IFAC has in a partnership with the CIPFA, and other international stakeholders started developing a new interactive tool 'Pathways to Accrual'. Latter which is built on Study 14 is expected to further motivate the jurisdictions to move towards accrual by:

- Promoting the benefits of accrual accounting and reporting within the wider contexts of public financial management,
- Providing a detailed guidance on the interpretation of accrual-basis financial statements
- Offering discussions on whether IPSAS should be adopted directly or indirectly.

In general, mentions are made that this tool will offer jurisdictions with the possibility to sketch their own path towards accrual accounting taking into account their own unique contextual challenges. At the moment, four steps are outlined for jurisdictions wishing to make a transition towards accrual. The first step concerns undertaking a decision to adopt and implement IPSAS; an analysis of the current reporting framework is considered important in the decision-making process. This is followed by the gap analysis and the formulation of the implementation plan. In this regard, Study 14 is considered to be a valuable resource. This leads to the third step which includes setting out activities for implementation such as regulatory changes, installing IT systems and launching capacity development programmes. At the next state IPSAS 33, first time adoption of accrual basis IPSASs, offers certain transitional exemptions to jurisdictions in terms of recognising specified assets and liabilities. This will enable the jurisdictions to develop a robust model for assets and liabilities recognition during the first three years of their transition period.

The benefits of accrual and IPSASs have also been debated extensively within the academic community. For instance, a positive relationship between corruption mitigation and IPSASs adoption is illustrated in the work by Tawiah (2021). However, the majority of academic work has pointed out the importance of considering the local contexts and made a claim that unintended consequences are inevitable if the reforms are imposed assuming one-size-fits all approaches work across countries (Polzer et al., 2021). Different forms of unintended consequences have been experienced in different countries ranging from the reversal to cash accounting to ceremonial adoption of accruals and from the rise of professional to the escalation of social and political crisis including corruption and political patronage (Adhikari and Jayasinghe, 2022). In their literature review of IPSASs adoption by emerging and low-income countries, Polzer et al. (2021) state that almost 70 % of IPSASs reforms undertaken by these countries have either failed to reach the confirmation stage or their success has been manipulated. In another study, Polzer et al. (2019) identify the issues which have provided impediments in the adoption IPSASs in South Asia stating: *'...technical ambiguities inherited into these standards, the intervention of professional accountants and a lack of education and training of public administrators have hampered the implementation process, making it merely a legitimacy seeking activity'* (p. 121).

Few studies have been conducted in the context of Nepal discussing the institutional factors and other challenges that the country has faced in the process of developing and implementing international standards. For instance, in their comparative study of IPSAS adoption in South Asia, Adhikari and Mellembvik (2010) have showed that all three institutional pressures – coercive, mimetic, and normative- were implicated in Nepal's transition towards the Nepalese variant (NPSAS) of the Cash Basis IPSAS. The authors state that while some South Asian countries were closer to complying some of the requirements of the Cash Basis IPSAS, that was not the case in Nepal. The financial statements prepared by the Government of Nepal were largely inconsistent with the requirements of the Cash Basis IPSAS in major aspects and one of the recommendations put forward to the country, therefore, emphasized the need for learning lessons from the Sri Lankan experience in adopting the international cash standards (see e.g., World Bank, 2007, 2010). In their comparative study of government accounting in Nepal and Russia, Timoshenko and Adhikari (2010) have clarified the accounting reforms were relatively less prioritized in Nepal as compared to budgetary reforms and recommendations provided by international

organisations were general, acknowledging the importance of adopting accrual accounting and international standards but without any guidance how reforms could be advanced. In another study of accrual accounting in Nepal, Adhikari and Mellemvik (2011) mentioned that despite being an early adopter of accrual accounting in the developing world context, attempts towards accrual accounting consistency failed in Nepal. The Cash Basis IPSAS was, therefore, envisaged as a more suitable reform for the short run, which could potentially ease the longer-term transition towards accruals having achieved necessary capacity and resources. Adhikari et al. (2012) studied government accounting reforms in Nepal, Russia and Norway and concluded that the declared government accounting reforms in Nepal, mainly the adoption of international standards and a transition towards accruals were mostly driven by international organisations' rather than emanating from internal demands. Adhikari et al. (2013) compared government accounting between Nepal and Sri Lanka and found that the education and capacity development of government accountants and the professionalization of accounting have contributed Sri Lanka to incorporating the Cash Basis IPSAS, while Nepal continued to struggle to enforce the standard. Delay and the slow adoption of the NPSAS had been highlighted in the study undertaken by Adhikari et al. (2015). In another study of implementing reforms in Nepal, Adhikari and Jayasinghe (2017) highlighted a lack of collaboration between government accountants, auditors and professional accountants causing substantial delay in the process of enforcing NPSAS across government entities. In another study comparing the government accounting of Nepal with that of Sri Lanka and Egypt, Adhikari et al. (2021) highlighted the importance of using professional accountants as boundary spanners facilitating communication with government accountants about the technical complexities' underling the adoption of international standards. All these studies have highlighted few issues which should be improved for the successful enforcement of international standard (NPSAS) including the promotion of education and training of government accountants, a close collaboration with professional accountants and organizations and a step-by-step approach towards reforms having acquired the necessary human capacity, resources, and institutional arrangements.

2. Accounting and Reporting System of Government of Nepal

2.1 Institutional Background

The present-day accounting system of Nepal is the extended version of this “New Accounting System (NAS)”. The NAS which was implemented for the first time in 2019 B.S. is a Cash-basis accounting adhering to the principle of double entry bookkeeping. The accounts are maintained, reports are prepared and followed by the formats and forms developed by the OAG (OAG forms ranging from no. 1 to 213). Apart from the OAG accounting formats, the existing government accounting system is complemented by a range of other tools and systems, including the Treasury Single Accounts (TSA) (being practiced since 2066 B.S) and the Chart of Accounts that comply with the IMF’s Government Financial Statistics Manual 2014. Recording of revenues, expenditures and *dharautis* (deposits) are maintained in the Financial Management Information System (FMIS) and the central data are stored at the Financial Comptroller General Office (FCGO). As part of the modernization of the accounting system, the recording of expenditures is done using the software - Computerized Government Accounting System at the federal and province levels and SuTRA for local governments. The PAMS software system has been used for the recording and reporting of public assets and inventories. The Integrated financial management system is being under consideration, which after the implementation is expected to link all these software programmes used at the moment and make the system more user friendly.

Reforms of the public financial management are generally carried out by the Public Expenditure and Financial Accountability (PEFA) Secretariat, which works under the FCGO. The PEFA Secretariat prioritizes reforms, facilitates the assessment of PFM systems and monitors the progress achieved. The OAG has revised the accounting forms and formats in 2075 B.S. to make them applicable in the federal context. The Charts of accounts were also revised at the FCGO in line with the IMF’s GFSM 2014. The progress achieved in introducing the IFMIS has envisaged the possibility of computerizing the accounts and of increasing their accessibility to users. This may also promote the use of accounting information in budget formulation and financial decision-makings.

The organizational structure for accounting is well developed in Nepal. The FCGO, which works under the Ministry of Finance, is the principal agency for government accounting and is entrusted with the authority of treasury management. While performing this function, the FCGO facilitates budget implementation, oversees expenditures, monitors the collection of revenues and administers and administers loans, investments and grants for all government and constitutional bodies. This office is also responsible for the designing and development of the accounting system for all three spheres of the government of Nepal (GoN). In addition, the FCGO prepares the consolidated annual financial statements of the GoN including expenditures, revenues, loans, grants and investments and submit it to the Office of the Auditor General (OAG) for final auditing. The PFMTTC is assigned with the task of facilitating trainings and other learning activities to civil servants appointed in the financial management sector as part of capacity development.

2.2 Legal Requirements

Accounting and reporting in the GoN are guided by the Finance Procedure and Fiscal Responsibility Act, 2076 and Rules, 2077. All 761 sub-national governments have powers to enact their own finance procedures and the fiscal responsibility act that correspond to regulations at the central level. These governments are also required to comply with the provisions as set out in the Federal Finance Procedures Act. The Constitution of the GoN has also codified that the financial procedures should be compliant with the Federal Finance Act and Regulations. Both the Federal Finance Procedures and the Fiscal Responsibility Act have mentioned the mandatory usage of the NPSAS standard in financial reporting. The use of the NPSAS standard is also outlined in the Provincial Finance Procedures Act.

2.3 Accounting Practice

Despite built on the cash principle, the accounting system recognizes some accrual elements and can, therefore, be referred to as modified cash accounting. However, the reporting of such accrual elements varies across government entities and often the statements are kept internally. With the implementation of NPSAS, it is expected that a unified accounting system will prevail in the government. To promote the widespread application of NPSAS, the accounting formats, developed in 2019 B.S, have also been revisited leading to the enactment of addition accounting forms. In particular, the OAG form number 271 and 272 are designed complying with the requirements laid down in NPSAS. Given that many of the forms concerned with the budget, it can be stated that budgetary control has continued to remain a key focus of the existing accounting system. The table below provides some of the accounting forms and formats introduced to support the implementation of NPSAS.

Table 1: Clusters of Accounting Formats

OAGN form	Description of each form
101-115	Revenue related formats
201-232	Expenditure, accounting and reporting (Reporting form 270-275)
301-315	Budget related formats
401-418	Inventory and assets management
501-514	Public works related formats
601-608	Deposit related formats
701-709	Loan related formats
750-759	Investment related formats
801-806	Audit and irregularities management formats
901-910	Internal control related formats

Source: OAG accounting format published by FCGO 2076

Many of the existing forms are currently undergoing revision as part of the modernization of the accounting system. It is expected that the revised forms will better support the application of software systems such as the SuTRA and CGAS and contribute to the implementation of the IFMIS systems.

2.4 Fund Based Accounting & Banking Mechanisms

The overall financial management system in the GoN is guided by the fund-based accounting. Central to the financial management system lies the consolidated fund. There are 761 consolidated funds in operation across all three spheres of the GoN - 1 federal consolidated fund, 7 provincial consolidated funds and 753 local governments consolidated funds. Along with these consolidated funds, various other operation funds such as divisible funds and emergency funds are in operation in each government.

The banking mechanisms for government transactions are well developed. The government transaction operations directive 2074 governs the overall operation of the banking system. The bank accounts of government agencies are operated by Nepal Rastra Bank, which provides other commercial banks to operate government transactions. In particular, three series of bank accounts are maintained in the GoN - “Ka” series bank accounts are operated by the federal government, “Kha” series by provincial governments and “Gaa” series by local governments. All transactions at the federal and provincial governments are facilitated through the treasury single account (TSA). The TSA provides a mechanism where all the bank accounts of government entities are consolidated, and the payments are made. The TSA are administered by the treasury controller offices. At the local government levels, the treasury accounts are yet to be made functional. Local entities are, therefore, allowed to maintain their own set of accounts and facilitate their transactions through the recognized commercial banks.

Revenues are collected using non-operational bank accounts, which are maintained at the nominated commercial banks. The revenue-related transactions are supported by the RMIS system. Expenditures are made through the expenditure accounts which are also maintained at the commercial banks. Nepal Rastra Bank has a separate unit to monitor all government related transactions, including bank accounts for foreign currencies. With the recent reforms, cash transactions have been made invalid. All expenditure-related transactions are facilitated through the electronic fund transfer systems. Local entities in which the online system is unavailable have, however, continued the cash transactions.

3. Understanding Nepal Public Sector Accounting Standard and its Implementation

3.1 Public Sector Accounting Standard Architecture

The International Public Sector Accounting Standards Board (IPSASB), which works under the International Federation of Accountants (IFAC), is an independent standard setting board for the public sector. The IPSASB issues International Public Sector Accounting Standards (IPSASs) (both Accrual and Cash-Basis (IPSASs), guidance, and other resources for use by governments and other public sector entities around the world. The IPSASB (and its predecessor, the IFAC Public Sector Committee) has been developing and issuing accounting standards for the public sector since 1997. Most of the IPSASs issued are converged with IFRSs assuming the similarity in the nature of transactions that occurred in the public and private sectors. This has been further justified by the sector-neutral approach that some countries have pursued, mainly the UK and Australia, in terms of standardizing their accounting practice (Adhikari and Gorseth-Nesbakk, 2016). The IPSASB provides an update on the extent to which individual IPSASs are aligned with corresponding IFRSs. The IPSASB has also issued a standard on budgeting which provides guidance on the presentation of budget information in financial statements. The Board has also been considering IMF's GFS reporting guidelines during the development of IPSASs. More recently, the board has developed an exposure draft providing governments and public entities additional guidance to report on sustainability programme information.

The process of adopting the Cash Basis IPSAS started in Nepal at the beginning of the new century (Adhikari et al., 2015). The Accounting Standards Board (ASB), an independent standard setting body for private enterprises formulated under the Institute of Chartered Accountants Act 1997, was assigned with the task of developing the standard in line with the Cash Basis IPSAS. The ASB issued the Nepali variant of the Cash Basis IPSAS, Nepal Public Sector Accounting Standard (NPSAS), having undertaken few minor changes to address the contextual issues. In 2009 A.D. (2066 Bhadra 30), the standard was approved by the government to use in the public sector, which includes, the national government, regional governments (e.g., state, provincial, and territorial), local governments (e.g., town and city), and related governmental entities (e.g., agencies, boards, commissions, and enterprises). Initially, the standard was piloted in two ministries, and rolled out to other central level agencies over the years. Following the revision of IPSAS, the ASB has issued an exposure draft of the revised NPSAS, which comply with the requirements laid down in the revised Cash Basis IPSAS.

3.2 NPSAS s Standard Structure

NPSAS is adopted by Nepal government in accordance with International Public Sector Standards. Similar to the Cash Basis IPSAS, the NPSAS also comprises of two parts:

Part 1	Part 2
Mandatory Compliance	Voluntary Compliance
<p style="text-align: center;">Outlines the necessary criteria that must be followed by all entities that are engaged in the preparation of general purpose financial statements using the cash basis of accounting.</p>	<p style="text-align: center;">Highlights supplementary accounting policies and disclosures that entities are encouraged to adopt in order to improve the financial accountability and transparency of their financial statements. It encompasses the various elements of the accrual basis of accounting.</p>

Figure 1: Structure of NPSAS

The central objective underlying the NPSAS is to ascertain the cash position of the entity through general purpose financial statement (GPFS). Information on cash receipts, payments and balances is necessary for accountability purposes, and provides input useful for the assessment of the ability of the entity to generate adequate cash in the future and the sources from where the cash will be generated, and the uses of cash collected. For the effective evaluation and decision makings on the allocation of cash resources and the sustainability of the entity's activities, users require an understanding of the timing and certainty of cash receipts and cash payments. Financial statements prepared using the NPSAS therefore help:

- Ascertain the **Cash Position** of the entity in particular cash receipts, cash payments and cash balances,
- Comply with the requirements of IPSAS by producing a **General Purpose Financial Statements**,
- Enhance public accountability by capturing **third party information** and disclosing the major events,
- Enhance the accounting system to opt for a **step towards accrual accounting reforms**.

General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. Users of generalpurpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media and employees. General purpose financial statements include those financial statements that are presented separately or within another public document such as an annual report.

The Conceptual Framework applies to financial reporting by public sector entities that apply IPSASs. Therefore, it applies to GPFs of national, regional, state/provincial and local governments. It also applies to a wide range of other public sector entities including:

- Government ministries, departments, programs, boards, commissions, agencies,
- Public sector social security funds, trusts, and statutory authorities, and
- International governmental organizations.

Most recent development of the NPSAS standard includes the revision of NPSAS based on the IPSAS November 2017 revision which has played a vital role in the overall revision of the accounting standards. The November 2017 changes have eased the implementation of IPSAS offering further clarification in its implementation. The Cash Basis IPSAS is continually presented as a step towards implementing accrual standards.

Box 1: Major changes introduced by revised November 2017 IPSAS

The revision of the cash basis standard by IPSAS in November 2017 has simplified and streamlined the implementation process of the standards. The major changes that introduced, is aim to overcome barriers to adoption and make it easier for entities to comply with the requirements. These changes include:

1. Consolidation Requirement: The amendment removing the requirement for controlling entities to prepare consolidated financial statements that consolidate all controlled entities from Part 1 of IPSAS. Instead, it will be recast as an encouragement in Part 2 of IPSAS. This change allows entities that do not consolidate all controlled entities to prepare financial statements that reflect a budget sector, general government sector, or another representation of core government activities.

2. External Assistance Disclosure: The reporting entities' obligation to disclose information about external assistance and third-party payments is removed from Part 1 of IPSAS. It will be simplified and recast as encouragements in Part 2, making the disclosure process more manageable and straightforward.

These changes in the cash basis IPSAS aim to facilitate the adoption and implementation of the standards by addressing complexities related to consolidation requirements and external assistance disclosures. By streamlining these aspects, entities can more effectively comply with the standards and improve financial reporting practices.

Exposure draft of the NPSAS has already published by the ASB. In the exposure draft, many of the relaxation provisions as outlined in the IPSAS 2017 have not been considered. As Nepal has already been complying with regulations which are part of the revised IPSAS modifications are deemed to be unnecessary. The provisions relating to consolidation and external assistance are incorporate in part 1 making them mandatory requirements.

3.3 Localization of NPSAS implementation

The implementation of the NPSAS standard at the local level required a significant effort. Accountants in the public sector were accustomed to using a customized version of the OAG reporting format that was specific to the Nepalese context in 2019 B.S. As a result, the implementation process involved localization, supported by professional accountants. The localization process consisted of eight major steps.

Step 1: Mapping of Entities

The classification of entities within a government is based on the guidelines provided in the Government Finance Statistics Manual (GFSM-2014) published by the International Monetary Fund (IMF). According to this classification, the entities are categorized into three groups: budgetary entities, extra-budgetary entities, and government business enterprises.

1. Budgetary Entities	2. Extra Budgetary Entities	3. Government Business Enterprises
Those entities that receive full or substantial budget appropriation and allocation from the government like Road Department, ministries, province and local government entities etc.	Those entities that has its own revenue and also receives partial budget appropriation and allocation from the government like Bir Hospital, Nepal Electricity Authority, etc.	Entities involved in trading and manufacturing activity with motive to earn profit like Nepal Oil Corporation, Salt Trading Corporation, etc.

Figure 2: Classification of entities in government

According to the NPSAS cash basis standard, it applies to all public sector entities except for Government Business Enterprises (GBEs) as stated in paragraph 1.1.5. However, paragraph 1.6.12 and 1.2.1 clarify that GBEs may be included in reporting based on control and characteristics specified in the standard. The decision to include or exclude entities in consolidated financial statements depends on the level of control exerted by the controlling entity over the controlled entity. This policy of inclusion and non-inclusion of entities is referred to as the mapping policy.

Mapping refers to the process of determining whether an entity's information should be included or excluded from consolidated financial reports. The determination of mapping depends on the level of control the entity has over the controlled entity, considering both operational and financial control, as explained in paragraph 1.6.1 of the NPSAS cash basis. If there is effective control, the entity should be included in consolidation. Conversely, if there is ineffective control, the entity should not be recognized, and any subsidies and grants provided to this entity should be recorded under Conditional and Non-conditional grants in the respective GFS heads.

Annex 5 of the standard (paragraphs 10 and 11) provides the criteria and indicators for power condition and benefits, which serve as the basis for mapping all economic entities classified into the three major categories, in line with the GFS-2014 issued by the International Monetary Fund (IMF).

Step 2: Control Analysis for Mapping Policy

The mapping of entities holds a crucial role in the overall preparation and presentation of financial statements. It requires careful consideration and thorough analysis to determine the inclusion or exclusion of economic entities in/from the financial reports. Any errors or oversights in this process can significantly distort the financial statements, underscoring the importance of conducting a comprehensive evaluation of the financial and operational control exercised by the

controlling entity over the economic entity. Making well-informed decisions based on such in-depth analysis ensures the accuracy and reliability of the financial statements.

Paragraph 1.6 of the NPSAS focuses on consolidated financial statements and defines the scope of consolidation based on the concept of control, encompassing both financial and operational control. The decision-making process for entity mapping involves evaluating the level of control exercised by the controlling entities over the controlled entities. This mapping process considers power indicators, benefit indicators, as well as power and benefit conditions to determine the appropriate inclusion or exclusion of entities in the consolidated financial statements. By utilizing these factors, the mapping process ensures accurate and comprehensive representation of the consolidation scope in accordance with the concept of control.

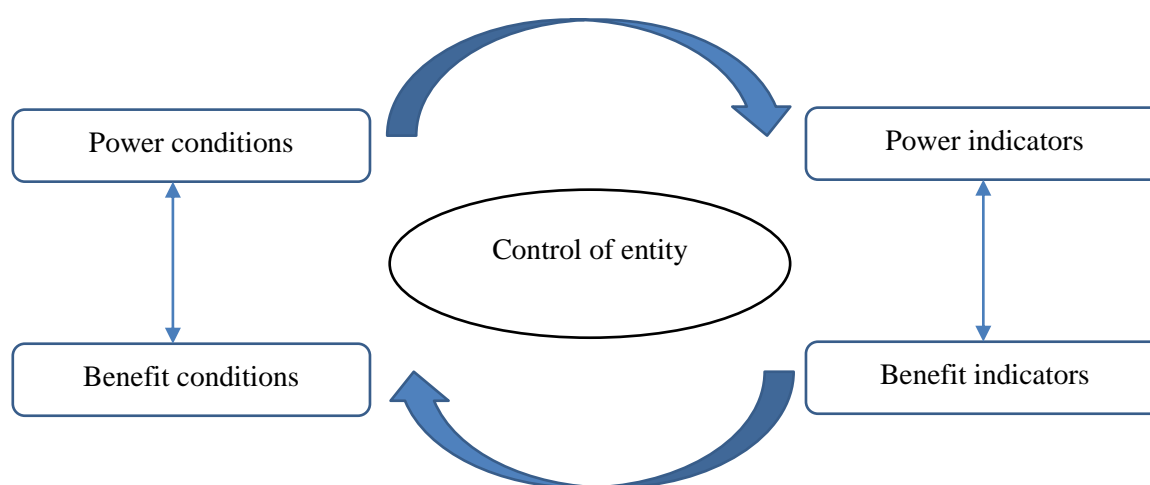


Figure 3: Control analysis on mapping

A defined and clear set of mapping criteria was established for all controlling entities in order to facilitate the implementation of the standard. However, for the sake of practicality, certain extra-budgetary entities were excluded from the mapping process. This exclusion applied to entities where the financial statements were not audited or in cases where obtaining the necessary financial information was challenging or not easily accessible. This approach was adopted to ensure a smoother implementation of the standard while taking into account practical constraints in obtaining reliable financial data for certain entities.

Step 3: Analyzing Administered and Controlled Transactions

The primary objective of applying the NPSAS (Nepal Public Sector Accounting Standards) is to ascertain the cash position of an economic entity. Furthermore, the standard emphasizes the disclosure of cash-related information based on control and administration. According to paragraph 2.1.15 of the NPSAS, entities are encouraged to provide relevant disclosures in the notes accompanying the financial statements. These disclosures should include details about the amount and nature of cash flows resulting from transactions administered by the entity acting as an agent on behalf of others.

In situations where, an entity acts as an agent on behalf of others, the cash flows associated with these transactions may not pass through a bank account controlled by the reporting entity. Consequently, the entity is unable to utilize or derive any direct benefits from the cash it administers for its own objectives. As a result, these cash flows, which are not under the entity's control, are not included in the overall totals presented in the statement of cash receipts and payments or other financial statements.

However, it is encouraged to disclose the amount and nature of these administered transactions by major type. This disclosure provides valuable information regarding the scope of the entity's activities and is relevant for assessing the entity's performance. To ensure accurate reporting, such administered and controlled transactions were thoroughly analyzed for each entity, and the corresponding cash positions were segregated accordingly. Examples of such transactions include divisible funds, deposit accounts, and operational accounts. By appropriately categorizing and disclosing these transactions, a more comprehensive understanding of the entity's financial activities can be obtained.

Step 4: Preparation of trial balance

During the initial phase of implementation, the existing OAG formats did not include a provision for a trial balance, and the practice of preparing a trial balance was absent. Consequently, an expert team was assigned the task of developing a trial balance format to address this gap. In the case of budgetary entities, all pertinent financial reports (Aa.bi) such as the Bank cash book, revenue (OAG Form No. 193), expenditure (OAG Form No. 208), and deposits (OAG Form No. 194)¹ were gathered. Subsequently, based on the data obtained from these specific reports, a trial balance was generated.

In addition to the mentioned process, accrual based financial statements for extra-budgetary and GBEs were adjusted to comply with cash basis reporting (IPSAS 2 cash flow statement). Cash flow statements were prepared with detailed line items. A mapping exercise was also conducted to align the charts of accounts with government standards.

Step 5: Collection and valuation of third party information

External assistance and third-party disclosure were pivotal requirements of the accounting standard. Additionally, disclosure should only occur when the entity has received formal advice or verification from the third party or recipient during the reporting period that the payment has been made.

According to Paragraph 1.3.24, if a third party directly settles the obligations of an entity or procures goods and services for the entity's benefit, the entity should make separate disclosures in dedicated columns on the face of the Consolidated Statement of Cash Receipts and Payments.

Identification and valuation of third-party transactions presented significant challenges. To identify such transactions, preliminary information was collected from the entity itself, while

¹ OAG form number has been revised in recent revision in 2080 B.S.

additional information was obtained from the Ministry of Finance's Aid management platform (currently known as AIMS). For valuing goods and services, the following three methods were preferred: market-based valuation, cost-based valuation, and fair value estimation.

Table 2: Valuation Method

Method	Description
Donors' Valuation	If the third party provides grant for execution of good governance training classes to Ministry of General Administration and formally advise for the same and/or Aid Management Platform (AMP) of Ministry of Finance also makes the record of such grant. Then the amount disclosed in such report and record is the Donor based valuation.
Market value or fair value	Whenever any third party provides assistance of goods and assets of physical nature of which is highly advanced and technical like special sensor equipment and other assets to Department of health and formally advise the same but does not disclose the figure, then valuation of such assets would be made as per the prevailing market price of such assets or fair value of such assets obtained.
Management's assessment	If the foreign government/ bodies (third party) makes any payment on behalf of Nepal government of which amount cannot be ascertained and due to which Nepal Government get released from obligation of payment or any liability. Likewise, if Nepali delegates were sponsored by foreign government for travel and accommodation and due to which Nepal government get benefitted then such thirdparty assistance (technical assistance or service or goods) should be valued by the management's assessment on those all expenditure and should be reported. When donor's valuation and market value could not be determine the value of third party payments, management assessment shall ascertain such amounts.

Note: A committee can be formed in every government entity for determination of the major classes and valuation of 3rd party payments, i.e technical assistance and commodity grant for benchmarking the provision of Public Procurement Act, 2073.

Step 6: Consolidation of the financial information

The preparation of the consolidated financial statement posed significant complexity, involving various stages such as aggregating financial information, ensuring accuracy, and eliminating intergovernmental transactions.

Paragraph 1.6 of the standard provides detailed guidelines for the consolidation process and the elimination of intergovernmental transactions, particularly in cases involving conditional and unconditional grants and subsidies provided by the government. Under the transitional provision, entities were initially allowed to retain these transactions for a period of three years from the adoption of the standard. However, due to the delayed implementation of the standard, it became mandatory to eliminate all such transactions.

With the introduction of fiscal federalism, the elimination of transactions became even more intricate and time-consuming. To address this challenge, the finance section team sought assistance from experts. Intergovernmental transactions were identified using a separate Excel format, and the elimination process was carried out during the preparation of the financial statement, accompanied by appropriate disclosures.

Step 7: Preparation of Notes to Accounts and Disclosure

The financial statement encompassed concise supplementary details pertaining to revenue, expenditure, and deposits, accompanied by pertinent disclosures. Notes to accounts, schedule of financial information, and sub-schedules were prepared to provide additional disclosure. Moreover, the existing statements of expenditure, revenue, and deposits were also incorporated into the financial statement.

Given the Nepal government's availability of sufficient accrual information for disclosure, these details were provided with appropriate accompanying disclosures. The implementation of notes and disclosure was designed to be flexible, ensuring it as an integral component of the financial statements.

Step 8: Preparation of Accounting Policies and FSDA

After the completion of all schedules and disclosures, the combined statement is prepared, forming the basis for the consolidated financial statements. The final step involves the preparation of accounting policies and the Financial Statement Discussion and Analysis (FSDA), which presents a comprehensive overview of the financial statements, offering users a deeper understanding of the overall financial position.

The finance section, along with senior officials of the respective entities, collaboratively prepares the FSDA through discussions and consultations. These FSDAs, along with the financial statements, are then submitted for review and dissemination.

3.4 Harmonization of Chart of Accounts

Harmonization of chart of accounts among Budgetary Entities (BEs), Extra Budgetary Entities (EBs), and Government Business Enterprises (GBEs) is not mandatory. However, the chart of accounts for BEs and EBs needs to be approved by the Financial Comptroller General Office (FCGO) to implement new accounting heads. GBEs, on the other hand, may have different functionalities that require a distinct set of chart of accounts from BEs and EBs. This deviation in chart of accounts within BEs and EBs complicates integration efforts, necessitating a mapping process to streamline integration and consolidation.

Mapping involves associating codes in the charts of accounts with codes available in the government's integrated charts of accounts. In terms of complexity, the actual mapping is relatively straightforward as old account numbers are mapped to new account numbers. However, complexity may arise in relation to the nature of transactions within controlled entities.

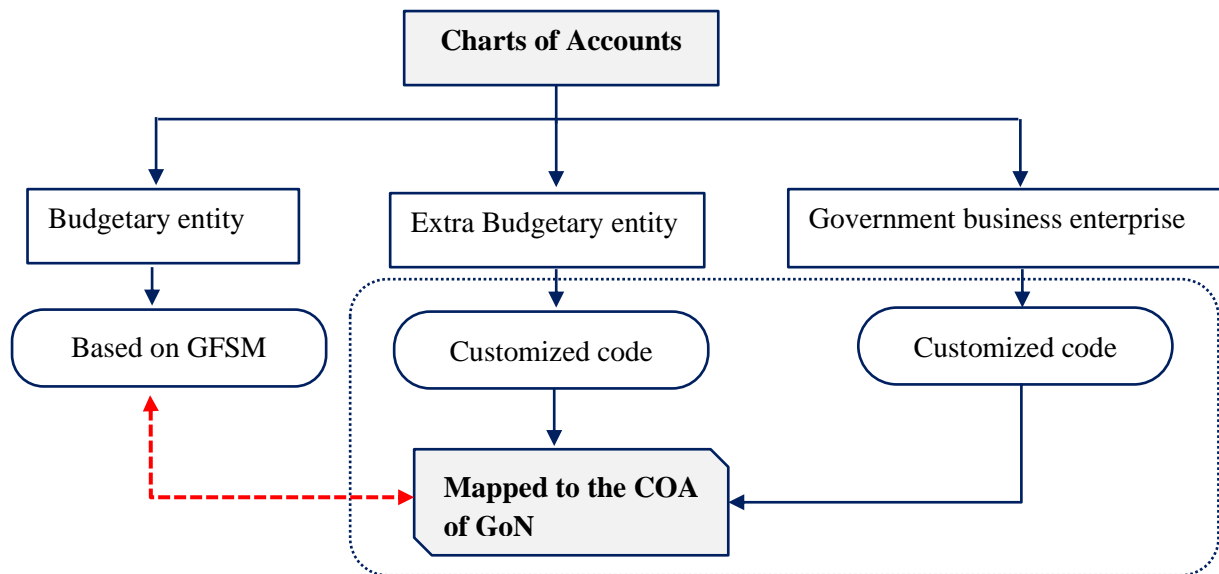


Figure 4: Mapping of the COA

Each entity has been assigned a transaction-level chart of accounts based on the Government Finance Statistics (GFS) code of 2014 issued by the International Monetary Fund (IMF). It is essential to specify a specific chart of accounts for controlled EBs and GBEs, ensuring their proper harmonization with the national accounts through appropriate regulations and decisions. When harmonized charts of accounts are utilized, transaction mapping can be seamlessly integrated with the aid of software applications. This allows for efficient and accurate mapping of transactions between different entities using the harmonized chart of accounts.

4. Impression of NPSAS Implementation

The implementation of NPSAS began gradually and gained momentum over time, even though it was approved in 2066 B.S. (2009 A.D.). The actual implementation process started picking up pace in 2076 B.S. (2019 A.D.), nearly a decade after its approval. To facilitate the implementation of the standard and enhance user understanding, it was translated into Nepali language, making it more accessible for users to comprehend the requirements. The subsequent section provides a comprehensive analysis of the implementation process, including the timeline for its execution.

4.1 Milestones for Adoption of NPSAS

The approval and enforcement of NPSAS have been significant initiatives undertaken by the government to enhance the financial reporting of public sector entities. The implementation of the standard follows a top-down approach, with central level agencies currently leading the way in preparing consolidated statements in accordance with NPSAS. This includes federal level agencies, constitutional bodies, provincial government agencies, and local governments, all of which fall under the purview of NPSAS.

Before implementing the standard at the central level, it was piloted in two ministries of different sizes in terms of government transactions handling. The Ministry of Physical Planning, Works, and Transport Management represented a large ministry, while the Ministry of Women, Child, and Social Welfare represented a smaller one. These piloted ministries, with the assistance of consultants and accountants, prepared NPSAS-compliant financial statements for the fiscal year 2013/14 A.D. The International Consortium on Governmental Financial Management (ICGFM) acknowledged and awarded these ministries with a certificate of conformance. Furthermore, these financial statements were submitted to the Office of the Auditor General (OAG) for external auditing during the fiscal year 2015/2016 A.D.

In the same fiscal year, the Financial Comptroller General Office (FCGO) encouraged all government economic entities to develop their financial statements in compliance with NPSAS. However, only 16 economic entities prepared NPSAS-compliant financial statements and submitted them to the OAG for auditing. The number of entities adopting NPSAS significantly increased in the fiscal year 2016/2017, with all 43 central level entities preparing NPSAS-compliant financial statements and submitting them to the OAG for auditing.

Following the transition to federalism, the implementation of NPSAS expanded to include provincial and local governments. Between the fiscal years 2017/18 and 2018/19, NPSAS was rolled out to all seven provincial governments and local governments, respectively. The online payment mechanism called SuTRA facilitated the capture of required information for the preparation of NPSAS-compliant financial statements by provincial and local governments. Presently, all government entities are required to prepare their financial statements in accordance with NPSAS.

Since the fiscal year 2017/18, the FCGO has been preparing consolidated statements for the entire government as mandated by NPSAS, and these statements are submitted to the OAG for

auditing. The OAG has designed accounting formats that align with the requirements of Cash Basis IPSAS and promote the disclosure of qualitative information. Notably, OAG Form No. 271 and 272 have been approved for preparing financial statements in accordance with IPSAS requirements.

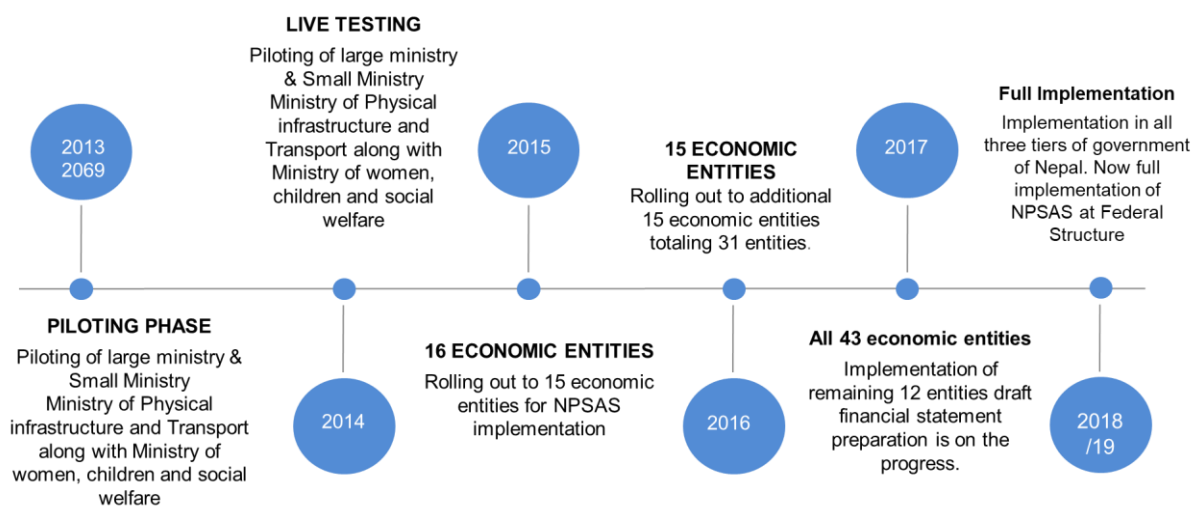


Figure 5: Milestone of Implementation of NPSAS

The implementation of NPSAS at the federal, provincial, and local government levels has followed distinct approaches, and the outcomes have been perceived accordingly. During the implementation, an Excel tool was utilized, featuring modules for data entry, additional details, and final report generation. The tool also included a cross-verification mechanism to ensure the accuracy of the financial statement data entered. It served as a comprehensive system for managing the overall structure of the reports.

Currently, the implementation of NPSAS remains concentrated at the central level, primarily within ministries and departments. It has not yet fully permeated the spending level, raising concerns that the implementation is predominantly at the top level and has yet to reach the bottom level, even at the federal government level. However, the SuTRA system now incorporates NPSAS-based financial statements, which has simplified the preparation process for local governments.

4.2 Transitioning of the standard implementation in federal structure

After the implementation of accounting standards, the Nepal government underwent a structural change, transitioning from a unified structure to a federal structure, resulting in the formation of 761 governments across all three tiers. Each government entity was required to prepare financial statements in compliance with the NPSAS standard. To meet these requirements, accounting information had to be designed and adapted accordingly.

One significant challenge was compiling financial information from the subnational governments, which was gradually addressed through the implementation of IT systems. The charts of accounts were revised and implemented in an integrated manner, facilitating the

compilation of financial information. Additionally, the accounting formats of the government of Nepal were revisited and aligned with the OAG accounting formats to ensure compliance and ease of generating financial information. Specific financial statement formats were also designed to enhance compliance.

These changes were incorporated into the accounting system, enabling the generation of a wide range of financial information that adhered to the standards, thereby enabling accountants to prepare qualitative financial statements. The adoption of the federal structure necessitated these changes, which were implemented through policy intervention. The Federal Finance Procedure and Fiscal Responsibility Act 2076 and its rules in 2077 clearly defined the accounting standards and legally enforced their implementation. Provincial and local governments also incorporated these standards into their respective acts. Compliance with the standards has since become a legal requirement and is followed regularly.

4.3 Analysis of NPSAS based Financial Statement.

The implementation of NPSAS followed a top-to-bottom approach, starting from the central level and gradually extending to the spending units. Professional accountants were engaged to support the implementation process. Currently, the standard is being rolled out at the local government level, with the intervention of IT systems to facilitate its development.

The legal mandate provided by the Federal Finance Procedure Act and Rules has created a conducive environment for the implementation of NPSAS. OAG formats 271 and 272 have been approved specifically for federal/provincial government and local government, respectively. The implementation of the standard initially relied on the support of professional experts, but now the entities are taking ownership and undertaking capacity development activities on their own. The OAG accounting formats, along with unified charts of accounts, provide the necessary information for compliance with the standards.

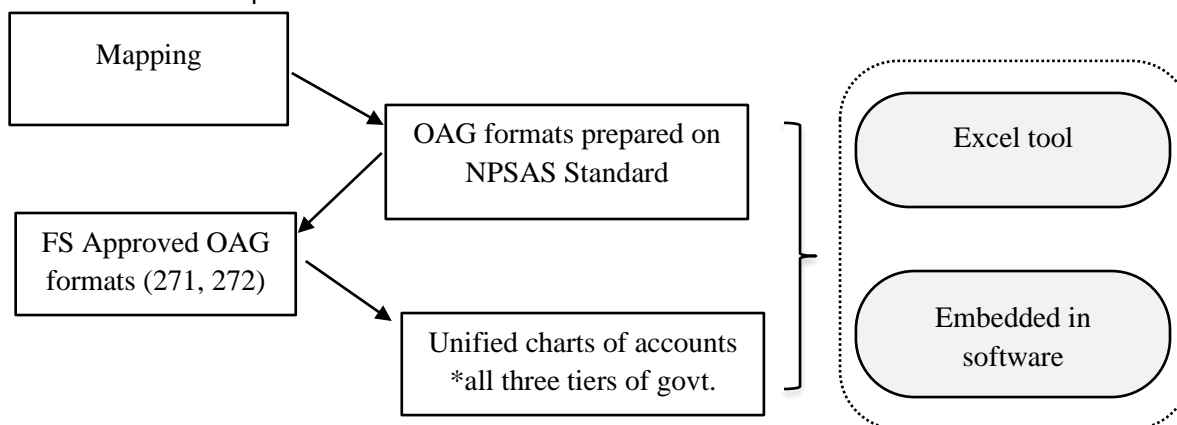


Figure 6: Tools required for NPSAS Implementation

4.3.1 OAG Accounting Format Compliance with NPSAS Standard

The OAG accounting formats are the primary accounting formats used in government accounting and the public sector. These formats were developed in alignment with the Nepal

Public Sector Accounting Standard (NPSAS). The conceptual note accompanying the revision of the OAG accounting formats in 2075 B.S explicitly states that they are compliant with the NPSAS standard.

Upon examination, it can be observed that the accounting formats cover most of the essential aspects required by the NPSAS standards. These include provisions for third-party disclosure, external assistance, cash position, undrawn borrowing facility, foreign exchange gain/loss calculation, as well as the reporting of assets and liabilities. Therefore, the accounting formats provide a solid foundation for capturing the necessary accounting information for comprehensive reporting purposes.

4.3.2 Federal Level Consolidated FS Report Analysis

The analysis of the Ministry of Finance (MOF) and Ministry of Finance and General Administration (MOFAGA) financial statements based for the FY 2077/78 on NPSAS reveals that several challenges and manual processes involved in their preparation.

The initial step of mapping and identifying the entities to be included within the scope of the financial statements required decisions from senior officials, which added additional time and the need for justification. This mapping exercise had to be done annually due to ongoing changes in organizational composition, making it a challenging and time-consuming task. In certain ministries where there are extra budgetary agencies in large numbers, exception were considered. Ministry of health and Ministry of education did not included the agencies such as school, hospital and extra budgetary entities during consolidated process. So mapping exercise was crucial to define the level of consolidation.

The collection of annual statements of expenditure, revenue, and deposits from all economic entities required approval from the District Treasury Controller Office (DTCO). Delays in reconciling these statements by the DTCO sometimes caused late arrivals, further complicating the process. Once collected, MOF would prepare consolidated statements of expenditure, revenue, and deposits at the central level, serving as the basis for the NPSAS-based financial statements. These consolidated data would then be entered into an Excel template to prepare trial balances, supported by annexures.

One major challenge faced was the compilation of information, as the existing Financial Management Information System (FMIS) and IT system did not provide the required information for preparing the consolidated financial statements, although, they captured all the financial information. Additional information and disclosures, such as fixed assets, receivables, payables, commitment information, contingent liabilities, and other major events, required the management-level discussions.

The coverage and valuation of third-party information posed another challenge. Defining third-party information and determining appropriate valuation methods were difficult, as there was limited knowledge about what constituted third-party information. Most of the information was considered "off-budget, off-treasury" activities, and capturing it was not easy, as the ministry

itself lacked adequate information and mechanisms for monitoring ongoing projects and activities within its entities. The Ministry of Finance relied on the Aid Management Information System (AMIS) as the primary source for financial information.

Updating and consolidating information on fixed assets proved to be challenging. There were partial records of fixed assets, and valuation presented another major hurdle. As a result, the disclosure of fixed asset-related information was only partially achieved.

Financial Statement Discussion and Analysis (FSDA) was conducted on a limited basis. MOF prepared the FSDA for FY 2076/77, but it was not continued in subsequent years. Other ministries and entities did not seem to initiate the practice of preparing FSDAs. FSDAs could have improved the quality of financial statements and promoted better practices. Recommended Practice Guidelines (RPG) were used to enhance the quality of FSDAs.

Unique to MOF, incorporating information from the central bank (NRB) and financial corporations, where currency balances and other information were reported, posed a challenge. Consolidating this information could have led to duplications. Since the central bank already held all government bank accounts, capturing the information from NRB was excluded to avoid over reporting financial information.

Another major issue was limited collaboration among key stakeholders. The implementation of accounting standards was mainly delegated to the accounting units, although there was management support. However, relying solely, on the accounting unit led to a lack of other qualitative information that could have enhanced the quality of financial statements. Programmatic information and other key events could not be adequately captured by the financial unit alone.

4.3.3 Provincial Report Analysis

The early implementation of NPSAS in the provincial government, starting from FY 2074/75 B.S., was relatively straightforward due to limited operations and agencies. However, rapid changes in organizational structure and operations, along with employee adjustments and frequent staff transfers, led to challenges in retaining progress achieved and knowledge transfer at the staff level. Madhesh province and Bagmati province have been taken as sample province for the purpose of our study.

The Ministry of Economic Affairs and Planning (MOEAP) played a crucial role in handling financial information, while other ministries such as the Ministry of Physical Infrastructure Development and the Ministry of Health handled activities related to physical infrastructure and service delivery, respectively.

Provincial financial statements faced similar challenges in terms of data aggregation, mapping, valuation, third-party payments, and other issues. However, the focus on institutionalizing federalism overshadowed the priority of accountability and transparency through qualitative

financial statements. Key management and stakeholders were not sufficiently engaged in the process.

Tracking and properly recording transferred assets posed a challenge for the provincial government. Ownership of assets such as land and buildings were not fully established, and conflicts over ownership arose in some cases.

The mechanism for tracking delegated programs and their accounting and reporting at the provincial level was inadequate. There was a lack of integration in tracking the entire transaction process, resulting in additional exercises and affecting the reporting system.

Fund management and tracking bank accounts were critical aspects, but the provincial staff had limited knowledge of treasury operations. Transferred staff members were either inexperienced or close to retirement, and their capacity was not sufficient to handle the emerging requirements of financial statements. It took time for fund management and reporting of overall transactions to mature, as the staff faced such situations for the first time in the history of Nepalese public financial management.

There is a lack of regularity in reporting of NPSAS-based financial statements. While reporting was consistent in the early phase, the trend has changed. For example, Bagmati Province is not providing NPSAS-based financial statements for auditing purposes.

4.3.4 Local level OAG report analysis,

The implementation of NPSAS at the local level began in FY 2077/78, following the rolled-out at the provincial level. The base year for standard implementation was FY 2075/76. However, the implementation model was facilitated through the SuTRA system. The NPSAS based report was embedded as a standard report in the SuTRA software, which captured all the necessary information. The system allowed for additional disclosures to be captured and later compiled into the main financial statements. The overall process of financial statement preparation was system-driven.

Local governments of Karnali, Sudurpaschim and Lumbini province were considered for field visit, Bagmati province (Changunaryan Municipality and Kathmandu metropolitan city) was consulted in person. Field visited to the Sudurpaschim province (Lamkichua and Amargadhi municipality), Lumbini province (Ramgram municipality and Tilottama municipality) and Karnali province (Bheri Municipality) has been undertaken for the review.

A major challenge in achieving qualitative financial reporting under NPSAS is the limitation of the SuTRA accounting system. While it covers financial transactions related to the consolidated fund, it fails to track transactions from delegated programs and other sources outside the system. As a result, the financial information provided by the entire local government is incomplete. Moreover, the system does not adequately capture accrual-based financial information, further impacting the completeness of the reports.

While the generic issues identified at the federal and provincial levels were carried on gradually, the local government had a major role in the preparation and compilation of financial statements

due to the volume and scale of their operations. However, due to limited manpower in the finance section and the pressure of service delivery, they could not allocate adequate time to preparing qualitative financial statements.

Based on the consultation with local governments such as Bhimdutta municipality, Ramgram municipality, Lamkichuwa municipality, Tilottama municipality, and Amargadhi municipality, it was revealed that the NPSAS-based financial statements are incorporated within the SuTRA system. The financial report is generated from the system and submitted for auditing. However, it seems that the preparation of notes to accounts and disclosures, which are essential for making the financial statements more informative, is not being carried out. Furthermore, it appears that the auditors do not utilize the financial statements as a part of their auditing process. This means that they do not provide an audit opinion specifically on the NPSAS-based financial statements. It is important to note that this information is based on the consultation with the relevant personnel of aforesaid local governments, and the practices and experiences may vary across different municipalities and provinces of Nepal. The remarks shared by Bheri Municipality is notable to share "...we were appointed in the local government directly and started maintaining accounts with few trainings and did not had adequate training on the NPSAS standard and method of preparation of the financial statement. However, SuTRA software had embedded report and the only additional task to be done is to prepare the accounting policies and notes to accounts. However, we still have issues in preparation of the disclosure required in the OAG accounting format 272".

Delegated programs were still operated outside the SuTRA system, and their financial transactions could not be adequately tracked and ascertained. Insufficient disclosures provided resulted in less informative and not provided the clear picture on the financial statements as envisioned . . The Kathmandu Metropolitan City, being one of the largest local governments with a budget equivalent to a province, have had a more complicated organizational structure. As a result, the SuTRA system was not able to capture all the required information, leading to challenges in the preparation of financial statements.

Consolidating extra-budgetary units poses another challenge. For example, Khowpa College of Bhaktapur Municipality is one such unit that provides regular reports. However, there are other similar extra-budgetary entities that are unable to provide complete information on budgeting when preparing the financial statements at the local government level.

4.2.4 NPSAS at General Government Level,

The Financial Comptroller General Office (FCGO) in Nepal has the legal mandate to submit the consolidated financial statement to the Office of the Auditor General (OAG). The financial statements are submitted preliminarily at the end of the Nepali month of Kartik and then finally at the end of the Nepali month of Poush.

The FCGO has been publishing its financial statements using customized reporting formats, specifically Part 1-12. It has been gradually preparing and publishing financial statements for the general government level based on NPSAS since the fiscal year 2075/76 B.S. Despite the progress made, the results are not achieving at the desired level of accuracy. There seems to be a disparity

between the financial figures as reported in the statements and the OAG's version. Additionally, it is mentioned that the financial statements do not capture all the financial transactions of the general government, indicating ongoing challenges in the implementation of the Nepal Public Sector Accounting Standard (NPSAS) at this level. It is important for the FCGO to address these challenges with some action plans and strive for more accurate financial reporting in line with the OAG's requirements.

4.4 Audit Report Analysis on NPSAS Implementation.

4.4.1 Federal Level Consolidated FS Report Analysis

Annual OAGN report 56th, 57th, & 58th OAGN report submitted to president is analyzed for the coverage of NPSAS issues. Audit of federal agencies has covered both NPSAS and NAS/NFRS wherever it may be relevant. Cash basis and government accounting is addressed through NPSAS, whereas accrual components of accounting have been covered through NAS/NFRS. It has clearly mentioned the usage of NPSAS in government accounting sector, NAS/NFRS by the entities established within the jurisdiction of Companies Act, 2063 and by Bank and financial institutions (BFIs). Universities (Tribhuvan University,) need to comply with Nepal public sector accounting standard (NPSAS), Sudurpaschim University to implement accrual accounting standard. OAGN has clearly specified that implementation plan for effective implementation of NPSAS should be defined. In international context accrual IPSAS has been used so the public sector accounting has to be updated as per the accrual standard.

NPSAS has been considered as a tool for enhancing accountability and transparency. Existing cash based accounting system is not adequate for reflecting the overall financial transaction of government of Nepal. It has to be revised as per the essence of the development in accounting practices. Use of software system and Nepal public sector accounting standard enhances the quality of accounting system. Human resource and capacity of existing human resource involved in the financial management needs to be enhanced for better financial management system and practices.

4.4.2 Provincial Report Analysis

The OAG reports for Madhesh province and Bagmati province for FY 2074/75 B.S. to FY 2076/77 B.S. issued a qualified opinion due to noncompliance with NPSAS. The reports highlighted the need to implement NPSAS to enhance accountability and transparency at the provincial level. The recommendations were on preparation of consolidated fund reports and the use of approved OAG accounting formats. The reports also emphasized the importance of adopting IT systems for more reliable and transparent financial management. Overall, the reports emphasized the significance of NPSAS implementation, IT utilization, and adherence to accounting standards to improve governance and financial reporting practices in Madhesh and Bagmati provinces.

4.4.3 Local level OAG report analysis,

While analyzing the audit opinion and comment provided on the OAG reports of local government represented similar issues as of federal and provincial government. LG has not prepared financials statements in compliance with NPSAS. Changuaryan municipality and Kathmandu metropolitan city's audit report has not covered the improvement areas as required by NPSAS, however, it has clearly addressed in the audit opinion that provided to the LG

The auditor's opinion format has addressed the NPSAS subject matter, but there is inconsistency among auditors within the Auditor General's office regarding NPSAS understanding and implementation requirements at the provincial and local government levels. While NPSAS is primarily focused on federal and provincial governments, the local government audit reports lack sufficient emphasis on accounting standard compliance. The OAG can play a crucial role in enforcing NPSAS implementation at all government levels, especially at the local level.

5. Challenges in Implementation of NPSAS

During the initial stages of implementing the NPSAS standard, one of the major challenges was, the lack of professional experts familiar with accounting standards in the public sector. Most accountants were focused on implementing private sector accounting standards, and adapting to the different working environment of the public sector proved difficult. Additionally, government staff members involved in implementation had limited understanding of the requirements of the accounting standard, as they were accustomed to traditional accounting practices. The implementation process faced challenges in terms of time, cost, and expertise. Leadership and political commitments were also identified as significant obstacles. These challenges are not unique to Nepal, as similar factors are observed globally in the implementation of new accounting standards. Studies have shown that implementing accounting standards is a long-term process that requires phases of interventions. The progress of the decade-long implementation of the NPSAS standard is not considered at satisfactory level. Despite the efforts made, there are still significant challenges and shortcomings in achieving full compliance and effective implementation of the standard.

5.1 Challenges in implementation

Leadership, indeed, plays a vital role in the implementation of accounting standards. However, in the case of NPSAS implementation, it seems to be a lack of ownership and commitment from the leadership. It is perceived as a donor-led program rather than a priority of the organization itself. This lack of ownership has resulted in challenges related to human resource allocation, information collection, and discussions on the quality of financial statements.

The capacity of staffs involved in the implementation is also a significant issue. Many staff members are unfamiliar with accounting standards and lack the necessary skills and knowledge for effective implementation. Enhancing the capacity of government staffs through proper training and professionalization strategies is crucial.

Another dilemma arises regarding the inclusion of extra-budgetary entities in the implementation of NPSAS. There are on-going debates on whether NPSAS or NRFS (Nepal Financial Reporting Standards) should be implemented in these entities and state-owned enterprises (SOEs).

Addressing these challenges and dilemmas requires a collaborative effort from leadership, staff capacity building, and clear guidance on the implementation of accounting standards in both budgetary and extra-budgetary entities.

Box 2: Learning from implementation of IPSAS across the globe

The full adoption and adherence to IPSAS standards has been a challenging process for many countries, and it continues to be a work in progress. The transition to IPSAS-type standards has been ongoing in various regions, including South America, South Asia, the Caribbean, Africa, and Eastern Europe, with countries actively seeking to adopt these standards.

The global financial crisis of 2008 highlighted several challenges in the public sector, particularly concerning sovereign debt. Creditors expressed concerns about the reliability of governments' financial reports and their ability to meet their obligations, including newly issued bonds. However, this crisis also emphasized the importance of transparent and reliable financial reporting.

Effective adoption and implementation of IPSAS require countries to have a clear strategy with realistic timelines, milestones, and adequate resources. Challenges in IPSAS adoption range from broader change management and program management issues to more fundamental problems such as inadequate IT infrastructure, poor record-keeping practices, and a lack of core accounting information from previous reporting methods.

IFAC (International Federation of Accountants) has played a significant role in promoting accountability and supporting public financial management reforms through initiatives like 'Accountability Now.' Donors could also contribute further by supporting the professionalization of public sector financial management. A collaborative partnership involving governments, public sector entities, users of financial reports, and the accountancy profession can achieve substantial improvements. The ultimate goals should be transparent financial reporting, enhanced accountability, improved public sector financial management, better decision-making, and superior value for money for taxpayers.

Successful accounting reform requires a collaborative effort of the leadership, civil servants and professional accountants through an IT enable system. No matter how big or small, how advanced or emerging economy, every country faces the similar fate in terms of implementation of accounting standards. (Saleh, Z., Isa, C. R., & Hasan, H. A., 2021).

In the public sector, accounting is often carried out by non-professional staff, who have acquired their understanding through practical experience. There are instances where these staff members have not received formal education or training in the field of accounting. Furthermore, the accounting practices in the Nepalese government are customized and largely localized, meaning that the principles and conventions may differ to some extent.

Over the past few years, there has been a significant increase in financial awareness and a positive attitude towards learning. However, the frequent transfer of staff members has led to a loss of technical knowledge and institutional memory. In this context, the challenges of implementing NPSAS, as identified by the Technical Assistance Program Implementation Unit, can be categorized into four major clusters.

Table 3: Analysis of implementation challenge

a) Legal Challenges	b) Operational Challenges
<ul style="list-style-type: none"> • Definition of types of economic entity in the finance procedure acts in line with GFSM definition. • Legalization of the formal mapping of the whole economic entity for financial reporting. • Non compliance on the auditing the appropriate financial statements as defined by the FPFRA requirement by auditor general, they are one of stakeholders for enforcing and enhancing financial transparency. • Level of Disclosure of the financial information in notes to accounts by the responsible authority. 	<ul style="list-style-type: none"> • Unavailability of complete & valid financial information in the economic entities • No accounting and recording of off budget, third party transactions in the economic entities. • Lack of ownership in third party information at AMIS, issues in identification and valuation relating to the commodity grants • Frequent transfer of trained accounting cadres/officers during the fiscal year • Non availability of the information relating to the liability, guaranty of government, internal borrowing, etc. • Reconciliation of balances and transactions e.g. Dharauti balances and fund balances. • Non availability of the proper recording of Fixed Assets in the economic entities.
c) Technical Challenges	d) Technological Challenges
<ul style="list-style-type: none"> • Unavailability of professional manpower to drive the standard implementation. • Willing civil servant are not availed with professional course on NPSAS • Limited access to standard technical subject matters • No any point of reference to resolve issues and lack of experts pool • Lack of proper coordination between within the different office/department of central economic entities and between the various central economic entities • No proper management and retention of institutional memory. 	<ul style="list-style-type: none"> • No uniform software platform to facilitate preparation of NPSAS based reporting with the linkage of expending and accounting • Problem in integration of adopted system, data migration and data management • Still use of transitional measures for preparation of reports (Use of Excel Template). • Not hiring related expertise professionals in the current government structure. • Reconciliation of data and reports among Financial Management Information System (IFMIS), TSA, CGAS etc.

The challenges identified in the above scenario can be further exacerbated by leadership issues and cost factors, which are additional obstacles to implementation. Effective leadership is crucial in driving the necessary changes and ensuring successful implementation of NPSAS.

Additionally, the financial implications of implementing the new accounting standards can pose challenges, as it may require investments in training, infrastructure, and system upgrades.

Furthermore, the change management process itself can be a determining factor in the success of implementation. It involves comprehensive administrative and functional changes in financial management practices within the public sector, which may face resistance or reluctance from stakeholders. Effective change management strategies and communication are essential to overcome these challenges and gain acceptance and support for the implementation of NPSAS.

5.2 Key Learnings from the Implementation of NPSAS

The implementation of accounting standards requires the concerted efforts of the government, utilization of appropriate technology, and the availability of professional manpower. The implementation of NPSAS, in particular, has been a long-term reform program initiated by the government, gaining momentum over a decade after receiving formal authorization from the council of ministers. During this time, there has been a significant increase in awareness and literacy regarding NPSAS among accounting staff. Accounting literacy and digital literacy is key factor that drives entire implementation.

To improve the implementation process, it is recommended to establish a uniform database system that includes all controlled entities, replacing the current practice of using different software systems. The planned deployment of the Integrated Financial Management Information System (IFMIS) should adhere to the Public Expenditure Financial Accountability (PEFA) guidelines, implementing a clear chart of accounts and entity control as prescribed by the standards. The authorities should promptly address legal and policy-level issues related to the implementation of NPSAS across economic entities, such as approving the formats and contents of financial statements, defining the level of control, and developing procedural manuals and reporting requirements.

Efficient coordination among in-house departments, including Planning, Financing, Accounts, and Administration, is essential. Regular data reconciliation and integration between these units will enhance the disclosure of reporting information. Adequate training should be provided to employees at the operational level to develop professional accounting cadres/officers and ensure successful outcomes from the implementation of NPSAS. The training should not only familiarize employees with the standard but also emphasize comparative learning that links existing procedures/methods to the proposed ones.

Clear guidelines should be prepared to identify third-party information and segregate restricted and unrestricted cash/fund. The accounting manual should be revised and implemented to address all accounting policies and concerns in the changed accounting environment. It is crucial to develop an adequate chart of accounts that captures all relevant information through codes, such as third-party information, inter-entity transactions, deposits, foreign exchange gains and losses, fixed assets, and the consolidated fund. Budgets should be prepared for both tax and non-tax revenues based on estimations and the government's annual policy.

Given the significant reliance on grants and foreign aid, capturing information related to external assistance and third-party payments is critical for decision-making based on financial statements. Ensuring uniformity in financial statements enables stakeholders to make informed decisions that guide overall nation-building activities and policies. Therefore, the implementation of NPSAS is imperative for achieving financial transparency and accountability in the government sector in Nepal.

The implementation of accounting standards in Nepal is an achievable goal through collaborative efforts and a comprehensive approach. It requires equal opportunity and participation in capacity development activities, starting from academic institutions to entry-level service positions. By instilling a strong foundation of knowledge and providing comprehensive training, future professionals will be better equipped to implement accounting standards effectively. Enforcement by oversight agencies, such as the Office of the Auditor General, is crucial to monitor compliance and provide guidance. Effective coordination among government bodies, oversight agencies, professional organizations, and educational institutions is essential for successful implementation. While it may take time and effort, a long-term perspective and commitment to continuous improvement will lead to the integration of accounting standards, enhancing financial management practices and promoting transparency and accountability in Nepal's public sector.

Box 3: Key learning from IPSAS implementation research papers

Systematic assessment of the low income countries and the emerging economics¹ (Source: worldbank.org) assessed that the IPSAS could present challenges, especially when countries are not sufficiently prepared, when it comes to converging diverging national accounting and administrative traditions, implementation costs or preserving national sovereignty.

The recent study provides evidence that a plurality of articles (39.0%) are cross-country analyses. The majority of articles (56.1%) focus on the central government level. The state/regional level is targeted in only one single article (2.4%), and there are just two articles (4.9%) on the local government level. Only one article (2.4%) focuses on the level of single public-sector organizations. Finally, 9.8% of articles research the adoption of IPSAS in multiple levels of government (while 24.4% are not specific about the level of analysis).

In many emerging economies and low-income countries, local accounting and reporting practices already far exceed the requirements laid down in that standard. In such nations, the drive to implement the standards can stem more from external groups such as donor organizations, the accounting profession or consulting companies, than governments. These external stakeholders might have interests that differ from the interests of the governments in the countries concerned.

Finally, the implementation of IPSAS in emerging economies and low-income countries often

The key learnings from the implementation of NPSAS in Nepal can be summarized as follows:

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- Strong leadership commitment is crucial for ensuring transparency and accountability through the implementation of accounting standards.
- The adoption of integrated software, such as IFMIS, across all public sector entities is urgently needed for streamlined financial management.
- Training programs should be designed to enhance the skills and knowledge of the workforce involved in implementing NPSAS, resulting in the production of high-quality financial statements that can support decision-making.
- The legal framework should be adequately equipped to facilitate mapping and consolidation of financial information.
- Building the capacity of staff members to prepare qualitative financial statements is essential for achieving optimal results in decision-making processes.
- The implementation of accounting standards should be incorporated into the core accounting practices of public entities.
- While striving for full implementation of NPSAS, recognition should be given to entities that already adhere to better reporting standards.
- The successful implementation of NPSAS in all three tiers of government can be facilitated by leveraging the IT systems.
- Engaging professional accountants in the public sector will contribute to improved financial information quality and standardization of accounting practices.

6. Conclusion and Way Forward

6.1 Reform Initiatives

The Financial Comptroller General's Office (FCGO) has taken the responsibility of developing the reporting engine within the Chart of Accounts System (CGAS) and the Financial Management Information System (FMIS) for generating consolidated financial reports of all budgetary and extra-budgetary entities. Concurrently, the Public Expenditure Financial Accountability (PEFA) secretariat has been implementing the Integrated Public Financial Management Reform Program (IPFMRP) to enhance capacity development and promote public financial management (PFM) reforms in Nepal. This initiative aims to facilitate the reporting of consolidated financial statements through the utilization of an integrated system.

While implementing the accounting standard at the budgetary entity level is relatively straightforward, challenges arise in relation to the extra-budgetary entities, as their accounting systems and charts of accounts are implemented at varying levels. To address this, the FCGO is planning to revise the accounting format and charts of accounts used by the Office of the Auditor General (OAG) to ensure comprehensive capture of all financial information. Specifically, the existing OAG forms, namely No. 271 and 272, are being revised to incorporate financial information pertaining to the consolidated fund.

Through these efforts, the FCGO and PEFA secretariat are actively working towards enhancing financial reporting capabilities and streamlining the consolidation process across all entities. By revising and aligning accounting formats and charts of accounts, they aim to ensure accurate and comprehensive financial information is captured, thereby promoting transparency and accountability in public financial management in Nepal.

6.2 Roadmap of Effective Implementation

To effectively implement NPSAS in Nepal, a comprehensive roadmap is necessary. Firstly, there is a need to raise awareness among the leadership about the significance of NPSAS in enhancing accountability and transparency in the public sector. This can be achieved through workshops and seminars that highlight the benefits of adopting international accounting standards.

Collaborating with training institutions within the public sector is crucial to design and deliver NPSAS courses. This will ensure that the workforce receives adequate training and knowledge to implement the standards effectively. Additionally, creating a pool of experts, who can provide technical solutions and guidance on NPSAS-related issues will further strengthen the implementation process.

Regular updates to the existing standards in line with international market changes are essential to maintain relevance and compliance. The government should work closely with international accounting bodies to stay up-to-date with best practices.

Rolling out an approved NPSAS course and providing accreditation with validity in civil service training will incentivize civil servants to actively participate in the training. Moreover,

incorporating NPSAS and government accounting as subjects in university courses will help create a future generation of professionals well-versed in these standards.

To ensure a high level of expertise, the government should focus on increasing the number of professional cadres within the accounting group in civil service. Encouraging and supporting professionals to pursue further qualifications and certifications will contribute to this goal.

Lastly, developing an integrated software system for financial recording and reporting, such as IFMIS, will streamline financial management practices and ensure consistency in reporting across all entities. By following this roadmap, Nepal can achieve successful implementation of NPSAS, leading to improved financial transparency and accountability in the public sector.

Table 4: Roadmap of Effective Implementation

Activities	Years					Implementing agency	Term	
	1	2	3	4	5		S	L
Raise awareness in the leadership on the essence of the NPSAS in accountability & transparency.	+					ICAN & ASB	⊙	
Collaborate with the training delivering institution in public sector for NPSAS course	+					FCGO, ICAN & ASB	⊙	
Create a pool of experts to provide technical solution in NPSAS related issues	+					ICAN, FCGO	⊙	
Update the existing standards in line with the changes introduced in international market	+					ICAN & ASB	⊙	
Rollout approved course for the NPSAS and provide accreditation with validity of training in civil service	+	+				PSC, MoF, FCGO		⊙
Imbedding the NPSAS and government accounting subject in university courses		+	+			ICAN, TU & other Uni.		⊙
Increase the professional cadres within the accounting group in civil service		+	+	+	+	PSC, MOFAGA, FCGO		⊙
Develop an integrated software system in financial recording and reporting			+	+	+	MoF, FCGO		⊙

S = Short term and L= Long term

In addition to the aforementioned roadmap, an important step towards implementation is the mapping of entities, which requires a decision from the relevant authority. This mapping process needs to be carried out annually in the last quarter of the fiscal year, and the information should be made easily accessible to the public through the website of the Financial Comptroller General Office. The diagram below illustrates the process of entity mapping:

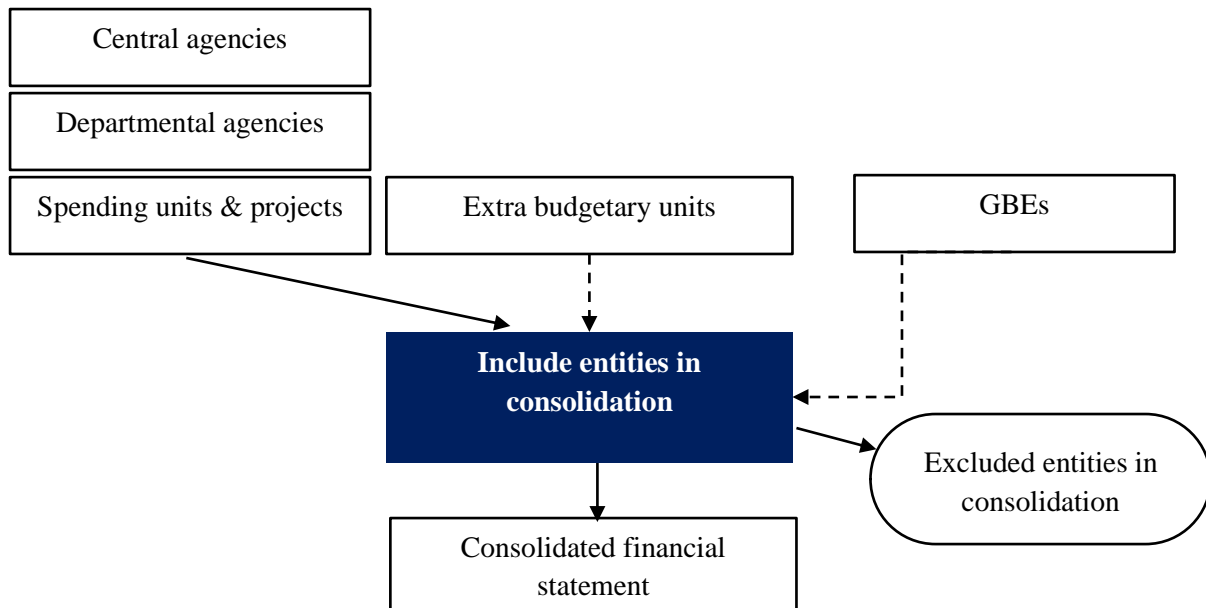


Figure 7: Mapping for better controlled implementation

Once the mapping exercise is completed, which involves identifying and defining controlled and administered transactions through various identification mechanisms, it will serve as a crucial step towards implementing the accounting standard in a more practical manner. This will mark a fresh new push in addition to the on-going initiatives led by FCGO and the PEFA secretariat. To ensure capacity development, a standardized course should be developed and approved, with accreditation provided by ICAN. In-service training programs should also incorporate this course, allowing voluntary participation for individuals seeking to enhance their understanding and proficiency in the subject matter.

Considering the international study and the national experience of NPSAS implementation, Nepal has to consider short and long term strategy in effective implementation of the standard.

Short Term Strategy

- Introduction of NPSAS short term course and conduct capacity development courses to the accounting staff in civil service
- Development of reporting mechanism through use of IT systems
- Mobilizing professional accountants to support in preparation of NPSAS based financial information in collaboration with FCGO
- OAG has to consider the NPSAS based financial statement for the audit of every entity, other statement of expenditure, revenue and deposit shall be a part of the financial statement workings.
- Conducting TNA to identify the existing gaps in the accounting standard implementation.

Long Term Strategy

- Emphasizing change management and building leadership ownership through a well-defined change management plan.
- Implementing a competency framework for the accounting group in the public sector and focusing on capacity development from the entry level.

- Collaborating with institutions like ICAN, NASC, and PFMTC to offer standardized courses on accounting and reporting, ensuring wide accessibility and adoption.
- Investing in the development of professional manpower within the government service group to enhance the quality of financial management and reporting.
- Improving systems and procedures to align with the accounting standards, ensuring compliance and accuracy in financial reporting.

6.3 Role of ICAN and various agencies in implementation

In Nepal, ICAN holds a prominent position as the sole professional organization in financial management and accounting practices. It is crucial for ICAN to play a leading role in enhancing financial management practices within the public sector, similar to its contributions in the private sector. Collaborative efforts between ICAN and institutions such as FCGO, NASC, PFTMC, PCGG, and LDTA are necessary for capacity development activities. FCGO has already made significant progress in this regard, and now it is ICAN's responsibility to produce professional experts in the field of accounting.

Currently, ICAN has established the NPSAS and PFM committee to lead these activities. However, establishing a dedicated department within ICAN specifically focused on public sector issues would further facilitate effective implementation. Leveraging ICAN's international affiliations and partnerships would also enhance international collaboration and support the overall development of these initiatives. Furthermore, universities have a crucial role in producing well-trained accounting professionals through academic interventions, which will contribute to the successful implementation of accounting and reporting standards.

In line with the proposed roadmap, the following actions need to be taken to fulfill these roles effectively.

Table 5: Inter Agency Coordination and Role

Actions	ICAN	ASB	Uni.
Establish and collaborate with NASC, PFMTC and FCGO in delivering capacity development activities	+	+	+
Collaborate with universities in incorporating the course academic modules	+		+
Collaborate with public service commission in implementing competency framework in accounting service group	+		+
Roll out NPSAS course for fixed duration	+	+	
Provide a pool of experts to resolve issues of accounting, reporting and NPSAS implementation in GoN	+	+	+
Support FCGO in preparation of business process and financial reports	+	+	+
Train manpower at OAG to ensure the NPSAS compliant financial statement are used in conducting audit at all entities in three tiers of government.	+	+	+
Support in defining the business process for developing the IT system incompliance with accounting standards	+	+	+

6.4 Stepping Towards Accrual Accounting.

The Government's ultimate goal in accounting practices is to transition to accrual accounting. However, it is crucial to carefully assess the pros and cons and conduct a cost-benefit analysis before directly implementing the accrual system. According to the International Public Sector Financial Accountability Index 2021 status report by IFAC and CIPFA, currently, 30% of governments report on accrual-based accounting, with 40% transitioning from cash to accrual-based reporting. Additionally, 57% of governments already practicing accrual-based accounting make use of IPSAS. It is projected that by the end of 2025, 73% of countries will report on an accrual basis, either using IPSAS as a reference or applying it directly or indirectly.

To ensure a successful transition, it is advisable to adopt a gradual approach, starting with modified cash accounting, then transitioning to modified accrual, and finally fully implementing accrual accounting. The Government of Nepal currently follows a modified cash basis of accounting, incorporating major elements of accrual accounting for advances, deposits, payables, revenue, bank/cash balances, fixed assets, loans, and investments. These significant features have already shifted the accounting practice toward accrual.

However, certain preconditions outlined in Study 14 of IPSAS need to be met before transitioning to accrual accounting. Political and leadership factors must be considered in this process.

Prior to embarking on major initiatives, it is essential to address manpower and IT system requirements. Professional accountants should be involved in the overall accounting system to ensure appropriate reporting and accounting practices. Central agencies and FCGO should have dedicated professional accountants to enhance the quality of the accounting system. Existing accounting staff within the public service can undergo capacity development through professional courses, while professional accountants available in the market can be engaged to provide better services.

6.5 Conclusion

In conclusion, the adoption of accounting standards in Nepal extends beyond mere financial statement preparation. Although Nepal received a certificate of conformance for preparing NPSAS-based financial statements from ICGFM, it is essential to understand that this alone is not the sole determining factor. To enhance the quality of financial reporting, it is imperative to go beyond the current scope and focus on user-friendly general-purpose statements. However, during this process, it is crucial to acknowledge and address the challenges and limitations associated with implementing these standards.

The federal government has successfully produced financial statements with the assistance of professional experts. However, the subnational governments faced limitations in accessing similar resources. Despite these challenges, the implementation has been facilitated through the use of software systems.

One critical consideration is the cost involved in implementing an IT system capable of meeting the requirements of the standards. This cost can be significant, necessitating meticulous planning and allocation of resources. Additionally, the development of user-friendly systems to facilitate the preparation and disclosure of high-quality financial statements should be prioritized.

In recent years, NPSAS has made significant developments, recognized through the finance procedure act and regulations, representing a major milestone. Accounting and reporting formats have been aligned with the standards, and software systems have been made compliant, indicating a gradual progression in standards compliance. This sends a clear message to both the national and international communities that standard implementation is a long-term endeavor and cannot be achieved overnight. It requires a phased approach with the focus on getting the basics right before proceeding.

To achieve successful implementation of accounting standards, Nepal should prioritize digital and financial literacy within the public service and its stakeholders, maintain stable leadership and ownership, and strengthen the role of key stakeholders such as the Financial Comptroller General Office, Auditor General, and ICAN. Political will and leadership ownership are crucial factors in ensuring successful implementation.

This concentrated effort will lead to enhanced financial transparency, accountability, and improved decision-making processes, ultimately contributing to the overall development and prosperity of the country.

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