INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
NEPAL DOORSANCHAR COMPANY LIMITED (NEPAL TELECOM)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

QUALIFIED OPINION

We have audited the Consolidated Financial Statements of Nepal Doorsanchar Company Limited ("Nepal Telecom"/"the Company") and its subsidiary (the company and its subsidiary together referred as "the Group") which comprise the Consolidated Statement of Financial Position as at Ashadh 31, 2080 (July 16, 2023), and Consolidated Statement of Profit or Loss, Consolidated Statement of Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and Notes to the Consolidated Financial Statements, including a Summary of Significant Accounting Policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying Consolidated Financial Statements read with the significant accounting policies and explanatory notes present fairly, in all material respects, the consolidated financial position of the Group as at 31 Ashadh, 2080 (16 July 2023), and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Nepal Financial Reporting Standards.

BASIS FOR QUALIFIED OPINION

a. The Company has made significant investment to bring into operation nationwide 4G/LTE network, to strengthen and expand its business that is entirely dependent on successful completion of the project within the agreed time and quality. Separate contracts have been signed for Core, Radio Access Network (RAN) I and II totaling NPR 19.68 billion (NPR equivalent) excluding duties and taxes, for which purchase orders as per contract have been issued on different dates. The project was initially scheduled to be completed in 12 months (February 2020), which has not been completed yet. Although time extension of the various lots was made up to Chaitra 2078, the time has already expired, and no decision has been taken thereafter. Although a committee has been formed for the calculation of liquidated damages, a decision has not been taken on the same, which can be a maximum of ten percent of the total contract price of the respective phase as per the contract terms. The company has capitalized Rs. 15.5 billion related to RAN I and II as on Asadh End 2080.
Delay in project completion has significant impact on the business and revenue generation of the company. Further, income is understated by the amount liquidated damage of 4G/LTE Project as per the accounting policy of the company.

b. In the case of 4G/LTE projects, 4133 Sites have been capitalized as on financial year end amounting to NPR 15.5 billion. However, due to inconsistent allocation of material and service cost to individual sites, we were unable to obtain sufficient and appropriate audit evidence to verify the valuation of such individual assets. Further, the misallocation of costs has impacted on the related expense accounts and, consequently, the overall financial performance of the entity.

c. We have identified a limitation in our scope regarding the derecognition of property, plant and equipment (PPE) disposed of during the year. The company has a policy to derecognize PPE when disposed of or when no future economic benefits are expected from its use or disposal. However, assets disposed of during the year amounting to NPR 210 million (previous year NPR 196 million) have not been derecognized. Additionally, we were unable to ascertain the cost and accumulated depreciation on these disposed-of assets. Furthermore, additional scrap and obsolete PPE may exist within the company's records but has not been identified and derecognized. The extent and value of this unidentified scrap could not be determined.

d. Capital Work in Progress (CWIP) includes capital equipment/inventories balance on financial year end date amounting to NPR 1,144,903,995 (previous year NPR 2,218,541,470) imported in the name of company as per terms of contract with vendors based on turnkey project. The risk on these inventories lies with the vendor until it is installed who has full control and in their custody for the purpose of getting used in installation or construction. The liability for these inventories is to be recognized only when services are performed, installation is complete and handed over, and assets are available for use (on-air). As such, CWIP and current liabilities have been overstated to that extent.

e. The Accounting policy of the company mandates impairment recognition for inventory items lying idle beyond a specified period. The company has NPR 7 billion worth of inventories as on Asadh End 2080 presented under Capital Work in Progress (Note 4 of financial statement) and Inventory (Note 7 of financial statement). However, impairment applied by the company solely relies on the nature of inventory without considering purchase date that hinders identification of older, more susceptible items. Identifying movement within a group of identical items rather than individual items significantly impacts the impairment assessment for the entire group. The lack of individual item ageing information prevents us from determining the potential cumulative impact of these inadequate practices on the financial statements.

f. The wireline division incurred a substantial operating loss of Rs. 1.46 billion, representing a 44% gross loss margin against total revenue of Rs. 3.34 billion (Refer Note 33 of Financial Statement). The existence of Rs. 4.5 billion in unallocated costs raises further concerns, as their allocation to the wireline division could significantly increase its reported losses. Out of more than 1.5 million available FTTH connections established over a span of the previous 5 years, only 26% connections are occupied and only 18% connections are used for data services. This raises concerns about the technology profitability and long-term sustainability. We have identified several factors contributing to the division's losses, including delays in the FTTH project, inadequate after-sales service and insufficient attention to migrating PSTN customers. Accordingly, we cannot assure whether the future economic benefits shall be able to recover the investment made for the technology. We are unable to comment on the consequential impact, if any, due to the possible impairment loss of the assets.

g. The company capitalized assets amounting to NRS. 1.7 billion during the last 10 days of the financial year 79/80. This late capitalization raises concerns about the consistency and accuracy of the financial statements, as depreciation expense for these assets may not have been adequately recognized in the current period's profit or loss. Further capitalization of assets amounting to NRS. 1 billion was recorded on the first two days of the financial year 79/80. This practice could also distort the comparability of financial statements between periods, as depreciation expense for these assets would be reflected in the previous year's results rather than the current year. Delaying the capitalization of assets would understate depreciation expense and overstate current period profit. Lack of complete information about the dates on which assets qualified for capitalization information prevents us from determining the potential cumulative impact on the financial statements.

h. The company recognized substantial actuarial loss of Rs. 2.82 billion in the current financial year and combined Rs. 12.27 billion since FY 2072-73. These significant losses raise concerns about the accuracy of the underlying assumptions used in the actuarial valuations, particularly the inadequate salary escalation rate. This could lead to inaccurate estimations of future benefit liabilities and consequently, overstated actuarial losses. The company distributed staff bonuses and incentives without considering the potential impact of the recognized actuarial losses. This raises concerns about the fairness and sustainability of the bonus distribution, presentation of statement of profit or loss and earnings per share (EPS), particularly considering the decreasing trend of profitability in recent years.

i. The company has recognized an actuarial loss of NPR. 265 million (Previous year NPR 132 million) relating to long-term accumulated leaves through "Other Comprehensive Income" (OCI). NAS 19 specifies that actuarial gains and losses arising from post-employment benefits payable after completion of employment should be recognized in OCI and actuarial gains and losses arising from other long-term benefits to be recognized in "Statement of Profit or Loss" (SOPL). The company's policy allows employees to encash or take leave benefits before their retirement. Therefore, the classification of benefits to post-employment benefits is inappropriate and the reported profit in SOPL is overstated by such amount as the actuarial losses related to leave benefits is not recognized.

j. Lack of verifiable evidence for labor expenses associated with assets installation, dismantling, repair and fitting activities supported by manual attendance and extensive cash payments exceeding NPR 350 million in the current year, NPR 500 million in the previous year and the repetitive nature of these expenses raise significant concerns about the accuracy and validity of these expenses. Without proper controls surrounding labor engagement and cash disbursements, we cannot ascertain the nature and legitimacy of these payments. This poses a risk of overstated expenses, potential fraud, and non-compliance with labor regulations.

k. The company's procurement practices have raised notable concerns, particularly regarding forceful procurement, resulting in a surplus of assets that remain idle. The acquisition of a significant volume of assets, coupled with their underutilization, suggests a misalignment between procurement strategies and operational needs. The company has classified inventories costing NPR 646 million as "non-moving" and NPR 1.2 billion as "slow moving" purchased and lying idle in a span of previous 5 years and has provided impairment accordingly. While impairment recognition signals an acknowledgment of reduced asset value, the continued idleness raises questions about the effectiveness and prudence of the company's procurement approach. Accordingly, we are unable to comment on the consequential impact, if any, due to the possible impairment loss of the assets procured though this approach.

We have conducted our audit in accordance with Nepal Standards on Auditing (NSAs). Our responsibilities under those standards are further described in the Auditors Responsibilities for the Audit of the Financial Statements section of our Report. We are independent of the Company in accordance with the ICAN's Handbook of Code of Ethics for Professional Accountants together with ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities and ICAN's Handbook of Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

OTHER MATTERS

a. We did not audit the financial statement of subsidiary namely Nepal Digital Payments Company Ltd. The financial statements and other financial information have been audited by other auditor whose report has been furnished to us by the management. Our opinion on the financial statements so far as it relates to the accounts and disclosures included in respect of the subsidiary is based solely on the report of other auditor.

b. The Company has book value of Property Plant and Equipment excluding land and motor vehicles at balance date of NPR. 50.18 billion, of which assets worth NPR 12.92 billion only have been insured where risks like strike, riot, terrorism etc. are not covered. All inventories of the Company are not insured at all. The risk management system, including the data and system security, is inadequate.

c. The Company has not complied with the provisions of Labor Act, 2074 and Labor Regulation, 2075 relating to contractual employees, Labor audit and requirements of Social Security Act 2075; Bonus Act and Regulations relating to maintenance and operation of Employees Welfare Fund and Interconnection Guidelines 2076 relating to international and domestic usage charges.

d. We identified a significant limitation in the company's human resource management practices. While records indicate optimal staffing with 3875 employees against an approved darbandi of 4097, widespread "unpaid Kaaj" (temporary transfers) exceeding months or even years undermines this efficiency. With over 400 employees working on unpaid Kaaj for more than a year, rural areas suffer from manpower shortages while urban areas experience an excess. This mismanagement, alongside non-compliance with transfer regulations, has resulted in misallocation of resources. Consequently, approximately NPR 570 million spent on staff salaries hasn't contributed directly to product and service development, raising concerns about the accuracy of the reported expenses. Although the company has underutilized human resources, substantial expenditure has been made for outsourcing human resources utilized for repair, maintenance and even for establishing new connections.

e. The company's revenue generation in Koshi Pradesh and Madhesh Pradesh is significantly below expectations when considering the population size in these regions. Several factors contribute to the observed decline in revenue, including, but not limited to, the quality, promotion and coverage of network services, timely maintenance of BTS sites, technology upgrades, insufficient market penetration, and a lack of effective customer retention strategies.

f. While the reported profit after tax of 7.9 billion appears significant, it is crucial to acknowledge the substantial contribution of 7.7 billion in finance income, a non-operating source. Excluding this, the underlying operating performance paints a concerning picture, marked by a decrease of 260 million in cash flow when considering finance income and a further decline to a negative 8 billion when excluding it. This concerning trend and dependence on non-operating income raises serious doubts about the ability of the company to meet its liability as well as further distributing dividends, bonuses and incentives based solely on the reported profit. Despite these issues, the company has put forth proposals for dividend distribution, NPR 623 million in staff bonus and Rs. 383 million in staff incentives for the current financial year.

g. The current presentation of profitability does not separate operating income/expenses from finance income. The actual operating income after tax amounts to NPR 2.4 billion whereas finance income after tax amounts to NPR 5.4 billion.

h. As of Asadh End 2080, the defined benefit liability faces shortfall compared to available planned assets. The total obligation to beneficiaries stands at NPR 31.7 billion, while the plan currently holds only NPR 8.9 billion in assets. This funding gap is noteworthy as it could impact the plan's ability to meet its future obligations.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. In addition to the matters described in the Basis for Qualified Opinion Section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed the matter
Revenue Recognition We considered accuracy of revenues relating to the voice and data services provided as a key audit matter due to the complexity of the IT systems, significance of volumes of data processed by the IT systems and the impact of changing pricing models (tariff structures, incentive arrangements and discounts, etc.). The amount of revenue involved in the financial statement is material to the financial statements and due to complexity of the system,	We evaluated the design and operating effectiveness of key controls over the capture and measurement of revenue transactions across all significant revenue streams, including evaluating the relevant IT systems with supporting evidence such as service detail records and evidence of customer payment.

processes and product /services used to record revenue having multiple software used, reliance on automated processes and controls. The Company has used billing system which capture, values and records the revenue data generated from various software, which are heavily reliant on IT systems with processes and controls over the transactions. Disclosures relating to revenue recognition can be found at note 16.	We obtained understanding of nature of various services provided by the company comprising prepaid, postpaid, international and fixed line services. The accuracy and completeness of revenue amounts recorded is an inherent risk. Our audit procedures included amongst the following: System recorded transactions: real time test of recording of transactions in the system, subsequently recorded to accounting system. Information are processed in a separate directorate independent of accounting directorate resulting in additional control overbilled records and accounted records. Manual control over transactions: testing the design and implementation of various operating effectiveness of manual control over initiation, authorization, and testing of revenue transactions. These included testing of tariff rates, packages, treatment related to discounts and recording to ERP including major contracts. Performing substantive testing including analytical procedures over major streams of revenue generation Testing of manual journal entries and end to end reconciliation from data records to billing systems and accounting ledgers. Testing the delivery of goods and service rendered for recording of revenue from advance/deposits received. Based on the result of the sample testing and mix use of manual and automated controls that are in place, we have relied on the information generated by the system and process followed by the Company for revenue recognition.
Information Technology (IT) System and Controls The Company uses several IT/ software systems with or without integrating with ERP system for management of its business operations. A significant part of the company's financial process heavily reliant on IT systems with automated processes and controls over the capturing, valuing and recording of transactions and manual interventions on the same as well while recording the data into ERP. This is a key part of our audit because of the complex IT environment supporting the business processes; mix of manual and automated controls; multiple internal and outsourced support arrangements; and complexity of the billing systems which result in revenue being recognized.	We assessed the manual and automated controls relating to IT systems relevant to financial reporting, including the recognition of revenue. While separate IS audit is yet to be carried out, we ted a sample of automated controls that are designed to enforce appropriate segregation of duties, roles and controls. This included assessing the design of relevant automated processes and controls. We reviewed a sample of the financial information produced by various systems, recording in ERP and reporting. We evaluated the effectiveness of the controls in the systems.
Impairment The assets owned by the company include property plant and equipment and other assets. Given the dynamic nature of the industry in which the company operates, there is a risk that there could be material impairment to intangible asset, investments and other assets. Determination as to whether or not there is an impairment relating to an asset or Cash Generating Unit (CGU) involves significant judgment about the future cash flows and plans for these assets and CGUs.	We reviewed the policies and process of impairment of each class of assets. We assessed the determination of cash generating units (CGU) used for their impairment assessment and for WIMAX and CDMA in particular to assess the impairment models and evaluate the reasonableness of key assumptions including discount rate, growth rates and forecast growth assumptions. We also performed sensitivity analysis around the key drivers of the cash flow projections. We reviewed the impairment matrix prepared for expected losses mainly for accounts receivable and inventories as per the policies. We tested the adequacy of impairment on investments, receivables and other assets including PPE of the company. We

	reviewed the impairment of all significant class of assets, basis and adequacy including reversals.
Fair Value Measurement The Company has investment in shares and debentures which are measured on fair value. Similarly, property plant and equipment mainly land and buildings and other assets have been reassessed by the management technical experts of the company which was independently valued in FY 2078/79. The company categorizes assets or liabilities carried on the reporting date at fair value using a three level hierarchy. Determination of fair value is based on a high degree of judgment and input from data that is not directly observable in the market. Further, the fair value is significantly influenced by the expected pattern of future benefits of the tangible assets.	We reviewed the basis and categorization of assets or liabilities carried on the reporting date at fair value using a three level hierarchy including key assumptions around discounted cash flow to estimate fair value. We reviewed land and building reassessment reports obtained by the management by involvement of committee and experts. We assessed the methodology and the assumptions applied in determining the fair value. We have assessed the objectivity, independence and competence of the specialists involved in the process. We assessed the adequacy of disclosure in Note 12 to the financial statements.
Provisions and contingencies tax, legal and other regulatory matters The Company has recognized provisions for probable outflows relating to legal, tax and other regulatory matters and have disclosed contingencies for legal, tax and other regulatory matters where the obligations are considered possible. The Company assesses a likelihood that a pending matter relating to tax, legal or regulatory will succeed. In performing this assessment, the Company applies judgement and has recognized provisions based on whether additional amounts will be payable and has disclosed contingent liabilities where economic outflows are considered possible. We have considered the provisions recorded and the contingencies relating to tax, legal and other regulatory matters as a key audit matter as there is significant judgement to determine the possible outcome of matters under dispute and determining the amounts involved, which may vary depending on the outcome of the matters.	We obtained an understanding, evaluated the design, and tested the operating effectiveness of internal controls relating to: • Identification evaluation, recognition of provisions, disclosure of contingencies for matters under review or appeal with relevant adjudicating authorities by considering the assumptions and information used by management in performing this assessment. • Completeness and accuracy of the underlying data / information used in the assessment. For tax matters, we evaluated the reasonableness of the management's positions by considering tax regulations and past decisions from tax authorities. For regulatory fee and other matters, we evaluated the reasonableness of the management's positions by considering relevant past assessment orders, commitments and payments made. We also evaluated the disclosures provided in the notes to the financial statements concerning these matters.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The Company's Management is responsible for the preparation of the other information. The other information comprises the information included in the Management report, Report of the Board of Directors and Chairman's statement but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained during the course of our audit or otherwise appears to be materially misstated. As the other information documents are in the process of completion, the management has provided written representation that final version of the documents will be provided when available.

RESPONSIBILITY OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Nepal Financial Reporting Standards and for such internal control as management determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with Governance are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is high level of assurance, but it is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting polices used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor' report to the related disclosures in the financial statements or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

M.G.S. & Associates Kathmandu Chartered Accountants

P. Anand & Associates Kathmandu Chartered Accountants

We have communicated with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit. Management Letter outlining such findings and

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we have determine those matters that were of most significance in the audit of the financial statements of the current period, therefore are described in our Auditor's Report.

REPORT ON THE OTHER LEGAL AND REGULATORY REQUIREMENTS

a. We have obtained satisfactory information and explanations asked for, which to the best of our knowledge and belief were necessary for the purpose of our audit;
b. The consolidated financial statements including the consolidated Statement of Financial Position, consolidated Statement of Profit or Loss, consolidated Statement of Other Comprehensive Income, consolidated Statement of Changes in Equity, consolidated Statement of Cash Flows including a Summary of Significant Accounting Policies and other explanatory notes have been prepared in all material respect in accordance with the provisions of the Companies Act, 2063, and they are in agreement with the books of accounts of the Company; and the accounts and records of the Company are properly maintained in accordance with the prevailing laws.
c. To the best of our information and according to the explanations given to us, in the course of our audit, we observed that the business of the Company was conducted satisfactorily, and the Company's transactions were found to be within the scope of its authority.

We did not come across cases of accounting related fraud and the cases where the board of directors or any director or any office bearer of the Company has acted contrary to the provisions of law except reported in this report or caused loss or damage to the Company or committed any misappropriation of the funds of the Company.

Kathmandu, Nepal
Date: 2080/09/05

CA. Mahesh Kumar Guragain
Partner
MGS & Associates
Chartered Accountants
UDIN No.
231227CA00125WWBXP

CA. Peeyush Anand
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NEPAL DOORSANCHAR COMPANY LIMITED (NEPAL TELECOM)

REPORT ON THE AUDIT OF THE STANDALONE FINANCIAL STATEMENTS

QUALIFIED OPINION

We have audited the Standalone Financial Statements of Nepal Doorsanchar Company Limited ("Nepal Telecom"/"the Company") which comprise the Statement of Financial Position as at Ashadh 31, 2080 (July 16, 2023), and Statement of Profit or Loss, Statement of Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and Notes to the Standalone Financial Statements, including a Summary of Significant Accounting Policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying Financial Statements read with the significant accounting policies and explanatory notes present fairly, in all material respects, the financial position of the Company as at 31 Ashadh, 2080 (16 July 2023), and of its financial performance and its cash flows for the year then ended in accordance with Nepal Financial Reporting Standards.

BASIS FOR QUALIFIED OPINION

a. The Company has made significant investment to bring into operation nationwide 4G/LTE network, to strengthen and expand its business that is entirely dependent on successful completion of the project within the agreed time and quality. Separate contracts have been signed for Core, Radio Access Network (RAN) I and II totaling NPR 19.68 billion (NPR equivalent) excluding duties and taxes, for which purchase orders as per contract have been issued on different dates. The project was initially scheduled to be completed in 12 months (February 2020), which has not been completed yet. Although time extension of the various lots was made up to Chaitra 2078, the time has already expired, and no decision has been taken thereafter. Although a committee has been formed for the calculation of liquidated damages, a decision has not been taken on the same, which can be a maximum of ten percent of the total contract price of the respective phase as per the contract terms. The company has capitalized Rs. 15.5 billion related to RAN I and II as on Asadh End 2080.
Delay in project completion has significant impact on the business and revenue generation of the company. Further, income is understated by the amount liquidated damage of 4G/LTE Project as per the accounting policy of the company.

b. In the case of 4G/LTE projects, 4133 Sites have been capitalized as on financial year end amounting to NPR 15.5 billion. However, due to inconsistent allocation of material and service cost to individual sites, we were unable to obtain sufficient and appropriate audit evidence to verify the valuation of such individual assets. Further, the misallocation of costs has impacted on the related expense accounts and, consequently, the overall financial performance of the entity.

c. We have identified a limitation in our scope regarding the derecognition of property, plant and equipment (PPE) disposed of during the year. The company has a policy to derecognize PPE when disposed of or when no future economic benefits are expected from its use or disposal. However, assets disposed of during the year amounting to NPR 210 million (previous year NPR 196 million) have not been derecognized. Additionally, we were unable to ascertain the cost and accumulated depreciation on these disposed-of assets. Furthermore, additional scrap and obsolete PPE may exist within the company's records but has not been identified and derecognized. The extent and value of this unidentified scrap could not be determined.

d. Capital Work in Progress (CWIP) includes capital equipment/inventories balance on financial year end date amounting to NPR 1,144,903,995 (previous year NPR 2,218,541,470) imported in the name of company as per terms of contract with vendors based on turnkey project. The risk on these inventories lies with the vendor until it is installed who has full control and in their custody for the purpose of getting used in installation or construction. The liability for these inventories is to be recognized only when services are performed, installation is complete and handed over, and assets are available for use (on-air). As such, CWIP and current liabilities have been overstated to that extent.

e. The Accounting policy of the company mandates impairment recognition for inventory items lying idle beyond a specified period. The company has NPR 7 billion worth of inventories as on Asadh End 2080 presented under Capital Work in Progress (Note 4 of financial statement) and Inventory (Note 7 of financial statement). However, impairment applied by the company solely relies on the nature of inventory without considering purchase date that hinders identification of older, more susceptible items. Identifying movement within a group of identical items rather than individual items significantly impacts the impairment assessment for the entire group. The lack of individual item ageing information prevents us from determining the potential cumulative impact of these inadequate practices on the financial statements.

f. The wireline division incurred a substantial operating loss of Rs. 1.46 billion, representing a 44% gross loss margin against total revenue of Rs. 3.34 billion (Refer Note 33 of Financial Statement). The existence of Rs. 4.5 billion in unallocated costs raises further concerns, as their allocation to the wireline division could significantly increase its reported losses. Out of more than 1.5 million available FTTH connections established over a span of the previous 5 years, only 26% connections are occupied and only 18% connections are used for data services. This raises concerns about the technology profitability and long-term sustainability. We have identified several factors contributing to the division's losses, including delays in the FTTH project, inadequate after-sales service and insufficient attention to migrating PSTN customers. Accordingly, we cannot assure whether the future economic benefits shall be able to recover the investment made for the technology. We are unable to comment on the consequential impact, if any, due to the possible impairment loss of the assets.

g. The company capitalized assets amounting to NRS. 1.7 billion during the last 10 days of the financial year 79/80. This late capitalization raises concerns about the consistency and accuracy of the financial statements, as depreciation expense for these assets may not have been adequately recognized in the current period's profit or loss. Further capitalization of assets amounting to NRS. 1 billion was recorded on the first two days of the financial year 79/80. This practice could also distort the comparability of financial statements between periods, as depreciation expense for these assets would be reflected in the previous year's results rather than the current year. Delaying the capitalization of assets would understate depreciation expense and overstate current period profit. Lack of complete information about the dates on which assets qualified for capitalization information prevents us from determining the potential cumulative impact on the financial statements.

h. The company recognized substantial actuarial loss of Rs. 2.82 billion in the current financial year and combined Rs. 12.27 billion since FY 2072-73. These significant losses raise concerns about the accuracy of the underlying assumptions used in the actuarial valuations, particularly the inadequate salary escalation rate. This could lead to inaccurate estimations of future benefit liabilities and consequently, overstated actuarial losses. The company distributed staff bonuses and incentives without considering the potential impact of the recognized actuarial losses. This raises concerns about the fairness and sustainability of the bonus distribution, presentation of statement of profit or loss and earnings per share (EPS), particularly considering the decreasing trend of profitability in recent years.

i. The company has recognized an actuarial loss of NPR. 265 million (Previous year NPR 132 million) relating to long-term accumulated leaves through "Other Comprehensive Income" (OCI). NAS 19 specifies that actuarial gains and losses arising from post-employment benefits payable after completion of employment should be recognized in OCI and actuarial gains and losses arising from other long-term benefits to be recognized in "Statement of Profit or Loss" (SOPL). The company's policy allows employees to encash or take leave benefits before their retirement. Therefore, the classification of benefits to post-employment benefits is inappropriate and the reported profit in SOPL is overstated by such amount as the actuarial losses related to leave benefits is not recognized.

j. Lack of verifiable evidence for labor expenses associated with assets installation, dismantling, repair and fitting activities supported by manual attendance and extensive cash payments exceeding NPR 350 million in the current year, NPR 500 million in the previous year and the repetitive nature of these expenses raise significant concerns about the accuracy and validity of these expenses. Without proper controls surrounding labor engagement and cash disbursements, we cannot ascertain the nature and legitimacy of these payments. This poses a risk of overstated expenses, potential fraud, and non-compliance with labor regulations.

k. The company's procurement practices have raised notable concerns, particularly regarding forceful procurement, resulting in a surplus of assets that remain idle. The acquisition of a significant volume of assets, coupled with their underutilization, suggests a misalignment between procurement strategies and operational needs. The company has classified inventories costing NPR 646 million as "non-moving" and NPR 1.2 billion as "slow moving" purchased and lying idle in a span of previous 5 years and has provided impairment accordingly. While impairment recognition signals an acknowledgment of reduced asset value, the continued idleness raises questions about the effectiveness and prudence of the company's procurement approach. Accordingly, we are unable to comment on the consequential impact, if any, due to the possible impairment loss of the assets procured though this approach.

We have conducted our audit in accordance with Nepal Standards on Auditing (NSAs). Our responsibilities under those standards are further described in the Auditors Responsibilities for the Audit of the Financial Statements section of our Report. We are independent of the Company in accordance with the ICAN's Handbook of Code of Ethics for Professional Accountants together with ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities and ICAN's Handbook of Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

OTHER MATTERS

a. The Company has book value of Property Plant and Equipment excluding land and motor vehicles at balance date of NPR. 50.18 billion, of which assets worth NPR 12.92 billion only have been insured where risks like strike, riot, terrorism etc. are not covered. All inventories of the Company are not insured at all. The risk management system, including the data and system security, is inadequate.

b. The Company has not complied with the provisions of Labor Act, 2074 and Labor Regulation, 2075 relating to contractual employees, Labor audit and requirements of Social Security Act 2075; Bonus Act and Regulations relating to maintenance and operation of Employees Welfare Fund and Interconnection Guidelines 2076 relating to international and domestic usage charges.

c. We identified a significant limitation in the company's human resource management practices. While records indicate optimal staffing with 3875 employees against an approved darbandi of 4097, widespread "unpaid Kaaj" (temporary transfers) exceeding months or even years undermines this efficiency. With over 400 employees working on unpaid Kaaj for more than a year, rural areas suffer from manpower shortages while urban areas experience an excess. This mismanagement, alongside non-compliance with transfer regulations, has resulted in misallocation of resources. Consequently, approximately NPR 570 million spent on staff salaries hasn't contributed directly to product and service development, raising concerns about the accuracy of the reported expenses. Although the company has underutilized human resources, substantial expenditure has been made for outsourcing human resources utilized for repair, maintenance and even for establishing new connections.

M.G.S. & ASSOCIATES Kathmandu

P. Anand & Associates Kathmandu Chartered Accountants

d. The company's revenue generation in Koshi Pradesh and Madhesh Pradesh is significantly below expectations when considering the population size in these regions. Several factors contribute to the observed decline in revenue, including, but not limited to, the quality, promotion and coverage of network services, timely maintenance of BTS sites, technology upgrades, insufficient market penetration, and a lack of effective customer retention strategies.

e. While the reported profit after tax of 7.9 billion appears significant, it is crucial to acknowledge the substantial contribution of 7.7 billion in finance income, a non-operating source. Excluding this, the underlying operating performance paints a concerning picture, marked by a decrease of 260 million in cash flow when considering finance income and a further decline to a negative 8 billion when excluding it. This concerning trend and dependence on non-operating income raises serious doubts about the ability of the company to meet its liability as well as further distributing dividends, bonuses and incentives based solely on the reported profit. Despite these issues, the company has put forth proposals for dividend distribution, NPR 623 million in staff bonus and Rs. 383 million in staff incentives for the current financial year.

f. The current presentation of profitability does not separate operating income/expenses from finance income. The actual operating income after tax amounts to NPR 2.4 billion whereas finance income after tax amounts to NPR 5.4 billion.

g. As of Asadh End 2080, the defined benefit liability faces shortfall compared to available planned assets. The total obligation to beneficiaries stands at NPR 31.7 billion, while the plan currently holds only NPR 8.9 billion in assets. This funding gap is noteworthy as it could impact the plan's ability to meet its future obligations.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. In addition to the matters described in the Basis for Qualified Opinion Section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed the matter
Revenue Recognition We considered accuracy of revenues relating to the voice and data services provided as a key audit matter due to the complexity of the IT systems, significance of volumes of data processed by the IT systems and the impact of changing pricing models (tariff structures, incentive arrangements and discounts, etc.). The amount of revenue involved in the financial statement is material to the financial statements and due to complexity of the system, processes and product /services used to record revenue having multiple software used, reliance on automated processes and controls. The Company has used a billing system which capture, values and records the revenue data generated from various software, which are heavily reliant on IT systems with processes and controls over the transactions. Disclosures relating to revenue recognition can be found at note 16.	We evaluated the design and operating effectiveness of key controls over the capture and measurement of revenue transactions across all significant revenue streams, including evaluating the relevant IT systems with supporting evidence such as service detail records and evidence of customer payment. We obtained an understanding of nature of various services provided by the company comprising prepaid, postpaid, international and fixed line services. The accuracy and completeness of revenue amounts recorded is an inherent risk. Our audit procedures included amongst the following: System recorded transactions: real time test of recording of transactions in the system, subsequently recorded to accounting system. Information is processed in a separate directorate independent of accounting directorate resulting in additional control overbilled records and accounted records.

	Manual control over transactions: testing the design and implementation of various operating effectiveness of manual control over initiation, authorization, and testing of revenue transactions. These included testing of tariff rates, packages, treatment related to discounts and recording to ERP including major contracts. Performing substantive testing including analytical procedures over major streams of revenue generation Testing of manual journal entries and end to end reconciliation from data records to billing systems and accounting ledgers. Testing the delivery of goods and service rendered for recording of revenue from advance/deposits received. Based on the result of the sample testing and mix use of manual and automated controls that are in place, we have relied on the information generated by the system and process followed by the Company for revenue recognition.
Information Technology (IT) System and Controls The Company uses several IT/ software systems with or without integrating with ERP system for management of its business operations. A significant part of the company's financial process heavily reliant on IT systems with automated processes and controls over the capturing, valuing and recording of transactions and manual interventions on the same as well while recording the data into ERP. This is a key part of our audit because of the complex IT environment supporting the business processes; mix of manual and automated controls; multiple internal and outsourced support arrangements; and complexity of the billing systems which result in revenue being recognized.	We assessed the manual and automated controls relating to IT systems relevant to financial reporting, including the recognition of revenue. While separate IS audit is yet to be carried out, we ted a sample of automated controls that are designed to enforce appropriate segregation of duties, roles and controls. This included assessing the design of relevant automated processes and controls. We reviewed a sample of the financial information produced by various systems, recording in ERP and reporting. We evaluated the effectiveness of the controls in the systems.
Impairment The assets owned by the company include property plant and equipment and other assets. Given the dynamic nature of the industry in which the company operates, there is a risk that there could be material impairment to intangible assets, investments and other assets. Determination as to whether or not there is an impairment relating to an asset or Cash Generating Unit (CGU) involves significant judgment about the future cash flows and plans for these assets and CGUs.	We reviewed the policies and process of impairment of each class of assets. We assessed the determination of cash generating units (CGU) used for their impairment assessment and for WIMAX and CDMA in particular to assess the impairment models and evaluate the reasonableness of key assumptions including discount rate, growth rates and forecast growth assumptions. We also performed sensitivity analysis around the key drivers of the cash flow projections. We reviewed the impairment matrix prepared for expected losses mainly for accounts receivable and inventories as per the policies. We tested the adequacy of impairment on investments, receivables and other assets including PPE of the company. We reviewed the impairment of all significant class of assets, basis and adequacy including reversals.
Fair Value Measurement The Company has investment in shares and debentures which are measured at fair value. Similarly, property plant and equipment mainly land, and buildings and other assets have been reassessed by the management technical experts of the company which was independently valued in FY 2078/79. The company categorizes assets or liabilities carried on the reporting date at fair value using a three-	We reviewed the basis and categorization of assets or liabilities carried on the reporting date at fair value using a three-level hierarchy including key assumptions around discounted cash flow to estimate fair value. We reviewed land and building reassessment reports obtained by the management by involvement of committee and experts.

level hierarchy. Determination of fair value is based on a high degree of judgment and input from data that is not directly observable in the market. Further, the fair value is significantly influenced by the expected pattern of future benefits of the tangible assets.	We assessed the methodology and the assumptions applied in determining the fair value. We have assessed the objectivity, independence and competence of the specialists involved in the process. We assessed the adequacy of disclosure in Note 12 to the financial statements.
Provisions and contingencies tax, legal and other regulatory matters The Company has recognized provisions for probable outflows relating to legal, tax and other regulatory matters and has disclosed contingencies for legal, tax and other regulatory matters where the obligations are considered possible. The Company assesses the likelihood that a pending matter relating to tax, legal or regulatory will succeed. In performing this assessment, the Company applies judgement and has recognized provisions based on whether additional amounts will be payable and has disclosed contingent liabilities where economic outflows are considered possible. We have considered the provisions recorded and the contingencies relating to tax, legal and other regulatory matters as a key audit matter as there is significant judgement to determine the possible outcome of matters under dispute and determining the amounts involved, which may vary depending on the outcome of the matters.	We obtained an understanding, evaluated the design, and tested the operating effectiveness of internal controls relating to: • Identification evaluation, recognition of provisions, disclosure of contingencies for matters under review or appeal with relevant adjudicating authorities by considering the assumptions and information used by management in performing this assessment. • Completeness and accuracy of the underlying data / information used in the assessment. For tax matters, we evaluated the reasonableness of the management's positions by considering tax regulations and past decisions from tax authorities. For regulatory fee and other matters, we evaluated the reasonableness of the management's positions by considering relevant past assessment orders, commitments and payments made. We also evaluated the disclosures provided in the notes to the financial statements concerning these matters.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The Company's Management is responsible for the preparation of the other information. The other information comprises the information included in the Management report, Report of the Board of Directors and Chairman's statement but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained during the course of our audit or otherwise appears to be materially misstated. As the other information documents are in the process of completion, the management has provided written representation that final version of the documents will be provided when available.

RESPONSIBILITY OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Nepal Financial Reporting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with Governance are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is high level of assurance, but it is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting polices used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor' report to the related disclosures in the financial statements or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit. Management Letter outlining such findings and

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period, therefore are described in our Auditor's Report.

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REPORT ON THE OTHER LEGAL AND REGULATORY REQUIREMENTS

a. We have obtained satisfactory information and explanations asked for, which to the best of our knowledge and belief were necessary for the purpose of our audit.

b. The financial statements including the Statement of Financial Position, Statement of Profit or Loss, Statement of Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows including a Summary of Significant Accounting Policies and other explanatory notes have been prepared in all material respect in accordance with the provisions of the Companies Act, 2063, and they are in agreement with the books of accounts of the Company; and the accounts and records of the Company are properly maintained in accordance with the prevailing laws.

c. To the best of our information and according to the explanations given to us, in the course of our audit, we observed that the business of the Company was conducted satisfactorily, and the Company's transactions were found to be within the scope of its authority.

We did not come across cases of accounting related fraud and the cases where the board of directors or any director or any office bearer of the Company has acted contrary to the provisions of law except reported in this report or caused loss or damage to the Company or committed any misappropriation of the funds of the Company.

Kathmandu, Nepal
Date: 2080/09/05

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