



**RELIANCE**  
CORPORATE ADVISORS  
SIMPLIFYING BUSINESS



# INTERNAL CONTROL AND MONITORING DIRECTIVE, 2080

Simplifying compliances of companies registered in Nepal



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## INTERNAL CONTROL AND MONITORING DIRECTIVE, 2080 (2023)

### 1. BACKGROUND

1.1. **Office of the Company Registrar (“Office”)** pursuant to the authority provided under **Section 16 of the Company Act, 2063 (2006) (the “Company Act” or “Act”)** has issued **“Internal Control and Monitoring Directive, 2080 (2023)” on 16 Kartik 2080 (2 November 2023) (“Directive 2080”)**. This directive, which came into effect immediately, aims to enhance the quality of services provided by the Office in the company registration and administration process. Its objective includes holding companies accountable and responsible for compliance with prevailing laws related to the Company Act and company administration and developing the capacity of the Office as a regulatory body, bolstering the overall credibility of company administration in Nepal.

### 2. WHAT IS INTERNAL CONTROL SYSTEM?

2.1. The internal control system is implemented by the Registrar of the Office (“Registrar”) in order to fulfil the objective provided in the preamble of this directive. This system is

implemented to ensure compliance with the law in the context of work performed by employees of the Office and company directors and officers, who use the delegated authority from the Registrar for works related to company registration and administration. **(Section 3 of the Directive 2080)**

2.2. The following are the specific areas where the Office intends to implement the internal control system **(Section 4 of the Directive 2080):**

- 2.2.1. In terms of company registration and administration, to verify whether the officers and employees of the Office have complied with the Act, prevailing company laws and delegated authority.
- 2.2.2. Re-examine the calculation of fees related to company registration and administration, as well as fines applicable to company directors.
- 2.2.3. Ascertain whether the company and its directors have adhered to the Act and prevailing company laws.
- 2.2.4. Validate the authenticity, quality, and reliability of the information provided in documents submitted on behalf of the companies.
- 2.2.5. Evaluate whether the company and its directors have adhered to the values of

corporate governance prescribed by the Act and prevailing laws.

### 3. SELECTION OF COMPANIES FOR INTERNAL CONTROL

- 3.1. To ensure the effective implementation of the internal control system, the Registrar may select companies for internal control, through one or all of the following methods (**Section 5 of Directive 2080**):
  - 3.1.1. Verify and re-examine the assessment of fees and fines calculation as well as identify any shortcomings in the service delivery process within the Office. This thorough verification process will be conducted on a sample of companies, selected in a specific proportion to the overall companies registered, administered and serviced by the Office.
  - 3.1.2. Study and examine the data and records of specific categories of companies or companies registered for specific purposes or based on information obtained from any source deemed necessary by the Office.
  - 3.1.3. Study and research the data and records of a specific company based on information received from any source, including law enforcement entities or the

Government Office.

#### 4. RESPONSIBILITIES AND COMPLIANCE REQUIREMENT

- 4.1. The periodic timeframe for conducting internal control work will be determined by the Registrar along with the specified time and conditions. **(Section 6 of the Directive 2080)**
- 4.2. The Registrar may incorporate a risk-based approach/system to implement the internal control system on selected companies. **(Section 7 of the Directive 2080)**
- 4.3. The Registrar may delegate the responsibility of carrying out the internal control work, as per **Section 5**, to a designated branch head or authorised employee, along with the necessary support staff and resources, forming one or more task forces. **(Section 8 of the Directive 2080)**
- 4.4. Company directors shall be accountable for irregularities in the operation and administration of companies. Such accountability must be borne jointly and severally by all the directors and office-bearers of the company including the chairman. **(Section 9 of the Directive 2080)**
- 4.5. It shall not be required for the Office to disclose the findings and observations from the

internal control study of the concerned company except when it is necessary to verify the accuracy of the information collected through the study or when there needs clarification from the company or its directors. **(Section 10 of the Directive 2080)**

## 5. Inspection and Monitoring

- 5.1. The Office may in instances where it becomes necessary to furnish information from the concerned company as per **Section 10**, the company may be informed along with keeping the company in remarks or freeze them. **(Section 11 of the Directive 2080)**
- 5.2. The Office should give an opportunity to be heard to the company and its directors before initiating any action. Additionally, if an opinion, response, clarification or answer is requested from the company or the director, there is no need to provide an opportunity for re-hearing, but further clarification may be requested to bring the investigation to a conclusion. **(Section 12 of the Directive 2080)**
- 5.3. While conducting internal control work, the Office may deem it necessary to focus on the related company, or involve the company or its director to confirm or refute the facts obtained during the study (investigation) **(Section 10 of the Directive 2080)**. If, the company under

investigation, in accordance with Section 10, has invested in or is involved in the operation and management of another company, or if another company has invested in the company under investigation, an investigation will also be carried out on the additional company. **(Section 13 of the Directive 2080).**

- 5.4. The Office shall monitor the companies on the following subject matter: **(Section 18 of Directive 2080)**
- 5.4.1. Compliance with the prevailing laws and directives in the operation and management of the company
  - 5.4.2. Investigate permission obtained from the relevant authorities.
  - 5.4.3. Study and monitor the company registration and administration-related documents in the company's registered office, in the case of a company approved by the regulatory body.
  - 5.4.4. Monitor the activities of companies that are registered for a specific purpose and study the documents present in the company's registered office in case of a company which has not obtained approval from regulatory authorities.
  - 5.4.5. Monitor the activities of companies that operate contrary to their stated purpose, or

have engaged in business without registration.

- 5.5. The Registrar shall establish a separate branch for monitoring companies. Until the absence of a separate branch, one or more monitoring teams can be formed led by any officer of the Registrar with the necessary resources provided. The designated monitoring officer is required to submit a monitoring report to the office within the stipulated time. **(Section 19 of the Directive 2080)**
- 5.6. The Office can seek assistance from Local Level, Local Administration or Licensing and regulating bodies of the Federal, Province or Local Level, which are compatible with the nature of work. **(Section 20 of the Directive 2080)**

## 6. Reporting Format

- 6.1. Registrar could adopt the following method in the implementation of a report or recommendation arising from the study or investigation of the internal control system: **(Section 15 of the Directive 2080)**
  - 6.1.1. **In the case of Employee:**
    - 6.1.1.1. In the case of government employees, proceed with the action in



accordance with the Civil Service Act, 2049, Rules and other applicable laws.

- 6.1.1.2. In case of an employee covered by the Service Contract Directive, action shall be taken according to the conditions/clause mentioned in the contract or terminate the contract.
- 6.1.1.3. In case of assisting an employee deployed under the contract made by the Office, necessary and appropriate actions shall be carried out as stated under the contract or prevailing laws; or terminate the contract made between the Office and blacklist the entity or company.
- 6.1.1.4. Send a written complaint to the concerned authority to investigate the matter of misuse of delegated authority by an employee.

6.1.2. **In the case of Companies:**

- 6.1.2.1. Make them submit the remaining documents for improvement of records.
- 6.1.2.2. Initiate the process of reapplication for any exempted fines and penalties.
- 6.1.2.3. Provide necessary direction to the directors and officers of the company as per **Section 120** or **Section 178** of the Act.

- 6.1.2.4. Void the records as per **Section 180** of the Act.
- 6.1.2.5. File a case in court as per **Section 159** with the claim mentioned in **Section 160, Section 161, and Section 162** of the Act.
- 6.1.2.6. Recommend investigation and action to the law enforcement authority established as per prevailing law.
- 6.1.2.7. In the case of a company or trust service provider, take appropriate action as per the condition of the license.

In case of a professional, businessperson or individual involved in presenting the company accounts, documents, and details for the preparation and record, write a letter to the concerned regulatory body for action.

- 6.2. The information related to actions taken against any company can be disclosed to the concerned approving governmental body of the company and any other concerned stakeholders. **(Section 16 of the Directive 2080)**
- 6.3. The information on the actions taken against companies (as per study and investigation under this directive) shall be notified to licensing, regulating and other concerned bodies. **(Section 17 of the Directive 2080)**

- 6.4. The Office can implement the Monitoring Report in the following ways: **(Section 21 of the Directive 2080)**
- 6.4.1. The Office can issue direction for the closure of any company or quash the license of the company that has operated in contravention to the objectives of the company or has not obtained any necessary permission as required to commence their operation.
  - 6.4.2. If directed to close the business or company, the Office can provide sufficient time for the appointment of a liquidator and the liquidator to perform the necessary work according to the law.
  - 6.4.3. Other matters under the Monitoring report shall be as per the prevailing law and directives.

## KEY CONTACTS

If you have any questions or would like to know how this might affect your business, get in touch with these key contacts



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