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standard-setters group

Report on Standard- Setting Capacity in Nepal

Building Regional Capacity Initiative

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Executive summary

The review of Nepal's standard-setting processes is part of the Asian-Oceanian Standard-Setters Group¹ (AOSSG) initiative to build regional standard-setting capacity by establishing a pilot IFRS Center of Excellence (IFRS CoE) in Nepal. This initiative aims to assist the Accounting Standards Board, Nepal (ASB) in building its capacity to adopt and facilitate implementation of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). On adoption those standards will be named Nepal Financial Reporting Standards (NFRS).

The recommendations contained in this report that are considered to be of highest priority are summarised below:

1. There is a particular set of technical skills and knowledge required to be a standard-setter that needs to be developed and applied with rigour within a strategy appropriate to the jurisdiction. Further, the ASB is in need of full-time staff (at least three) who are technically talented to support the development of financial reporting standards. Accordingly, the ASB needs a business plan, which includes key strategies for strengthening the overall technical and professional competence and effectiveness of the ASB and its staff as standard-setter, to serve the needs of existing and potential users of financial reporting. The ASB should identify, in order of importance, planned activities under each strategic initiative.
2. The ASB should develop a strategic plan, as a subset of its business plan, that identifies the IFRS technical projects and the IFRS adoption plan that the ASB is pursuing. The ASB should reflect its plans on raising the awareness of IFRS adoption in Nepal in its strategic plan. Furthermore, the awareness of IFRS adoption should be reinforced by making available, on the ASB website and as paper copies to major listed entities and key stakeholders, the reason and scope of the adoption, and the roadmap for the mandatory adoption dates. The strategic plan for IFRS adoption should be published each year by the ASB to discharge its accountability to the stakeholders in financial reporting.
3. Recommendations 1 and 2 would inevitably mean that the ASB would need greater funding. Therefore, a strategic plan for improved funding also needs to be developed as part of the business plan and executed with the Nepal Government and donor agencies.
4. The ASB should align its due processes, including the issuing of Discussion Papers, Exposure Drafts, Standards and Interpretations in Nepal as closely as possible with the timing of the issuance of Discussion Papers, Exposure Drafts, Standards and Interpretations by the IASB to enable the views of Nepal stakeholders to be heard before IASB proposals are finalised and to ensure that, once adopted, IFRS compliance is maintained in Nepal. As a first step, the ASB should participate in the AOSSG's process of commenting on the IASB's Discussion Papers, Exposure Drafts, and

¹ Details of the AOSSG can be referred in the Appendix of this Report.

contributing to the development of IFRS and Interpretations of IFRS.

5. The ASB needs to ensure its existing and future members are technically competent. A board member appointment policy document, including preferred skills and experience for ASB members, should be formulated and provided to the Nepal Government and ICAN to assist them in nominating and appointing ASB members. Appointed members to the ASB should acknowledge their roles and responsibilities. The involvement of stakeholders, for example, regulators and government bodies, in the ASB processes should not lead to the ASB being populated representationally. In other words, technical expertise should prevail as the prime requirement.

We note that the ASB has made significant progress in rolling out IFRS in Nepal despite being limited in both financial and human resources. The strides made both in the setting of standards and in the development of the accounting profession in Nepal over the past 20 years have been very commendable. We note that the support of the donor agencies has proved quite successful. We also note the open attitude and willingness of the stakeholders to transition to standards that are converged with IFRS. Though Nepal faces enormous challenges, it has shown a genuine preparedness to respond to them. We believe that the standard-setting and related financial reporting capacity would be greatly improved with the provision of additional financial resources and technical support.

The views expressed in this Report are based on the experiences of the member standard-setters of the AOSSG IFRS CoE for a Developing Country Working Party² dedicated to this initiative.

² Members of the AOSSG IFRS CoE for a Developing Country Working Party are national standard-setters from Australia, China, Hong Kong, India, Indonesia, Iraq, Japan, Korea, Malaysia, Nepal and Pakistan.

Background of the Review

1. The ASB and the AOSSG agreed to establish an IFRS CoE in Nepal to help in the development of the ASB's capacity for introducing and facilitating application of IFRS in Nepal. The purpose of the IFRS CoE is consistent with the AOSSG's objectives; including, in particular, promoting the adoption of, and convergence with, IFRSs by jurisdictions in the region. The creation of the CoE is being facilitated by the AOSSG's IFRS CoE for a Developing Country Working Party.
2. The IFRS CoE in Nepal belongs to the ASB and not to the AOSSG. The establishment of the IFRS CoE in Nepal is a two-year pilot project (commenced in November 2012). The AOSSG may facilitate the establishment of IFRS CoEs in other developing AOSSG jurisdictions.
3. The first set of initiatives of the IFRS CoE in Nepal comprises:
 - (a) this review of the processes employed by the ASB in setting standards to identify areas in which improvements could be suggested, based on the experiences of other AOSSG members. The review of the ASB's standard-setting processes involved a study of the ASB's mandate, membership and characteristics, staffing, training, technical materials, infrastructure, funding, governance (including the independence of the ASB), communication with stakeholders, and stakeholder access to meetings and due process.
 - (b) training for the board members, staff of the ASB, and selected other people to provide the ASB with the capacity to further train and explain IFRS to others. This is being achieved over a number of intensive but short-duration train-the-trainer sessions, complemented by remote assistance (if necessary).
4. Further initiatives could follow upon the completion of the first two initiatives above. Other initiatives that have been considered include:
 - (a) secondments of ASB staff to established AOSSG member standard-setters or secondments of experienced AOSSG member standard-setting staff to the ASB, on a rotational basis;
 - (b) the provision of access to topical experts in AOSSG jurisdictions;
 - (c) the linking of the ASB to key international contacts, including at the IASB; and
 - (d) the provision of technical and further training materials.

The AOSSG is also most hopeful that the ASB's active involvement in the AOSSG technical working groups and AOSSG conferences will build its standard-setting capacity. That participation has already begun and has also led to the introduction of the ASB to the IASB and global standard-setting community.

5. This Report outlines the observations from the review and provides recommendations

that may help develop further the ASB's standard-setting capacity. Those recommendations have been benchmarked against the International Forum of Accounting Standard Setters (IFASS) [A Model for National Standard-Setters](#)³.

Members of the ASB and key stakeholders involved in the review process

6. Staff of the Australian Accounting Standards Board (Christina Ng, Senior Project Manager) and Hong Kong Institute of Certified Public Accountants (Winnie Chan, Associate Director) undertook the review of the ASB's standard-setting process in Kathmandu on 7-12 April 2013 and are the authors of this report. They met with the following key stakeholders:

	Name	Designation
1	Mr. Narayan Bajaj	ASB Chairman
2	Mr. Probin Dhoj Joshi	ASB member
3	Mr. Lok Man Maskey	ASB Chief Executive Officer (CEO)
4	Mr. Narendra Dahal	Financial Comptroller General, Ministry of Finance (MOF)
5	Mr. Babu Ram Subedi	Deputy Financial Comptroller General, MOF
6	Mr. Baikuntha Aryal	Joint Secretary, MOF
7	Mr. Mahesh Dahal	Joint Secretary, MOF
8	Mr. Khum Raj Punjali	Joint Secretary, MOF
9	Mr. Maha Prasad Adhikari	Deputy Governor, Nepal Rastra Bank
10	Mr. Rajan Singh Bhandari	CEO, Citizens Bank International Limited
11	Mr. Fatta Bahadur K.C.	Chairman, Insurance Board
12	Mr. Shankar Aryal	Company Registrar and ASB member
13	Mr. Babu Ram Shrestha	Chairman, Securities Board of Nepal (SEBON) and ASB member
14	Mr. Binaya Dev Acharya	Deputy Director, SEBON
15	Mr. Navin Pandit	Chartered Accountant, SEBON
16	Mr. Madhu Bir Pande	President, Institute of Chartered Accountants of Nepal (ICAN)

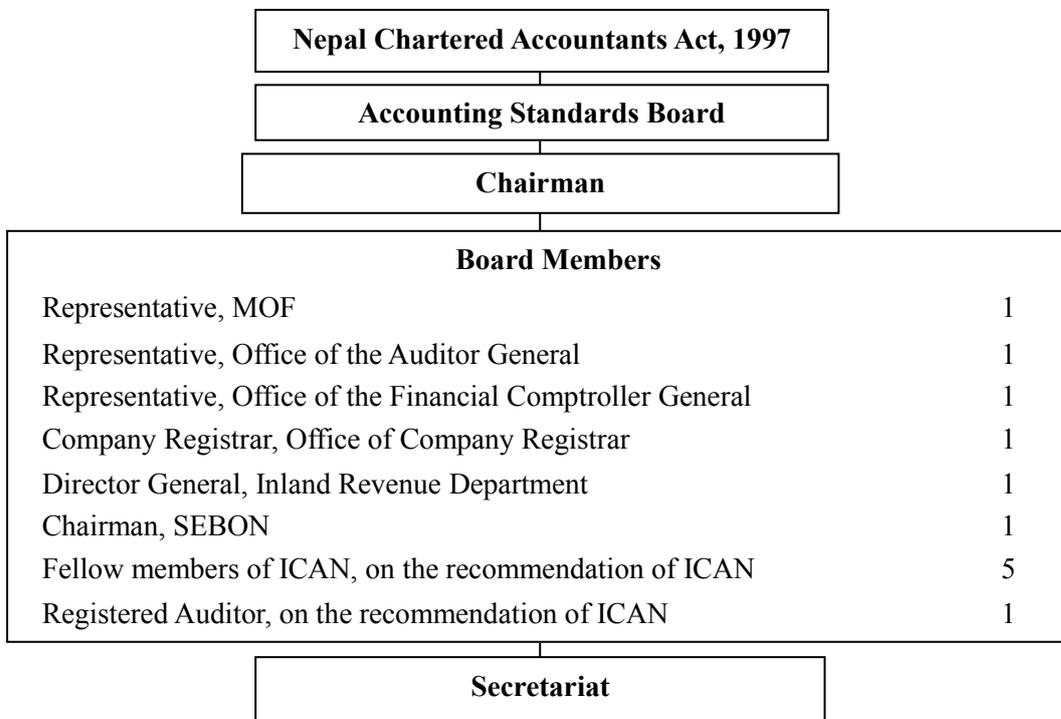
3 IFASS is a group of accounting standard-setters that meet regularly to share and discuss IFRS issues and experiences. [A Model for National Standard-Setters](#) was developed through the IFASS to provide a basis for a national standard-setter to maximise its contribution to the quality of general purpose financial reporting, particularly through participation in the development of high-quality global accounting standards issued by the International Accounting Standards Board (IASB). This is consistent with the public interest role of a national standard-setter (and the IASB) that is aimed at serving users of financial reports in their economic decision-making.

This Model could be used as a basis for improving or setting up standard-setting capacity through a national standard-setter in a way that suits its mandate, legal, institutional and economic environment to act in the public interest.

Background of the Accounting Standards Board, Nepal

7. The ASB is an independent statutory body with the responsibility to set accounting standards for preparation and presentation of financial statements in Nepal. Following from the valuable input of donor agencies⁴, and the cooperation of the Nepal MOF, the ASB was established in March 2003 with an amendment to the Nepal Chartered Accountants Act, 1997. The ASB is committed to setting accounting standards for business enterprises in line with the IFRS and for the public sector in line with the International Public Sector Accounting Standards (IPSAS)⁵.
8. The ASB consists of 13 members nominated by the Nepal Government. ASB members are appointed from their respective organisations (refer diagram below).

Diagram 1: Organisational structure of the ASB



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- 4 For example, the Asian Development Bank ‘Capacity Building for the Accounting and Auditing Profession in Nepal Project’ (1999/2000) and the World Bank ‘Strengthening Public Financial Management Systems Project’ (2001)
 - 5 IPSAS are set by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants. The IPSASB bases many of its IPSAS on the corresponding IFRS.

ASB Standard-setting Processes

Statutory framework for accounting

Observations

9. The Nepal Chartered Accountants Act, 1997, states that ‘Accounting Standards’ are the accounting standards, including directives and explanations, prepared or recommended by the ASB to govern and regulate the accounting profession and financial reporting system.
10. The ASB is committed to setting accounting standards for business enterprises in line with the IFRS and for the public sector in line with the IPSAS. The main rights, roles and responsibilities of the ASB, pursuant to Section 15(b) of the Nepal Chartered Accountants Act, 1997, are to:
 - develop accounting standards based on relevant international accounting standards to govern and regulate the accounting profession;
 - set procedures to develop accounting standards and publish materials related to accounting standards;
 - make improvements and revise accounting standards in line with international accounting standards;
 - interpret the accounting standards; and
 - perform other functions related to accounting standards.
11. At the time of writing this Report, 19 Nepal Accounting Standards (NAS) that are largely based on the corresponding IFRS⁶ have been issued and are operative in Nepal since 15 July 2008. However, the application of NAS may not be consistent in practice and is not monitored.
12. To improve the ability of domestic and foreign investors to use financial statements of Nepali entities, and to improve their perceptions of Nepali financial reporting in general⁷, the ASB undertook the following steps in making its decision to adopt IFRS [which will be named the Nepal Financial Reporting Standards (NFRS)].
 - (a) A study of the differences between existing NAS and accounting practices among public listed entities and state-owned enterprises, to understand the level of implementation of NAS, the costs and challenges of implementation, and the reasons for deviation from NAS.
 - (b) Publication of 40 IFRSs of the IASB for public comment as part of the ASB’s

⁶ The 19 NAS are adopted from the IAS series issued by the IASB.

⁷ There is a widespread support for the adoption of IFRS in Nepal among key stakeholders, including the MOF, SEBON, Company Registrar, Insurance Board, Nepal Rastra Bank and ICAN for the same rationale expressed in paragraph 12.

due process. Submissions from key stakeholders, including SEBON and ICAN, were received and considered by the ASB.

- (c) A cost-benefit study of adopting IFRS and effective implementation that involved consultation with its technical sub-committee members (refer paragraphs 30 and 37).
13. At the time of the review visit in Kathmandu (April 2013), the ASB expected to adopt NFRS by financial reporting periods beginning 15 July 2013. The adoption timeframe of NFRS is now expected to be as follows:
- Financial reporting periods beginning 15 July 2014: Listed Multi-National Companies
 - Financial reporting periods beginning 15 July 2015: Financial Institutions
 - Financial reporting periods beginning 15 July 2016: State-owned enterprises and other listed entities
14. The ASB has made announcements that NFRS will be adopted in Nepal through media advertisements, education sessions via collaboration with ICAN and meeting with key stakeholders.

CoE Working Group recommendations

15. The ASB has endeavoured to promote awareness of the new requirements to comply with NFRS.
16. In line with reinforcing awareness of IFRS adoption in Nepal, we recommend the following information should be made available on the ASB website⁸, and as paper copies, to major listed entities and key stakeholders (MOF, ICAN, Nepal Banker's Association, SEBON, Company Registrar, Auditor General, Insurance Board, Financial Comptroller General Office, Inland Revenue Department):
- (a) A statement of intent or an explanatory memorandum that rationalises the adoption of NFRS, the support for adoption by the MOF and other key stakeholders, and the scope of adoption;
- (b) A roadmap for adopting NFRS that sets the milestones of the required use of NFRS by Nepal entities (referred to in paragraph 13 above), including any necessary amendments to regulations needed to facilitate adoption. This roadmap should be provided even though the ASB may re-assess the appropriateness of the timeframe for NFRS adoption in due course; and
- (c) An up-to-date analysis of the differences in accounting requirements between accounting in practice (or NAS) and NFRS.

⁸ This information should be made distinctly available on the ASB's website.

Governance, including independence of the ASB

Observations

17. The ASB has received valuable funding for some activities from donor agencies, through the MOF, and the ASB is required to report its activities to the MOF. Accordingly, the body that comes closest to being an oversight body⁹ of the ASB is the MOF.
18. An annual report, including the audited financial statements and audit report, is provided to the MOF. In most circumstances, a project plan is required by the MOF for funding applications. Business and strategic plans of the ASB have not been required by the MOF, nor have they been a requirement for the application of funding from donor agencies.
19. Board meetings are held privately. Meeting agendas, board papers and minutes are not publicly available. Meeting agendas are developed based on technical issues or key operational matters as they emerge.
20. ASB members are not required to make any declaration of conflicts.

CoE Working Group recommendations

Preparing business plans and supporting strategic plans

21. It is recommended that the ASB be openly accountable for its performance by improving the information provided to constituents, and in doing so, the ASB should consider developing:
 - (a) a business plan, which includes consideration of the ASB's strategic plans, and identifies the ASB's needs (for example, staff, infrastructure, funding) and costs expected to be incurred to undertake the ASB's standard-setting activities. The business plan should be provided to the MOF and/or donor agencies as part of its reporting to assist in determining funding allocations; and
 - (b) a strategic plan (covering at least two years), which is a subset of the business plan, that (i) identifies its technical work plans, including the IFRS adoption plan that the ASB aims to undertake and (ii) reports on its progress in relation to those plans. In planning its strategy, the ASB should consult with its constituents, including key stakeholders (or the oversight body, if established) about their project priorities to ensure that the ASB is using its resources

⁹ An oversight body is responsible for ensuring that appropriate governance arrangements are in place and observed by the national standard-setter. It typically has the responsibility for providing a broad oversight of the national standard-setter's processes for setting accounting standards in a jurisdiction; providing reports and advice about those processes to the governing body; and providing advice or feedback on the national standard-setter's priorities, strategic and business plans, and policies and procedures. The oversight body should be constituted in a manner that enables representation by various stakeholders, for example, from the public and private sector; and the user, preparer, regulator, audit and academia community.

appropriately to resolve issues that are pertinent to its stakeholders. The strategic plan should also identify, in order of importance, planned activities that the ASB will undertake under each strategic initiative. Those strategies (and the progress of those strategies) should be updated on an annual basis. The strategic plan should be published by the ASB and made available to the public on the ASB website each year to discharge its accountability to the stakeholders in financial reporting, such as the MOF, donor agencies and the oversight body (if established) even if it is not a requirement.

Transparency

22. Setting accounting standards in a transparent manner provides an environment whereby stakeholders will be fully informed of developments and will provide the ASB with insight into alternative views. The ASB should consider making its technical deliberations transparent, for example, by making board meeting agendas, papers and minutes publicly available as a first step; and conducting presentations and roundtable discussions with constituents and ASB meetings in public at a later stage.

Oversight role

23. The MOF should establish a formal oversight process for the ASB's standard-setting activities and ensure that the ASB is meeting its strategic plans and due process, for example, by establishing a separate committee to advise the MOF and which has appropriate representation from the various stakeholders, such as, the public and private sector; the user, preparer, regulator, audit and academic communities. Examples of such an oversight body internationally include the IFRS Foundation for the IASB, the Financial Reporting Council in Australia, and the Standards and Quality Accountability Board in Hong Kong.
24. An oversight body should be independent of the ASB's technical decision-making. That would not preclude some linkage between the oversight body and the ASB, for example, the ASB Chairman might be a member of the oversight body and assist in keeping the oversight body up-to-date of the ASB's activities [paragraph 4.10 of *IFASS A Model for National Standard-Setters*].

Independence of the ASB

25. Consistent with the desired qualitative characteristics identified in the IFASS publication *A Model for National Standard-Setters* and in paragraph 32(b) below, ASB members should disclose any significant conflicts of interest at each board meeting. For example, an ASB member may have provided advice to a client on a technical issue before the Board.
26. These declarations should be documented as part of the minutes of the meeting, which in due course, should be made available to the public on the ASB website.

Board membership and characteristics

Observations

27. As indicated above, the ASB consists of 13 members. Six members, including the Chairman, from ICAN and one member from the Registered Auditors are appointed by the Nepal Government; and six members (representatives of MOF, Auditor General, Financial Comptroller General, Company Register, Inland Revenue Department and SEBON) are appointed under the Nepal Chartered Accountants Act 1997, Section 15a. The ICAN council typically provides a list of nominations for the six non-government ASB member positions. The ASB Chairman must be a senior Chartered Accountant. ASB members are appointed for a renewable term of three years.
28. ASB members are not necessarily required to have a background or experience in accounting. Other than the required ASB composition set by the Nepal Chartered Accountants Act 1997, there are no formal appointment criteria for ASB membership. Neither the Act nor the Office of the ASB stipulates the roles and responsibilities of ASB members and characteristics that ASB members should possess. It is not a practice to issue letters of appointment that describe the roles and responsibilities of an ASB member.
29. In recent years, some ASB members representing the government, as appointed under the Nepal Chartered Accountants Act 1997, have been replaced on an annual basis due to an internal government rotation policy.
30. Technical sub-committees, which comprise professionals from accounting firms and commercial organisations, are formed to advise and assist the ASB in the preparation and implementation of accounting standards. Technical sub-committees, led by at least one ASB member, are designed to fill any gaps in the technical knowledge within the ASB.

CoE Working Group recommendations

31. A board member appointment policy document, including the preferred qualitative characteristics of members, should be formulated and provided to the Nepal Government and ICAN to assist them in nominating and appointing ASB members.
32. In formulating that policy, the ASB should aspire to the following qualitative characteristics¹⁰:
 - (a) Acting in the public interest and being neutral and objectiveASB members should aim to be neutral and objective in serving legitimate user

10 These are the recommended qualitative characteristics under the IFASS *A Model for National Standard-Setters*, paragraph 4.1. Refer to footnote 3 for a background on IFASS and its publication on *A Model for National Standard-Setters*.

needs; for example, in developing proposals and dealing with stakeholders comments on those proposals, which should be based on genuine concern for the usefulness and an assessment of the costs and benefits associated with proposals. That will involve the ASB having a responsive due process in order to obtain sufficient information to enable it to make an objective assessment [paragraph 4.4 of *A Model for National Standard-Setters*].

The ASB should avoid being an instrument of other policy objectives that conflict with the objective of general purpose financial reporting. For example, the main role of a national standard-setter would not include setting standards for the preparation of special purpose financial statements that another regulator, such as a prudential regulator, could demand and that contain information tailored to that regulator's particular needs [paragraph 4.5 of IFASS *A Model for National Standard-Setters*]. Likewise, it is highly desirable not to have other regulators specifying general purpose financial reporting requirements.

(b) Independence

An independent national standard-setter is one that is able to act credibly in the public interest and approach topics in a neutral manner in pursuit of the objective of general purpose financial reporting, rather than other objectives that may be driven by vested interests. [paragraph 4.6 of IFASS *A Model for National Standard-Setters*]

Ideally, the ASB is established as an organisation that is independent of the entities for which it sets standards. However, in conducting its activities, ASB members will have relationships with entities and parties who might be regarded as having a vested interest in the outcomes of the standard-setting process, such as professional accounting bodies, preparer representative groups, auditors or governments. This is because they are key sources of the ASB's information and may also be the providers of resources (including funding, staff secondments and volunteer board members). [paragraph 4.7 of IFASS *A Model for National Standard-Setters*] Nevertheless, those relationships should not be allowed to compromise the independence of ASB members. The ASB should document and implement policies and procedures that set out its responsibilities and accountabilities that help ensure it remains independent in its decision-making and is seen to remain independent, despite receiving inputs or resources from key constituents. The ASB might generate those policies and procedures itself or it may be done through an oversight body (as described in paragraph 23) [paragraph 4.8 of IFASS *A Model for National Standard-Setters*].

(c) Competence

Standard-setting involves bringing together concepts, precedent, practice and change-management. It requires both domestic and international knowledge (of the literature, practice, industries, regulation and economics, finance,

government and many other matters), technical skills, rigour and strategic planning. It is unlikely that individuals with all of those attributes are to be found and so a national standard-setter usually has a membership with a blend of skills and backgrounds, including in standard-setting itself. [paragraph 4.11 of IFASS *A Model for National Standard-Setters*]

The ASB needs to ensure its current and future ASB members are highly technically competent. Accordingly, ASB members should be appointed for their technical competence, analytical ability, communication skills, judicious decision-making and awareness of the financial reporting environment, and not on the basis that they are the representatives of any particular constituency. In other words, the technical expertise should prevail as the prime requirement. The range of skills needed on a board will often involve drawing on qualified members from particular constituencies.

To be competent, a national standard-setter also requires full-time technical accounting staff and external experts who may be from the academia, preparer, regulatory, audit or user communities and who the ASB can consult with as part of its network of technical consultative groups. To some extent, the ASB's technical sub-committees may already play the role of experts to the ASB.

In addition, the ASB should work with other national standard-setters and/or the AOSSG to develop those skills by participating in conferences and working groups, such as those of the AOSSG and IFASS, and raising technical issues as they arise.

(d) Effectiveness

To the extent that the ASB's role involves effectively disseminating information from the IASB to local constituents and incorporating IFRSs into the local regulatory framework, the ASB should work together with national standard-setters or the AOSSG through the working groups, and/or the IASB or IFRS Interpretations Committee directly, in communicating potentially complex ideas to help ensure that they are readily understandable by constituents. This could involve providing a local context to help local understanding, such as identifying the types of entities or transactions that the ASB expects to be affected by particular IFRS requirements. The ASB should ensure its aims and processes of standard-setting are clear to its constituents, otherwise they may not appreciate why standard-setting in general can be complex and difficult to understand, and how it relates to their circumstances [paragraph 4.15 of IFASS *A Model for National Standard-Setters*].

The ASB should have regard to its comparative advantage in certain areas as a means of maximising its effectiveness [paragraph 4.16 of IFASS *A Model for National Standard-Setters*].

(e) Efficiency

Standard-setting processes, and the pace at which they take place, need to be commensurate with the challenges to be addressed. The ASB should aim to inform its constituents about the need for, and level of urgency of, change (whether because of improvements in standards or responses to economic circumstances) and the relevant processes for achieving that change [paragraph 4.17 of IFASS *A Model for National Standard-Setters*].

The ASB should also aim to inform its constituents about the nature of global standard-setting to explain its response times on issues of interest (for example, as NFRS will be linked with IFRS, the ASB will be unable to act unilaterally on an issue) [paragraph 4.18 of IFASS *A Model for National Standard-Setters*]. Efficiency also involves the ASB helping constituents to manage the pace of change. For example, when adopting IFRSs by incorporating them into local law, it should do so as soon as new and revised IFRSs are issued, if feasible. That may involve compiling standards for application at a particular date that suits the local jurisdiction, or translating them into a local language on a timely basis [paragraph 4.20 of IFASS *A Model for National Standard-Setters*].

In dealing with emerging issues, the ASB needs to work cooperatively with other national standard-setters or the AOSSG, and achieve outcomes in a more effective and efficient manner than it would working in isolation. Indeed, the development role of the ASB requires that it work within the global structure that has emerged [paragraph 4.21 of IFASS *A Model for National Standard-Setters*]. For example, an existing structure would involve the ASB consulting with other national standard-setters or the AOSSG about emerging accounting issues experienced in Nepal before approaching the IFRS Interpretations Committee or the IASB.

33. ASB members should be provided with letters of appointment, which outline the roles and responsibilities (as referred in paragraph 10) pursuant to Section 15(b) of the Nepal Chartered Accountants Act 1997 and the qualitative characteristics of an ASB member (as referred in paragraph 32 directly above). Newly appointed members should be briefed on and acknowledge those roles, responsibilities and qualitative characteristics.
34. In addition, a balance of preparers, auditors and users of financial statements, and the broader financial reporting community should be maintained in the board membership. However, as mentioned in paragraph 32(c), technical expertise should prevail as the principal requirement.
35. ASB members would benefit from ongoing training/education sessions on IFRS, including any revisions to the standards, with the assistance of its technical sub-committees, external experts on specialised topics or regional body organisations, such as, the AOSSG and its Working Groups.

36. At a minimum, ASB members should acquire a good knowledge of IFRS.

Resources (staff, internal training, infrastructure, funding)

Observations

Staff and advisors

37. The ASB is mainly supported by its technical sub-committees, which comprise chartered accountants from accounting firms and commercial organisations, to advise and assist the ASB in the preparation and implementation of accounting standards. Technical sub-committees are led by at least one ASB member and are sources of technical knowledge for the ASB.
38. Technical topic experts are hired on a project basis, if necessary.
39. At the time of the review visit in Kathmandu (April 2013), the ASB had no technical staff and three to four administrative staff led by a Chief Executive Officer. Administrative staff members, with the assistance of the technical sub-committee members, were responsible for writing board papers and standards.
40. The ASB is in the process of employing technical staff who may be a chartered accountant and has at least 2 years of relevant work experience.

Information technology system and support

41. Basic electronic equipment (computers, laptops, scanner and printer) sufficient for the size of the administrative team and software such as Microsoft Office are available at the ASB offices. All ASB materials such as board meeting papers and standards are stored in the ASB computers. There is no official data management policy or practice. Data backup systems are not currently maintained at the ASB.
42. Internet access is available at the ASB offices. The ASB has a website that contains background information about the ASB, including its members, accounting standards that are in effect and proposed (such as, the new suite of NFRS), and recent news about the ASB (such as, upcoming training or conferences, and recently pronounced standards).

Technical materials

43. Physical technical references (IFRS Handbooks and other accounting materials) are currently reasonably sufficient. The internet accessibility at ASB offices provides them access to other key electronic technical materials, for example, the IASB's and larger accounting firms' technical updates or articles, and the IASB and other national standard-setter's technical board papers.

Funding

44. Funding of the ASB (mainly for operational and administrative expenses) is allocated by the MOF. Funding from donor agencies is conditional mainly upon the MOF's

official endorsement and support for the initiative. In addition, donor agencies typically require an understanding of the initiative and the cost-benefit to Nepal.

45. Aside from a small fee for attending board meetings, ASB members are not paid for their time in other standard-setting activities. Expenses incurred from the ASB's day-to-day operations and by ASB members while undertaking standard-setting activities, for example, travel costs for attending international conferences, are paid for from the allocated funds.

CoE Working Group recommendations

46. The ASB should aim to hire at least three full-time technical staff members, who ideally are, or are becoming chartered accountants, to assist the ASB in its standard-setting activities. The ASB funding application, including through budget or business plans as recommended in paragraph 21 above, should reflect the need for funding to increase the number of technical staff. Technical staff can be permanent or on secondment from accounting firms or the accounting divisions of corporates or banks; and can be topic specialists or standard-setting generalists. Technical staff should be given opportunities to establish contacts at other national standard-setters and at the IASB. This could involve attending IFRS training/updates internationally or domestically, and attending and participating in international conferences, such as the AOSSG, IFASS and IASB's World Standard-Setters conferences.
47. ASB members and technical staff should participate in AOSSG technical working groups that are relevant to Nepal and utilise these working groups as a source of technical reference. IFRS application issues are commonly shared and discussed among working group members.
48. Once full-time technical staff are available, the ASB should consider a succession planning policy that involves developing the knowledge and experience of its existing technical staff, and growing the technical team to more than three full-time staff members, if necessary.
49. The ASB should consider formulating the roles, responsibilities, qualitative characteristics (consistent with those referred in paragraph 32) and composition of its technical sub-committees. The composition of the technical sub-committees should be reviewed on a regular basis to ensure the appropriate level of skills is acquired. Its technical sub-committee members should also be provided opportunities to attend IFRS conferences, updates and trainings, with a view that these members will assist the ASB in conducting training for its staff and stakeholders, where relevant.
50. In due course, the ASB is recommended to consider developing its data management and data backup system policies or practices especially as it develops its standard-setting activities.
51. For the ASB to progress, the scale of its funding needs to be markedly improved. A funding plan needs to be developed and executed with the Nepal Government and

donor agencies.

Due process

Observations

52. Historically, the ASB has followed the procedures set out below. These procedures now need to be reconsidered in the light of the commitments to adopt IFRS.

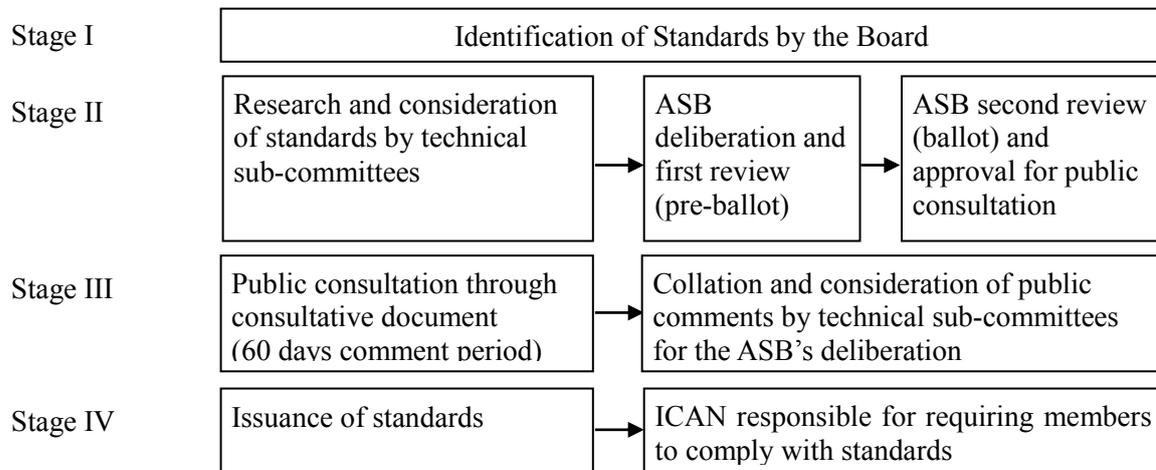
Formulating a standard

53. The ASB's process for formulating a standard¹¹ is summarised as follows and in Diagram 2 below.

- (a) The ASB identifies standards as issued by the IASB or the IPSASB to be considered and its Secretariat prepares a draft of those standards (Stage I).
 - (b) The ASB deliberates on the appropriateness, including the cost-benefit, of the standards in the Nepalese environment and direct technical sub-committees to prepare draft standards for exposure. The ASB reviews the first draft standards (pre-ballot) and provides comments to the Secretariat within 30 days. The Secretariat collates the ASB comments and prepares second draft standards (ballot) for the ASB's review or approval (Stage II).
 - (c) Upon its approval, the ASB issues the draft standards as exposure drafts for public comment for 60 days. Public comments are collated and considered for inclusion (if appropriate) into the near-final standard by the technical sub-committees (Stage III).
 - (d) The ASB reviews and provides comments on the near-final standards within 15 days. Upon the ASB's approval, the standards are declared as NFRS (or previously known as NAS) and provided to ICAN for mandatory implementation. Paper copies of the standards are provided to all regulatory bodies (Stage IV).
54. Existing standards have been published in English. At the time of writing this report, the ASB is considering translation of NFRS into the Nepali language and is in dialogue with the IFRS Foundation about the required licensing and translation processes.

¹¹ The ASB complied with this process in its recent preparation for the adoption of IFRS.

Diagram 2: The ASB accounting standards formulation process



Amending a standard

55. The ASB identifies the standards that are proposed for revision by the IASB or the IPSASB. A revisions committee, comprising two ASB members, one expert from the accounting profession and the ASB Secretariat, facilitates the revision process. The revisions committee meets with experts and other key constituents to discuss the amendments to the standards, and provides recommendations to the ASB on the appropriateness of the amendments in the Nepalese environment. The ASB deliberates on the recommendations and issues amendments to standards upon approval.
56. To date, the ASB has not made any revisions to NASs that have been mandatorily effective since 2008.

CoE Working Group recommendations

Formulating a standard

57. The ASB needs to be proactive in expressing its views to the IASB, which must happen on a timely basis to be effective. Accordingly, the existing due process needs to be adapted so that the ASB can participate in the regional (AOSSG) and global deliberations.
58. The adoption of a thorough due process in the development of accounting standards provides a basis for confidence in the integrity of the standards. It is important that stakeholders are able to understand the reasons for decisions and the manner in which the ASB has exercised judgments about matters such as costs versus benefits so as to promote confidence among stakeholders that their views are considered. A thorough due process relates to all stages of standard-setting – agenda setting, researching topics, making proposals, establishing transitional arrangements and post-implementation reviews.

59. It is recommended that the ASB conduct information sessions for key stakeholders and/or public roundtable discussions, particularly those in industries that might be greatly impacted by the issuance of new or revised standards. ASB members, technical staff or technical sub-committees should also request comment from these key stakeholders upon conducting information sessions or public roundtable discussions, or separately prior to the proposal comment due date.

Agenda priorities

60. In setting agenda priorities (that is, Stage I of the ASB due process), the ASB's process can be improved by:
- (a) seeking input from local stakeholders (including users, preparers, auditors and regulators) and ascertaining their needs as part of the ASB's strategic planning [refer paragraph 21(b)]; and
 - (b) identifying projects it might conduct in cooperation with other national standard-setters or the AOSSG or more directly with the IASB.

Process convergence

61. Not only is standard convergence (i.e. convergence of the content of each NFRS with the equivalent IFRS) important, **process convergence** is equally as important. It is recommended that the ASB should align the timing of issuing exposure drafts, standards and interpretations in Nepal as closely as possible with the timing of the issuance of exposure drafts, standards, and interpretations by the IASB. For example, the IASB public consultation period for formulating or amending a standard typically takes 120 days—the ASB should conduct its domestic public consultation, including outreach events, collation and deliberation of domestic public comments, and formulation and submission of ASB comments (that is, Stages I, II and III of Diagram 2 above), within the 120 day IASB comment period. The benefits of aligning the timing of the issuance of exposure drafts, standards and interpretations include:
- (a) stakeholders in Nepal are able to participate in global standard-setting by providing comments on international exposure drafts while they are still under consideration by the IASB, thus facilitating the views of Nepal stakeholders being heard before each IFRS is finalised by the IASB; and
 - (b) process convergence is necessary to help ensure product convergence. If a standard or interpretation is issued in Nepal after it is issued internationally, entities in Nepal may not be able to apply that standard or interpretation until after the international application date.
62. The ASB should consider devoting more resources to explaining proposals to stakeholders during the development of financial reporting standards in order to hear the views and reflect their comments. This could involve:
- (a) providing a summary of the key points of each exposure draft;

- (b) presenting seminars or information sessions outlining and analysing the proposals in an exposure draft;
- (c) holding meetings or roundtables to hear views on an exposure draft;
- (d) documenting ASB members' alternative views (if any).

Post-implementation reviews

63. Due process should also include the ASB participating in post-implementation reviews undertaken by the IASB. This will provide an avenue for dealing with implementation issues, to help ensure the standards are applied consistently and that the standards meet current needs. The ASB can participate in post-implementation reviews in a coordinated way with the AOSSG through its working groups and/or the IASB and Interpretations Committee; or by proactively providing post-implementation findings as they arise to the IASB.

Board meetings

Observations

64. The ASB typically meets once a month. A quorum of a simple majority of the ASB membership is required for a meeting to be held.
65. Technical sub-committees and external experts occasionally attend board meetings to participate in and supplement technical discussions.
66. The agenda for board meetings is set by the Chairman and the Secretariat, and is typically based on technical issues or key operational matters as they arise. Meeting papers are prepared by the administrative staff or technical sub-committee members, and provided to ASB members seven days prior to a meeting. Minutes of the meeting are prepared by the Secretariat subsequent to every meeting. The ASB meets privately, typically after working hours. Meeting agendas, papers and minutes are not publicly available.
67. Votes of a simple majority of the total ASB membership are required for approval on all technical and key operational matters.

CoE Working Group recommendations

68. As part of standard-setting, the ASB should not only consider application or implementation issues arising from their standards, but also should closely monitor the progress of technical work plans and deliberations of the IASB or IPSASB. In setting its meeting agenda, it is recommended that the ASB include a standing agenda item to be briefed of international technical developments in addition to its discussions of technical issues as they arise.
69. Board papers should reflect the identified technical issues, and the domestic and international technical developments. ASB members should continue to be provided

sufficient preparation time to consider the board papers prior to attending the meetings.

70. Consistent with our recommendation in paragraph 22, the ASB should consider making its meeting agendas, papers and minutes publicly available, to improve the transparency of its standard-setting and decision-making processes.

Communication with constituents

Observations

71. The ASB publishes a quarterly newsletter in paper format covering topics such as recent news at the ASB, including available training courses organised by the ASB, and background information about new or revised standards. These newsletters are made available to the public.

CoE Working Group recommendations

Opportunities for constituents to raise technical issues

72. Constituents should be provided opportunities to raise technical issues on a continuous basis, including in the early years of IFRS adoption. The ASB should work closely with other national standard-setters and/or the AOSSG to discuss and resolve technical issues arising from the Nepal environment before raising those issues with the IASB or the IFRS Interpretations Committee.

Continuing the ASB newsletter if feasible

73. The ASB should continue to publish its quarterly newsletters and/or consider making them available on its website. The ASB could consider providing more information about its decision to adopt NFRS, including any available technical assistance to its constituents, at least in the early years of transition to IFRS.

Relationships with key stakeholders

Observations

74. As mentioned in paragraph 27, the ASB membership includes some key stakeholders from the government and regulatory environment (MOF, Auditor General, Financial Comptroller General, Company Registrar, Inland Revenue Department and SEBON). Typically, the six ASB members from the public sector act as a sounding board on matters other than accounting, for example, cross-cutting issues relating to taxation.
75. ASB members maintain their relationships with key government bodies and regulators by providing updates or education sessions on recent ASB decisions and/or technical topics.
76. The ASB also maintains close ties with ICAN as it plays an essential role in the ASB's financial reporting structure. The ASB relies on ICAN to provide regular and

sufficient training to its chartered accountants and registered auditors to ensure the accounting profession is up to date with the current financial reporting requirements. The ASB also relies on feedback from ICAN as part of its due process. The ASB and ICAN have a mutual respect for each other and acknowledge the need for both parties to achieve their respective objectives, that is: the ASB in setting accounting standards for Nepal; and ICAN in having its members comply with accounting standards set by the ASB.

CoE Working Group recommendations

77. The ASB should continue to liaise with the relevant government bodies, regulators and ICAN, and take whatever steps are feasible to achieve consistency in financial reporting, even if that is limited to highlighting the effects that those regulators' actions may have on the quality of financial reporting. The ASB should be aware of the risk that government policy could impede the intent of standards, for example, as may occur when another regulator aligns taxation requirements with financial reporting requirements (which may cause some constituents' comments on financial reporting proposals to be driven by a desire for particular taxation outcomes and not necessarily the best financial reporting outcomes).
78. Government policy might affect the ASB in different ways. For example, a policy that promotes economic growth through deregulation might constrain the ASB from standard-setting. Because the ASB may be required to comply with its government's policies, it should aim to provide input to the formulation of policies that could impact financial reporting. Accordingly, the ASB should aim to explain to government policy-makers the implications of any policy that has the potential to adversely affect the quality of financial reporting and therefore, the public interest.
79. The ASB should continue to collaborate with ICAN to identify application or implementation issues once NFRS are adopted and identify topics that would require more seminars or training that the ASB could assist with. The key to success of adopting NFRS is to provide sufficient education and training for those applying the standards.