

MANAGEMENT ACCOUNTANT



Ian Carruthers
Chairman IPSAS Board

“ Management accountants are in a much better position to help design internal reports using information based on IPSAS, aiding in strategic planning ”



Javaid Jehangir
Auditor General of Pakistan

“ Management Accountants play key role in promoting public accountability and transparency ”

Focus Section

IPSAS Implementation in Pakistan
– Benefits and Challenges

The Harmonization of Public Sector Accounting: Drivers and Challenges

Improving Public Sector Management and Performance

A Global Outlook on status of adoption of Accrual Accounting

Corporate Governance in Public Sector Entities

Special Segment

Pakistan Economic Survey 2017-18

Federal Budget 2018-19

Tax Amnesty Scheme

Public Sector Accounting

Volume : 27.2



Mar-Apr 2018



ICMA
Pakistan

Institute of Cost and Management
Accountants of Pakistan

From the Holy Quran



In the name of ALLAH, the Most Magnificent, the Most Merciful

Alif, Lam, Mim, Sad. (1) This is a book sent down to you. Therefore, your heart must not be straitened because of it. (It is revealed to you) so that you may warn through it, and it may be an advice for the believers. (2) O humankind,) follow what has been sent down to you from your Lord, and do not follow any masters other than Him. Little you heed to advice! (3)

Surah Al-Araf, Ayat 1 to 3

Translation: Mufti Taqi Usmani
<http://www.quranexplorer.com>

Vision

To be the Preference in Value Optimization for Business

Mission

To develop Business Leaders through imparting quality education and training in financial and non-financial areas to bring value-addition in the economy

Core Values



Competence



Innovation



Ethics



Transparency



Professionalism

This Journal is also available on ICMA Pakistan's Website : www.icmap.com.pk

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Our Next Issues

May-June 2018

Stock Market Dynamics

July-August 2018

Supply Chain Management

Research & Publications Committee would
welcome articles on the above-mentioned
topic for Journal's forthcoming issue.

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ICMA
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From the Desk of **President**

The global financial crisis and the European Sovereign debt crisis in 2008 greatly impacted the public sector accounting in almost all jurisdictions of the world. There was a growing concern globally about transparent financial reporting by governments and improvement in management of public sector resources and funds. It was in this backdrop that International Public Sector Accounting Standards (IPSAS) were developed which encourages governments to switch from cash-based reporting accounting system to accrual accounting reporting standards in order to enhance government financial reporting and accounting.

It is good to see that the momentum towards adopting IPSAS is building globally and the governments in every region have initiated reforms to adopt the accrual based IPSAS. Certainly, there are associated challenges which these countries are facing while moving gradually towards accrual model of accounting but they now seem committed to adopt IPSAS for improving the reliability, credibility and integrity of financial management and reporting in public sector organizations.

It is quite reassuring that the Research and Publications Directorate of ICMA Pakistan has dedicated the current issue of Management Accountant Journal on 'Public Sector Accounting' that would encompass all these aspects and dimensions of the selected theme. I am sure that our members and students as well as government officials and policy makers would be greatly benefitted from the contributions in this Journal.

ICMA Pakistan has always played its role towards capacity building in public sector organizations and recently it organized the IPSAS Certification Course jointly with ACCA and funded by USAID Pakistan. The government officials, mostly from the AGP offices, greatly learned from this course designed by the Institute.

At the Institute level, the National Council is now actively engaged in finalizing strategies and action plans required to take the Institute and the profession to new heights of excellence. The Institute has also submitted its Fiscal Budget Proposals 2018-19 to the government and policy makers. By the time you will read this issue, the Federal budget would have been announced. We have planned to organize a National Budget Conference 2018-19 at Islamabad which would discuss pros and cons of the announced budget.

I wish all of you a blessed holy month of Ramadan which is beginning in May. Please remember me in your prayers.

Zia ul Mustafa, FCMA

President ICMA Pakistan



From the Desk of
Chief Editor

I am delighted to present the March-April 2018 issue of Management Accountant which is on the theme of 'Public Sector Accounting'. I am sure that contributions made by authors in this issue would definitely provide deep understanding and insight to our members as well as other stakeholders, especially in public sector entities.

The issue begins with an exclusive interview of Mr. Ian Carruthers, Chairman of International Public Sector Accounting Standards Board (IPSASB). The Editorial Board is really indebted to him for sharing his views and thoughts on IPSASB's role in promoting public sector accounting standards globally as well as on other issues. His observations that 'management accountants are in a much better position to help design internal reports using information based on IPSAS, aiding in strategic planning' speak volumes about the critical role of management accountants for business organizations. As suggested by him, ICMA Pakistan will be organizing courses and programs on IPSAS for which we expect technical support from IPSAS Board. We are also thankful to Mr. Javid Jehangir, Auditor General of Pakistan (AGP) for sparing his precious time to give interview for publication in this issue.

Like in previous issue, we have received two exclusive articles from foreign authors for this issue. Prof. Isabel Brusca and Prof. Vicente Condor have shared a joint paper in which they have dwelt upon the drivers and challenges in harmonization of public sector accounting. Another article titled 'Improving Public Sector Management and Performance: The Case for Accrual Accounting' has been co-authored by Mr. Daniel Nogueira Budny and Svetlana Klimenko. We are really thankful to them for sharing their enlightening write-ups on subject. I am also thankful to Mr. Muhammad Shahzad Sherwani, FCMA and Mr. Khalid Mahmood Bajwa, FCMA for sharing their experiences on IPSAS implementation in Pakistan. The Research and Publications Department has also contributed two research-based write-ups; the first one provides a global outlook on status of adoption of accrual accounting and the second one highlight important revisions made in the Public Sector Companies (Corporate Governance) Rules, 2013. I am sure that the readers will get some good information from both these contributions.

I am happy to share with our members that ICMA Pakistan's Fiscal Budget Proposals 2018-19 has been submitted to the government. The Research and Publications Department has made great efforts in developing these proposals based on in-house research and consultations with our members, experts as well as trade and industry associations. We hope and expect that these recommendations would merit attention of the policy makers.

In closing, I would like to urge upon our members to come forward and share more articles and write-ups for the Journal as it has been observed that the contributions of our members is not as per our expectations. I think that our members especially in academia and government can make some useful input for the Journal. Please also share your views on important professional and economic issues so that we can explore the possibility of starting a new segment in our Journal to accommodate such comments and recommendations.

Please enjoy reading and do share your views on rp@icmap.com.pk

Muhammad Yasin, FCMA

Chairman, Research and Publications Committee

Exclusive

Interview

“ ICMA Pakistan can promote IPSAS in Pakistan by organizing conferences and courses. ICMA can also reinforce to Pakistan's government the wide range of benefits of using IPSAS in the public sector and publicly support the adoption of IPSAS in Pakistan ”



Ian Carruthers, Chairman, International Public Sector Accounting Standards Board (IPSASB)

ICMA Pakistan: Kindly provide a brief overview of the objective and standard-setting role of IPSAS Board?

Ian Carruthers: The objective of the IPSASB is to serve the public interest by developing high-quality accrual-based accounting standards and other publications for use by public sector entities around the world in the preparation of general purpose financial reports. The IPSASB recognizes that the characteristics of the public sector mean that user needs may not always be satisfied by the financial statements alone and IPSASB's scope therefore includes broader financial reporting, including areas such as the financial sustainability of government and public sector entities and reporting service performance. However, financial statements are, and will remain, at the core of broader financial reporting.

ICMA Pakistan: What is the current status of global adoption and implementation of International Public Sector Accounting Standards, especially in South Asian countries?

Ian Carruthers: According to the 2015 PwC Global Survey on accounting and reporting by central governments, 59% of governments that have already implemented accrual accounting have used IPSAS on their accounting frameworks. The Association of Chartered Certified Accountants (ACCA) has recently published a study that indicates most South Asian countries have adopted standards aligned to the Cash-Basis

IPSAS and Sri Lanka has already indirectly adopted 10 IPSAS standards.

ICMA Pakistan: What are the accrued benefits of IPSAS adoption to public sector and national economies?

Ian Carruthers: High-quality IPSAS bring greater accountability and transparency to public sector financial reporting. IPSAS also enhance the decision-making process by governments and stakeholders in general because IPSAS compliant accounts provide a faithful representation of the financial position and financial performance of public sector entities. This, in turn, will improve resource allocation in the public sector to better serve citizens. High quality financial reporting can lead to lower borrowing costs.

“ IPSAS adoption requires active involvement of the accounting profession and there needs to be investment in IT infrastructure ”

“Cash Basis IPSAS has been developed as a stepping stone towards adoption of full accrual accounting, rather than an end in itself”

IPSAS are key to sound public financial management by providing a specific public sector accounting language, requirements and practices that can be broadly used in all public sector financial reporting. Overall, IPSAS adoption reinforces confidence in an economy, which creates benefits in terms of growth, jobs and stability.

ICMA Pakistan: What nature of difficulties is being faced by public sector entities in developing countries to move from cash-based to full accrual accounting?

Ian Carruthers: The main difficulties that developing countries face in migrating from the cash-basis to full accrual accounting are related to capacity both human resource and financial. IPSAS adoption requires active involvement of the accounting profession and there needs to be investment in IT infrastructure.

ICMA Pakistan: What is the adoption level of IPSAS in Pakistan and how you see the future progress?

Ian Carruthers: According to the 2017 ACCA survey, Pakistan has adopted cash basis IPSAS type standards as its reporting framework for central government. No announcement has yet been made about a move to accrual IPSAS.

ICMA Pakistan: Do you think that Cash-basis IPSAS which will be effective from Jan 2019 can bring visible improvement in financial management and reporting under cash basis accounting?

Ian Carruthers: The IPSASB's works to strengthen public financial management globally through the development and adoption of accrual-based IPSAS. Accrual-based IPSAS provides much richer information than cash-based financial

statements. Therefore, the Cash Basis IPSAS has been developed as a stepping stone towards adoption of full accrual accounting, rather than an end in itself. The recent changes to the Cash Basis IPSAS are designed to make implementation more straightforward. Therefore, for those jurisdictions on this journey, adoption of the Cash Basis IPSAS should certainly improve financial management and reporting.

ICMA Pakistan: What should be the preferred role of ICMA Pakistan in promoting IPSAS in Pakistan?

Ian Carruthers: IFAC's Statement of Membership Obligations 5 sets out requirements of an IFAC member body in respect to IPSAS. ICMA Pakistan can promote IPSAS in Pakistan by organizing conferences and courses. ICMA can also reinforce to Pakistan's government the wide range of benefits of using IPSAS in the public sector and publicly support the adoption of IPSAS in Pakistan.

ICMA Pakistan: How can professional accountants in Pakistan assist the government in creating awareness about the need for transparent financial reports in public sector?

Ian Carruthers: Professional accountants have a key role in providing advice to governments on the public how to improve public financial management. The increased transparency provided by high quality financial reporting in compliance with IPSAS is a cornerstone of such improvement.

ICMA Pakistan: Do you think the management accountants have a specific role in IPSAS implementation?

Ian Carruthers: Management accountants also have an important role in IPSAS implementation. Management accountants are in a much better position to help design internal reports using information based on IPSAS, aiding in strategic planning.

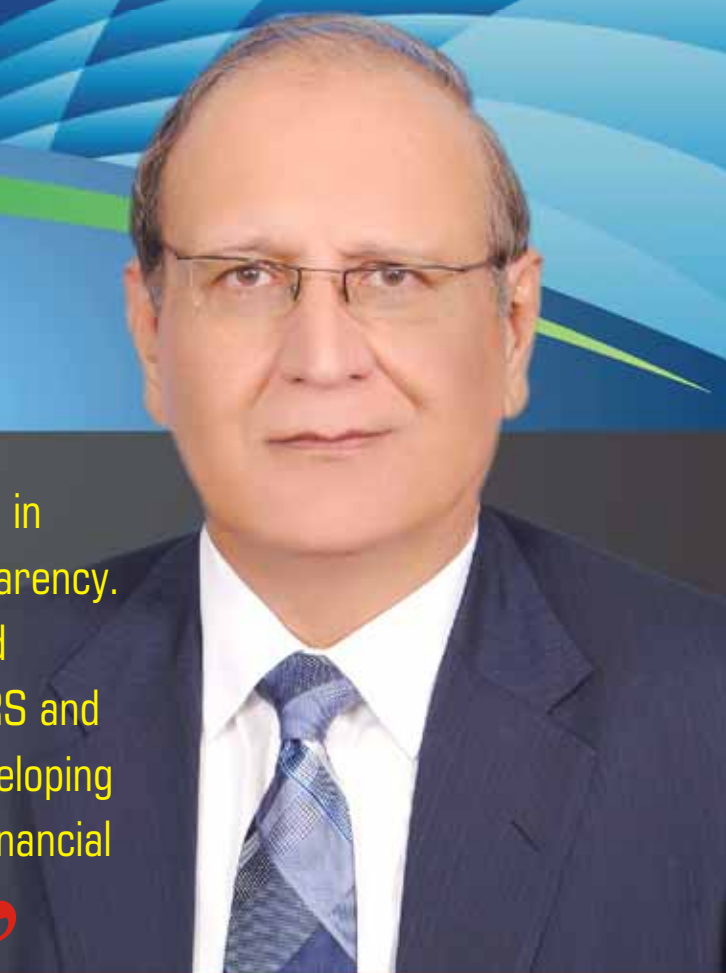
ICMA Pakistan: What message you would like to give to the professional accountants in Pakistan?

Ian Carruthers: The increasing adoption of global accounting standards together with recent technological changes provides challenges for the accounting profession. Professional accountants in Pakistan can be a beacon in these times of change by showing to the world their commitment to thrive and explore exciting opportunities. IPSASB really needs your support.

The Editorial Board thanks Mr. Ian Carruthers, Chairman, International Public Sector Accounting Standards Board (IPSASB) for giving his exclusive interview for Management Accountant Journal.

“Professional accountants have a key role in providing advice to governments on the public how to improve public financial management”

Interview



“Management Accountants play key role in promoting public accountability and transparency. They are required to prepare Accounts and Financial Statements as required under IFRS and IPSAS. ICMA Pakistan in this regard is developing the capacities and are supporting overall financial governance environment in the country”

Javid Jehangir Auditor General of Pakistan (AGP)

ICMA Pakistan: How the AGP office ensures public accountability and fiscal transparency in government operations?

JJ: Office of the Auditor General of Pakistan has a history of 157 years of promoting public accountability and fiscal transparency in Government Operations. Auditor General of Pakistan enjoys constitutional status that ensures continuity of its operations for promoting transparency in governmental operations. The system of financial control and accountability in Pakistan follows the Westminster model under which four institutions exercise financial control over public resources. These are the Parliament, the Treasury, the Principal Accounting Officer (PAO), who is the head of a Government Department, and the Auditor General. The Auditor General plays a pivotal role in the process of accountability. According to the Constitution of the Islamic Republic of Pakistan, the Parliament and the Provincial Assemblies have the final word over the issuance of public funds from the Consolidated Funds and the Public Accounts of the Federal and Provincial Governments. Control over these funds is exercised by the Parliament through the office of the Auditor General who ensures conformity to the determination of the legislature. His mandate, given in the Constitution of the country and supported by subordinate legislation, enables him to develop independent and objective assessments of the process of governance, which augment the

legislative oversight of the peoples' representative on governmental operations.

ICMA Pakistan: What role AGP plays to support parliamentary oversight over utilization of public financial resources?

JJ: Under the basic Westminster Model, the Parliament divides itself into various committees to efficiently undertake its wide range of oversight responsibilities. From its earlier days, the model saw the need for a committee to oversee government's financial operations and from this the Public Accounts Committee evolved. It is the 150-odd years of Westminster parliamentary history which has been the foundation of the Public Accounts Committee in Pakistan. The Public Accounts Committee (PAC) is one of the most important institutions to ensure legislative accountability. Its role and responsibilities have been laid out in the "Rules of Procedures and Conduct of Business in the National Assembly". These rules specify that the PAC should look into the legality and regularity of income and expenditure of government departments along with the reports of the Auditor-General. As per his constitutional mandate, the Auditor-General of Pakistan submits audit reports on the accounts of the Federation and Provinces to the President and Governors respectively. The President/ Governor cause them to be laid before the National/Provincial Assemblies, which in turn

“We have produced more than 1500 reports during last audit year with a meager budget. We face resistance in exercising our constitutional duty, despite this fact we have strived and continued to make progress and multiple initiatives are in progress to meet the stakeholder's expectations”

refer these reports to the respective Public Accounts Committees. The Principal Accounting Officers are called upon to appear before these Committees to satisfy the public representatives with reference to the observations of the Auditor General made in his reports on account of expenditure incurred. The Public Accounts Committees are required to submit annual reports for the deliberation, and consideration of the respective assemblies.

ICMA Pakistan: Transparent and reliable audit practices are crucial for development of any country? Do you agree?

JJ: Agreed with the statement.

ICMA Pakistan: Can you share the initiatives taken for bringing improvement in public sector accounting and auditing?

JJ: AGP's Strategic Plan is fundamental document which explains the plans and initiatives to bring improvement in Public Sector Auditing and Accounting in Pakistan. It's a medium-term plan for composite progression. The plan is being executed to achieve five goals in 4 years which are:

- o Improving Financial and Organizational Independence
- o Development of Professional and Institutional Capacity
- o Development of Communication & Cooperation with stakeholders
- o Use of Modern Audit Techniques and Technologies
- o Improving Internal Controls and Governance

To achieve the goals of Strategic Plan the office of AGP has achieved the pre-requisites by equipping the department with necessary IT software and hardware, capabilities of Computer Assisted Audit Techniques developing sectoral Audit guidelines and adopting Risk based Audit methodologies.

As a key stakeholder in Government Financial Reforms, Office of the Auditor General of Pakistan completed Project to Improve Financial Reporting and Auditing (PIFRA) to modernize Public Sector Accounting & Auditing in Pakistan in harmony with international best practices. Under PIFRA, significant developments took place such as AGP prescribed New Accounting Model to make Financial Statement compliant with IPSAS and further steps are also being taken to move towards IPSAS Accruals. All the Accounting Offices of Government, Federal, Provincial and Districts have been integrated using SAP R/3 which provides Public Accountants an enabling environment that promotes transparency, relevance and timeliness in Financial Reporting to the Parliament.

ICMA Pakistan: Do you think AGP Department has met the expectations of general public in terms of accountability?

JJ: Office of the Auditor General of Pakistan is committed to excellence. It is doing its best to deliver the results with minimum resources. Despite multiple administrative challenges and limited staff the Department has been able to generate credible and reliable Audit Reports over the years supporting the Parliament and public in general. We have produced more than 1500 reports during last audit year with a

“As per his constitutional mandate, the Auditor-General of Pakistan submits audit reports on the accounts of the Federation and Provinces to the President and Governors respectively”

meager budget. We face resistance in exercising our constitutional duty, despite this fact we have strived and continued to make progress and multiple initiatives are in progress to meet the stakeholder's expectations. Keeping in view the emerging challenges the department has to keep reform agenda alive and active. In order to promote better public service delivery department has to adopt changing environments and adopt best available strategies to be relevant in future.

ICMA Pakistan: How management accountants can play a role in improving public accountability and transparency?

JJ: Management Accountants play key role in promoting public accountability and transparency. They are required to prepare Accounts and Financial Statements as required under IFRS and IPSAS. ICMA Pakistan in this regard is developing the capacities and are supporting overall financial governance environment in the country.

ICMA Pakistan: What about engaging management accountants in special audits and performance audits of public sector organizations?

JJ: Office of Auditor General of Pakistan believes in partnership and keeping in view the increasing scope of work of audit of PSEs, Sector Specialists and Management Accountants for specific assignments can be engaged on need basis.

ICMA Pakistan: In what areas AGP and ICMA Pakistan can collaborate to promote Int'l public sector accounting standards?

JJ: In Pakistan, Auditor General of Pakistan in terms of article 169-171 of Constitution of Pakistan prescribes the Forms methods and Principles for Accounts for Public sector in Pakistan. International Public Sector Accounting Standard Standards (IPSAS) are issued by IPSAS Board and Pakistan has adopted IPSAS I for Government Accounts. Government of Pakistan is taking steps to achieve complete compliance to reporting standards and in this regard OAGP has constituted a Policy Board to regularly interact with all the stakeholders to ensure adoption of changes according to changes introduced by IPSAS Board from time to time. ICMA Pakistan has also been made honorary member of the policy Board and OAGP promotes partnership for continuous professional development of its employees through ICMA Pakistan.

ICMA Pakistan: What hurdles AGP office normally faces in conducting audit of accounts of public sector organizations?

JJ: Despite multiple administrative challenges, Office of the AGP meets its target of producing quality reports within stipulated time frame for the Parliament of Pakistan. Key constraints faced by our auditors are financial limitations and complete autonomy as envisaged under ISSAI 10 and Constitution of Pakistan. Increasing size of Government and limited budget to cover the requirements of stakeholders is one of the key concerns for the department. Revenue and spending of the government have increased many folds, more than 300% increase in last fifteen years. This has also increased our responsibilities as AGP is required to audit all revenue and expenditure. Our stakeholders also expect an assurance that public money is spent economically, efficiently and effectively. Further the role of Supreme Audit Institutions (SAIs) worldwide

has transformed a lot, legislatures and the governments expect an insight into the current practices, foresight of emerging challenges and recommendations for further improvements. Many segments which were earlier untouched like energy and IT audit are now being brought in the fold of SAIs. A limited financial resource is a key constraint which restricts us from appropriately conducting the audit of entire client portfolio entrusted to us. Given the contribution of the auditors to the national exchequer, and in order to increase their incentive, it is appropriate that they are suitably compensated. The reform process requires higher levels of expertise for delivery and supervision and seamless implementation is the key. The department does not have the resources to reward the deserving and incentivize the change process.

“ICMA Pakistan has also been made honorary member of the policy Board and OAGP promotes partnership for continuous professional development of its employees through ICMA Pakistan”

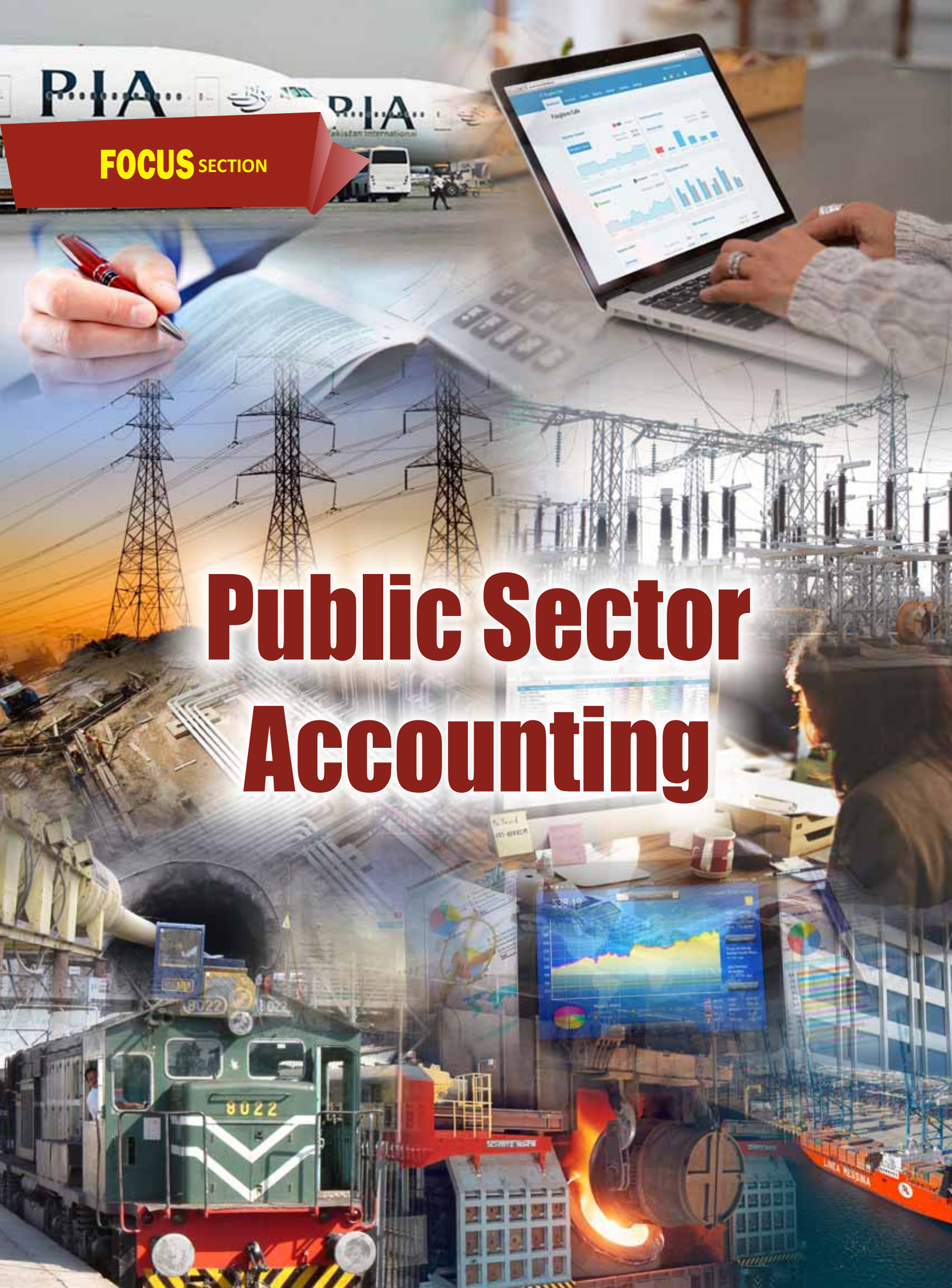
ICMA Pakistan: AGP Audit Reports identifies financial irregularities in various public sector bodies. What are their outcomes?

JJ: Recent reports of AGP on circular Debt and similar other aspects have led Government and legislature towards many reforms and triggered accountability for better Governance in the country.

ICMA Pakistan: What is your opinion on establishing 'Audit Court' like in USA, China and other countries to combat corruption and malpractices in public sector organizations?

JJ: The system of financial control and accountability in Pakistan follows the Westminster model under which four institutions exercise financial control over public resources. These are the Parliament, the Treasury, the Principal Accounting Officer (PAO), who is the head of a Government Department, and the Auditor General. The Auditor General plays a pivotal role in the process of accountability. According to the Constitution of the Islamic Republic of Pakistan, the Parliament and the Provincial Assemblies have the final word over the issuance of public funds from the Consolidated Funds and the Public Accounts of the Federal and Provincial Governments. Control over these funds is exercised by the Parliament through the office of the Auditor General who ensures conformity to the determination of the legislature. Pakistan has inherited this system and changing the current system requires due diligence and deliberation by Parliament to arrive at a logical conclusion.

The Editorial Board thanks Mr. Javaid Jehangir, Auditor General of Pakistan (AGP) for giving his exclusive interview for Management Accountant Journal.



FOCUS SECTION

Public Sector Accounting

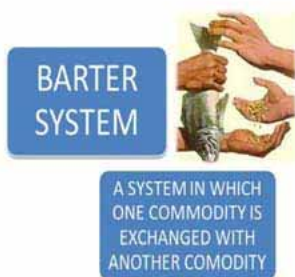
IPSAS Implementation in Pakistan

- Benefits and Challenges



Muhammad Shahzad Khan Sherwani, FCMA

Preamble: Since the history immemorial the systems developed in the Government were very simple. World was divided into kingdoms, countries and other monarchies ruled over by emperors, kings, queens and monarchs having different titles. Those sovereigns used to collect funds from public and spend it to manage and control their territories and subjects. They had developed departments and offices managed by their trustworthy officers. Some powers including tax collection and public spending were devolved to their sub ordinate departments and officers. The rulers and their representatives were supposed to provide the basic facilities needed to their subjects at that time likely defence, security, rules & regulation and justice etc. In the ancient times commodities were exchange (barter system) and the same were also considered equally good for Government revenue and spending. Subsequently, paper currency notes were introduced which was taken equally good for Public Sector revenue collection and spending. They had to manage all the expenditures form the cash collected; hence, cash based Government accounting emerged all over the world especially in the Government offices and Public Sector Organizations.



Introduction of Accrual concept

With the passage of time, the need was felt to develop uniform international accounting standards. Massive research was conducted and in this context an International Accounting Standard Committee (IASC) was established which was responsible for issuance of International Accounting Standards (IAS) from time to time. It was realized that cash based accounting did not show true and fair view of the Affairs and Financial strength of the Organizations, therefore **double entry accounting system** was introduced, which was based on the accrual method and was considered as more logical rather than payment method. It follows the matching concept of accounting.

IASC issued International Accounting Standards (IAS) till March 2001. On April 1, 2001, The International Accounting Standard Board (IASB) was established as successor to the IASC for developing new International Standards called Financial Reporting Standards (IFRS) and to promote its usage and application. Internal Accounting Standard and International Financial Reporting were adopted by companies / organizations

all over the World but the government departments / organizations persisted on their existing practice of Cash Based Accounting.

Development of International Public Sector Accounting Standards (IPSASs)

In 2004, International Public Sector Accounting Standards Board (IPSASB) was established, under the umbrella of the



International Federation of Accountants (IFAC), as an independent Public Sector Standards setting Board. IPSASB has issued International Public Sector Accounting Standards (IPSASs) based on International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS) or International Financial Reporting Interpretations Committee (IFRIC) Interpretation. But it does not mean that the IPSASs are replica of IFRS, IAS or IFRIC interpretation. Accrual accounting has been introduced in IPSASs.

Benefits of Implementing of IPSASs in Pakistan

There are innumerable benefits of adopting IPSASs some of the major are outlined below:

- a) Transparency and assurance of fool proof internal control with respect to Income & expenditures and assets & liabilities.
- b) It provides fair and transparent Financial Reporting which will in turn provide Public Accountability and Probity. Therefore there is no harm to implement right to information act.
- c) More comprehensive information under IPSAS improves management, their stewardship of resources, and result achievement effectively.
- d) Improved consistency and comparability of financial statements.
- e) It provides horizontal and vertical analysis to support decision making.
- f) More comprehensive information about revenue and costs will better support results-based management.
- g) The alignment of Government accounting with best accounting practices through the application of independent accounting standards on accruals basis.
- h) The standards address most situations that governments and public sector organizations may face from time to time.
- i) It may promote the Public Private Partnership.

Challenges in adoption of IPSAS

Development of IPSASs was a challenge but the biggest task is how to implement it. The current transformation of Government Accounting is likened to a global revolution staged by the Accountants. The challenges for adopting IPSASs in developing countries like Pakistan can broadly be divided into the following two categories:

General challenges

- There are challenges which are inherent to the IPSAS themselves.
- Preparation of road map for reverse design from financial statements to accounting systems.
- The preference to decide the future (Budgeting) is taken as of higher priority than to look back at the past (Financial Accounting);
- The preference to manage some parts of a Government throughout the year (Special Purpose Reports) is taken as

more urgent than to monitor the whole Government at year-end (Annual Consolidated Financial Statements).

Specific challenges

These are the challenges which are related to institutional, organizational, political, principle; conceptual and professional etc. aspect, as discussed below:

- 1) **Institutional Challenges:** IPSAS is a big and bold deal in several aspects. It does not believe in prejudice to national diversity in political, cultural, traditional, legal and economic sectors. It uplifts professional dictatorship above Governmental Authority while it expects Government Accounting to be transformed as per global appeal.
- 2) **Organizational Challenges:** Adoption of IPSAS is a complete change that may face vigorous resistance. Therefore without total organizational transformation and leaders' commitment, its comprehension will end up without any result.
- 3) **Political Challenges:** The stakeholders who were benefited from old system will sabotage the successful implementation of IPSAS.
- 4) **Principle Challenges:** Till to date, IPSAS are characterized by numerous detailed rules, only few general principles are regarding financial statements.
- 5) **Professional Challenges:** presentation of financial statements adopting the IPSAS is a new concept; therefore this is going to be a great challenge both in terms of capacity building costs and the required change management issues from the traditional cash accounting to a more business like accounting under accrual basis IPSAS.
- 6) **Skilled Manpower:** Its implementation requires capable manpower at top to operational level in different tiers of Government and Public Sector Entities. Presently Professional Accountants don't prefer to work in Public sector because of poor pay and bureaucratic hurdles.
- 7) **Infrastructure:** For a successful implementation of IPSAS infrastructural resources are needed, which will be the crucial challenge for the developing countries like Pakistan struggling against poverty, corruption and unemployment.



The Author is imparting training on IPSAS to Government Officers jointly organized by ICMA Pakistan and ACCA

Implementation Issues:

The adoption of IPSAS depends largely on the ability to identify and measure the assets and liabilities of the different tiers of Government and Public Sector Entities.

Efficient and committed transition team should be selected for implementation of IPSAS, which should:

- Be knowledgeable and well trained.
- Have enough representation from budget, accounting, IT, and Business functional areas.
- Regularly report to a decision making committee having Experts of Finance, Business and legal areas.
- have frequent access to internal and external auditors

Summary and Conclusion

Taking into account the cost involved, capacity building, infrastructure, especially Commitment of elected Politian's and different tiers of government officers; There is no doubt that

effective government accounting can makes it possible to manage the government's finances smoothly and to provide audit trails to prevent & detect financial misconduct, if any.

The most substantial challenges, for most public sector entities is to adopt accrual-based IPSAS, even if its implementation is properly supported by all the stake holders are:

- Selection of suitable transition team;
- Possibility of implementing IPSASs on some area of the entity first without having an adverse impact on other areas;
- To complete implementation process within a reasonable timeline;
- To adopt the standards in a cost-effective manner.

IPSAS wise Challenges		
IPSAS	ISSUES ADDRESSED	Situation Analysis and challenging task to do
IPSAS 1: Presentation of Financial Statements	Sets out the overall considerations for the presentation of financial statements, guidance for the structure of those statements and minimum requirements for their content under the accrual basis of accounting.	Currently Public Sector Departments and Authorities are on cash basis it would take long time to train qualified personnel to handle accrual accounting.
IPSAS 2: Cash Flow Statements	Requires the provision of information about the changes in cash and cash equivalents during the period from operating, investing and financing activities.	The operation of Public Sector Departments and Authorities is not well defined likewise its financing structure. It will be difficult to define it as per structure.
IPSAS 3: Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies	Specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors defines extra ordinary items and requires the separate disclosure of certain items in the financial statements.	Process and procedures of Public Sector Departments and Authorities needs improvement and it would be difficult to describe obstacles in identifying anything which creates errors.
IPSAS 4: The Effects of Changes in Foreign Exchange Rates	Deals with accounting for foreign currency transactions and foreign operations. IPSAS 4 sets out the requirements for determining which exchange rate is to be used for the recognition of certain transactions and balances; and how to recognize the financial effect of changes in exchange rates in the financial statements.	The exchange rate in developing countries like Pakistan is highly volatile and adopting this standard may require extra ordinary care in governance of Govt. funds.
IPSAS 5: Borrowing Costs	Prescribes the accounting treatment for borrowing costs and requires either the immediate expensing of borrowing costs or, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.	Gigantic funds in public sector departments, authorities and government owned companies come as allocation from the Government, either as a grant or as a loan; any standard that will allow borrowings to be expensed may mislead the reports.
IPSAS 6: Consolidated Financial Statements and Accounting for Controlled Entities	Requires all controlling entities to prepare consolidated financial statements, which consolidate all controlled entities on a line by line basis. The Standard also contains a detailed discussion of the concept of control as it applies in the public sector and guidance on determining whether control exists for financial reporting purposes.	Consolidation of the Financial statement for the controlled entities is a big deal, as a lot of task has to be completed before preparation of Consolidated Financial Statements.
IPSAS 7: Accounting for Investments in Associates	Requires all investments in associates to be Accounted for in the consolidated financial statements using the equity method of accounting, except when the investment is acquired and held exclusively with a view to its disposal in the near future in which case the cost method is required. do

IPSAS	ISSUES ADDRESSED	Situation Analysis and challenging task to do
IPSAS 8: Financial Reporting of Interests in Joint Ventures	Requires proportionate consolidation to be adopted as the benchmark treatment for accounting for such joint ventures entered into by public sector entities. However, IPSAS 8 also permits as an allowed alternative joint ventures to be accounted for using the equity method of accounting.	In consolidation, Accounting for joint venture using equity method will result in given undue advantage to Government.
IPSAS 9: Revenue from Exchange Transactions	Establishes the conditions for the recognition of revenue arising from exchange transactions, requires such revenue to be measured at the fair value of the consideration received or receivable and includes disclosure requirements.	Fair value consideration may results in directing financial reports to preparers' interest (income smoothing). In Government this may lead towards the increase in tendency for corruption.
IPSAS 10: Financial Reporting in Hyperinflationary Economies	Describes the characteristics of a hyperinflationary economy and requires financial statements of entities which operate in such economies to be restated.	Financial restatement may be cumbersome and difficult. A lot of assumption and value judgment may cause subjectivity.
IPSAS 11: Construction Contracts	Defines construction contracts, establishes requirements for the recognition of revenues and expenses arising from such contracts and identifies certain disclosure requirements.	Due to inflation, its application may be difficult. Further, abandoned projects and lack of enforcement rules could be a factor to successful application.
IPSAS 12: Inventories	Defines inventories, establishes measurement requirements for inventories (Including those inventories which are held for distribution at no or nominal charge) under the historical cost system and includes disclosure requirements.	Currently Government inventories are not fully accounted for and It will take long time before its compilation.
IPSAS 13: Leases	Establishes requirements for the accounting treatment of operating and finance leasing transactions by lessees and lessors.	Proper documentations of agreements is needed for its application.
IPSAS 14: Events After the Reporting Date	Establishes requirements for the treatment of certain events that occur after the reporting date, and distinguishes between adjusting and non-adjusting events.	Budget delays and variations are major challenges.
IPSAS 15: Financial Instruments: Disclosure and Presentation	Establishes requirements for the presentation of on-balance-sheet financial instruments and identifies the information that should be disclosed about both on-balance-sheet (recognized) and off-balance-sheet (unrecognized) financial instruments.	Some Stocks are highly volatile and some are stagnant. Volatility factor is a potential problem in ascertaining the fair value of Financial Instruments.
IPSAS 16: Investment Property	Establishes the accounting treatment, and related disclosures, for investment property. It provides for application of either a fair value or historical cost model.	Adequately compiled statistical data of Government Owned Properties is not available
IPSAS 17: Property, Plant and Equipment	Establishes the accounting treatment for property, plant and equipment, including the basis and timing of their initial recognition, and the determination of their ongoing carrying amounts and related depreciation. It does not require or prohibit the recognition of heritage assets. do
IPSAS 18: Segment Reporting	Establishes requirements for the disclosure of financial statement information about distinguishable activities of reporting entities.	This requirement is full of ambiguities, tedious work is needed for segment reporting which is difficult even in private sector.

IPSAS	ISSUES ADDRESSED	Situation Analysis and challenging task to do
IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets	Establishes requirements for the recognition of provisions, and the disclosure of contingent liabilities and contingent assets.	It's difficult to ascertain along with its value
IPSAS 20: Related Party Disclosures	Establishes requirements for the disclosure of transactions with parties that are related to the reporting entity including Ministers, senior management, and their close family members.	Corruptions and graft related offenses are major impediments to the realization of this standard. Extra Ordinary care and uprightness is needed to ascertain and disclose the related Party nature of a transaction.
IPSAS 21: Impairment of Non-Cash-Generating Assets	Ensure that non-cash-generating assets are carried at no more than their recoverable service amount, and to prescribe how recoverable service amount is calculated.	This standard is terminated as par as public entities are concerned.
IPSAS 22 : Disclosure of Financial Information About the General Government Sector	Sets the disclosure requirements for governments that elect to present information about the general government sector (GGS) in their consolidated financial statements. The disclosure of appropriate information about the GGS of a government can provide a better understanding of the relationship between the market and non-market activities of the government and between financial statements and statistical bases of financial reporting	A lot of statistical data are needed to realize the provisional requirements of the standard.
IPSAS 23: Revenue from Non-Exchange Transactions (Taxes and Transfers)	Prescribes requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange	It covers the Government Grants in Aid which form a substantial part of revenue in Local Government Authorities and Public Sector Companies.
IPSAS 24: Presentation of Budget Information in Financial Statements	Ensures that public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved budget for which they are held publicly accountable and, where the budget and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results.	It is difficult to ensure the Budget variations, its presentation. Budget Performance history is not upto the mark
IPSAS 25: Employee Benefit	Prescribes the accounting and disclosure for employee benefits. This includes: short-term benefits (wages, annual leave, sick leave, bonuses, profit-sharing and non-monetary benefits); pensions; post-employment life insurance and medical benefits; termination benefits and other long-term employee benefits (long-service leave, disability, deferred compensation, and bonuses and long-term profit-sharing), except for share based transactions and employee retirement benefit plans.	The standard requires a lot of actuarial information, which is currently not available.

IPSAS	ISSUES ADDRESSED	Situation Analysis and challenging task to do
IPSAS 26: Impairment of Cash-Generating Assets	Prescribes the procedures that an entity applies to determine whether a cash-generating asset is impaired and to ensure that impairment losses are recognized. This standard also specifies when an entity shall reverse an impairment loss and prescribes disclosures.	The provision of impairments may lead to room for smoothing.
IPSAS 27: Agriculture	Sets the accounting treatment and disclosures for agricultural activity. Agricultural activity is the management by an entity of the biological transformation of living animals or plants (biological assets) for sale, or for distribution at no charge or for a nominal charge or for conversion into agricultural produce or into additional biological assets.	Lack of adequate data on government farms asset, implements and produce. Valuation of plantation farms could also be a big challenge.
IPSAS 28: Financial Instruments: Presentation	This standard sets the principles for classifying and presenting financial instruments as liabilities or net assets/ equity, and for offsetting financial assets and liabilities.	It is difficult to present and to ensure the Fair value assessment
IPSAS 29: Financial Instruments: Recognition and Measurement	Establishes principles for recognizing, derecognizing and measuring financial assets and financial liabilities. All financial assets and financial liabilities, including all derivatives and certain embedded derivatives, are recognized in the statement of financial position. do
IPSAS 30 Financial Instruments: Disclosures	Prescribes disclosures that enable financial statement users to evaluate the significance of financial instruments to an entity, the nature and extent of their risks, and how the entity manages those risks.	What constitute risk in Govt. is neither defined nor easy to comprehend
IPSAS 31: Intangible Assets	Sets the accounting treatment for intangible assets that are not dealt with specifically in another IPSAS. IPSAS 31 does not apply to intangible assets acquired in an entity combination from a non-exchange transaction, and to powers and rights conferred by legislation, a constitution or by equivalent means, such as the power to tax.	Intangibles are yet to be fully conceptualized in government.
IPSAS 32: Service Concession Arrangement: Grantor	Prescribes the accounting for service concession arrangement by the grantor, a public sector entity.	Conceptual challenges, adequate data have never been compiled with respect to appearance of service concession in the financial statement of the Grantor.

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The Harmonization of Public Sector Accounting: Drivers and Challenges

The Editorial Board thanks Isabel Brusca and Vicente Condor for sharing this article exclusively for ICMA Pakistan's Management Accountant Journal



Prof. Vicente Condor

Abstract: Although efforts to harmonize public sector accounting have not gone so far as those of the business sector, the global financial crisis emphasized the importance of producing comparable information, especially in the European Union, where the control of deficit and debts is one of the main current objectives. A global public sector accounting architecture has emerged, with a set of International Public Sector Accounting Standards, many of them based on the International Financial Reporting Standards, that are gaining legitimacy in the international context. At the moment, many countries are implementing the international standards. The European Union is discussing the process for developing a set of European Public Sector Accounting Standards based on the IPSAS that will allow harmonization among the European Union Member States.



Prof. Isabel Brusca

Introduction

One of the main characteristics of public sector accounting in the international context is the general introduction of significant reforms aiming at the modernization of public accounting systems of many countries (Ernst and Young, 2012). In these processes, a series of common approaches can be identified, such as the growing similarity of public and private accounting systems, the prevalence of the accrual principle (Lapsley et al., 2009) and some efforts towards the harmonization of public sector accounting systems (Benito et al., 2007, Manes Rossi et al., 2016).

Public sector accounting has followed the same path that business sector accounting in most countries (Christiaens et al., 2015), which has been considered a reference, although some adaptations to include the particularities of the public sector are required. This feature and the influence of the New Public Management led to the introduction of accrual principle at the core of the reforms of public financial management around the world (Lapsley et al., 2009, Brusca et al., 2015). Nevertheless, there is a trend to maintain budgetary accounting based on cash or modified cash accounting (van Helden and Reichard, 2016), with the coexistence of two systems in parallel that has created a debate about the usefulness of accrual financial reporting. Also the application of the same principles that the business sector has been criticized by some authors (Biondi, 2012).

Recent years have been also fruitful in the harmonization issue, and even though the harmonization of public sector accounting may be considered less important than that of business sector accounting, because there are no stock-market information requirements, the literature contains many reasons that support the relevance of governmental information comparability, especially for countries belonging to the European Union. The financial crisis and the problems of deficit and debt in the European Union Member States have introduced also an important change in this field (Mussari, 2014).

The process of harmonization of public sector accounting has been enhanced by the institutionalization of the International Public Sector Accounting Standards (IPSAS), issued by International Public Sector Accounting Standard Board (IPSASB), which have played an important role (Jensen and Smith, 2013) in the reforms of countries and organizations. In fact, many multinational organizations, such as the UN, the OECD and the European Commission, have committed substantial resources to promote and adopt international accounting standards.

In this paper, we will refer first to the benefits and challenges of international accounting harmonization. Later, we want to show the role of the IPSAS for harmonizing public accounting in the international context. Finally we will refer to the developments in the harmonization of public sector accounting in the European Union.

The International Harmonization of Public Sector Accounting: Benefits and Challenges

International accounting harmonisation has some differences with the concept of standardization. Nobes and Parker (2010) state that "*harmonization is a process of increasing the compatibility of accounting practice by setting bounds to their degree of variation.* Harmony is the state where compatibility



has been achieved. Standardization appears to imply working towards a more rigid and narrow set of rules. Thus, it means guaranteeing that accounting information is comparable by reducing accounting diversity”.



The main driver for international harmonization in the business sector has been the globalisation of the stock markets and the requirement to offer comparable information to all potential investors, arguments that can be also maintained for the public sector, as there are also potential investors in public debt that require comparable information. Public administrations can emit public bonds on international markets and also borrow money from foreign financial institutions through loans and other financial instruments, so that comparable financial information can be useful to lenders and investors in order to analyse the financial capacities of governments. In particular, the International Monetary Fund or the World Bank can be interested in the harmonization of public sector accounting, also because this can be a path towards the modernization of the systems in some developing countries. In fact, common standards could also serve as a reference for countries who wish to modernize their accounting systems, and in particular, they can be a stimulus for the general modernisation of accounting systems in less developed countries.

In the public sector, macroeconomic accounting has been used to compare economic and financial situation of administrations (Lüder, 2000), but this is based on the microeconomic information, and therefore if public accounting systems were homogeneous, this could support the elaboration of national accounts, and even using financial information for some of the objectives for which national accounting is used, such as controlling public deficit or the level of national debt.

In the case of the European Union, the need for public sector accounting harmonization can be justified more easily by the need to compare between different countries (Brusca and Condor, 2002), as well as to achieve transparency in the use of resources provided by the European Union, so that national governments can demonstrate the proper and efficient use of the resources.

In particular, the harmonization of public sector accounting can make easier the comparability of the debt and deficit of Member States, which is one of the main objectives of the European Union. In spite of the European System of Integrated Economic Accounts (ESA), which makes national accounting comparable and useful for economic comparisons between countries, some

problems of comparability may appear in order to assess government financial condition.

Although international harmonization of governmental accounting and financial reporting systems can have important benefits, there are also some obstacles and challenges to this harmonization that indicate that there is a long way to go. Each country has its own legal framework, with strong influence in the accounting system, and also in the relevance of the budget and the standards which regulate it. This can justify that the needs of governments and internal users could be different for each country and even some authors propose to maintain an internal system for local requirements (Manes Rossi et al., 2016). There are also cultural and language differences; differences in the economic development of the countries in the international framework, in which it seems impossible to give priority to accounting harmonization when they have not even developed adequate accounting systems yet.

Another important challenge is the skills and abilities required in public administrations for introducing new standards, as well as the cost that a process of reform can have for a country (PwC, 2014). Furthermore, the pressure exerted by potentially interested groups can not be compared to the pressure exerted by international investors, international stock markets or multinational accounting and auditing firms in the business sector.

The IPSAS: A Tool for the Harmonization

Aiming at improving public sector financial management and accountability, the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC), currently designated IPSASB, started a project to develop a set of accounting standards for public sector entities, the IPSAS. The objective of the standards is to improve the quality of financial reporting prepared by public sector entities, leading to better information for decision-making processes and increasing transparency and accountability (Bergmann, 2010). Its labour can be compared to that of International Accounting Standard Board (IASB) in business accounting.

At the moment, the IPSASB (2017) has issued 40 accrual based IPSAS and one cash-basis standard which can be used by countries in their transition from cash to accrual accounting. Since their origin, the IPSAS have considered as reference the International Financial Reporting Standards (IFRS), carrying out some adjustments to adapt them to the public sector context. With this police, the IPSAS can take advantage of the legitimization that IFRS have for the business sector.



There are however some standards specific for public administrations, such as IPSAS 21. Impairment of Non-Cash-Generating Assets, IPSAS 22. Disclosure of Financial Information about the General Government Sector, IPSAS 23. Revenue from Non-Exchange Transactions (Taxes and Transfers), IPSAS 24. Budget Information in Financial Statement, IPSAS 32. Service Concession Arrangements: Grantor, and IPSAS 33. First-time Adoption of Accrual Basis IPSASs.

Furthermore, the IPSASB has approved also a specific Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, in order to clarify the concepts that must be considered for developing the IPSAS and the Recommended Practice Guidelines. IPSAS are applicable in general to all kind of public sector entities, and in particular national, regional, and local governments, as well as related governmental agencies.

The IPSASB is an independent standard setting body, founded by the International Federation of Accountants (IFAC), that can no enforce the compliance with IPSAS, so that each government can decide to adopt the IPSAS or not. However, IPSAS has been used in many countries as a reference to reform public financial management and introduce accrual accounting (IPSASB, 2016). In this framework, the IPSAS have become a viable tool for governmental accounting harmonization, just as the International Financial Reporting Standards (IFRS) have been in the business sector. Many international organizations have also implemented the IPSAS. The Organization for Economic Co-operation and Development (OECD) published financial statements in accordance with the IPSAS in 2000, the European Commission in 2005, the North Atlantic Treaty Organization (NATO) in 2006 and some organizations of the United Nations, as the FAO, since 2009.

This shows that IPSAS are a powerful tool to gain some sort of influence on the evolution and reform of financial reporting in other countries, and indirectly can be the path to achieve the comparability and harmonization of governmental accounting around the world.

The Implementation of the IPSAS at the International Level

The implementation of the IPSAS means the incorporation of the standards into the accounting system of the country, by adoption (the criteria of the international standards are integrated into a local regulation) or by adaptation (international standard are a benchmark for locally issued rules). The literature and different reports state that many countries have implemented IPSAS, but it is not easy to clearly define the international expansion of IPSAS and to what extent they are applied in practice (sometimes there are contradictions among different reports).

According to the Association of Chartered Certified Accountants (2017), the following countries have implemented IPSAS, or are in process of implementing them, in Asia:

- Indonesia, that in 2015 adopted IPSAS like standards, but central and local government prepare financial statements using modified cash and partial accrual basis.
- Jordan adopted IPSAS in 2016, but only partial implementation has been achieved.



- Malaysia, where the federal government implemented accrual standards based on IPSAS in 2015 and the state in 2016.
- Sri Lanka started a process of convergence with IPSAS in 2006, but this has not been completed.
- Vietnam has recently introduced accrual accounting and aims to adapt to IPSAS by 2020.
- Nepal and Pakistan are using cash based accounting and standards are aligned with the cash basis IPSAS.

In Oceania, there are also some countries implementing IPSAS, such as New Zealand, where the standard board approves the IPSASs-based national accounting standards for the public sector. In Australia, national standards for the public sector are based on the IFRS, but the Australian Accounting Standards Board considers specific IPSAS and their adoption where there is no equivalent Australian Standard that deals with a public sector-specific issue.

If we focus on America, the situation is very heterogeneous. In South America, there is also a trend to adopt the IPSAS in the framework of the reforms of public financial management that are taking place in most of the countries. Colombia, Costa Rica and Peru are the countries with the greatest advances in IPSAS adaptation. In Central America countries, Guatemala started efforts in 2005 and it is still in the process of adapting to IPSAS. In the United States of America, the Federal Accounting Standards Advisory Board - (FASAB) promulgates accounting standards for the federal government and these standards are not aligned with IPSAS.

In Europe, according to Ernst and Young (2012) and Christiaens et al. (2015), the following countries apply IPSAS or have standards similar to IPSAS: Austria, Czech Republic, Estonia, Ireland, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Spain, Sweden and United Kingdom.

Developments in the European Union

The financial crisis has also raised several public sector accounting issues in the international arena and, in particular, in the European Union. Many governments have important deficits and a high level of debt and their control has been fixed as a primordial objective of most national governments. Politicians have included in their discourse the importance of high-quality governmental financial reporting. Moreover, the financial crisis has created distrust and increased the need for accountability and transparency in the public sector (Ball, 2012).

In this context, European Union countries have to contain deficit and debt in order to maintain budgetary stability. Among other measures, the European Parliament issued a Council directive on requirements for the budgetary frameworks of Member States that includes a reference to IPSAS, stating that “The Commission shall assess the suitability of the International Public Sector Accounting Standards for the Member States by 31 December 2012”.



After a Public Consultation on the suitability of the IPSAS for EU Member States (European Commission, 2012), the Commission (2013, p. 7) decide to develop a set of European Public Sector Accounting Standards (EPSAS), but also declared that “the IPSAS standards represent an indisputable reference for potential EU harmonized public sector accounts”. The aim is that with the application of EPSAS, the harmonization of public sector accounting in Member States can be achieved. At the moment, the process is still on-going and there is not a final timetable for the EPSAS.

Conclusions

One of the aspects that has characterized public sector accounting information in recent years is the introduction of reforms in public financial management, including the adoption of accrual accounting in almost all countries. Furthermore, there is a growing interest in the international harmonization of accounting, driven by the work of the IPSASB.

Since the creation of the Board (previously Committee) for public sector accounting, it has had an important role in the reform of public sector accounting systems. At the moment, these standards are currently considered as the most appropriate reference for reforming accounting systems. Many international organizations, such as the European Commission, the OECD, NATO and the United Nations have adopted or adapted the IPSAS and they are considered as an example for other countries. There are also many countries that have initiated processes for the adaptation to IPSAS, including European continental countries (for example Portugal and Spain), Anglo-Saxon countries (New Zealand), Asia countries (Malaysia and Vietnam) and Latin American countries (Costa Rica, Peru or Colombia).

The European Union is considering the development of European Public Sector Accounting Standards based on the IPSAS in order to harmonize public accounting between European Countries, taking into account the importance of obtaining comparable data for analyzing and controlling debt and deficit. This is an important path for recognizing the role of the IPSAS for the harmonization of public sector accounting standards in the international context.

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Svetlana Klimenko

Improving Public Sector Management and Performance: The Case for Accrual Accounting



Daniel Nogueira-Budny

The Editorial Board thanks Svetlana Klimenko and Daniel Nogueira-Budny for sharing this article exclusively for ICMA Pakistan’s Management Accountant Journal

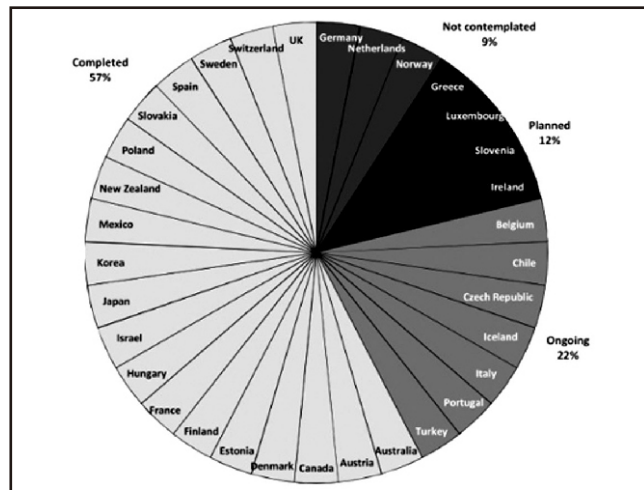
Public sector management (PSM) is about ensuring that the machinery of the public sector works efficiently and effectively. This is crucial because it can enhance - or undermine - a government's ability to deliver results across all sectors. Poor public sector management leads to poor public sector performance: the sub-optimal provision of public services, in terms of equity, access, and/or quality. This is particularly worrisome for the disadvantaged, as they rely disproportionately on public services.

Oftentimes, PSM is separated from public financial management (PFM) for organizational and management purposes. While the former encompasses the entire functioning of the public sector, the latter focuses specifically on the mobilization, allocation, and use of public resources. However, such an inorganic divide creates a false dichotomy that PFM reforms have limited impact on the core functioning and performance of the public sector. In fact, nothing could be further from the truth.

One example of the overlap between PSM and PFM is accounting standards. A core feature of PFM, accounting standards systematize otherwise disparate accounting policies, allow for the presentation of comparable and transparent financial information, and minimize subjectivity and opacity in financial information. But, as explained below, accounting standards also do so much more in terms of ensuring public sector performance.

Advent of the accrual basis accounting in the public sector

Since the 1980s, there has been a gradual change in governments' approach to public sector accounting, with many countries around the world, shifting from cash-basis accounting to either modified or full accrual-basis accounting. According to Accrual Practices and Reform Experiences in OECD Countries, published by the Organization for Economic Cooperation and Development (OECD) and International Federation of Accountants (IFAC), as of 2016, approximately three-quarters of OECD countries have adopted some form of accrual accounting for their financial reporting. This trend can be seen among non-OECD countries as well: annual financial statements in countries as diverse as Brazil, Ghana, Indonesia, and Kazakhstan currently use full or modified accrual basis.

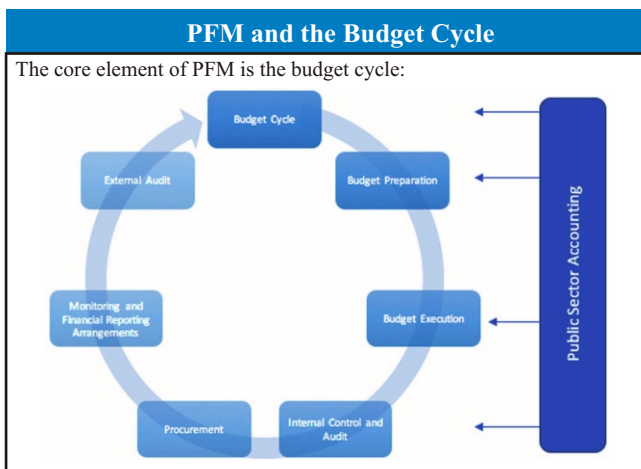


Source: OECD Accruals Survey (2016), as presented in OECD/IFAC (2017, p 27)

Parallel to this growing momentum has been the establishment of public sector accounting standards, with the International Public Sector Accounting Standards (IPSASs) gradually becoming the “gold standard” for public sector accounting.

Accrual basis accounting and public sector management

The way in which a government chooses to structure its accounting processes has significant impact on the overall state of its PFM systems. The adoption of accrual-based accounting



Public Sector Accounting is a cross-cutting aspect of various blocks of PFM. It communicates the financial results and health of a public sector entity through financial statements.

Source: Basics of Public Sector Accounting (World Bank)

allows for the measurement of the value of medium- and long-term assets and liabilities. This helps stakeholders better understand future benefits and risks stemming from current government decisions and policies: for example, the setting-up of public-private partnerships (PPPs).



Governments are gradually realizing that the adoption of the accrual-based approach is far more than an accounting reform. It is a way of fundamentally transforming PSM and decision-making processes. Standardized, comprehensive financial information is a key tool that governments can use to ensure macroeconomic stability, optimize use of limited resources for improved service delivery, and build transparent and accountable institutions. This ultimately leads to the better performance of the public sector, with consequences far beyond the reach of accountants' desks.

Benefits of accrual basis accounting for public sector performance

- ◆ **Management of Fiscal Risks:** Provides a more comprehensive view of the government's financial performance and the full cost of government activities, allowing for improved management of fiscal risks;
- ◆ **Delivery of Public Services:** Allows for the consolidation of financial statements from sub-national governments and other government entities, clearly linking resource allocation and service delivery;
- ◆ **Transparency and Accountability:** Facilitates external oversight of government expenditures, boosting trust in government and improving policy outcomes.

Management of Fiscal Risks

One of the most important benefits linked to the adoption of accrual accounting is the improvement of a government's capacity to manage fiscal risks. Governments require comprehensive, reliable, and timely information to be able to identify, mitigate, and manage fiscal risks in a timely fashion. This includes data on the performance of PPPs, state-owned enterprises (SOEs), and subnational governments, as well as a wider range of transactions stemming from the government's economic activities.

The fiscal crisis that shook the world over the past decade has shed light on the size and potential significance of previously unreported or underreported fiscal deficits and debts, as well as on the crystallization of contingent government liabilities on a massive scale. From this experience, consensus is now developing in the financial community on the need for strengthening, promoting, and monitoring international accounting standards within the developing and developed world to allow for better fiscal risk management.

The International Monetary Fund's (IMF, 2017) Analyzing and Managing Fiscal Risks - Best Practice argues for the need of governments to obtain and analyze more complete information on fiscal risks to be able to better manage them. Crucial to this is the development of comprehensive public sector balance sheets that cover financial and non-financial assets and liabilities. Such balance sheets need to capture changes not only in the volume and value of current assets and liabilities, but also in the present value of future revenue and expenditures stemming from long-term assets and liabilities.

A key prerequisite to the preparation of balance sheets (and one of the elements of the G20 Data Gaps Initiative) - including short- and long-term assets and liabilities and consolidating information from different levels and entities of government - is accrual accounting.

Sample of fiscal risks sources reported through accrual basis accounting

- ◆ **Subnational governments:** the rescue of troubled subnational governments costs 4% of gross domestic product (GPD) on average (Impact of fiscal risks from a survey of sources of shocks to government debt in 80 countries between 1990 and 2014);





- ◆ **SOEs:** government bailouts of troubled SOEs cost three percent of GDP on average;
- ◆ **PPPs:** while risk realization episodes of PPPs are generally low in number and cost, PPPs are increasingly being utilized, increasing their potential to generate larger fiscal costs in the future.

Closing the feedback information loop to improve delivery of public services

A second benefit linked to the adoption of accrual accounting is improved reporting of accurate financial information from decentralized public service delivery units. This is critical to be able to assess performance, address bottlenecks, and improve the quality and coverage of public service delivery.

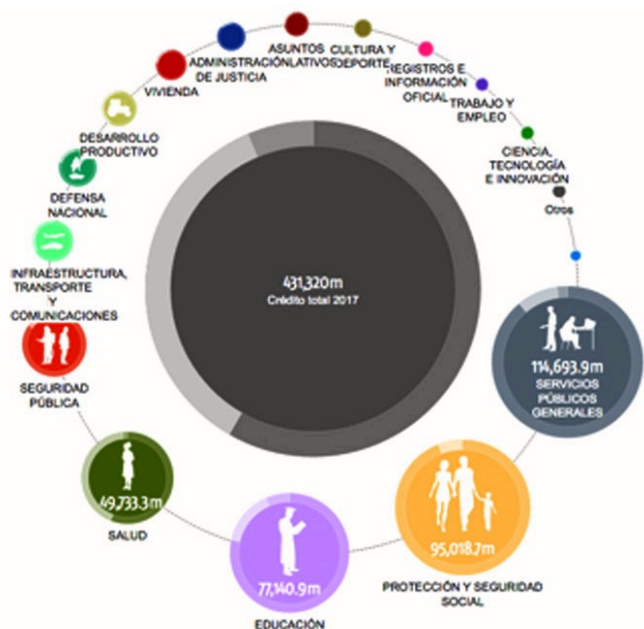
Over the past several decades, governments throughout the developed and developing world have increasingly transferred responsibilities for the delivery of public services to subnational levels of government. The objective behind this decentralization has been to ensure that decision-making around the allocation and use of public resources is made at the subnational level, closer to the actual beneficiaries. This functional decentralization has generally been accompanied by fiscal decentralization.

This process has created new challenges, however: obtaining comprehensive information on financial transfers from the federal level to decentralized levels of government is not easy. Without a clear picture of such financial flows it is difficult to hold government to account for public service delivery. For instance, a recent World Bank study on sectoral PFM systems in the Province of Buenos Aires tried to “follow the money” behind provincial-level service delivery in Argentina, the majority of which comes from various forms of central government transfers (including Argentina's so-called, “coparticipación”) and a number of different taxes and fees collected at the provincial level. This analysis was complicated by the fact that, in Argentina, municipalities are also increasingly responsible for service delivery, with funding coming from provincial government transfers (including municipal coparticipación), national government transfers through earmarked public service funds and programs, and various fees collected within the municipality. Besides tracing the financial flows themselves, obtaining information on the usage of such funds is even more complicated.

Lack of financial information on how resources have been provided and used for service delivery undermines the planning and management of services, breaking the feedback loop between performance and evidence-based course corrections and future programming. It also likely increases the inefficient use of resources and, thus, a reduction in the provision of services given limited fiscal space. Accrual accounting allows for the timely capture and analysis of such information, by consolidating all levels of government finances, from central government down to public service delivery unit.

Transparency and accountability

Finally, a third benefit linked to the adoption of accrual accounting is improved transparency and accountability. From the Open Government Partnership to the International Budget Partnership's Open Budget Index, and the Global Initiative for Fiscal Transparency, there is growing momentum both at the national and multinational level around the budget and fiscal transparency and participation agenda. When implemented properly, transparency and participation have been shown to promote greater accountability around the use of public funds; prevent corruption by maintaining high standards of integrity; increase trust in government; and encourage better fiscal outcomes and more responsive, impactful, and equitable public policies (OECD 2017). It also allows for more informed, inclusive debates about the impacts of budget policy on the lives of citizens. For example, thanks to the U.S.'s Digital Accountability and Transparency Act of 2014, citizens can now access easily understandable, disaggregated data on government expenditure. With this information, they can engage in evidence-based discussions with their elected national representatives on government spending priorities and petition for policy changes based on hard data.



Source: Uruguay Office of Planning and Budgeting (OPP)



Information is power, regardless of whether your point of reference is the public or private sector. Citizens, and non-state actors that represent them -- i.e. the media, civil society organizations, and community groups -- are increasingly demanding full access to information to optimize their economic decisions to be able to participate in evidence-based decisions around the best use of limited development resources, and to ensure that their governments are indeed working in their best interest and delivering their needs and demands.

Consolidated financial statements disclosing governments' current financial position, assets, and liabilities equip citizens with the tools necessary to hold their governments accountable (with the help of non-state actors and demand-side trainings, to be sure). Indeed, according to the OECD/IFAC (2017),

Against a backdrop of increased citizen demand, more open government, limited public spending capacity, and increasing efforts to achieve greater efficiency in delivering public services, high-quality financial reports are essential to ensure that governments make fiscal decisions based on up-to-date information and an accurate understanding of their financial position, and are the mechanism through which legislatures, auditors, and the public at large hold governments accountable for their financial performance.

Towards improved public sector performance: putting the pieces together

Application of international accounting standards, combined with other measures strengthening PFM practices, can significantly contribute to the improved management of fiscal risks, more efficient service delivery, and the capacity of societies to hold their governments accountable. In this way, international accounting standards represent a classic example of global public goods that serve as a pre-condition for broader reforms. Ultimately, they help ensure that governments are working efficiently and efficaciously to advance economic growth and ensure prosperity of their citizens.

The importance and role of such global standards are often underappreciated, because “consumers” - citizens, in this case - do not fully understand the “value-chain” that links them to their daily lives. Indeed, we hardly think about international

accounting standards, when assessing our government's capacity to educate our children or support our community, just as few people think about the research and development that went into the production of the medicine they purchase at the pharmacy. Yet, despite this lack of visibility, taking such standards out of the equation can significantly jeopardize the basis of reforms, turning what could potentially become a mighty fortress into a sandcastle.

Given the universal and public nature of international accounting standards, the World Bank Group and other international financial institutions (IFIs) have a key role to play in supporting and guiding standard-setting organizations, such as the IPSAS Board, as part of their strategic focus on development and dissemination of public goods. Furthermore, acting at the national level, IFIs and other development partners can help governments adopt and implement such standards, as part of their engagements supporting government-led reforms.

But governments themselves need to change their way of thinking when it comes to accounting reforms. As they aim to boost their capacity to deliver crucial public services in an increasingly constricted fiscal environment, and to use limited resources wisely and strategically, their decisions need to be based on credible data and demonstrated need, not anecdotes. By realizing that accrual accounting can function as a crucial tool in the broader PSM-PFM toolkit and in helping achieve these overarching objectives, governments will be able to demonstrate sustainable results anchored in objective, measurable reality. Most importantly, they will be better able to serve their citizens in a responsible, impactful, and transparent manner.

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International Public Sector Accounting Standards and Quality of Financial Reporting in the Public Sector of Pakistan

1. Nature of the Public Sector

The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity to investors. Consequently, the performance of such entities can be only partially evaluated by examination of financial position, financial performance and cash flows. GPFs provide information to users for accountability and decision-making purposes. Therefore, users of the GPFs of public sector entities need information to support assessments of such matters as:

- Whether the entity provided its services to constituents in an efficient and effective manner
- The resources currently available for future expenditures, and to what extent there are restrictions or conditions attached to their use
- To what extent the burden on future-year taxpayers of paying for current services has changed; and
- Whether the entity's ability to provide services has improved or deteriorated compared with the previous year

Public sector entities include national governments, regional (e.g., state, provincial, territorial) governments, local (e.g., city, town) governments and related governmental entities (e.g., agencies, boards, commissions and enterprises), unless otherwise stated. Governments generally have broad powers, including the ability to establish and enforce legal requirements, and to change those requirements. Globally the public sector varies considerably in both its constitutional arrangements and its methods of operation. However, governance in the public sector generally involves the holding to account of the executive by a legislative body (or equivalent).

The following sections highlight characteristics of the public sector entities:

1.1 The Characteristics of Public Sector Entities

i. Public accountability

Public accountability is an overriding feature of public sector entities and ensuring the availability of information to demonstrate such accountability is the primary objective of public sector reporting. Public accountability typically encompasses:

- A conferred responsibility
- An obligation to report back on the discharge of that responsibility
- Monitoring to warrant accountability and Potential sanctions for non-performance.



Khalid Mahmood Bajwa, FCMA

ii. Multiple objectives

The key aims of most public sector entities do not include generating a profit. Instead, they are to:

- Provide service
- Facilitate resource reallocation and/or
- Undertake policy development.

iii. Rights and responsibilities

The rights and responsibilities of governments provide them the ability, directly and indirectly to affect the economy and society they operate in. The rights and responsibilities may vary by level of government. Governments can, for example:

- Tax and set fiscal policy
- Penalize and fine
- Set monetary policy
- Make and enforce laws and regulations.

In exchange, governments have the responsibility to, for example;

- Meet their constitutional or devolved duties
- Set policies to manage the socio-economic issues of the jurisdiction in an efficient, effective, sustainable and transparent manner through the stewardship and application of the public resources entrusted to them
- Deliver services and reallocate resources
- Be accountable for the efficient, effective, sustainable and transparent stewardship and use of the public.

iv. Lack of equity ownership

- Public sector entities do not act to enhance the economic position of the entity for the benefit of owners.

v. Operating and financial frameworks set by legislation

- Public sector entities must operate within and illustrate their compliance with legal requirements.
- Transparent and public accountability against the policy objectives and policies set out in legislation underlies public sector reporting.

vi. Importance and use of budgets

Most governments prepare and make publicly available, their financial budgets. The budget documents are often extensively distributed and referenced. The budget mirrors the financial elements of the government's plans for the forthcoming period. It is the key tool for financial management and control, and is the central component of the process that provides for government and legislative oversight of the financial dimensions of operations.

vii. Governance structure

- The legislature and companies elected officials provide governance

viii. Relationship to statistical reporting

- Relationship to statistical reporting, and the commonalities and differences between general-purpose financial statements (GPFS) and government finance statistics (GFS).

ix. Nature of resources

- Resources of public sector entities are generally held for service provision rather than for their ability to generate future cash flows.
- Example includes heritage and cultural resources and complex infrastructure system. These resources may be held or managed by government organizations at various levels of government. These resources will often require continuous maintenance.

x. The longevity of public sector

- The longevity of public sector and the nature of public sector programs makes the going concern concept problematic to interpret in the public sector context. This result in an increased need for information about the long-term sustainability of public sector entity's finance.

xi. Non-exchange transactions

- Some of the rights and responsibilities of public sector entities give rise to non-exchange transactions (such as taxes, fines and penalties license and regulatory fees, grants and donations). this means that a large share of transactions of many public sector entities are primarily non-exchange in nature.

2. Users of General Purpose Financial Reports

Governments and other public sector entities raise resources from taxpayers, donors, lenders and other resource providers for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to

deliver necessary services. Those that provide the resources and receive, or expect to receive, the services also require information as input for decision-making purposes. Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers.

GPFRs prepared to respond to the information needs of service recipients and resource providers for accountability and decision-making purposes may provide information useful to other parties and for other purposes. For example, government statisticians, analysts, the media, financial public interest and lobby groups and others may find the information provided by GPFRs useful for their own purposes. Organizations that have the authority to require the preparation of financial reports tailored to meet their own specific information needs may also use the information provided by GPFRs for their own purposes—for example, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management, rating agencies and, in some cases, lending institutions and providers of development and other assistance. While these other parties may find the information provided by GPFRs useful, they are not the primary of GPFRs. Therefore, GPFRs are not developed to specifically respond to their particular information needs.

3. Information Needs of the Users of General Purpose Financial Reports

For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:

- The performance of the entity during the reporting period in, for example:
 - Meeting its service delivery and other operating and financial objectives:
 - Managing the resources, it is responsible for complying with relevant budgetary, legislative, and other authority regulating the raising and use of resources
- The liquidity (for example, ability to meet current obligations) and solvency (for example, ability to meet obligations over the long term) of the entity.
- The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period including, for example:
 - o The capacity of the entity to continue to fund its activities and to meet its operational objectives in the future (its financial capacity), including the likely sources of funding and the extent to which the entity is dependent on, and therefore vulnerable to, funding or demand pressures outside its control; and

- o The physical and other resources currently available to support the provision of services in future periods (its operational capacity); and
- The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides.

The information service recipients and resource providers need for these purposes is likely to overlap in many respects. For example, service recipients will require information as input to assessments of such matters as whether:

- The entity is using resources economically, efficiently, effectively and as intended, and whether such use is in their interest;
- The range, volume and cost of services provided during the reporting period are appropriate, and the amounts and sources of their cost recoveries; and
- Current levels of taxes or other resources raised are sufficient to maintain the volume and quality of services currently provided.

Service recipients will also require information about the consequences of decisions made, and activities undertaken, by the entity during the reporting period on the resources available to support the provision of services in future periods, the entity's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities.

Resource providers will require information as input to assessments of such matters as whether the entity:

- Is achieving the objectives established as the justification for the resources raised during the reporting period
- Funded current operations from funds raised in the current period from taxpayers or from borrowings or other sources; and
- Is likely to need additional (or less) resources in the future, and the likely sources of those resources.

Lenders and creditors will require information as input to assessments of the liquidity of the entity and, therefore, whether the amount and timing of repayment will be as agreed. Donors will require information to support assessments of whether the entity is using resources economically, efficiently, effectively and as intended. They will also require information about the entity's anticipated future service delivery activities and resource needs.

4. Information Provided by General Purpose Financial Reports

Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;

- The extent to which resources are available to support future service delivery activities, and changes during the reporting period in the amount and composition of those resources and claims to those resources; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources

Information about the financial performance of a government or other public sector entity will inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives. Information about the costs of service delivery and the amounts and sources of cost recovery during the reporting period will assist users to determine whether operating costs were recovered from, for example, taxes user charges, contributions and transfers, or were financed by increasing the level of indebtedness of the entity.

Information about the cash flows of a government or other public sector entity contributes to assessments of financial performance and the entity's liquidity and solvency. It indicates how the entity raised and used cash during the period, including its borrowing and repayment of borrowing and its acquisition and sale of, for example, property, plant, and equipment. It also identifies the cash received from, for example, taxes and investments and the cash transfers made to, and received from, other governments, government agencies or international organizations. Information about cash flows can also support assessments of the entity's compliance with spending mandates expressed in cash flow terms, and inform assessments of the likely amounts and sources of cash inflows needed in future periods to support service delivery objectives

Information about financial position, financial performance and cash flows are typically presented in financial statements. To assist users to better understand, interpret and place in context the information presented in the financial statements, GPFRs may also provide financial and non-financial information that enhances, complements and supplements the financial statements, including information about such matters as the government's or other public sector entity's:

- Compliance with approved budgets and other authority governing its operations
- Service delivery activities and achievements during the reporting period; and
- Expectations regarding service delivery and other activities in future periods, and the long term consequences of decisions made and activities undertaken during the reporting period, including those that may impact expectations about the future

This information may be presented in the notes to the financial statements or in separate reports included in GPFRs

5. Reliability, Credibility and integrity of Financial Reporting, user's decision-making and IPSAS

The public sector administration has been criticized in Pakistan and all over the world, taxpayers want to see an efficient and effective functioning government and a government that is transparent, comparable and consistent with best practices and most importantly, citizens want an accountable government.

Externally the pressure for high quality public sector report is even more intense for developing countries who want to issue financial instruments in the financial markets. Further, there exist various crises in many developing countries especially in Pakistan; with government debt levels sitting at very precarious levels. It is therefore imperative that government finances need to be managed very carefully. Many practitioners believe this can be achieved by adoption of IPSAS (Ouda, 2004).

It is widely acknowledged that there are fundamental problems that currently inhibit the efficiency and effectiveness of the Government's finance and accounting functions. This is due to poor performance of basic financial functions, poor supervision, inadequate financial information and decision support, poor staff motivation and attitudes to accounting and accountability. These inherent problems have suggested as contributing to the slow progress by the Government of Pakistan in implementing its Public sector reforms in Particular the IPSAS compared to other Countries of the World. The consequences are lack of management information for decision support; lack of confidence in the information is available because it is not compatible with the Donors and other Partners, lack of credibility and generally overall poor performance.

The public has always demanded a more relevant and reliable financial statements from central Government, a financial statements which captures and encapsulates all useful information required by various users of these financial statements. The adoption of IPSAS concern very important matter because it improves the capacity of governments to provide the legislative bodies, citizens, media, Taxpayers, donors, employees and other stakeholders with understandable, relevant, reliable, and comparable financial statements.

One reason that makes high quality public sector reporting necessary in many countries is to make issuance of Government financial instruments attractive in the international financial markets. Further, there exist various crises in many developing countries especially in Pakistan with government debt levels sitting at very precarious levels; and it is no news that government finances need to be managed very carefully thus adoption of IPSAS would increase credibility and assurances of these financial statements.

In light of the pervasiveness and severity of government corruption in many developing countries, financial integrity assurance is a critically important function of their government accounting systems. Achieving this requires high quality information on which to base decisions. Timely, clear and open annual financial statements play a significant role in the accountability of governments to their citizens and their elected representatives. Corruption may only be reduced by adopting leading practices in financial reporting like IPSAS.



The use of information technology by both the public and private sectors have made the issue of public sector accounting a pertinent part of accounting studies in the world.

One of the financial reporting desires of public sector has been to be able to consolidate its financial statements from various Government departments to a single line; this dream may only be achievable by adoption of

IPSAS, which would facilitate the adoption of a uniform and detailed chart of accounts for the elements of the accounting equation.

There is likely to be increased level of confidence and improved decision-making and in government financial reporting by emphasising on disclosures and presentations of information relevant to the key stakeholders in Government financial reporting.

The study on harmonization of public sector reporting would go a long way in improving the Public Finance Management principles and reporting guidelines of public resources by critically examining the generally accepted accounting and financial standards for maintenance of proper books of account for government and prescribe quality control procedures. It would also examine the prescribed formats for financial statements and reporting by all state organisations and public entities with an intention of identifying its strengths and weaknesses.

The adoption of IPSAS concern very important matter because it improves the capacity of governments to provide the legislative bodies, citizens, media and other stakeholders with understandable, relevant, reliable, and comparable financial statements; implementation of IPASA therefore will improve the quality of financial accountability, governance and financial reporting in Public Sector. In addition, this would improve the public financial management and decision-making of the government by making Government accounting more transparent and improving its governance framework.

6. Pre-requisites for the effective implementation of IPSAS

i. Technological Development

One of the conditions for the effective implementation of IPSAS by the bodies which sponsor it was a sound accounting information system in place by governments (WB, 1999). With the adoption and implementation of IPSAS the financial information management system of the Government will have to be upgraded to cope with the financial data requirements of the IPSAS standards (Price Waterhouse Coopers, 2011). According to this report, the current integrated Financial Management System (IFMIS) in use by the government for financial management will require to be evaluated for adequacy with the adoption of the new accounting standards.

ii. Political, Legal and Administration

The Financial management Act or any other legal framework for the preparation of Governments financial statements will have to be revised in order to entrench IPSAS basis in the financial management law. A Legal framework will therefore require to be crafted which prescribe IPSAS as the basis of preparation of governments financial statements. The IPSAS concept needs to be embraced by all stakeholders including Parliament, KNAO, Treasury, Government departments, Development Partners, as well as the NGOs.

iii. Training and Skills

The number of qualified accountants in Pakistan has increased tremendously over the years in both the private and public sectors. However, the IPSAS is a new concept, which is not understood by many. The Government as the leading user of these standards will have therefore requires undertaking

massive capacity building to enlighten its accountants on IPSAS. This is going to be a challenge both in terms of capacity building costs and the required change management issues from the traditional cash accounting to a more business like accounting under accrual basis IPSAS. The adoption of this new financial reporting framework will herald significant changes to the systems and process of financial reporting by the Government. This may come with new formats and financial reporting templates requirements of the various government entities.

7. Benefits of the implementation of IPSAS in the Public Sector

IPSAS improves comparability, harmonization, transparency and accountability in the financial reporting system of the organizations. Furthermore, international accounting standards require that more information be provided and disclosed in an organization's financial statements, leading to better information availability and transparency for decision-making. The major benefits are summarized in the following categories:

- Use of Best Practices to Bring Comparability and Consistency
- Improved Senior Management Decision-Making
- Increased Transparency and Controls
- Annual Audits and Reporting
- Enhanced Financial and Resource Stewardship

I. Use of Best Practices to Bring Comparability and Consistency

By following accounting standards that have been rigorously reviewed by independent third parties, Entity's financial statements can be viewed with increased confidence within the international community. At the same time, the adoption of IPSAS results in improved financial reports, allowing the company to provide more meaningful information to users of its financial statements.

II. Improved Senior Management Decision-Making

Sound financial information provides senior management with insights into entity's complex operations and can improve decision-making, especially when it comes to allocating and reallocating resources among regions and competing operational priorities. For example, accrual accounting provides a clearer picture of the company's liabilities, such as employee salaries. Better knowledge of liabilities supports better management of company's assets and liabilities.

Furthermore, IPSAS provides a clearer indication of how financial resources have been used in a given period. This helps to assess managerial performance and the effectiveness of the use of resources..

III. Increase transparency and internal control

IPSAS increases transparency since it requires more financial transactions to be recognized or disclosed either in financial statements (such as inventory, intangible assets, PP&E, accounts payable, accrued staff benefits) or in notes to financial statements.

Reliable financial and operational information promotes trust among contributors and Member States, and results in increased fiscal and political support. The strengthening of internal

control mechanisms has been integral to the IPSAS project since IPSAS forces certain additional operational and financial controls onto entity to ensure that the new accounting requirements are met.

IPSAS additionally enhances the role and profile of financial management in general, and the finance function in particular, since it raises awareness of entity's financial performance, leading to improved accountability and decision-making.

IV. Annual Audits and Reporting

Under IPSAS, the External Auditor audits the entity's financial statements and reports on the results of the audit every year instead of every two years. This enhances the accountability of the company and permits a more timely assessment of financial reporting.

V. Enhanced Financial and Resource Stewardship

IPSAS requires the entity to have a complete and documented account of its assets, liabilities, revenue and expenses in its financial statements, leading to enhanced financial and resource stewardship.

8. Conclusion

From the above discussion, it was observed that adoption of IPSAS is expected to increase the level of reliance on public sector financial reporting in Pakistan. It was established that IPSAS based standards will enable the provision of more meaningful information for decision makers and improve the quality of financial reporting system in Pakistan. In addition, it was concluded that the accrual-based IPSAS has the potential to give a better financial integrity assurance compared to cash or modified cash based accounting. Therefore, the above discussion affirmed that with IPSAS, budget and accounting categories at the national level could have a common set of classifications that conform to international standards that facilitate policy analysis and promote accountability. From the result and findings of the above discussion, we recommend that Pakistani government should implement practical and adequate reforms in public sector management to transfer to the accrual basis of accounting feasibly. Therefore, Pakistani government needs to improve the existing financial management mechanism and policy to enable the implementation of accrual-based accounting. In addition, there is need to train high qualified and professional accountants as well as building and developing accounting information system together with information technology. Finally, since the financial reporting system in Pakistan will improve with the adoption of accrual based IPSAS standards and the implementation of IPSAS in the operation and procedures of public sector organization will be beneficial in terms of accountability and transparency, the author recommends the adoption of International Public Sector Accounting Standards.

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A Global Outlook on Status of Adoption of Accrual Accounting

By Research and Publications Department, ICMA Pakistan

Preamble

In recent years, there has been a growing interest in the study of IPSASs' implementation around the globe. This paper attempts to appraise and analyze the status of adoption of accrual accounting and International Public Sector Accounting Standards (IPSAS) around the globe, especially in OECD, EU, ASEAN, SAARC and African countries. IPSAS has assumed much importance as far as financial reporting in public sector is concerned and as essential component of a strong Public Financial Management (PFM). The Governments in different jurisdictions are now attaching high priority to adopting IPSAS as a basis for preparing financial reports in order to achieve transparency, accountability and value for money of public funds. They have realized that IPSAS supports economic development and prosperity and therefore they are making investments in capacity building and training of staff that is responsible for implementing IPSAS.

If we look at the success stories on IPSAS implementation, we find that only few countries have been able to either fully or partially adopt IPSAS, whereas many countries have adopted IPSAS but not implemented them. Most of the countries are on the road to implementing IPSAS or national standards based on accrual accounting. Majority of these countries are experiencing some difficulties in smooth transition from cash-based

accounting to accrual-based accounting. As a step forward, most of the South Asian countries, including Pakistan, Bangladesh, India and Nepal, have adopted standards aligned to cash-based IPSAS - as a basis for moving towards accrual-based accounting. Simultaneously, financial management reforms are also being undertaken in these countries with the financial and technical assistance of World Bank and IMF.

Benefits of Accrual Accounting

The global political history lends credence to the fact failure of governments to manage finances have even led to social unrest and impairment of democracy. Hence, the requirement for efficient management of public sector resources and improved financial reporting by the governments has assumed much significance in recent years. The IPSAS Board has been encouraging governments around the globe to move towards full accrual accounting. Though IPSAS were first issued on a cash basis, subsequently IPSAS Board developed 40 accrual standards /IPSASs for the public sector to substitute for International Financial Reporting Standards (IFRS) of private sector in line with the New Public Management (NPM) trend. These IPSASs were mainly being adopted either fully or partially by those countries which are moving from cash-based to accrual accounting model.

Table 1: Accrual-based Accounting vs. Cash-based Accounting

Sr.	Accrual-based	Cash-based
1	Both the Cash and Credit transactions are recorded	Only Cash transactions are recorded
2	Considers both Cash flows and Accrual flows of company	Considers only total Cash flows of the company
3	It follows International Accounting Standards	It does not follow International Accounting Standards
4	It is part of GAAP	It is not part of GAAP
5	It presents company overall financial changes over a period	It does not present overall financial changes over a period
6	The basis of book keeping is 'Double Entry System'	The basis of book keeping is 'Single Entry System'
7	Revenues are reported when earned	Revenues are reported when cash is received
8	All Receivable are reported as Assets [when earned]	Receivables are not reported as Assets
9	All Payables are reported as Liabilities [when incurred]	Payables are not reported as Liabilities
10	Expenses are reported when consumed	Expenses are reported when cash is paid
11	Net Income on revenues earned and expenses incurred	Net Income based on cash receipts and disbursements
12	Balance Sheet is complete as far as reporting of assets, liabilities and stakeholders equity is concerned	Balance Sheet omits certain assets and liabilities. The amount of stakeholders' equity is also affected.
13	Tax assessed but not received is accounted for	Tax assessed but not received is not accounted for

We are highlighting below some of the benefits of using accrual based accounting in public sector, as derived from the experiences of the countries who have already adopted IPSAS:

- Provides a broader and fuller picture of government's financial position
- Enhances transparency and accountability in public governance
- Better decision-making by politicians and policy makers
- Improves financial management and leads to timely financial reporting
- Results in improved resource allocations and program management decisions
- Better reporting on true cost of government programs and activities and their matching with outputs
- Better understanding of operating costs and resource consumption during an accounting period
- Provides an allinclusive and accurate view of cost of capital leading to better assets management
- Provides comprehensive financial information required to manage public finances in efficient way
- Minimizes risk of errors in payments to beneficiaries
- Gives a better understanding of real cost of transactions in public sector on basis of daily information
- Gives a better understanding of past transactions on cash receipt and payments and future obligations to pay
- Gives the true picture of country's infrastructure assets, their life spans, valuation and how to ensure there are sufficient resources to maintain them for the longer term.
- Facilitate comparisons between the public sector and private sector

Challenges in transition to accrual accounting

Accrual accounting is considered globally as the key driver of better financial management. The countries which have initiated public sector reforms towards implementation of accrual accounting or national standards based on IPSAS are faced with many technical challenges such as the following, in addition to cultural barriers, which impeded them from taking benefit of using the business-style accounting reports for policy making:

- Legal and political support for implementation
- Building awareness in politicians to change their mindset on benefits and use of accrued accounts
- Alignment of regulatory structure and procedures
- Technical capacity and capability of public servants to produce and use accruals
- Need for orientation and training of staff to make them skilled accrual accounting practitioners
- Integrating systems to easily use accrual accounting e.g. configuration of IT/ERP systems
- Overhauling of financial systems and processes to log income and expenditure on daily basis

- Treatment of non-cash items under an accrual appropriations framework
- Treatment of capital charging in the budget
- Cash management system
- Substantial cost of implementation

Accrual Accounting - A historical context

The Republic of Chile was the first country to introduce the accrual based accounting during mid-1970s. New Zealand was the second country to adopt accrual accounting in mid-1990s. Subsequently, Australia joined the list in 1993 followed by USA in 1997. However, both Australia and USA initially introduced accruals in their central government administrations whereas it took several years to fully implement accrual system in the local administration. Canada and UK adopted the accrual accounts in 2001.

In 2004, Estonia was the first country in Europe to have fully adopted IPSAS whereas the public sector accounting reforms in Estonia was completed by 2005. In 2007, Latvia also adopted accrual accounting and was able to complete IPSAS implementation by 2015. Similarly, Lithuania introduced accrual accounts for its public bodies in 2010 whereas it completed IPSAS implementation process by 2014. In 2014, New Zealand moved its public sector accounting system from IFRS to IPSAS. Subsequently, other countries gradually adopted accrual accounting, especially OEC countries for instance Austria adopted in 2013.

Global Adoption of Accrual Accounting: Current Status

Joe Cavanagh, Suzanne Flynn and Delphine Moretti of Fiscal Affairs Department of International Monetary Fund (IMF) in a Technical Guidance Note titled 'Implementing Accrual Accounting in the Public Sector', released in September 2016, says that almost 57 percent of jurisdictions are still following pure cash accounting whereas 41 governments have completed the transition from cash to accrual based accounting.

Table 2: Adoption of Accrual Accounting Global Status

Sr. No.	No. of Jurisdictions	Status of Transition from cash based to accrual based accounting	% age
1	41	Completed transition process	21%
2	16	Modified Accrual based Accounting	08%
3	28	Modified Cash based Accounting	14%
4	114	Pure Cash Accounting	57%

OECD countries



The Organisation for Economic Cooperation and Development (OECD) in collaboration with the International Federation of Accountants (IFAC) and the Accountability conducted a survey of selected financial reporting

practices of 34 OECD countries viz. Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, UK and USA. The Survey Report titled “Accrual Practices and Reform Experiences in OECD Countries” released in early 2017 concluded that over 40 countries apply Accrual IPSAS, out of which some countries apply it directly whereas others apply indirectly through National Standards. A brief summary of findings are as under:

- Around three quarters [75%] of OECD countries have adopted accrual accounting
- More than quarter [>25%] of OECD countries prepare their Annual Budgets on an Accrual basis
- Only 15% of OECD countries provide an overview of public sector as a whole in financial statements
- Majority of OECD countries have completed their public sector accounting reform programs
- Twenty five (25) countries indicated that their annual financial reports are based on accrual accounting
- Three (3) countries indicated that they are in the process of transition to accrual accounting
- Six (6) countries indicated that they follow cash accounting

Table 3: Adoption status of Accrual Accounting in OECD Countries

Sr. No.	No. of Countries	Name of Countries	Accounting Basis
1	25 (73%)	Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Hungary, Iceland, Israel, Japan, Korea, Mexico, New Zealand, Poland, Slovakia, Spain, Sweden, Switzerland, Turkey, UK and USA.	Based on Accrual Accounting
2	03 (09%)	Greece, Portugal, Slovenia	Transition to Accrual Accounting
3	06 (18%)	Germany, Ireland, Italy, Luxembourg, Netherlands, Norway	Based on Cash Accounting

ASEAN countries



The Association of Southeast Asian Nations (ASEAN) is a regional grouping that comprises ten members viz. Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. As far

as the adoption of accrual based accounting is concerned, not all of them have adopted IPSAS.

Table 4: Adoption status of Accrual Accounting in ASEAN countries

Sr.	Country	Current Status of adoption
1	Brunei	Brunei has not adopted IPSAS type standards and does not have accounting standards for public sector.
2	Cambodia	Cambodia follows a blend of accrual and cash accounting with many transactions recorded on accrual basis. In 2012, the Cambodian government decided to move from cash-basis IPSAS to accrual-basis standards, however till date IPSAS has not been fully adopted and implemented in the public sector.
3	Indonesia	Indonesia has adopted IPSAS type standards, however, the central and local government accounts in Indonesia are currently prepared on a modified cash and partial accrual basis.
4	Malaysia	Malaysia adopted accrual IPSAS standards for central government in 2015 and state governments in 2016.
5	Myanmar	Myanmar has not yet adopted IPSAS type standards and is planning to adopt IPSAS in due course of time.
6	Philippines	Philippine is in the process of adopting modified accrual based accounting for its public sector.
7	Singapore	Singapore has adopted its own Public Sector Accounting Standards based on accrual-based accounting. All financial statements in public sector organizations are prepared on the accrual basis of accounting.
8	Thailand	Thailand has adopted its national Public Sector Accounting Standards in 2017, which have been developed in line with IPSAS issued in 2011. The remaining 10 IPSAS shall be adopted in due course of time.
9	Vietnam	Vietnam has just begun the process for IPSAS type standards adoption. In this context, a revised Accounting Law has been promulgated in January 2017 that mandates the adoption of accrual based standards.

Caribbean and African Union countries

There are 26 Caribbean countries which include Anguilla; Antigua and Barbuda; Aruba; Bahamas; Barbados; British Virgin Islands; Cayman Islands; Cuba; Dominica; Dominican Republic; Grenada; Guadeloupe; Haiti; Jamaica; Martinique; Montserrat; Netherlands Antilles; Puerto Rico; Saint Barthelemy; Saint Kitts & Nevis; Saint Lucia; Saint Martin; Saint Vincent; Trinidad & Tobago; Turks & Caicos Islands; and US Virgin Islands.



According to a recent study titled 'Accrual Practices and Reform Expectations in the Caribbean' conducted by IFAC jointly with the Institute of Chartered Accountants of the Caribbean (ICAC), nearly 60 percent of the Caribbean countries have already adopted IPSAS or national accounting standards based on IPSAS. Anguilla and Cayman Islands are the only Caribbean countries that have fully implemented IPSAS. The remaining 40 percent countries are at various stages of implementation process. Most of them have initiated reforms for modernizing

their financial reporting, budgeting and auditing practices. However, many countries are facing challenges in implementation.

There are 55 member states of the African Union (AU) out of which only Ghana; South-Africa; Zimbabwe and Botswana have adopted accrual-based IPSAS.

European Union (EU) countries



There are 28 members states of European Union (EU) out of which majority have already implemented accrual based accounting practices for public sector entities, in consonance with the national standards across the government sector, whereas many EU countries are in the process of adoption.

Germany is one the EU countries where public sector is using both the cash-based and accrual-based accounting.

In 2015, the European Commission (EC) announced the formal adoption of European Public Sector Accounting Standards (EPSAS) in EU as the European equivalent of IPSAS. However, specific date of adoption of EPSAS by each country has not been specified by the EU. The primary motive of EPSAS is to achieve deeper economic and financial integration within the EU bloc as well as to encourage uniform and comparable accrual-based accounting practices for all sectors of general government within the EU.

The European Commission is also encouraging member states to switch to accrual accounting by adopting IPSAS while the EPSAS adoption is still in process. In April 2017, as an initial step [Phase 1] towards increased fiscal transparency in the short to medium term, the EPSAS Working Group provided the Guidance for the First Time Implementation of accrual accounting (EC, 2017). Under Phase 1, the member states of EU have been encouraged to adopt accrual accounting e.g. IPSAS, in the period 2016 to 2020, while EPSAS framework is being developed in parallel. Under Phase 2 it is being planned that EPSAS will be gradually implemented within the EU countries by 2025 through addressing comparability within and between the member States in the medium to longer term.

SAARC countries



a) Bangladesh - IPSAS have not so far been adopted in Bangladesh; however, some concrete initiatives have been taken at government level, including passing of legislation that signifies national commitment towards transition

from cash accounting to cash-basis IPSAS as an intermediate step prior to adopting accrual-basis IPSAS. The public sector entities in Bangladesh apply cash accounting based on IPSAS for reporting purposes. The public sector entities and individual government departments do not manage their own cash which is held by central government. The public sector accounting function consists of a consolidated fund and a treasury single account. There are many implementation challenges towards full compliance with IPSAS.

b) India - IPSAS have not so far been adopted in India and the public sector entities in India are presently using cash-based accounting with certain accrual disclosures made in

financial statements. The Government Accounting Standards Advisory Board in India has commissioned reports on the adoption of accrual accounting for public sector entities and has also issued accrual-based standards using IPSAS which are yet to be approved by the government. There are differing states of readiness of entities within the Indian government and across different public sector entities for IPSAS adoption.

c) Nepal - Nepal has not yet adopted IPSAS, however, since 2009 the public sector entities and government ministries are using the Nepal Public Sector Accounting Standards (NPSAS) which are similar to cash-based IPSAS and contain mandatory and non-mandatory parts for enhanced disclosures. There are challenges in implementation due to lack of trained finance staff in the public sector.

d) Pakistan - Pakistan is presently in the process of adopting IPSAS standard on cash accounting and will gradually move towards accrual-based accounting. The World Bank PIFRA project also supports this change. The government is taking initiatives to converge with IPSAS for which cash based accounting standards are being aligned with cash-basis IPSAS. A New Accounting Model (NAM) has been developed and implemented. Presently, the financial statements in government departments and entities are being prepared under NAM and IPSAS cash basis and focus on budget compliance for the financial year. Some of the major challenges being faced in moving to IPSAS are inconsistency of processes across government entities in recognizing and recording transactions; capacity of finance staff to deal with requirements of standards; accuracy, reliability, completeness and timeliness of information.

d) Sri Lanka - Sri Lanka has adopted cashbased IPSAS and intends to gradually adopt other IPSASs. A phased approach is being followed towards the implementation of IPSAS. Since 2004, Sri Lanka has been moving towards accrual accounting based on IPSAS. Since 2016, IPSAS have been adopted as Sri Lanka Public Sector Accounting Standards (SLPSAS) with minor modifications made to IPSAS. So far ten SLPSA Standards have been issued which are equivalent to IPSAS and not currently mandatory and therefore most of the financial statements of public sector do not fully comply with national standards (SLPSAS). Earlier, Sri Lanka had announced that it would adopt 21 IPSAS-equivalent standards by 2012 which was not achieved.

Conclusion

The paper concludes that though the developed nations have been able to successfully adopt accrual accounting with the exception of few countries, the developing and emerging countries are lagging behind due to various inherent challenges and risks in moving from cash-based to accrual-based accounting. Majority of the countries have adopted cash-based IPSAS and moving gradually towards accrual based accounting.

The professional accounting bodies in these countries need to play role in supplementing the efforts of their respective governments in smooth and expeditious transition toward full adoption of IPSAS so as the reap the benefits in shape of increased efficiency, transparency and accountability in public sector entities.

Corporate Governance in Public Sector Entities

By Research and Publications Department, ICMA Pakistan

Public Sector Companies (PSC) or State-owned Enterprises (SOEs) are significant economic players which deliver critical services in important sectors. Realizing the importance of improving corporate governance in the PSCs/SOEs in Pakistan, the government in the year 2013 notified the Public Sector Companies (Corporate Governance) Rules, 2013 through gazette notification vide SRO # 180 dated 8th March 2013. The Rules came into effect from 8th August 2013 and provided clarity on the roles and responsibilities of different stakeholders involved in governance and management of public sector entities. The Rules contained a range of measures that were aimed at facilitating the government to exercise its ownership function; enhancing the role of directors and strengthening internal control mechanism in public sector.

The **salient features** of Public Sector Companies (Corporate Governance) Rules, 2013 are summarized below:

- 1) Applicable on all public sector companies, directly or indirectly owned and controlled by the government
- 2) About 40% independent directors in first two years after notification and majority subsequently
- 3) Restriction to become Director of more than five PSEs simultaneously, including listed companies
- 4) Limitation on directorship of a PSE to be maximum three years unless resigned or removed
- 5) Appointment of Chief Executive by Government on recommendation of three names by the Board
- 6) Appointment of Chairman by the Board from amongst the independent directors
- 7) Formation of HR Committee; Nomination Committee; Procurement Committee; Risk management Committee and Audit Committee by the Board.
- 8) Separation of the position of the Chairman and the CEO for balance in power and accountability
- 9) Appointment of CFO, Company Secretary and Chief Internal Auditor as per prescribed criteria
- 10) Formulation and compliance with a 'Code of Conduct' for directors and employees
- 11) Capacity building of board of directors through directors training program
- 12) Audit of annual accounts by an independent external auditor
- 13) Mandatory adoption of IFRS and detailed disclosures in Directors' Report specific to PSC operations

Amendments in PSC (CG) Rules 2013

The government has made some amendments in the Public Sector Companies (Corporate Governance) Rules, 2013 vide SRO # 275 dated 21st April 2017. The Rules were revised in view of the implementation experience as well as feedback received from the line ministries of public sector companies and other stakeholders. The main purpose of making these revisions/amendments are to facilitate compliance and ensure conformance to good corporate governance principles in the public sector companies.

It is expected that the amendments made in the Rules would improve standards of good corporate governance in public sector companies through improved performance, sound and prudent management. These revisions would also lead to ensuring proper and effective use of public assets and resources.

The major amendments made in the PSC CG Rules 2013 are summarized below:

1. New Rule 2A on Criteria for sound and prudent management

A new Rule 2A has been inserted after Rule 2 which defines the criteria for ensuring sound and prudent management in the public sector companies. The Rule 2A is reproduced below:

Quote: "2A. Criteria for sound and prudent management – (1) for the purposes of these rules, the following shall be the criteria for sound and prudent management of a Public Sector Company, which shall be bound to comply with it at all times namely:-

- a) the business of the Public Sector Company is carried on with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities;
 - b) each director and chief executive officer, by whatever name called, of the Public Sector Company complies with the fit and proper criteria specified under these rules;
 - c) the Public Sector Company is directed and management by a sufficient number of persons who are fit and proper persons to hold the positions which they hold; and
 - d) the Public Sector Company maintains adequate accounting and other records of its business.
- (2) Accounting and other records shall not be regarded as adequate for the purpose of these rules unless they are such as:-

- a) to enable the business of the Public Sector Company to be prudently managed;
 - b) to enable the Public Sector Company to comply with the obligations imposed on it by or under the Ordinance and these rules; and
 - c) comply with all professional standards and pronouncements of relevant professional bodies as applicable in Pakistan.
- (3) The Public Sector Company shall not be regarded as conducting its business in a sound and prudent manner if it fails to conduct its business with due regard to the legitimate policy objectives and development targets of the Government.” *Unquote*

2. Independent Directors on Board

Sub-rule (2) of Rule 3 has been substituted through which the number of independent directors on the board has been specified. The previous and amended provisions are highlighted in the below table:

Rule	Previous provision	Substituted provision
Sub-rule (2) Rule 3	The Board shall have forty percent of its total members as independent directors within the first two years of this notification, which shall be raised to a majority of independent directors in the next two years, and the majority shall be maintained subsequently. The Public Sector Company shall disclose in the annual report Non-executive, Executive and Independent directors.	The Board shall have at least one-third of its total members as independent directors. The Public Sector Company shall disclose in the annual report non-executive, executive and independent directors.

3. Provision omitted on filling up casual vacancy in Board

Under sub-rule (4) in Rule 3 of PSC CG Rules, 2013, there was a provision that 'any casual vacancy in the Board shall be filled up by the directors at the earliest but not later than ninety days thereof. This provision has been omitted in the amended Rules promulgated by the government.

4. Addition of a proviso on fit and proper criteria

Under sub-rule (7) in Rule 3 of PSC CG Rules, 2013, a new provision on fit and proper criteria has been added for making nominations of persons for election as Board members. The previous and amended provisions are highlighted in the below table-1:

5. New Rule 3A on Term of office and Removal of Directors

A new Rule 3A has been inserted after Rule 3 through the amendments in PSC CG Rules, 2013, whereby the term of office and procedure for removal of directors have been explained. The new Rule 3A is reproduced below:

Quote: “3A. Term of office and removal of directors - (1) A director, once appointed or elected under section 180 or section 178 of the Ordinance, shall hold office for a period of three years, unless he resigns or is removed in accordance with the provisions of the Ordinance.

- (2) Any casual vacancy arising in the Board in the manner specified in sub-section (1) of section 180 of the Ordinance shall be filled in by the directors in accordance with sub-section (2) of section 180 of the Ordinance.
- (3) A director nominated by the Government shall hold office in accordance with section 183 of the Ordinance.
- (4) The removal of an elected director shall take place in accordance with section 181 of the Ordinance and the removal of a nominated director shall only take place:-
 - (a) if the director has not performed up to a standard, determined through a performance evaluation;
 - (b) if the director is found to be in non-compliance with the provisions of the Ordinance or these rules;
 - (c) if the director fails to fulfil his duties and responsibilities under these rules;
 - (d) if the director fails to comply with or deliberately ignores policy directives of the Government;
 - (e) for any administrative reasons such as posting, transfer, retirement, etc., the Government decides to withdraw the nomination; or
 - (f) in the event of his misconduct.

Table-1

Rule	Previous provision	Amended provision
Sub-rule (7) Rule 3	The appointing authorities, including the Government and other shareholders, shall apply the fit and proper criteria given in the Annexure in making nominations of the persons for election as Board members under the provisions of the Ordinance.	The appointing authorities, including the Government and other shareholders, shall apply the fit and proper criteria given in the Annexure in making nominations of the persons for election as Board members under the provisions of the Ordinance: Provided that the requirement to comply with the fit and proper criteria is without prejudice to compliance with any other requirement for the fitness and propriety of directors issued under any special law, rules or regulations by a sector regulator or authority governing a specified sector.

Explanation. - For the purpose of this clause, misconduct includes

- (i) indulging in a competing professional or personal conflict of interests' situation;
- (ii) using the funds, assets and resources of the Public Sector Company without due diligence and care;
- (iii) failing to treat the colleagues and the staff of the Public Sector Company with respect, or using harassment in any form of physical or verbal abuse;
- (iv) making public statements without authorization by the Board;
- (v) receiving gifts or other benefits from any sources external to the Public Sector Company offered to him in connection with his duties on the Board; or
- (vi) abusing or misusing his official position to gain undue advantage or assuming financial or other obligations in private institutions or for persons which may cause embarrassment in the performance of official duties or functions:

Provided that the notice of removal to a nominated director shall give reasons for removal of the director

6. Election of Chairman of the Board

Rule 4 of PSC CG Rules 2013 refers to the election of Chairman of the Board of a Public Sector Company. This Rule 4 has been changed and substituted in the revised Rules as follows:

Rule	Previous provision	Substituted provision
Rule 4	The Board shall elect its Chairman from amongst the independent directors so as to achieve an appropriate balance of power, increasing accountability, and improving the Board's capacity for exercising independent judgement.	The chairman of the Board shall be elected by the Board of Directors of the Public Sector Company. However, this provision shall not apply where chairman of the Board is appointed by the Government.

7. Responsibilities, Powers and Functions of the Board

The sub-rule (1) and sub-rule (2), respectively of Rule 5 of PSC CG Rules 2013 have been substituted which relates to the responsibilities, powers and functions of the Board. The substituted provisions are reproduced below:

Quote: 5. Responsibilities, powers and functions of the Board. - (1) The directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company. This provision shall apply to all directors, including ex officio directors.

(2) The Board shall evaluate the candidates based on the fit and proper criteria and the guidelines specified by the Commission

for appointment to the position of the chief executive and recommend at least three candidates to the Government for its concurrence for appointment of one of them as chief executive of the Public Sector Company, except where the chief executive is nominated by the Government. On receiving concurrence or nomination of the Government, as the case may be, the Board shall appoint the chief executive in accordance with the provisions of the Ordinance. The Board shall also be responsible for development and succession planning of the chief executive.

Unquote

8. Provisions on Compliance with Policy directions and Reporting requirements of government

After sub-rule (10) of Rule 5, two new sub-rules (11) and (12) respectively have been added which require the Boards of Public Sector Companies to ensure compliance with the policy directions and reporting requirements received from the Government from time to time. The new provisions are reproduced as under:

Quote:

(11) The Board shall ensure compliance with policy directions received from Government from time to time.

(12) The Board shall ensure compliance with the reporting requirements received from the Government within the specified time-frame, related to, including but not limited to, audit, finance, parliamentary business, performance and ancillary matters:

Provided that the Board shall nominate the company secretary or any other official at appropriate level as focal person for maintaining liaison with the Government regarding the aforesaid matters. **Unquote**

9. Annual performance evaluation of members of the Board

The sub-rule 1 of Rule 8 has been substituted whereby it has been specified that the performance evaluation of the members of board of Public Sector Company shall be undertaken annually by the government. Previously, the Chairman of Board was held responsible for performance evaluation.

Rule	Previous provision	Substituted provision
Rule 8 (1)	The performance evaluation of the members of the Board including the chairman and the chief executive shall be undertaken for which the Board shall establish a process, based on specified criteria, and the chairman of the Board shall take ownership of such an evaluation. The committees shall also carry out their evaluation on an annual basis.	The performance evaluation of members of the Board including the chairman and the chief executive shall be undertaken annually by the Government for which the Government shall enter into performance contract with each member of the Board at the time of his appointment.

10. Addition of a proviso on preparation and audit of half-yearly accounts

In sub-rule (1) of Rule 10, a new proviso has been added as follows which requires the Public Sector Company to prepare and audit the half-yearly accounts.

Rule	Previous provision	Substituted provision
Sub-rule (1) Rule 10	Every Public Sector Company shall, within one month of the close of first, second and third quarter of its year of account, prepare a profit and loss account for, and balance-sheet as at the end of, that quarter, whether audited or otherwise, for the Board's approval. Annual report including annual financial statements shall be placed on the Public Sector Company's website:	Every Public Sector Company shall, within one month of the close of first, second and third quarter of its year of account, prepare a profit and loss account for, and balance-sheet as at the end of, that quarter, whether audited or otherwise, for the Board's approval. Annual report including annual financial statements shall be placed on the Public Sector Company's website: Provided that Public Sector Companies which are listed on the exchange shall prepare half-yearly accounts within such time period and undertake limited scope review by the auditors as specified by the Commission from time to time.

11. Provision omitted on preparation of monthly accounts for circulation

Under sub-rule (2) of Rule 10 of PSC CG Rules, 2013, there was a provision that 'every Public Sector Company shall also prepare monthly accounts, for circulation amongst the Board members'. This provision has been omitted in the amended Rules promulgated by the government.

12. Clarification of the Role of Nomination Committee

The clause (e) of sub-rule (1) of Rule 12 has been substituted whereby clarification has been made on the role of nomination committee for recommending candidates for the Board of Public Sector Company.

Rule	Previous provision	Substituted provision
Rule 12 (1) (e)	Nomination committee, to identify and recommend the candidates for the Board for the consideration of shareholders after examining their skills and characteristics that are needed in such candidates.	nomination committee, to identify, evaluate and recommend candidates for vacant positions, including casual vacancies, on the Board, including the candidates recommended by the Government for consideration of shareholders or in case of casual vacancy to the board of directors after examining their skills and characteristics that are needed in such candidates: Provided that the nomination committee shall submit its proposal within thirty days of a vacancy arising or on a recommendation made by the Government as the case may be.

Conclusion

The revised rules have made some significant provisions that are likely to strengthen corporate governance practices in Public Sector Companies such as introduction of criteria for sound and prudent management; rationalizing the composition of board of directors that now requires at least one-third independent directors; specified additional grounds for improving performance of directors, including the requirement for the government to enter into performance contracts with directors at the time of their appointment; revised criteria for appointment of chairman and chief executive and well-defined fit and proper criteria for directors.

The government may consider associating the management accountants in the public sector companies so that they can contribute towards successful implementation of corporate governance rules and also introduce cost-efficient methods to improve efficiency and profitability of public sector entities.



Special Segment

Pakistan Economic Survey 2017-18

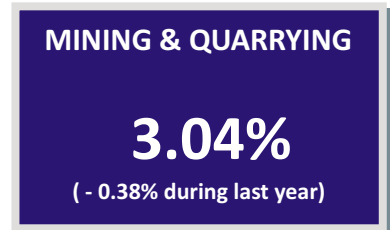
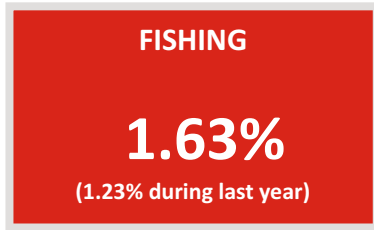
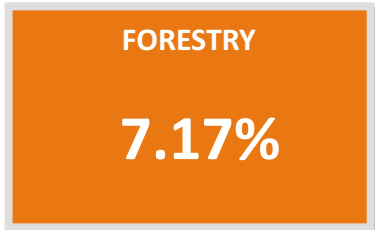
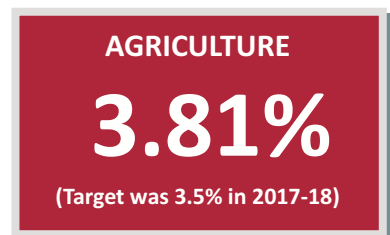
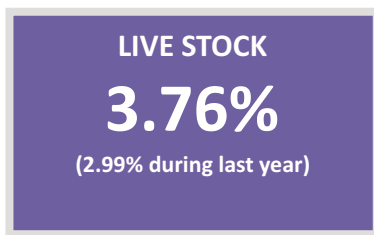
Infographics



By Research and Publications Department, ICMA Pakistan

ECONOMIC PERFORMANCE DURING 2017-2018

SECTORAL & INDUSTRY GROWTH



NEGATIVE GROWTH OF SPECIFIC INDUSTRIES

Wood	27.32%
Fertilizer	7.36%
Chemicals	0.63%
Leather	7.91%

INDUSTRY- SPECIFIC GROWTH

Electronics	38.79%
Iron & Steel	30.85%
Automobiles	19.85%
Non-Metallic mineral	11.87%
Cement	11.95%
Paper & Paper board	8.06%
Coke & Petroleum	10.26%
Rubber	6.83%
Engineering	5.21%
Pharmaceuticals	9.44%
Textiles	0.44%
Food, Beverages & Tobacco	2.33%

FISCAL & MONETARY SECTORS PERFORMANCE

GDP GROWTH

5.7%

(Highest in last 13 years)

CURRENT ACCOUNT DEFICIT

US\$ 12 Billion

(July-March, FY 17-18)
Likely to cross US\$ 15 Billion
by end of FY 2018

TOTAL PUBLIC DEBT

Rs. 22,820 Billion

(at end December, 2017)

TOTAL REVENUE

(July-Dec, 2017)

Rs. 2,384.7 Billion
(6.9% of GDP)

6.2% of GDP in same period
last year

TOTAL EXPENDITURE

(July-Dec, 2017)

Rs. 3,181 Billion
(9.2% of GDP)

8.7% of GDP in same period
last year

GOVT. BORROWING FOR BUGETARY SUPPORT

(July-March, FY 17-18)

Rs. 858.3 Billion

Rs.704 billion in same period
last year

AVERAGE INFLATION

(July-March, FY 17-18)

3.78%

4.07% in same period
last year

CREDIT TO PRIVATE SECTOR

(July-March, FY 17-18)

Rs. 469.2 Billion

Rs. 438.6 billion in same
period last year

TRADE AND INVESTMENT PERFORMANCE

EXPORTS

(July-March, FY 17-18)

US\$ 17.1% Billion

(13.1% growth)

US\$ 15.1 billion in same period last year

IMPORTS

(July-March, FY 17-18)

US\$ 44.38 Billion

(15.7% growth)

US\$ 38.37 billion in same period last year

FOREIGN REMITTANCES

(July-March, FY 17-18)

US\$ 14.6 Billion

(3.6% growth)

US\$ 14.4 billion in same period last year

NET FDI INFLOW

(July-March, FY 17-18)

US\$ 2.1 Billion

(4.4% growth)

US\$ 2 billion in same period last year

Federal Budget 2018-19

Infographics

By Research and Publications Department, ICMA Pakistan

KEY BUDGET TARGETS FOR FY 2018-19

GDP GROWTH 6.2%	TAX-TO-GDP RATIO 13.8%	BUDGET DEFICIT 4.9% of GDP	FBR TAX REVENUE Rs. 4,435 Billion
DEBT SERVICING Rs. 1,620 Billion	NET PUBLIC DEBT 63.2% of GDP	FOREIGN EXCHANGE RESERVE US\$ 15 Billion	INFLATION Below 6%

BUDGETARY ALLOCATIONS PROPOSED

Rs. 125 Billion BENAZIR INCOME SUPPORT PROGRAM	Rs. 10 Billion PRIME MINISTER'S YOUTH SCHEME	Rs. 25 Billion SPECIAL PACKAGE FOR KARACHI	Rs. 800 Billion TOTAL SIZE OF PSDP
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KEY SECTORAL INVESTMENTS PROPOSED

POWER Rs. 138 Billion	GWADAR DEVELOPMENT Rs. 137 Billion	WATER Rs. 79 Billion	HIGHER EDUCATION Rs. 57 Billion	RAILWAY Rs. 39 Billion
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BUDGET ESTIMATES 2018-19

FEDERAL GROSS REVENUE 2018-19 = Rs. 5,661 billion 2017-18 = Rs. 4,992 billion	TOTAL TAX REVENUE 2018-19 = Rs. 4,889 billion 2017-18 = Rs. 4,147 billion	FBR TAX REVENUE 2018-19 = Rs. 4,435 billion 2017-18 = Rs. 3,935 billion	PROVINCIAL GOVT. SHARE IN TOTAL REVENUE 2018-19 = Rs. 2,590 billion 2017-18 = Rs. 2,316 billion
FEDERAL GOVT. NET REVENUE 2018-19 = Rs. 3,070 billion 2017-18 = Rs. 2,676 billion	TOTAL FEDERAL EXPENDITURE 2018-19 = Rs. 5,246 billion 2017-18 = Rs. 4,857 billion	INTEREST PAYMENTS 2018-19 = Rs. 1,620 billion 2017-18 = Rs. 1,526 billion	DEFENCE BUDGET 2018-19 = Rs. 1,100 billion 2017-18 = Rs. 999 billion
OVERALL PSDP SIZE 2018-19 = Rs. 1,650 billion (4.3% of GDP) 2017-18 = Rs. 1,550 billion	TOTAL FEDERAL PSDP 2018-19 = Rs. 1,030 billion 2017-18 = Rs. 750 billion	PROVINCIAL SURPLUS 2018-19 = Rs. 286 billion 2017-18 = Rs. 274 billion	BUDGET DEFICIT 2018-19 = 4.9% 2017-18 = 5.5%

(Developed by Research & Publications Department, ICMA Pakistan)

SALIENT FEATURES OF FEDERAL BUDGET 2018-19



- a) The total outlay of budget 2018-19 is Rs 5,932.5 billion. This size is 16.2% higher than the size of budget estimates 2017-18.
- b) The resource availability during 2018-19 has been estimated at Rs 4,917.2 billion against Rs 4,713.7 billion in the budget estimates of 2017-18.
- c) The net revenue receipts for 2018-19 have been estimated at Rs 3,070.4 billion indicating an increase of 4.9% over the budget estimates of 2017-18.
- d) The provincial share in federal taxes is estimated at Rs 2,590.1 billion during 2018-19, which is 8.6% higher than the budget estimates for 2017-18.
- e) The net capital receipts for 2018-19 have been estimated at Rs 443.1 billion against the budget estimates of Rs 552.5 billion in 2017-18 i.e. a decrease of 19.8%.
- f) The external receipts in 2018-19 are estimated at Rs 1,118 billion. This shows an increase of 33.4% over the budget estimates for 2017-18.
- g) The overall expenditure during 2018-19 has been estimated at Rs 5,932.5 billion, out of which the current expenditure is Rs 4,780.4 billion and development expenditure is Rs 1,152.1 billion.
- h) The share of current and development expenditure respectively in total budgetary outlay for 2018-19 is 80.6% and 19.4%.
- i) The expenditure on General Public Services is estimated at Rs 3,340.4 billion, which is 69.9% of the current expenditure.
- j) The development expenditure outside PSDP has been estimated at Rs 180.2 billion in the budget 2018-19, which is higher by 18.4% than budget estimates 2017-18.
- k) The size of Public Sector Development Programme (PSDP) for 2018-19 is Rs 1,650 billion. Out of this, Rs 850 billion has been allocated to provinces. Federal PSDP has been

estimated at Rs 800 billion, out of which Rs 420.4 billion for Federal Ministries/Divisions, Rs 246.1 billion for Corporations, Rs 5 billion for Pakistan Sustainable Development Goals (SDGs) and Community Development Programme, Rs 8.5 billion for Earthquake Reconstruction and Rehabilitation Authority (ERRA), Rs 5 billion for Special Provision for Competition of CEPEC Projects, Rs 10 billion for FATA 10 year Plan, Rs 45 billion for Relief and Rehabilitation of IDPs, Rs 45 billion for Security Enhancement, Rs 10 billion for Prime Minister's Youth Programme and Rs 5 billion for Gas Infrastructure Development Cess.

- l) To meet expenditure, bank borrowing has been estimated for 2018-19 at Rs 1,015.3 billion, which is significantly higher than revised estimates 2017-18.

Following table presents the comparative position of budget and revised estimates for fiscal year 2017-18 and budget estimates for fiscal year 2018-19.

Comparative Budgetary Position 2017-18 and 2018-19

Classification	(Rs in Million)		
	Budget 2017-18	Revised 2017-18	Budget 2018-19
RESOURCES (A + B + C)	4,713,686	4,774,567	4,917,162
A Internal Resources	3,825,863	3,544,812	3,799,139
- Net Revenue Receipts	2,926,074	2,676,407	3,070,439
- Net Capital Receipts	552,520	594,554	443,096
- Estimated Provincial Surplus	347,269	273,852	285,604
B External Resources	837,824	1,229,754	1,118,024
C Privatization Proceeds	50,000	-	-
EXPENDITURE (I + II)	5,103,780	5,361,038	5,932,464
I Current Expenditure on Revenue Account	3,763,709	4,298,279	4,780,359
- Current Exp. on Revenue Account	3,763,709	4,298,279	4,780,359
II Development Expenditure	1,340,072	1,062,759	1,152,105
- Federal PSDP	1,001,000	750,000	800,000*
- Dev. Expenditure outside PSDP	152,200	153,174	180,238
- Dev. Loans & Grants to Provinces	186,871	159,585	171,867
BANK BORROWING	390,094	586,472	1,015,302

* Total Federal PSDP 2018-19 would be Rs 1,030 billion out of which Rs 230 billion would be self financing by the corporation / authorities and Rs 800 billion would be provided through budget 2018-19.

Economic and Tax Reforms Package (Amnesty Scheme, 2018)

The government on April 09, 2018 promulgated four Presidential Ordinances to implement Economic Reforms Package (amnesty scheme) to legalize undisclosed assets and income of Pakistanis held abroad or at home, reduced rates of income tax slabs for Individuals / Association of Persons (AOPs) and mandatory filing of (foreign income and assets statement) by every resident taxpayer having foreign income or assets.

The Amnesty Scheme, 2018 which is effective from April 10, 2018 has been announced through the presidential ordinances as noted below:

The Ordinances

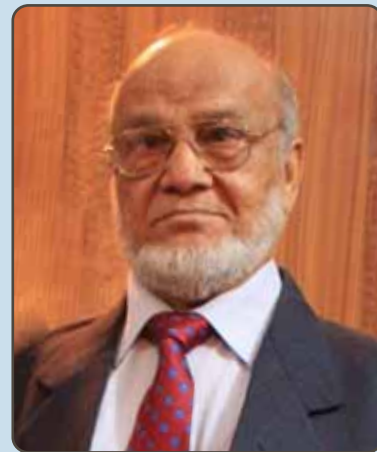
- (i) The Foreign Assets (Declaration and Repatriation) Ordinance, 2018
- (ii) The Voluntary Declaration of Domestic Assets Ordinance, 2018
- (iii) The Income Tax (Amendment) Ordinance, 2018
- (iv) Protection of Economic Reforms (Amendment) Ordinance, 2018

Five-Point Tax Reforms Package

The above mentioned Amnesty Scheme, 2018 is based on five point tax reforms package as follows:

1. CNIC numbers to be made NTN numbers to monitor tax compliance of all citizens.
2. Income tax brackets and percentages to be revised. Complete tax exemption on annual income upto Rs. 1.2 m/ maximum percentage of 15pc to be levied on income above Rs. 4.8m per annum.
3. Undeclared assets held locally or abroad to be declared after payment of nominal penalties. Those who avail scheme to be granted one-time exemption from accountability laws.
4. Tax to be collected on all property transactions to be made uniform. Government to have the right to purchase any property by paying 100pc over and above its declared value within six months of its registration.
5. Government to monitor citizens' financial records and issue notices if they find evidence of tax evasion. Penalties to be decided in parliament.

It is generally believed that paying income tax is an option. This is not true: evading taxes is a criminal offence.



Wasful Hassan Siddiqi, FCMA

It is observed that only 1.2 million of Pakistanis file income tax returns. It is further noted that only 700,000 actually paid tax while others filed returns but paid no income tax.

Who can and can't avail tax amnesty scheme

Every Pakistani citizen can avail this amnesty scheme. But politically exposed persons and their families are not eligible to benefit it.

Duration of new amnesty scheme

Pakistan Tax Amnesty Scheme 2018 is eligible till 30th of June 2018.

The Foreign Assets (Declaration and Repatriation)

The foreign assets declared and repatriated into Pakistan shall be chargeable to tax at the following rates:

- 0% payment or source of income required for annual remittance less than \$100,000
- 2% payment on foreign cash if brought to Pakistan
- 5% payment on dollar accounts kept abroad
- 3% payment on foreign fixed asset
- 5% payment on all undeclared incomes earned before 30 June 2017 on all local assets (cash, shares, gold, property) to bring into tax net

The due date of payment of tax shall be the date of declaration of foreign assets.

Voluntarily Declaration of Domestic Assets

Income Tax Reforms

Income Tax rates for individual and AOP have been proposed to be downward revised as follows:

- People earning up to 100,000 PKR per month have to pay no income tax
- People earning from 100,000-200,000 PKR per month have to pay 5% income tax
- People earning from 200,000-400,000 PKR per month have to pay 10% income tax
- People earning more than 400,000 PKR per month have to pay 15% income tax
- The higher income tax of 30% will be lowered to 15%
- CNIC Numbers will be made NTN Numbers

Property Tax Reforms

Property Tax rates and method of valuation shall be as under:

- 1% advance tax on property transactions that will be adjusted in annual tax returns
- Current FBR Property Valuation and DC Rates to be abolished on 1st of July 2018
- Federal and Provincial Governments will charge just 1% tax from 1st of July 2018
- Non Filer can't buy property worth PKR 4 Million or over from 1st July 2018
- People can register property at whatever rate they want
- Government can purchase property at 100% higher rate for fiscal year 2018-19, 75% higher rate for fiscal year 2019-20 and 50% higher rate for fiscal year 2020-21. (Higher rate takeover is to end the under value registration of property. This will end all disputes as people will register property at the current rate. For example a property is worth 4 million. Current registration value is 10 LAC. So according to the new law government can buy back property at 20 LAC. So buyer will bear the loss of 20 LAC. So people will never dare to register property at lower rate than the market value. In other words property registration value will be the same as market value. End of three separate property valuations; Market rate, FBR Rate and DC Rate).

Benefits to the Tax Payers

- Best tax reforms in history of Pakistan
- More people will be included in tax net
- Tax payers will get relief
- Property buyers and sellers will pay less money on transactions



Disadvantages of the Scheme

- Worst amnesty scheme in history of Pakistan
- Honest tax payers are discouraged by amnesty scheme
- Amnesty scheme will be cause of social unrest in Pakistan
- Bloodbath for luxury property market

Fate of Amnesty Scheme

Dozens of tax amnesty schemes have been offered in the last 70 years but all have failed. This amnesty scheme may be another flop. Recently Lahore High Court has ruled out the Tax Amnesty Scheme of 2013. The applicant also requested to end the unjust culture of tax amnesty schemes. The present amnesty scheme may also be challenged and ruled out as it is against the law to award the tax evaders whereas honest tax payers have paid the higher taxes on their incomes.

Impact of Amnesty Scheme on Pakistan Real Estate Sector

First of all this amnesty scheme may be ruled out by NAB or SC. Even if this scheme survives it will be a death blow to the high-end or luxury property market. The reason is that non filers will not be allowed to buy property worth PKR 4 million or above. Indeed low price plots will have good demand. But what house we can buy with 39 LAC?

Prices are currently 25% down from peak of 2016. If amnesty scheme is ruled out then property price fall will take some time. But if amnesty scheme is applied then it will totally crash the property market. One way or other things have changed in Pakistan. The honest tax payers are the real winners of every outcome. This tax amnesty scheme will totally block the influx of black money into reality sector.

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Tax Amnesty Scheme 2018

Generally **Tax Amnesty Scheme** is an attractive opportunity for tax payers to get waiver of tax liabilities, penalties and interests thereof by making payment of defined amounts, but it is believed to be in line with global principals of anti-money laundering. Government of Pakistan has introduced schemes to provide volunteer declaration of domestic assets. The Ordinance allows volunteer disclosure of undisclosed income and domestic assets with relaxation in tax rates substantially lower than the prevailing slabs. Undisclosed liquid assets in form of foreign currency accounts within Pakistan are subject to tax rate of 2% on disclosure under the scheme. Any other assets like undisclosed income, plots, super structure, apartment/flat, gold, precious possessions, plant/ machinery, receivables, cash, securities etc. to be charged at 5% of the declared/assessed value on volunteer disclosure. Effective from 10th April 2018 the schemes shall remain in force till 30th June 2018.

Another scheme is introduced in parallel for volunteer disclosure of non/under reported income or assets held outside Pakistan with repatriation option. Liquid assets (cash & cash equivalents) declared by the due date and not repatriated to Pakistan are subject to tax rate of 5%, immovable assets held abroad to be charged at rate of 3%, whereas the liquid assets declared and repatriated to Pakistan by due date and invested in government securities for period of 5 years will be charged to the reduced rate of 2% as a final

tax liability. The tax amnesty scheme was not merely one announcement letting the foreign and local undeclared assets and amounts into the market on 2, 3 or 5% tax but aimed at better revenue collection and foreign reserves improvement, ahead of upcoming budget. The amnesty offers a great deal to join main stream of national database, regularize capital and be part of documented economy at very low cost. The offered schemes are accompanied by a silent but very clear message from the regulatory bodies about the step towards the tightening of regulations for wealth disclosures and taxation of income for all cadres of resident taxpayers. The future will prove itself very harsh to those who let this opportunity go without exploiting its luxuries. At the same time when brighter aspects of this move are enjoyed by masses, a serious concern prevails in various circles of tax payers that what sort of relief/rebate is to be introduced for those tax payers who have fairly disclosed their income in past under normal tax regime. Isn't it so, amnesty scheme going to prove it as a move to discourage the tax payers who have really contributed toward the country's economy by making fair disclosures in the history....? To overcome this deprivation of potential tax payers, who remained major contributor of the tax base, special incentive package need to be devised by the government of Pakistan on war footing basis in terms of tax relaxations for the valued tax payers.

About the Author: Mr. Muhammad Adil Khan, ACMA, APFA, MBA Is CFO at NRTC



Muhammad Adil Khan, ACMA

The tax amnesty scheme was not merely an announcement but quite effective move aimed at better revenue collection and foreign reserves improvement, ahead of upcoming budget

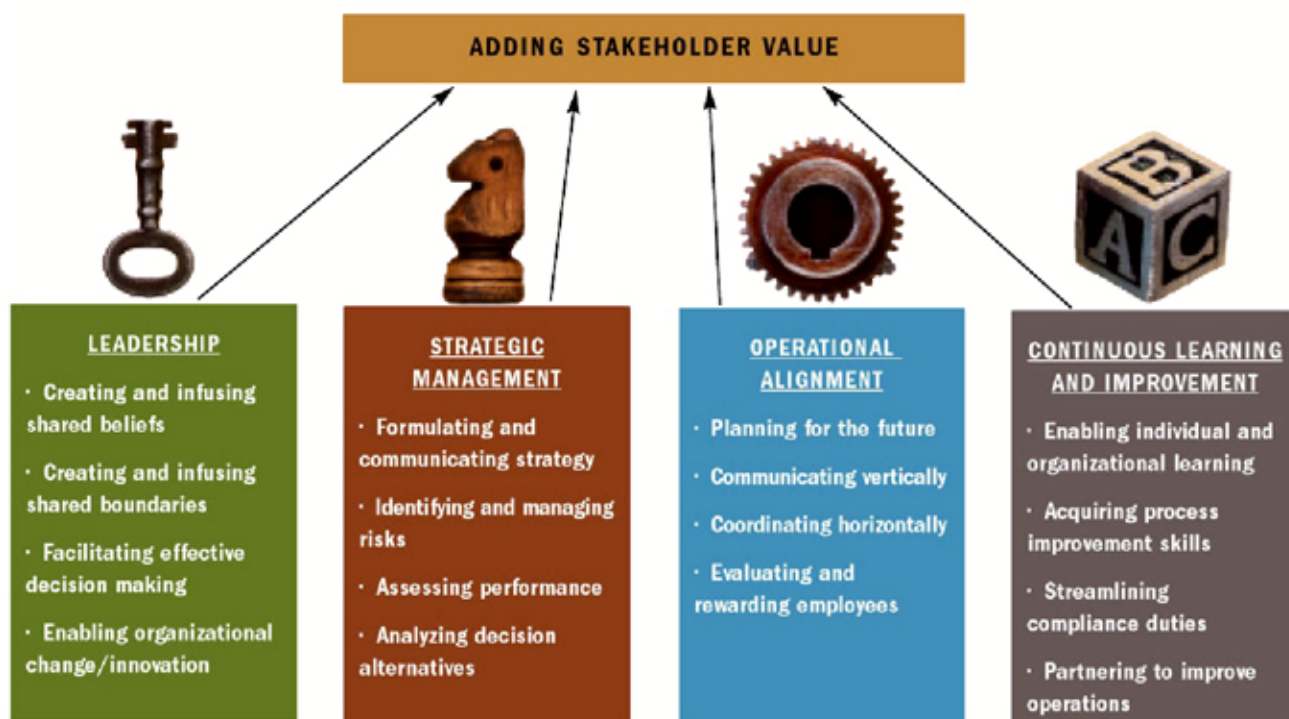


Redefining Management Accounting

Promoting the Four Pillars of our Profession

By Peter C. Brewer, CPA

Figure 1: A Management Accounting Framework



Last year I attended a conference where one of the speakers discussed some of his concerns about the management accounting profession. To highlight one of his apprehensions, he shared with the audience a quote from a high-ranking officer in a management accounting professional organization (not IMA) who claimed that the foundation of management accounting was Generally Accepted Accounting Principles (GAAP). As I read this quote on the speaker's PowerPoint slide, I shared his frustration that a highly visible person within our profession had such a misguided view of what management accountants do. The speaker then asked the audience if they agreed with the quote, and, to my surprise, at least one attendee nodded "yes." When the speaker asked why this member of the audience agreed with the quote, the attendee replied that, after all is said and done, "A debit is still a debit." While I can't refute the truism that a debit is still a debit, I believe that the financial accounting-oriented mentality underlying the audience member's quote needs to be refuted. It shows that many people still don't understand the value-added role that management accountants play (or should play) within organizations.

Financial reporting standards, auditing standards, tax laws, and Sarbanes-Oxley (SOX) legislation play a vital role in ensuring that organizations remain accountable to their stakeholders. Indeed, many management accountants who are members of the

Institute of Management Accountants (IMA®) have expertise in these facets of the accounting profession that has enabled them to advance their careers and add value to their organizations. Yet we need to overtly recognize that rules-based, compliance-oriented activities aren't the focal point of the management accounting profession. Management accounting is first and foremost about managing internal operations to optimize organizational performance.

In doing my part to help advance our profession, I'm introducing a new management accounting framework that describes the full spectrum of skills that should be espoused by management accounting leaders in organizations and management accounting professors in the classroom. The framework moves beyond the rules-based languages of accounting to properly emphasize the management orientation of management accounting. It also expands traditional definitions of management accounting by introducing more inclusive terminology than the widely accepted adjectives of planning, control, and decision making. While these concepts are vitally important to management accounting, they don't adequately capture the breadth of skills needed to build a successful career within our profession. For example, traditional definitions of management accounting largely overlook leadership skills and business partnering skills -- two critically important aspects of


Table 1: Leadership Questionnaire

Management Accounting Practitioners	Management Accounting Professors
1. How much thought do you invest in defining all of your key stakeholders and identifying ways to improve communications with them to better serve their needs?	1. Do you teach stakeholder theory? What are you doing to help students contemplate the purpose of a corporation? (A person's viewpoint on the concepts can dramatically impact the decision-making process.)
2. How much time do you invest in building your communication skills so that you can function effectively when working with diverse business partners? Do you model effective communication for your employees?	2. Do you teach your students how to work and communicate productively with others in the workplace to make effective decisions, to implement those decisions, and to manage resistance to those decisions?
3. How much thought have you given to honing your leadership style to ensure that you are providing optimal motivation for your employees to achieve their full potential?	3. How often do you use the word "leadership" in your classes? What are you doing to help students understand that accounting is a leadership-oriented career path?
4. How much time do you invest in shaping your company's organizational integrity? Do you train your employees to handle the pressurized situation that can motivate ethical people to make unethical decisions?	4. Do you teach the impact of situational pressures on making ethical decisions? Are you helping your students understand why ethical people often make unethical decisions?
5. How much thought do you invest in succession planning? How would you replace key people within your department if they left the company?	5. Do you teach your students about organizational boundary systems such as code of conduct and whistle-blowing policies?
6. Do you struggle to communicate with coworkers who reside in a foreign country? Have you assumed a leadership role by taking steps to better understand how to eliminate the root cause of cross-cultural mis-communication?	6. How much time do you spend improving your students' ability to productively communicate with geographically dispersed and culturally diverse coworkers?

building a successful management accounting career. We need a new definition of management accounting that better captures the richness of what management accountants stand for and what they do.

A New Framework

Figure 1 summarizes this new management accounting framework that suggests the ultimate responsibility of management accountants is adding stakeholder value. This definition moves us away from narrow terms like planning and control and toward a more encompassing vision of management accountants as key influencers in an organization's efforts to satisfy stakeholder expectations. The framework also depicts how management accountants add stakeholder value -- by providing leadership, by supporting a company's strategic management efforts, by creating operational alignment throughout an organization, and by facilitating continuous learning and improvement.

The remainder of the article serves two purposes. First, it elaborates on the meaning of the four management accounting pillars depicted in Figure 1. Second, it encourages you to consider the 25 questions in Tables 1-4. These four sets of questions (each based on a pillar of the management accounting framework) enable management accounting practitioners and professors to help assess the extent to which they are embracing the full spectrum of management accounting competencies. If you find yourself repeatedly providing unsatisfactory answers to these questions, it suggests two possible concerns. First, perhaps you're spending too much time performing or teaching financial accounting. Second, perhaps you need to expand your definition of management accounting beyond traditional planning, control, and decision making to include leadership, business partnering skills, and other competencies.

Leadership

While effective leadership undoubtedly emanates from the C-suite, large and small decentralized organizations need

additional leadership voices to reinforce key messages. As shown in Figure 1, management accountants provide leadership voices that help create shared beliefs, shared boundaries, effective decision-making processes, and effective change management processes. (The concept of belief systems and boundary systems was created by Robert Simons in his 1994 book *Levers of Control: How Managers Use Innovative Control Systems to Drive Strategic Renewal*.) Infusing an organization with shared beliefs includes reinforcing the company's mission, ethical tone, and attitude toward its employees. Is the company's mission solely to maximize shareholder wealth, or are there other stakeholders who need to be taken into consideration? What are the ethical values espoused by the organization? Is the commitment to these values made with sincere words backed by deeds, or does it consist only of superficial sound bites? Are employees viewed as intellectual assets to be cultivated or as expenses to be minimized? Management accounting leaders need to help shape and communicate answers to these types of questions. They also need to communicate and rigorously abide by shared boundary systems such as corporate codes of conduct and whistle-blowing policies that clearly define unacceptable behavior.

Two other key elements of the leadership pillar are understanding how to establish effective decision-making processes and how to enable organizational change and innovation. Rather than focusing exclusively on crunching numbers, management accounting leaders need to effectively manage the behavioral interactions of culturally diverse human beings who ultimately shape decision outcomes. Similarly, they need to be able to effectively manage the organizational resistance that often emerges in response to organization-wide change initiatives such as enterprise system implementations, activity-based costing (ABC) systems, balanced scorecards, or Lean accounting systems. In short, quantitative analysis is less than half the battle when it comes to influencing coworkers' attitudes toward change and effectively implementing new initiatives that serve the greater good of the company. Table 1



Table 2: Strategic Management Questionnaire

Management Accounting Practitioners	Management Accounting Professors
1. Do you discourage using the output from your company's traditional standard costing system to qualify product costs for internal decision making purposes? How often do you preach "different costs for different purposes" to your employees?	1. When you teach job-order costing, do you highlight the fact that the product costing vs. period costing distinction that's required for financial reporting purposes is meaningless for internal decision making?
2. How often do you evaluate decisions from a revenue growth perspective rather than from a cost reduction perspective?	2. How much time do you spend discussing the concept of revenue drivers as opposed to cost drivers? When teaching pricing, do you only cover cost-plus approaches while overlooking value-based pricing strategies such as "economic value to the customer"?
3. How skilled are you at incorporating uncertainties and probabilities into your quantitative analyses?	3. How much time do you spend teaching students to create quantitative analyses that incorporate the uncertainties surrounding cost and revenue projections?
4. How much time do you invest in building your employees' strategy and enterprise risk management skills? Do you emphasize that risk management entails more than controlling financial reporting risk?	4. How much time do you spend helping students understand the importance of developing strategy driven, risk-based performance measures and of assessing the risks and responses associated with various decision scenarios?
5. Do you have a performance measurement dashboard that emphasizes nonfinancial business process performance or are your key performance measures primarily financial and departmental in nature?	5. How much time do you spend teaching qualitative topics such as the balanced scorecard as opposed to quantitative topics such as ROI and residual income?
6. To what extent do you evaluate performance from an inter-organizational value chain perspective?	6. How much time do you commit to teaching inter-organizational performance measurement and optimization?
7. Do you formally compare your company's performance against external world-class benchmarks? Do you invest time in gathering competitor intelligence?	7. How much time do you spend teaching performance benchmarking and competitor intelligence?
8. How much time are you investing in building your employees' business analytics skills so that they can derive useful insights from diverse data sources?	8. How much time do you spend teaching corporate social responsibility performance measurement?

summarizes six questions that will help practitioners and professors assess the extent to which they are embracing the leadership aspects of management accounting careers. Management accounting is a leadership-oriented career path, and we need to start recognizing this fact when defining and promoting our profession.

Strategic Management

The second pillar of the framework relates to how management accountants aid an organization's strategic management efforts. As shown in Figure 1, there are four aspects to this portion of the framework: formulating and communicating strategy, identifying and managing enterprise risks, developing measurement systems that assess organizational performance, and analyzing decision alternatives.

To effectively support a company's strategic management efforts, management accountants need to be able to create strategies that provide sustainable sources of competitive advantage and to manage the enterprise risks that threaten the attainment of strategic objectives. Too often we incorrectly assume that enterprise risk management and financial reporting risk management are synonymous. This assumption is one of many examples of how we artificially bind ourselves with the ties of financial accounting. We management accountants need to understand the dynamics of our industry and our company's operations so that we can intelligently assess the strategic, operational, internal reporting, and compliance risks associated with particular courses of action.

Management accountants also need to use strategic measurement systems to aid organizations in assessing performance on three levels: enterprise performance, interorganizational performance, and benchmark performance.

Our profession has relied too heavily on short-run financial metrics to assess performance. We need to complement these types of admittedly important measures with nonfinancial, process-oriented performance measures as well as stakeholder-based measures of environmental and social performance, interorganizational performance measures that motivate supply chain partners to work in harmony with one another, and benchmark measures that evaluate performance relative to key competitors or world-class standards.

Finally, as Figure 1 shows, management accountants use strategic measurement systems to analyze decision alternatives. These alternatives come in three forms: customer-related decisions, product / service-related decisions, and process-related decisions. Decision analysis is another area where management accountants too often rely on data produced by the financial reporting system. For example, it's indefensible to measure product profitability using job costs produced by a standard cost system. Not only is the volume-based overhead allocation likely to be distorted, but the product vs. period cost distinction embedded in the job cost computation to facilitate external reporting is meaningless for internal decision-making purposes. Too often we lose sight of the fundamental management accounting concept of "different costs for different purposes." Furthermore, we spend too much time focusing on cost reduction and not enough time on revenue growth. If management accountants want to be the voice of clarity that transforms data into the valuable insights that drive decision making, then we need to recognize that strategic decision analysis is broader in scope than cost analysis.

Table 2 summarizes eight questions that help practitioners and professors assess the extent to which they are fully embracing the strategic management aspects of management accounting


Table 3: Operational Alignment Questionnaire

Management Accounting Practitioners	Management Accounting Professors
1. How much time do your people commit to the annual budgeting process? What percentage of this time is value added vs. non-value added? How can you improve the budgeting process to make it more efficient and effective?	1. Is your coverage of operational budgeting focused on scheduling out cash collections and cash disbursements while over-looking the backbone of budgeting, which is projecting sales and costs using tools such as regression analysis?
2. Do you calculate variances periodically? Do your business partners outside the finance function find this information timely and useful or burdensome?	2. How much time do you spend covering variance analysis? Conversely, how much time do you invest covering Lean thinking and Lean accounting concepts such as empowering coworkers by providing them with access to data that is understandable, timely and useful?
3. Is your mind set one of monitoring performance or empowering performance?	3. How much time do you spend on an agency-theory-based view of employees and extrinsic motivators? Conversely, how much time do you spend discussing the role management accountants can play in building intrinsic commitment with coworkers outside the finance function?
4. To what extent are the reports generated by your department aligned with the processes that deliver products and services to customers? How much effort do you expend creating measures that show all employees how their efforts drive the attainment of strategic objectives?	4. How much coverage do you provide related to discussing how to improve vertical communication and strategic alignment by cascading a balanced scorecard throughout an organization?
5. To what extent do you work with non-accounting coworkers to reduce forecasting errors and their adverse consequences? In other words, are you moving beyond the goal of simply tabulating numbers toward the goal of participating in managing the business?	5. How much time do you invest in discussing methods, such as finished goods postponement that companies use to minimize the risks associated with forecasting errors?
6. Do you contemplate and manage the risks associated with the employee performance evaluation and reward system used at your company? In other words, do you proactively manage the dysfunctional behaviours that may arise due to the reward system?	6. How much time do you invest in covering the inevitable gamesmanship that ensues from using budgets for multiple purpose? How much time do you commit to covering emerging alternatives to traditional budgeting?

careers. These questions highlight the fact that there are numerous ways that we can expand our efforts to add value as strategic managers.

Operational Alignment

The third pillar of the framework is operational alignment systems, which decentralized organizations use to create and execute short-run (e.g., annual, quarterly, monthly, weekly, or daily) plans that support strategic objectives. As Figure 1 shows, management accountants use operational alignment systems for four main purposes: planning for the future, communicating vertically, coordinating horizontally, and evaluating and rewarding employees.

With respect to planning, management accountants tend to focus too much attention on “rolling up the budget numbers” rather than on using knowledge of business strategy coupled with rigorous data analysis to accurately forecast future sales and expenses and to allocate resources across business units in a manner that drives optimal performance. We also pay minimal attention to management tactics, such as finished goods postponement, that organizations use to respond to the inevitability of forecasting errors. We need to understand these types of concepts so that we can work with non-accountants to minimize the financial impact of stockouts, markdowns, inventory carrying costs, and inventory obsolescence/spoilage costs. We also need to cast a critical eye on the budgeting process in general rather than accepting the inevitable “budgeting time sink” as a given. For example, some companies have replaced budgets with rolling forecasts of financial and nonfinancial data.

Operational alignment systems also are used to formalize vertical communication channels from business units to headquarters and to coordinate operations horizontally across an organization. Management accountants tend to over-rely on functionally organized responsibility accounting systems that report financial measures (such as return on investment (ROI) and manufacturing cost variances) as by-products of the monthly closing process. This financial accounting orientation causes us to lose sight of two ways we management accountants can help enable organizational alignment. First, we need to focus on cascading a balanced set of financial and nonfinancial process-oriented measures down through an organization. It's important for these measures to span functional boundaries. Second, we need to redefine our role as enabling rather than monitoring. Our goal should be to empower teams of employees throughout an organization to assume ownership of their results by providing them with transparent (e.g., understandable, timely, concise, and easily analyzed) feedback.

Finally, operational alignment systems are used to evaluate and reward employees. Our natural inclination in this area is to view individual employees as requiring a “kick in the pants” to do the right thing for the greater good. Given this mind-set, we preoccupy ourselves with attempting to extrinsically motivate employees using financial rewards and with attempting to win the ubiquitous “budgeting gamesmanship” battles. But we need to counterbalance these inclinations with an Appreciation for intrinsic motivation, nonfinancial rewards, team-based reward systems, and the concept of decoupling budgets from employee reward systems.



Table 4: Continuous Learning and Improvement Questionnaire

Management Accounting Practitioners	Management Accounting Professors
1. Does your department have a training program in place that ensures employees continuously learn key management accounting competencies? Do you understand how to be an effective learner in a business context?	1. How much time do you spend discussing effective individual and organizational learning strategies as well as the individual and organizational impediments to the learning process?
2. How many employees in your department are Six Sigma certified?	2. How much time do you spend teaching process improvement methodologies, such as Six Sigma? Do you discuss the application of these methodologies to the finance function?
3. How much time have you invested in using value stream mapping to streamline compliance oriented accounting processes?	3. How much time do you spend teaching students how to analyze a business process so that they can identify bottlenecks, suggest ways to elevate constraints, and quantify lead times and cycle times?
4. How much time do your employees spend outside the physical confines of the accounting department learning about business operations? How many cross-functional process improvement teams have you participated on lately?	4. How often do you use the team “business partnering” in your classes to emphasize the importance of accountants collaborating with non-accountants to improve the business?
5. What percentage of your time is spent engaged in financial reporting activities vs. time engaged in supporting internal business management?	5. How much time do you spend demonstrating how process analysis tools are applicable to non-manufacturing contexts?

Table 3 summarizes six questions that help practitioners and professors assess the extent to which they are truly embracing the role management accountants can play in creating customer-focused operational alignment.

These questions highlight the limitations of attempting to use a financial reporting system and a functional organizational chart to align organizational resources around the business processes that deliver customer value.

Continuous Learning and Improvement

The final pillar of the management accounting framework suggests that management accountants should facilitate continuous learning and improvement via a four-step process. First, we need to pursue and advocate continuous individual and organizational learning. Second, we need to acquire process improvement skills such as those espoused by the Six Sigma methodology. Third, we need to cast a critical eye on the finance function in search of opportunities to reduce waste and to better serve internal customer needs. The goal should be to automate or (if possible) eliminate transactions and to streamline compliance duties, such as SOX Section 404 compliance. Eliminating waste in the finance function creates more free time for management accountants to help grow the business and add stakeholder value.

The fourth step in this process is partnering to improve operations. Management accountants need to appreciate the value of leaving the safe physical confines of the finance department and the safe linguistic confines of debits, credits, variances, and the like to understand the operational process flows and terminology that drive the business. Obtaining process knowledge enables us to collaborate with our nonaccounting business partners in a continuous effort to improve operations. Embracing this four-step continuous learning and improvement process helps management accountants view an organization from a dynamic, process-oriented standpoint rather than from a stagnant, functionally oriented point of view.

Table 4 summarizes five questions that help practitioners and professors assess the extent to which they recognize the role of management accountants in aiding an organization's continuous

learning and improvement efforts. These questions highlight the fact that management accountants need to be problem solvers who understand business operations and who can dialogue and work productively with non-accountants.

Champion the Cause

I hope I've motivated you to become a champion for management accounting. To become a champion, you need to buy in to two principles. First, management accounting isn't primarily a compliance-oriented profession. It's a profession that focuses first and foremost on internal management and enterprise optimization. Second, traditional definitions of management accounting are too narrow. The management accounting “brand” needs to explicitly include the concepts of leadership, business partnering, and continuous learning and improvement.

I ask my colleagues in academia to consider this: Medical research has shown that the first three years of a human being's life dramatically influence his or her future. Indeed, we have all probably seen or heard about how young children can learn a second language so easily, yet most adults struggle with acquiring a second language. Similarly, the first three years of an accountant's life take place on a college campus. The way we educate our undergraduate students and the languages that we teach them dramatically influence how they will see the accounting profession as their careers evolve. If we confine our curriculum to the rules-based language of compliance while largely overlooking the language of management accounting, the challenges inherent in second-language acquisition suggest that, as our students leave campus and begin to mature professionally, most of them won't become management accounting champions. Therefore, let's make sure our accounting graduates begin their careers conversant not only in the undeniably important compliance-oriented languages, but also in the languages of leadership, strategic management, operational alignment, and continuous learning and improvement that will also be essential to their long-term career success.

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Why SMEs Need Accounting Software?

It is an era of Automation. Businesses are facing more elusive competition. You need a good inside information and statistical data about your business. Big companies have better resources, so they can afford expensive information systems. SMEs do not have much resource as compared to big companies, but they also want similar information. Accounting software is the right choice for SMES which can help them to obtain the requisite information to operate and sustain their business. In Pakistan, a low number of SMEs has deployed Accounting Software in their organizations. Due to lack of Accounting Software, business owners are unable to get full inside information about their businesses.

Requirements of SME Sector

Most of the SMEs want to see information from accounting software as given below:

General Ledger - Heart of the accounting system that allows you to track financial information from your business. It helps to get information about Transactions, General Ledgers, Trail Balance, Profit and Loss A/c, Profit & Loss A/c by segment, Balance Sheet, Balance Sheet by Segments, Consolidated Balance Sheet & Income Statement and Cash Flow Statement, Fiscal Planning and Analysis, Management and Control over Financial Reporting.

Cash & Banking Management - Cash Flow is blood running in an organization. A firm can't survive without a healthy cash flow. You need to have good control over Cash-in-hand and Cash-at-Bank for better planning. You have to identify difference of actual cash at bank and in books, for which you need Bank Reconciliation. In this Module, you pay checks from banks, receive payments in banks. This also includes postdated checks, uncleared cheques etc.

Accounts Receivable Management -

Every business wants to ensure that customers make the payments on time for which there is requirement of good information about your customer. This information includes Credit Management, Return and Complaint Management Terms of Payments, method of Payment, Customer Profile, Customer Transaction History, Customer Ledgers, Aging Repots, Customer Pricing, Discounts, Turnover Days, Customer Groups, Top 10 Customer by Sales, Top 10 Customer by Profit etc.

Sales Management - Sales modules provide an in-depth knowledge of business. This Module includes Inquiry, Quotation, Pricing Management, Orders Received from Customers, Order Processed, and Remaining Orders. Reports include, Sales by Customer Summery, Sales by Item Summery. Sales by Representative, Pending Sales, Pending Sales Orders by Customers, Pending Sales Order by Items, Gross Profit by items, Gross Profit by Customers, Star Products, Gross Loss by Product, Gross Loss by Customers etc.



Rashid Mahmood, ACMA

Accounting software is the right choice for SMEs which can help them to obtain the requisite information to operate and sustain their business



Accounts Payable Management - A business purchase Goods and services from Vendors. For credibility of business you need to pay bills on time. It includes, Order Management, Payments Term, Payment Method, Vendors Profile, Vendors Transaction History, Vendor Ledgers, Aging Repots, Vendor Pricing, Discounts, Turnover Days, Vendor Groups, Top 10 Vendors by Purchase Amount, Top 10 by Product etc.

Purchase Management - Every business owner wants to purchase a quality product at cheaper rates. You need a strong system about product purchased by business. This Module includes, Estimates given to Vendors, Orders given to Vendors, Order Processed, Remaining Orders. Reports include, Purchase Summery, Purchase by Item Summery. Pending Purchase Orders by Vendor, Pending Purchase Order by Items, Most cheaper Vendor.

Potential Fears that make SME sector reluctant to implement Accounting Software and possible solutions to minimize these fears

Sr.	Item	Potential Fears of SME Sector	Solutions to minimize Fears
1	Data Security	Owners think that they will lose control over data security as accounting software does not have good security tools to maintain secrecy of accounting records.	You can secure your data by installing a strong firewall system. It will help you to protect data from unauthorized users. Secure Accounting System with Passwords. Install antivirus protection. Update your programs regularly.
2	Data Misuse	Business owners have an inherent fear that employees can share their business information with competitors or anywhere else without their knowledge.	Don't allow any unrelated person to access Accounting Software. Make a strong password for your system and keep it changing frequently. Disallow use of external drives for your system.
3	Data Loss	When a business is relying much on accounting software, any loss of service due to any type of outage could cause a work disruption. Work disruptions can prevent the input of new information as well as prevent access to stored information. Additionally, if information is not properly backed up, a computer outage could result in lost financial data.	You can secure your data by getting regular backups. You can also secure data by placing it on Drop-Box or Google Drive or may go for a paid solution. Backup can be transferred to external drives as well.
4	Chance of Fraud	Information stored electronically can be manipulated and accessed if proper controls and security measures are not in place. Strict controls are needed to make sure only authorized personnel use the accounting software and have access to reports. Since financial data can be sensitive and confidential, using accounting software has the risk of fraud.	This fraud can be prevented by assigning proper roles of users. You can withdraw edit and deleting rights from any user at any given time
5	Cost of Accounting Software	A disadvantage of accounting software is the cost involved. Beyond the initial outlay to purchase the software there is a recurring cost of maintenance, customization, training and computer hardware. While time savings may justify the cost, for some businesses it may take years before an accounting software investment pays for itself.	Cost of accounting software looks high as compared to manual system but in actual it is not the case. You can save cost of stationery, time and employee cost by using Accounting System.
6	Maintenance Cost	Employer may need to purchase yearly maintenance and support for their package. Maintaining accounting software does not only include performing upgrades to the accounting software package, but also maintaining and upgrading all the necessary equipment to utilize the accounting software as new versions can require upgraded equipment. That equipment often includes your PC or laptop, monitor, printer, Internet connection and modem, backup drive and operating system. If you do not wish to spend time and money to keep your equipment in compliance with accounting software, it is best to stick to spreadsheet or ledger accounting.	You can minimize this cost by entering into a periodical agreement with the software vendor for all necessary upgrades and trainings for upcoming features. Even than this cost does not exceed the currently cost of doing the reporting on manual basis.

Inventory Management - If a business involves sale or purchase of goods then you need a strong Inventory Management system. This includes, purchase from Vendors and Sale to Customers, Economic Order Quantity. This module has most sensitive information like, Inventory Valuation Summary, Stock in Hand, Stock at Site, Dead Stock, Slow moving Stock, Near Expiry Stock, Fast Moving Stock, Types of Inventory, Part No, Batch wise Inventory, FIFO, Average Price etc.

Production Management - The process of manufacturing products in a factory. It includes, Desire Productions, BOQ, Product Cost, Wastage, Manufacturing Time, Standard Costing, Variance Analysis, Make or Buy Decision etc.

HR Management - You need a HR management system for cost of HR. This module has Employee information, Employee history, Salary Report, Tax Deductions, Employee Leave Management, Provident Fund Management, Pay Slip, Pay Scale, Increment Information, Social Security Management etc.

Budget and Forecast Management - A budget is an overview of planned expenses and revenues. It is an important tool for companies used in business intelligence to measure the actual financial operation of the business against the planned or forecast. This module includes, Sales, Purchase, Production, Cash, Balance Sheet, P&L, by Segments. Reports Includes, Budget Overview, Budget vs. Actual Comparison, Variance Analysis etc.

Job/Project Costing- When you are doing a Business of Projects or order base, this module helps you a lot. This module has information about Job/Order/Project. Repots includes, Job Profit, Jobs Profitability Summery, WIP Inventory, Estimate by Job, Committed Cost by Job etc.

Benefits of having an Accounting Software

Most of the accounting software is much easier, and some are just designed for ease of use by a person with no accounting background.

One of the emerging issues is 'cloud computing' which is also referred as web-based accounting or cloud accounting. It is one of the revolutionary things that have swept the world by storm since it has reduced the burden of using the traditional accounting systems that was tiresome and boring. Cloud computing has the following benefits for the entrepreneurs:

Simple Data Entry - it is typically fast, straightforward and required once. You can hire even an intermediate person for data entry.

Ready Information - Accounting Software always has ready information of business. You can get that information any time anywhere without spending any amount.

Real Access of Financial and Accounting Data - A businessman can get financial information about his business. He can see P&L Report, Balance Sheet or any other accounting record.

Cost Saving - When you are using Manual Accounting System, it always required more staff. When you hire more staff, you have to pay them salaries and incur other expenses. You also need more stationery for record. You can save this cost by using Accounting Software, because you just have to pass an

entry and report will be compiled automatically.

Time Saving - Data entry on pre-designed screens and built-in databases of customers, supplier details and stock records can be carried out far more quickly than any manual processing.

Accuracy - There is less room for errors as only one accounting entry is needed for each transaction rather than two (or three) as compare to a manual system

Up-to-date information - The accounting records are automatically being updated and so the ledger balances will always remain up-to-date.



Multiple Currencies Dealing - computerized accounting packages not only allows a business to trade in multiple currencies with ease but also reduce the exchange rate differentiation issues in an efficient manner.

Fraud Detection - Accounting Software helps to detect fraud by providing various type of tools and techniques for convenient detection.

Efficiency - Resources and time can be used in a much better way; i.e. cash flow management can be improved through better receivables collection and inventory optimization.

Security - The updated data can be saved and stored in offsite locations in order to keep it safe from any natural or man-made disasters like earthquakes, fires, floods, arson, terrorist attacks etc. In case of such instances, the system can be quickly restored on other computers.

Complex Information - You can get complex data into easy form by using accounting software.

Conclusion

Every businessman prefers to have quick, secure, competitive, efficient and beneficial information for running his business successfully. This necessitates the requirement of acquiring and implementing a good accounting system which can fulfill all requirements of business in low budget. This initiative would not only bring convenience for business but also be cost saving. It will convert your complex information into a simple report. Hence, an Accounting System is sine-qua-non for every business.

About the Author: *Mr. Rashid Mahmood is a qualified ACMA and currently he is working as a CFO in Mahmood Pharmacy (Pvt) Ltd. Having more than 15 years of multifaceted experience in industries like Production, Trading, IT and Services, he also has expertise and proven ability in management consultancy as well as systems study, structuring, standardizing, and streamlining financial reporting processes. He has also successfully implemented ERP/Accounting System to many local and multinational companies.*



Economy Watch

Compiled by Research and Publications Directorate, ICMA Pakistan

Exports increase by 24 percent, highest in Four Years



The country's exports have increased by 24 percent at highest point in 4 years reaching \$2.23 billion in March 2018 as compared to corresponding month last year. According to an official statement of

Commerce Division, the highest year-on-year growth in a month was reached in March 2018, when exports were \$2.230 billion, higher by 24 percent when compared with March 2017 and 17 percent when compared with February 2018.

Import growth remained subdued at only 5 percent as compared to March 2017, which has also been one of the lowest growths in imports of past several months. Imports stood at \$5.280 billion in March 2018 as compared to \$4.797 billion in March 2017, indicating an increase of 10 percent. The comparison of trade figures of March 2018 with February 2018 shows that imports registered a growth of 5 percent and trade balance of minus five (-5) percent.

The Commerce Division has claimed that initiatives by the government to provide duty drawback as well as the exchange rate adjustments have contributed positively to the trade balance. Improved market access especially in the European

market owing to the successful review of GSP Plus facility also played an important role.

It further claimed that trade balance is improving due to enhanced exchange rate regime and regulatory duties on non-essential and luxury goods. Imports remained under pressure due to higher oil prices. The increase in fuels import (oil, coal and LNG) both in terms of price as well as quantity kept the balance of trade at around \$3 billion for the month of March 2018, which is 5.7 percent lower than March 2017 due to robust exports growth.

Pakistan Bureau of Statistics (PBS) releases monthly foreign trade figures on the 10th of each month, but Commerce Division made special arrangements with PBS to get the statistics one day prior to the announcement by PBS.

The overall exports in July-March 2018-19 posted a growth of 13 percent to \$17.080 billion as compared to \$15.104 billion during the same period in 2017-18. Imports during this period stood at \$44.379 billion as compared to 38.401 billion, indicating a growth of 16 percent. The trade deficit showed a growth of 17 percent - to \$29.39 billion during nine months of current fiscal year from \$23.297 billion as compared to the same period last year.

Foreign Exchange: SBP's reserves plunge \$358m, stand at \$12.35b

Foreign exchange reserves held by the State Bank of Pakistan (SBP) continued to remain under pressure, decreasing 2.82% on a weekly basis, according to data released by the central bank. The fall marks the 11th successive week of decline, raising concerns over Pakistan's ability to meet future payment obligations and a bulging current account deficit.

On February 23, foreign currency reserves held by the central bank were recorded at \$12,345.6 million, down \$358 million or 2.82% compared to \$12,703.7 million in the previous week. The decrease in reserves was attributed to external debt servicing and other official payments. Overall, liquid foreign reserves held by the country, including net reserves held by banks other than the SBP, stood at \$18,413.3 million. Net reserves held by

banks amounted to \$6,067.7 million. Pakistan raised \$2.5 billion in November 2017 by floating dollar-denominated sovereign bonds in the international market in a bid to shore up official reserves.



A few months ago, foreign currency reserves surged due to official inflows including \$622 million from the Asian Development Bank (ADB) and \$106 million from the World Bank. Earlier, the SBP received \$350 million under the Coalition Support Fund (CSF) and made payments of \$62 million for external debt servicing. In January, the SBP made a \$500-million loan repayment to the State Administration of Foreign Exchange (SAFE), China.



REGULATORY WATCH

Notification of Disclosures in Statement of Material Facts Section 134(3) of the Companies Act

Securities and Exchange Commission of Pakistan (SECP) vide their S.R.O. 423 (I)/2018 dated April 3, 2018 had directed that a company shall, where applicable, while issuing notice of its general meeting, where a special business is to be transacted, in terms of the below referred sections of the Act, annex a statement, pursuant to sub-section (3) of section 134 of the

Companies Act, detailing the following information at the minimum, as applicable upon the Company:

- (a) Material facts to be disclosed where special resolution of members is required for:
- (b) Material facts to be disclosed where ordinary resolution in respect of special business is required for:
- (c) In respect of all businesses to be transacted at the general meeting.

For detailed information, please visit the following link:-

<https://www.secp.gov.pk/document/sro-423-i-2018-notification-of-disclosures-in-statement-of-material-facts-section-1343-of-the-ca/?wpdmdl=31058>

Notification under Section 243 - Unclaimed Dividends

SECP vide their S.R.O. 421 (I)/2018 dated April 2, 2018, in exercise of the powers conferred by section 510 of the Companies Act, 2017 read with sub-regulation (7) of regulation 4 of the Companies (Distribution of Dividends) Regulations, 2017, had notified to specify a time period of forty-five days from the date of this notification for the shareholders of

a listed company to provide valid information, as required under the aforesaid sub regulation, to complete arrangements for making payment of cash dividends through electronic mode.

For detailed information, please visit the following link:-

<https://www.secp.gov.pk/document/sro-421-i-2018-notification-under-section-243-unclaimed-dividends/?wpdmdl=31057>

SECP Notifies Regulations on Selection of Independent Directors

The Securities and Exchange Commission of Pakistan (SECP) has notified draft regulations regarding manner and selection of independent directors of companies. Independent directors play a key role in good governance and efficient functioning of the board.

The Companies Act, 2017, defines qualifying criteria as an independent director and requires that such directors be chosen from databank maintained by an institute/body authorized by the SECP. Accordingly, in January 2018, the SECP had notified the Pakistan Institute of Corporate Governance (PICG) for maintenance of such databank. These regulations specify the manner and procedure of selection of independent directors from such databank who fulfill the qualifications and other requirements.

The qualification criteria specified through the said regulations

is aimed at encouraging new professionally qualified entrants along with experienced individuals. Furthermore, minimum details required for inclusion in such databank is provided along with modus operandi for access of such details by independent directors as well as companies. The due diligence of selection of independent directors, as envisaged in the new law, continue to rest with the company.

The said draft regulations have been placed on the SECP's website at <https://www.secp.gov.pk/document/sro-359-i-2018-notification-of-manner-and-selection-of-independent-director-regulations-2018/?wpdmdl=30971> to obtain public opinion.

The regulations are aimed at strengthening the profile of independent directors as envisaged in the Companies Act and reinforce the best governance practices in companies.

Notification of Definition of Public Interest Company (PIC) under SECP Act

SECP vide their S.R.O. 360(I)/2018 dated March 15, 2018 had notified the definition of public interest company (PIC) under SECP Act. The SECP has notified that the "Public Interest Company" shall mean a company which falls under the criteria of "Public Interest Company: as laid down in

the Third Schedule to the Companies Act, 2017 (XIX of 2017).

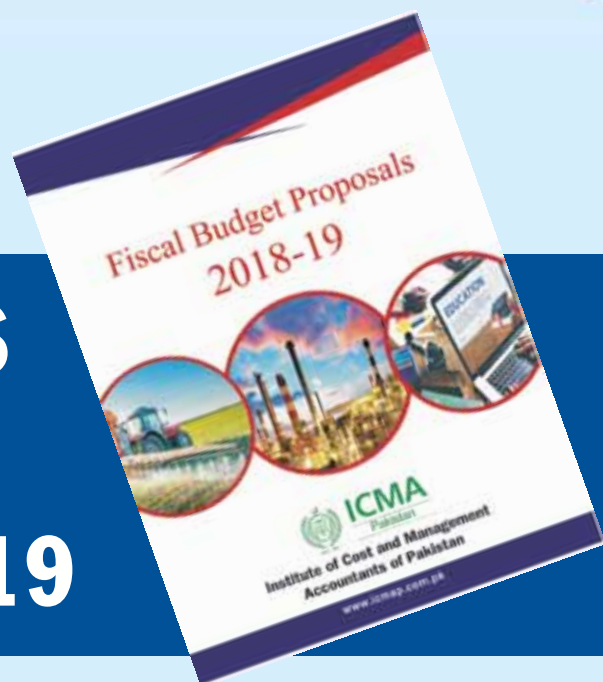
For detailed information, please visit the following link:-

<https://www.secp.gov.pk/document/sro-360-i-2018-notification-to-notify-definition-of-pic-under-secp-act/?wpdmdl=30973>



ICMA
Pakistan

ICMA PAKISTAN'S FISCAL BUDGET PROPOSALS 2018-19



ICMA Pakistan has submitted its Fiscal Budget Proposals 2018-19 to the relevant government ministries and policy makers, including Dr. Miftah Ismail, Advisor to Prime Minister on Finance & Revenue; Rana M. Afzal Khan, Minister of State for Finance & Economics Affairs; Mr. Tariq Mahmood Pasha, Chairman FBR and Mr. Arif Ahmed Khan, Secretary Finance.

The budget proposals of the Institute are aimed at bringing policy changes in the taxation laws by making required amendments in income tax, sales tax, federal excise and custom duty legislations so as to provide an enabling environment for the private sector and businesses to flourish and to promote industrial productivity, investment and economic growth in the country.

The budget document also present industry-specific tax issues which would help the government in developing industrial policy initiatives. These proposals have been prepared by the Research and Publications Directorate of ICMA Pakistan in consultation with our members, tax experts, Chambers and Industry Associations.

The Fiscal Budget Proposals document comprised six Chapters as under:

Chapter 1:	Policy Changes in Taxation Laws and Notifications
Chapter 2:	Direct Taxes
Chapter 3:	Indirect Taxes [Sales Tax, Federal Excise and Custom Duty]
Chapter 4:	Industry-specific Tax issues
Chapter 5:	Tax issues of zero-rated export sector
Chapter 6:	Policy issues some recommendations
	◆ How to enhance tax revenues?
	◆ How to reduce Government spending
	◆ How to bring improvement in tax collection system?
	◆ General Proposals

The ICMA Pakistan's Fiscal Budget Proposals 2018-19 can be downloaded from the link:
https://www.icmap.com.pk/News_Pdf/ICMA_Pakistan_Fiscal_Budget_Proposals_2018-19.pdf

GLOSSARY

Management Accounting Terms

Activity drivers	Factors that measure the consumption of activities by products and other cost objects.
Bill of activities (for a product or service)	A complete listing of the activities required for that product or service to be produced.
Coefficient of determination	The percentage of total variability in a dependent variable (e.g., cost) that is explained by an independent variable (e. g activity level). It assumes a value between 0 and 1.
Discounting	The act of finding the present value of future cash flows.
Estimated manufacturing overhead	The amount of manufacturing-overhead cost expected for a specified period of time. Used as the numerator in computing the predetermined overhead rate.
Financial activities	Transactions involving a company's debt or equity capital.
Gainsharing	Providing cash incentives for a company's entire workforce that are keyed to quality and productivity gains.
Hurdle rate	The minimum desired rate of return used in a discounted-cash-flow analysis.
Incremental package	A budget dealing the additional resources needed to add various activities to a base package.
Joint production process	A production process that results in two or more joint products.
Kanban system	An information system that controls production on a demand-pull basis through the use of cards or markers.
Lead measures (performance drivers)	Factors that drive future performance.
Manufacturing overhead Variance	The difference between actual overhead cost and the amount specified in the flexible budget.
Net Income	Operating income less income taxes.
Operating budgets	Budgets associated with the income-producing activities of an organization.
Physical-units method	A method in which joint costs are allocated to the joint products in proportion to their physical quantities.
Qualitative Characteristics	Factors in a decision analysis that cannot be expressed easily in numerical terms.
Resource drivers	Factors that measure the consumption of resources by activities.
Schedule of cost of goods manufactured	A detailed listing of the manufacturing costs incurred during an accounting period and showing the change in change in work-in process inventory.
Time record	A document that records the amount of time an employee spends on each production job.
Unit cost	Total costs assigned to a product divided by units of product.
Variable cost ratio	Variable costs divided by sales revenues. It is the proportion of each sales dollar needed to cover variable costs.
Work in process	All partially completed units found in production at a given point in time.
Zero defects	A quality performance standard that requires all products and services to be produced and delivered according to specifications.



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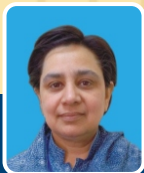


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Examiners' Comments

Fall 2017 Examinations

Financial Accounting Graduation Level



Question No. 2

(a) Statement of Profit or Loss, Statement of Financial Position and Statement of Changes in Equity:

This part of question required the examinees to prepare Statement of Profit or Loss, Statement of Financial Position and Statement of Changes in Equity of Khan Limited for the year ended June 30, 2017. Most examinees well attempted this part, however, following shortcomings were observed:

- Majority failed to calculate the fair values of net assets and liabilities, resultantly financial position and changes in equity was also inaccurate.
- Examinees could not calculate the correct values of the administrative expenses, authorized capital, retained earnings, accrued expenses and debtors which was the major reason of failing to produce exact financial position.
- Many examinees failed to show the treatment of bonus shares in statement of changes in equity.
- While calculating allowance for bad debts, some examinees did not deduct Rs.342,000 due to bankruptcy of customer.
- Few examinees did not add profit for the period in unappropriated profit in statement of changes in equity.

(b) Difference between Ordinary and Preference Shares, Cash Dividend and Stock Dividend:

Most examinees well attempted this part and got good marks.

Question No. 3

Interpret and Analyze the Data using Vertical and Horizontal Analysis for the year 2015 and 2016:

In this question, examinees were required to interpret and analyse the data of Pacific International using vertical and horizontal analysis for the year 2015 and 2016 in a tabulation format rather than the scattered calculations. Overall performance was not satisfactory as majority of the examinees did partial ratio analyses in a traditional format without confirming to the exact requirement.

Question No. 4

(a) Branch Accounts:

This part of the question required the examinees to prepare various branch accounts for the year 2016. Overall average performance was observed and following shortcomings were observed:

- Majority of the examinees failed to prepare the accounts in accurate form with correct figures.
- While preparing branch profit and loss account, few examinees wrongly included credit sales and cash sales.
- Opening and closing stocks was wrongly calculated.
- Some examinees entered goods sent to branch and goods return from branch on wrong side of account.
- Some examinees wrongly entered the amounts of bad debts in branch adjustment account.

(b) Independent Branch and its Features:

This part required the examinees to narrate the concept of independent branch and explain features of independent branch accounting system. Most examinees attempted this part and got good marks.

Question No. 5

(a) Partners Account:

In this part, examinees were asked to prepare capital and current accounts of partners. Overall good performance was observed as many examinees attempt well and got good marks. However, following shortcomings were observed:

- Some examinees included invested amount of partners in current account which was wrong.
- Few examinees did not calculate annual salary amount. They incorrectly used monthly salary amount while distributing annual profit.

(b) Adjusted Profit for Distribution:

This part of the question required the examinees to calculate adjusted profit as per revised distribution between partners. Majority of the examinees failed to compute the correct amount of restated profit for each year, therefore they were not able to calculate the correct amount for revised distribution to partners.

Question No. 6

(a) Wholly Owned and Partly Owned Subsidiaries:

Examinees were required to differentiate between wholly owned and partly owned subsidiaries. Most examinees score very good marks by producing correct answers.

(b) Treatment of Profit in Consolidation of Accounts:

In this part, examinees were required to explain the treatment of profit in consolidation of accounts in case of up-stream and down-stream transaction. Many examinees were able to secured good marks as they produced accurate and to-the-point answers.

(c) Consolidated Statement of Financial Position:

Examinees were required to produce consolidated statement of financial position. Majority of the examinees

attempted this part and get good marks. Following observations were made:

- A few examinees knew the conceptual framework of the NCI and post-acquisition retained earnings related to the situation.
- Only a few could calculate the exact amount of unrealized profit on unsold inventory.
- Some examinees did not deduct amount of unrealized profit from inventories.
- Many examinees calculated wrong amount of net assets at acquisition, therefore were not able to get correct goodwill amount.
- Most examinees could not calculate the exact share of H Limited.

Enterprise Management & Communication Graduation Level



Question No. 2

(a) Concept of Efficiency and Effectiveness:

In this part of the question, examinees were asked to describe the concept of efficiency and effectiveness in management. Overall this was well attempted by most examinees as they scored good marks. However, few examinees could not understand the requirement and gave irrelevant answers.

(b) Omnipotent and Symbolic View of Management:

This part required examinees to briefly explain the two views of management. Overall performance was average as only a few examinees were able to give correct answers and elaborate the exact concepts that omnipotent view define differences in an organization's performance due to decisions and actions of its managers while the symbolic view says that a manager's ability to affect performance outcomes is influenced by external factors.

attempted but performance was average as partially correct answers were received.

(b) Marketing Myopia:

This part required examinees to explain marketing myopia and how sellers often suffer from it. Overall performance was poor and reflected vague understanding of concepts as the answers were mostly irrelevant and out of context. Very few examinees attempted correctly and got good marks.

(c) Channel Levels of Distribution:

Overall this was attempted by majority of the examinees. However, it was observed that only a few examinees were able to give complete answer.

(d) Product/Market Oriented Definition:

This part required examinees to identify the definitions given by various companies as product-oriented or market-oriented. Mix response was received as some examinees scored maximum marks in this part while others were not able to understand the requirement.

Question No. 3

(a) Human Resource Manager Competencies:

Examinees were required to describe four important human resource manager competencies. Overall poor performance was observed as majority of examinees provided incorrect and irrelevant answers which were not required.

(b) Boundary-less and Learning Organization:

This part pertained to boundary-less and learning organization. Poor performance was observed as most examinees attempted incorrectly by explaining irrelevant details.

Question No. 5

(a) Explanation of 'Ethnocentrism' and 'Stereotyping':

Performance of examinees in this part was very poor. It reflected lack of knowledge regarding the term 'ethnocentrism' and 'stereotyping' as the answers were irrelevant and out of context. Almost all examinees got poor marks as they produced vague sentences having totally different meaning from the original ones.

(b) Business Communication on Social Networks:

Examinees were asked to describe the strategies for business communication on social networks. Majority of the examinees attempted but only few were able to secured good marks as their answers were correct and to-the-point.

Question No. 4

(a) Customer Equity:

This part required examinees to explain the concept of customer equity in marketing. Majority of examinees

Question No. 6

Effective Business Communication:

This part required examinees to explain what makes business communication effective. Overall good performance was observed as most examinees give correct answers with proper reasoning.

Public Speaking:

Examinees were required to explain the adjustments a public speaker make in order to be effective. Overall good performance was observed as most examinees give correct answers and secured good marks.

Question No. 7

Letter Writing:

An unsolicited letter was required in this part which was well attempted and good marks were secured. However, few examinees were not able to understand and produced vague business proposals.

Report Writing:

Examinees were required to produce a report explaining the current situation of organization and ways to improve the results. The examinees mostly performed well and scored good marks, except for a few examinees who failed to comprehend the question.

Management Accounting

Graduation Level



Question No. 2

(a) Net Operating Income:

Examinees were asked to calculate the effect on the net operating income of the Cosmetics Division as a whole, if the 'Conditioner' product is dropped. Following common mistakes were observed in this part of the question:

- Most of the examinees calculated 88% (100% 12%) loss of Shampoo contribution instead of 12%.
- Some examinees included irrelevant fixed cost of Shampoo and un-avoidable fixed cost of conditioner.

(b) Advise on Process Further or Sold at Split-off Point:

In this part of the question, examinees were required to provide decision that frames of gas stoves should be processed further or sold at the split-off point. Majority of the examinees could not reach the correct decision and committed following mistakes:

- Most of the examinees wrongly included irrelevant allocated common costs of Rs.850,000 (1/3 of 2,550,000) while computing margin / profit of one option ('sale at split off' or 'process further') but ignored in other option.
- Some examinees calculated profit / margin under both options but failed to calculate difference of both or gave advice (which option is best)

(c) Preference for the Acceptance of Orders:

In this part of the question, examinees were asked to advise and rank the acceptance of product with respect to Baby Care Division. Following mistakes were observed in this part of the question:

- Few examinees ranked products on the basis of contribution ratio instead of contribution per kg
- Some examinees ranked products on the basis of lowest consumption of Raw Material.

Question No. 3

(a) Break-even Point:

Examinees were required to compute monthly break-even point for the new product in units and total rupees sales. Overall average performance was observed in this part of the question, however, following common mistakes were noticed:

- Either Step fixed cost was ignored or average contribution margin was calculated instead of calculating total contribution for first 60,000 units and units required to earn balance contribution plus step fixed cost.
- Either incremental variable cost was applied for computation of contribution from sale of first 60,000 units or not applied to all units instead of applying it to computation of contribution from sale in excess of 60,000 units.

(b) Calculation of Units to be sold for Desired Profit:

In this part of the question, examinees were asked to compute number of units that must be sold each month to make a monthly profit of Rs.1,530,000. As this answer was based on the calculations in requirement (a) above and due to wrong calculation of part (a) the number of units calculated by examinees were also wrong.

(c) Calculation of Units to be sold to Earn a Return of 30%:

Examinees were required to calculate the number of units to be sold each month to earn a return of 30% on the company's monthly investment in fixed costs, if the Sales Manager receives a sales bonus of Rs.13 for each unit sold in excess of the break-even point. Majority of the examinees could not reach the answer due to following mistakes:

- Most of the examinees failed to calculate desired profit.
- Majority of them did not reduce contribution margin per unit by bonus of Rs.13 per unit.
- Most of them failed to reach the correct answer due to wrong calculations in part (a).

Question No. 4

(a) Calculation of Annual Cost Saving:

In this part of the question, examinees were required to calculate annual cost saving from manufacturing of in-house X-ray tubes, if specialized machines were purchased. Overall average performance was observed in this part of the question, however, few common errors were identified:

- Some examinees were failed to calculate net of tax annual cost saving.
- Few examinees wrongly included fixed cost and /or depreciation in calculation of net of tax annual cash-flow (cost saving).

(b) Net Present Value (NPV) Analysis:

Examinees were asked to calculate net present value (NPV) and advise whether management should replace the old machines or purchase X-ray tubes. Majority of the examinees could not calculate the correct NPV and committed following errors:

- Some examinees calculated depreciation on straight line basis instead of diminishing balance method.
- Many examinees calculated either 25% or 40% depreciation for first year instead of 36.25% (25%+75%×15%).
- Most of the examinees started 15% normal depreciation from 2nd year instead of 1st.
- Examinees failed to include initial investment and/ or disposal value in calculation.
- Few examinees failed to calculate tax impact on depreciation/ disposal gain.
- Due to wrong calculation of cash-flows in part (a), examinees could not calculate correct NPV.

Question No. 5

Process Costing:

Examinees were required to calculate the total cost of direct material and conversion, the cost of goods completed and cost of work-in-process inventory. Majority of the examinees could not provide the required answer and committed following mistakes:

- Most of the examinees failed to calculate correct labour hours and overhead amount.
- Majority of the examinees failed to calculate total material cost, total conversion cost and total process cost and due to these errors examinees failed to reach correct equivalent production unit.
- Due to above mistakes examinees failed to calculate Cost of goods manufactured value for ending work-in-process.

Question No. 6

Preparation of Various Budgets:

Examinees were asked to prepare summaries of the budgets i.e., Parts received and usage (units and value), Direct labour hours and value, Departmental manufacturing overhead recovery rates, Selling overhead recovery rate, Stock value at the month end. In other parts of the question, examinees were asked to

calculate the standard unit cost and profit of both products and a budgeted statement of profit or loss. Majority of the examinees were able to partially attempt this question correctly, while others committed the following mistakes:

- Some examinees wrongly calculated production quantities figures by subtracting 'stock increase figure' instead of adding the same.
- 'Part usage budget', 'labour required budget' were calculated on sales figures instead of production figures.
- Overhead rate per unit calculated instead of rate per hour.
- Selling overhead was allocated on the basis of units (product/ total) instead of values.
- Total cost sheets were presented instead of standard unit cost.
- Per unit profits were calculated instead of total profit and loss.

Question No. 7

Calculation of Variances:

Examinees were asked to calculate material price and usage variance, labour rate and efficiency variance, fixed overhead expenditure variance, volume efficiency and capacity variance, variable overhead efficiency and expenditure variance. Majority of the examinees well attempted this question, however, few examinees committed following mistakes:

- Examinees used standard quantity instead of actual quantity for calculation of material price variance. Similarly, they used actual price instead of standard price for calculation of material usage variance.
- Examinees used sales quantity instead of production quantity for calculation of material usage variance and labour efficiency variance.
- Few examinees used standard hours instead of actual hours for calculation of wage rate variance. Similarly, they used actual rate instead of standard rate for calculation of labour efficiency variance.
- Few examinees used favourable variances as adverse and vice versa, while others failed to indicate whether variance is favourable or adverse.

Question No. 8

Throughput Accounting:

Examinees were required to calculate the maximum production that is possible from each machine, identify the bottleneck machine, throughput accounting (TA) ratio for each product and preparation of production plan that would result in the most profitable use of the machines. Majority of the examinees could not correctly attempt the question and committed the following mistakes:

- Most of the examinees failed to calculate maximum possible production on both machines and / or failed to identify bottle-neck machine;
- Many examinees failed to calculate TA ratio or calculated contribution margin instead of throughput;
- Some examinees failed to calculate throughput per bottle-neck resource and / or rank products, resultantly, failed to advise optimum production plan.

Corporate Laws and Secretarial Practices

Graduation Level



Question No. 2

(a) Circumstances of Becoming Director:

In this part examinees were required to state the circumstances under which a non-member can become director of a company. Although all examinees attempted this part but majority of them failed to answer the question accurately and completely. A number of examinees provided self-created options which were totally irrelevant.

(b) Section 79 of the Companies Act, 2017:

Examinees were asked to describe under Section 79 of the Companies Act, 2017, whether Mr. Furqan can en-cash the shares and own whole amount so realized on selling such shares. Majority of the examinees answered that Mr. Furqan being the nominee and legal heir of deceased director Mr. Fareed is entitled to get ownership of his interest (shareholding) in the company and he can dispose them of as well. Some were successful in producing the correct legal provisions whereas few only answered that Mr. Furqan can act as a member of the Company until the transmission of shares to the legal heir of deceased director.

(c) Duties in the light of the Companies' Global Register of Beneficial Ownership:

In this part of the question, examinees were required to describe the duties of Mr. Salman and Jinnah Textile Mills Limited in the light of the Companies' Global Register of Beneficial Ownership under Section 452 of the Companies Act, 2017. Majority of the examinees provided irrelevant answers as most of them wrote that shareholders have to provide their CNIC and passport number, have to disclose their foreign nationality instead of shareholding and that commission will pass details of these shareholders to FBR for tax and it's the duty of the company to send all the notices to shareholders and keep them updated with the affairs of the Company. Similarly, shareholders have to fulfil their responsibility by attending meetings.

Question No. 3

(a) Clauses of Memorandum of Association of Company Limited by Shares:

Examinees were asked to specify the clauses of Memorandum of Association of company limited by shares as per Section 27 of the Companies Act, 2017. This part was answered correctly by majority of the examinees. However, some of them answered that Subscription clause is one of the clauses of Memorandum, which is incorrect. Few examinees mentioned the wrong headings of clauses e.g. they wrote situation clause instead of Registered Office clause but they were able to score some marks by providing some description.

(b) Section 154 and Third Schedule of the Companies Act, 2017:

This part was related section 154 and Third schedule of the Companies Act, 2017. Almost all the examinees well attempted this question as most of them answered the first two requirements correctly but majority could not answer the last requirement about female representation on the Board of private company. Whereas, most of the

examinees wrote requirement of female director correctly but failed to mention that it is only applicable in case of listed company.

(c) Disclosure Requirements under Section 205:

In this part examinees were required to provide the disclosure requirements for Mr. Ismail under Section 205 of the Companies Act, 2017. Almost all the examinees attempted this part but majority of them answered it incorrectly by writing irrelevant material. Most of the examinees incorrectly wrote that the director is required to give a statement of disclosure at the start of each year and this statement expires at year end and need to be renewed every year.

(d) Section 181 of the Companies Act, 2017:

This part was based on Section 181 of the Companies Act, 2017, 'protection to independent and non-executive directors'. Examinees were required to explain whether or not Mr. Khan will be held liable in respect of any such act or omission by the company for which he was not informed through Board process and his consent was also not taken. Almost all the examinees well attempted this part and scored good marks.

Question No. 4

(a) Modes of Winding up:

In this part of the question, examinees were required to state the modes of winding up Under Section 293 of the Companies Act, 2017 and also the circumstances under which a company may be wound-up voluntarily in the light of Section 347. Majority of the examinees well attempted this part as most of them successfully reproduced the relevant section of Companies Act, 2017. Few examinees failed to differentiate between winding up by court and winding up under supervision of Court.

(b) Conditions under which the Aggrieved Shareholders may Approach the Court:

This part was related to Section 59 of the Companies Act, 2017. Examinees were asked to explain the conditions under which the aggrieved shareholders may approach the Court. They were also required to mention the decision may be taken by the Court and the remedy available to the aggrieved shareholders in case they are not satisfied with the decision of the Court. Average performance was observed in both the requirements, as many examinees answered the first requirement appropriately by mentioning the correct percentage (10%) of shareholders and time period (30 days) within which they can make an appeal to the court while some failed to answer the second requirement.

(c) Prudential Regulation for Corporate Governance, G-4 'Credit Rating':

This part was based on Prudential Regulation for Corporate Governance, G-4 'Credit Rating' issued by the State Bank of Pakistan (SBP). Almost all the examinees correctly attempted both the requirements given in the question. There were few examinees who failed to mention that foreign banks already credit rated by agencies like M/S Standard & Poor, Moody's and JCRA are not required to get credit rated again in Pakistan.

Question No. 5

(a) Provisions related to Notice of General Meeting:

Examinees were required to narrate the provisions related to notice of general meeting as specified in the Companies E-Voting Regulations, 2016. It is one of the poorly answered questions as instead of writing down provisions of Section 6 of E-Voting Regulations, 2016, examinees mentioned general requirements that companies need to fulfil under Companies Act, 2017 like notice should be sent to shareholders at least 21 days before the meeting, it should contain a proxy form and it should mention that shareholders can lodge proxy at least 48 hours before meeting etc.

(b) Listing of Companies and Securities Regulations:

This part was related to Listing of Companies and Securities Regulations contained in the Rule book of PS. Majority of the examinees were unable to answer both the requirements of this part. In first part examinees were asked to write rules for offering minimum price to all minority security holders, examinees wrote only few of the many benchmark price options. Whereas in second requirement, majority of them could not write about the minimum shareholding required for voluntary delisting.

(c) Functions to be Performed by Banker to an Issue:

In this part examinees were required to discuss four functions to be performed by 'Banker to an Issue' (scheduled bank) licensed by the Commission. In this part instead of writing the functions that a scheduled bank performs with regard to discharging its duties as a banker to issue like accepting applications of subscription, blocking the amount of subscription or refund of subscription money, examinees listed down normal functions of a bank like depositing cash and providing long term and short term loan.

Question No. 6

(a) Circumstances under which the Registrar can Appoint an Administrator to Manage Modaraba:

Examinees were asked to write the circumstances under which the registrar can appoint an administrator to take over and manage the modaraba in place of the modaraba company under the Modaraba Companies & Modaraba (Floatation & Control) Ordinance, 1980. Overall poor performance was observed in this part as examinees wrote down points like an administrator can be appointed if modaraba is working against Islamic principles, failed to

submit its yearly accounts or the directors are of fiduciary behaviour.

(b) Information required for Disclosure of Price Sensitive Information to Protect the Investor:

In this part examinees were asked to advice for the information required for disclosure of price sensitive information to protect the investor under Section 96 of the Securities Act, 2015. Majority of the examinees could not answer the question correctly as instead of writing down the provisions of law under which a company secretary or a company is required to disclose price sensitive information, examinees suggested the possible way out available to the company secretary of Danish Textile mills limited.

(c) Who may not be Appointed as a Legal Adviser of Company:

Examinees were required to write who may not be appointed as a legal adviser of company under the Companies Act, 2017. Overall average performance was observed, as some examinees correctly wrote that a company cannot appoint any person or firm as its legal advisor if it exceeds the maximum limit of three etc. Some of them mentioned that any person except chartered accountant or cost and management accountant can be appointed as a legal advisor.

Question No. 7

(a) Notice for the Annual General Meeting (AGM):

In this part, examinees were asked to draft a notice for the annual general meeting (AGM) as per the Companies Act, 2017 along with resolution. This question was well attempted by almost all the examinees, while few of them could not perform well and wrote general answer.

(b) E-Services Registration:

Examinees were asked to write who can register as a user of the E-Services and how to apply for user registration and what is the user registration fee. In first requirement, majority of the examinees mentioned that a person who intends to start a business can register or a company can register instead of writing that any person could register as an individual user, and its director, CEO or company secretary can register on behalf of company.

In second requirement, many examinees mentioned that the form can be accessed through the website of SECP but only few could answer the fees that needs to be submitted.

Business Taxation

Graduation Level



Question No. 2

(a) Definite Information and Permanent Establishment:

Majority of the examinees attempted this part of question but only a few examinees were able to elaborate "Definite Information" and "Permanent establishment" in the light of Income Tax Ordinance, 2001. The examinees gave general answers which was completely irrelevant with the definition.

(b) Dividend:

This part required examinees to narrate the incomes that are excluded from the term dividend as per Income Tax Ordinance, 2001. Majority of the examinees attempted the question, however, the answers were totally irrelevant and not in line with the said definition.

(c) Tax Liability:

In this part, examinees were required to compute income tax payable for the tax year 2018. Majority of the examinees attempted this question, however, following shortcomings were observed:

- Examinees lacked clarity on the taxability of rent free accommodation which was to be taxed at higher of fair market value or 45% of basic salary and taxability of medical allowances which is exempt up to 10% of the basic salary.
- Examinees failed to include tax borne by the employer as part of taxable income.
- Some examinees correctly calculated the tax credit on donation but failed to state the conditionality for the amount of donation to be used for tax credit purpose. Whereas some examinees incorrectly included donation as admissible expense.
- Many examinees correctly calculated the tax credit on investment but failed to state the conditionality for the amount of investment in shares to be used for tax credit purpose. Some examinees also incorrectly included services of servant as part of rental income.

(d) Deductible Allowance:

Overall performance in this part was average as most examinees attempted but only some of them could compute the correct amount of deductible allowance.

Question No. 3**(a) Residential Status:**

This part required examinees to determine the residential status in each of the three cases. This was well attempted as most examinees described the residential status in clear and concise way, only a few examinees did not having the required conceptual understanding.

(b) Amendment in the Assessment:

- (i) In this part, examinees were asked to state whether the notice was time barred or not. Most examinees incorrectly state that the notice was time barred. Few of them answer correctly but they were unable to state the last date after which the notices would become time barred.
- (ii) Majority of the examinees gave very general answers to the question. However, they were able to cover major point of the question.
- (iii) The examinees misinterpreted the notice to amend the return which was stated in the question with the notice to call for information where deficiency has been found in the income tax return.

(c) Taxable Gain:

Majority of the examinees attempted the question correctly. However, some examinees lacked clarity on the holding period of the shares for taxability.

Question No. 4**(a) Taxable Income and Tax Liability:**

Majority of the examinees attempted this question but overall performance remains average in this part. Following shortcomings were observed:

- Majority of the examinees calculate the rent for whole year whereas it was to be calculated for eight months i.e. the period mentioned in the rent agreement.
- Examinees did not consider rent as separate block of income and incorrectly applied the same slab rate as for business income.
- Examinees incorrectly considered gift to client as inadmissible expense even though the expense was incurred for business purpose.
- Examinees lacked concept of carried forward business loss and unabsorbed depreciation as both unabsorbed losses and unabsorbed depreciation were set off against taxable income.
- Examinees lacked clarity on the methodology for calculating tax credit on insurance premium and investment in pension funds. They failed to state the conditionality for the amount to be used for credit purpose.

(b) Income Tax Implications:

Overall performance in this part of question was poor as majority of the examinees were unable to classify the forfeited amount as rent income. Therefore, incorrectly including the same in calculating capital gain. Majority of the examinees also incorrectly calculated depreciation on the asset, resulting in incorrect capital gain.

Question No. 5**Sales Tax Liability:**

This question required examinees to calculate the sales tax payable or refundable and amount of sales tax to be carried forward. Majority of the examinees attempted this question but failed to present it in proper format and calculate exact amount of tax. Following were the shortcoming observed:

- Examinees did not gross up the payment in order to calculate input tax instead they directly applied 17% sales tax rate on the supplies.
- Input Tax on machine acquired on operating lease was incorrectly claimed.
- Input Tax on supplies from cottage industry was incorrectly claimed.
- Extra 2% was charged as output tax on supplies made to unregistered cottage industry and end consumer.

Question No. 6**(a) Value of Supply:**

Performance in this part was good as most examinees were able to calculate the correct amount of supply for tax purpose and secured good marks.

(b) Sales Tax Rules, 2006:

Performance in this part was poor as most examinees were unable to understand the question and many of them didn't understand the requirement of debit and credit note. Instead they provide irrelevant details, which was not required.

(c) Implications of the Sales Tax:

In this part, examinees were asked to explain the implication of sales tax in each of the three situations. Majority of the examinees were not able to understand the requirement and provided incorrect answers.

Audit & Assurance Professional Level



Question No. 1

(a) Position of International Standards on Auditing (ISAs) relating to External Audit Process:

In this part of the question, examinees were required to explain the position of International Standards on Auditing (ISAs) relating to external audit process, the extent to which an auditor must follow ISAs and the extent to which ISAs apply to small entities. Overall, this question was well attempted by majority of the examinees. However, it was observed that few examinees could not understand the requirement and wrote irrelevant and self-produced answers.

(b) Contents of the Report that is to be laid before the Company in General Meeting:

Examinees were asked to state the contents of the report that is to be laid before the company in general meeting by external auditor. Only few examinees were able to list down content of Audit Report as per section 249 of the Companies Act, 2017. Majority of the examinees failed to clearly explain the scope paragraph describing the nature of an audit. Some examinees mentioned Audit Plan, Audit Programs, and Engagement Letter also as part of audit Report.

(c) Types of Assurance Services that the Auditor may Offer:

In this part, examinees were required to list down types of assurance services that the auditor may offer. An average performance was observed as some examinees attempted correctly while others explained Audit Assurance as true and view of Financial Statement, Cost Audit Services, assurance on Going Concern, Fraudulent financial Reporting etc, and few explain positive and negative assurance which was totally irrelevant.

Question No. 2

(a) Differentiate Role of Internal & External Auditors:

Examinees were required to differentiate role of Internal & External Auditors with respect to Objective, Reporting, Scope & Independence. Most of the examinees well performed and secured good marks but few of them only define Internal & External Auditors and some were confused in respect of Reporting Authority and independence of both auditor.

(b) The Extent to which an External Auditor can rely on Risk Assessment of Internal Auditors:

This part was related to ISA 315, examinees were asked to explain the extent to which an external auditor can rely on risk assessment of internal auditors. Majority of the examinees were failed to comprehend the question as very of them correctly stated the key aspect of the answer i.e. objectivity of the internal audit function, technical competence, due professional care and communication.

Most of the examinees explained how and what work internal auditor carries out instead of specifying the factors for placing reliance on the work of the internal auditor. Most of them covered few aspects, repeated their points and described irrelevant matters.

Question No. 3

(a) Audit Strategy & Audit Risk & Responses:

In this part of the question, examinees were asked to describe any six (06) contents of audit strategy document and identifying the four (04) audit risks in the given situation and auditor's responses to those risks as part of audit planning for the company. Majority of the examinees well attempted the contents of audit strategy while most of the examinees could not identify the audit risks. Some of them list down type of Audit Risk and business Risk, Market Risk, Technology Risk etc.

(b) Difference between an Interim and Final Audit:

Average performance was observed in this part of the question. Most of the examinees mixed up the interim audit with the audit of interim financial statements and some of them wrongly wrote that interim audit is required for the purpose of declaring interim dividend. Audit procedures which could be undertaken in an interim audit were written generally.

Question No. 4

(a) Errors and Misappropriation Purchase System:

Examinees were asked to explain the errors and misappropriations which may occur if the company does not have appropriate controls on the purchase system. Examinees could not understand the requirement of the question and some of them discussed the audit steps to verify instead of stating Error and misappropriation in Purchase system. Only few examinees correctly mentioned and some of them list down Unauthorized Purchases, Misappropriation of Inventories, and Purchases made on high price, Teeming and Lading etc.

(b) Deficiency, Potential Effect and Recommendation of Existing Purchase and Payment System:

Examinees were required to list down the deficiency, potential effect and recommendation of Existing Purchase and Payment System. Overall, this was well attempted by majority of the examinees as they scored good marks and only few of the answered generally.

Question No. 5

(a) Items to include in a Written Representation Letter:

This question pertains to ISA 580 Written Representations. The examinees were found weak in this area as only few of them could mention items that could be included in a representation letter. Some examinees list down content of engagement letter which was wrong.

(b) Responsibility of Director and Auditor regarding the Published Financial Statement:

Examinees were required to distinguish responsibility of Director and Auditor regarding the Published Financial Statement with respect to Fraud & Error, Disclosure and Going Concern. Overall, this part of the question was well attempted by majority of the examinees as they scored good marks and only few examinees just defined above mentioned term in a general way instead of responsibility.

Question No. 6

(a) Audit Evidence from Third Party with respect to Inventory and Reports provided by Auditor of Third Party Service Organization:

- (i) Only few examinees could mention the evidence available is "Confirmation" from the Third Party. Rest of them mentioned irrelevant answers like obtain List of Inventory, visit to client for physical verification where inventory withheld etc
- (ii) None of the examinee was able to explain Audit evidence from Report provided by the auditors of third party service Organization. Mostly examinees defined type of reports obtained from service organization, service agreement between Company and service industries etc

(b) Factors which Influence the Reliability of Audit Evidence:

Examinees were required to describe the factors which influence the reliability of audit Evidence. Overall, this

part was well attempted by majority of the examinees as they scored good marks but some examinees list down circumstances under which quality of audit evidence will be obtained. Few of them mentioned audit procedure is being used for obtaining audit evidence etc.

Question No. 7

(a) Procedures that should be applied during the Subsequent Events:

Examinees were required to explain the procedures that should be applied during the subsequent events. Most of the examinees attempted in a manner that they held auditor responsible for subsequent events without actually mentioning the specific procedures to be carried out as per ISA 560 i.e., reviewing management procedures for identifying events, reviewing minutes of meetings, reviewing latest financial information etc. Few examinees just defined post balance sheets events, adjustable and non-adjustable events etc.

(b) Tests of Controls related to Fixed Assets:

Examinees were required to explain the tests of controls to assess that the controls related to fixed assets are operating effectively. Only few examinees correctly attempted this part, as most of them could not understand the requirement and provided irrelevant detailed calculations for depreciation, gain or loss on disposal of assets, Life of Assets instead of explaining the test of controls i.e., Serial numbers, Goods received note (GRN), Review of assets etc.

Corporate Financial Reporting Professional Level



Question No. 1

(a) (i) Statement of Net Assets available for Benefits:

This question required examinees to prepare statement of net assets available for benefits. Overall performance was poor as majority of examinees were unable to identify where to place various items in the statement.

(ii) Revenue Account:

Overall poor performance was observed as only a few examinees accurately pick the proper revenue items. It seemed that examinee did not have accurate grasp on the IFRS as many examinees did not even know the nature of revenue related items.

(iii) Statement of Changes in Net Assets available for Benefits:

Most examinees were not able to answer accurately as they failed to understand the question requirement. Numbers they put in the statements reveals that they do not know the basic treatment of account.

(b) Difference between Defined Benefit Plan and Defined Contribution Plan:

Examinees were required to differentiate between defined benefit plan and defined contribution plan. Some examinees were able to explain accurately and scored good marks.

Question No. 2

(a) IAS 39 Financial Instruments:

This part was attempted by majority of examinees. However very few examinees were able to accurately calculate the foreign exchange currency gain/loss on relevant reporting and settlement date. Accordingly, entries were also incorrect and on irrelevant dates. Examinees are advised, at this stage that makes grasp on basic mathematic calculations.

(b) IFRS 8 Operating Segments:

Performance in this part was average as some examinees calculated correct percentages of various units of Zeeshan limited in respect of its sales, profits, assets and liabilities and scored good marks. However, they could not determine reportable segments and therefore could not accurately disclose these on financial statements.

Question No. 3

(a) IAS 28 Investment in Associates:

This part was well attempted by many examinees as they had the concept of correct adjustment, calculation of goodwill, group reserve, non-controlling interest and other relevant matters. Only few examinees could not accurately calculate the amount of retained earnings as they could not deal with treatment of unrealized profit.

(b) IFRS 5 Non-Current Assets Held For Sale and Discontinued Operation:

Majority of the examinees correctly calculated depreciation and impairment while calculating fair value and cost to sell values. However, few examinees showed incorrect treatment and irrelevant calculations by applied their judgment.

Question No. 4

IAS 7 Statement of Cash Flows:

Performance in this question was average only few examinees got good marks by calculating basic values for consolidated

statement of cash flows. Many examinees were unable to obtain these easy marks which show very poor command on basic concepts of consolidated statements and accounting. Some examinees accurately calculate the values of purchase of property, plant & equipment, investment in associate, non-controlling interest and taxes paid. Examinees wasted their precious time in calculation of irrelevant workings such as inventory, long-term loan, borrowings etc.

Question No. 5

Statement of Movement in Unit Holder's Fund:

This question required examinees to provide complete transaction movement during the respective period. This question was well attempted by majority of the examinees. Few examinees misunderstood the requirement and were not able to provide correct figures. They deliver the answer with poor presentation which is foremost requirement for such questions.

Strategic Risk Management Chartered Level



Question No. 1

Risk Management:

Examinees were asked to discuss as to why risk management is desirable. Overall good performance was observed as majority of the examinees attempted well and scored good marks.

Question No. 2

Forward Rate Agreements:

- (a) Overall average response was observed regarding identification of appropriate contract and calculation of no arbitrage price. Most examinees were not able to find the value of forward position at Day-10 with a few exceptions. It seems that requirement was misunderstood by majority of the examinees.
- (b) This part was poorly attempted as they could not understand the requirement. They seemed completely unprepared as hardly any examinee attempted it correctly.
- (c) Poor performance was observed in this part as only a few examinees could attempt partially.

Question No. 3

Credit Risk Management:

- (a) Examinees were asked to list down the components of credit risk evaluation. Average performance was observed in this part as majority focused only on the capacity and willingness of the borrower and collateral etc. Effect of external environment and characteristics of credit instruments were not identified by most examinees.

- (b) Overall response was good in this part. Few examinees not added the expected loss of individual bonds thus losing partial marks and few went for weighted average.
- (c) Overall response was poor as many examinees only focus on capital adequacy ratio requirement (CAR) and minimum capital requirement (MCR) except for a few who elaborate the limitations correctly.
- (d) Many examinees did not understand the requirement and focus their answers around the precautions while extending credit in consumer financing.

Question No. 4

Key Risk Indicators (KRIs):

- (a) Examinees were asked to define key risk indicators. This was well attempted by most examinees and showed their understanding of the concept.
- (b) Overall response was poor in this part. Many examinees focus on precautionary measures instead of KRIs.

Question No. 5

Asset-Liability Management:

- (a) Majority of examinees correctly attempted and calculate the net interest income but did not convert it into percentage term. Few examinees considered market value instead of book value which was incorrect.
- (b) Poor performance was observed as majority of the examinees partially attempts this part. Examinees either used book values or not adjusting leverage by ignoring 'k'

factor. Only a few examinees attempted correctly and scored good marks.

- (c) Poor performance was observed as majority failed to understand the requirement and made irrelevant calculations.

Question No. 6

Portfolio Risk Management:

- (a) Majority of the examinees well attempted this part. Few examinees ignored expected annual return and focused only on the Sharpe ratio and select the portfolio 'B'. Few examinees also made mathematical errors.
- (b) Many examinees either left the part or made partial attempts. Few had the concept but failed to produce good response and satisfy the requirement.

- (c) Examinees were required to describe the advantages and disadvantages of passive investing. Most examinees attempted but response was limited around the low risk low return proposition.

- (d) Good performance was observed in this part of question. Few examinees made little mathematical or conceptual errors. Few examinees lost partial marks by not ranking the alternatives.

Question No. 7

Solvency II:

This question was least attempted by examinees and poor performance was observed as except for a few, no examinee was able to get good marks. Hardly any examinee attempted complete question and mostly incorrect and irrelevant answers were produced.

Strategic Management Accounting Chartered Level



Question No. 1

(a) Learning Curve:

Examinees were asked to calculate labour hours required to produce first 100 batches, labour hours required to produce 100th batch and bid amount for one motorcycle assembly based on labour hours required for 100th batch and onward.

Majority of the examinees well attempted this part while others committed following mistakes:

- Some examinees calculated average time of 100 batches but not total time of 100 batches.
- Examinees failed to calculate time for 100th batch due to either:
 - i. Calculated average time for 101 batches using formulae (whereas learning slope after 100th batch); or
 - ii. Calculated just average time of 99th batch but not total time; or
 - iii. Failed to calculate the time for 100th batch (difference of total time for 100 batches less total time for 99 batches).
- Few examinees failed to calculate bid price per motorcycle due to:
 - i. Above mistakes; or
 - ii. Misinterpreted the question by calculating bid price for batch of 100 motorcycles instead of one motorcycle.

(b) Customer Profitability Analysis:

In this part of the question, examinees were asked to rank customers using 'customer profitability analysis'. Examinees committed following common errors:

- Examinees failed to calculate customer-wise dispatch cost;

- Few examinees missed to rank customer

- Some examinee ranked customer on the basis of profit margin instead of total profit.

(c) Comparison of Business Process Reengineering with Continuous Improvement:

Examinees were required to compare 'business process reengineering' with 'continuous improvement'. Most of the examinees tried to define 'business process re-engineering' and 'continuous improvement' instead of comparing them.

Question No. 2

Calculate Payback and Discounted Payback Period and Profitability Index (PI):

Calculate payback and discounted payback period profitability index (PI) for the two products and advice which product is better. Overall average performance was observed in this question, however following mistakes were observed:

- Examinees included irrelevant fixed cost in computation of cash flow.
- Some examinees ignored Inflation or inflated figures from 1st year instead of 2nd year.
- Depreciation was calculated on straight line basis instead of reducing balance method.
- Many examinees failed to calculate tax impact of Cash flows, Depreciation / or loss on disposal.
- Some examinees failed to include working capital invested / released in cash flows.
- Few examinees failed to include investment in machinery / disposal thereof in cash flows.
- Examinees not included initial investment in calculation of cumulative cash flows.

Question No. 3

Real Option and Financial Option:

(a) In this part of the question, examinees were asked to define the term 'real option' and its types and differentiating the same with financial option. Overall average performance was observed in this part of the question, as some examinees failed to define 'Real Option' or defined it as real rate of return, while others failed to list types of options or provided irrelevant self-created options

(b) Expected Net Present Value (ENPV):

Examinees were required to calculate expected net present value (ENPV) of the product under two given scenarios. Majority of the examinees failed to attempt this question correctly due to the following errors:

- Some examinees rounded cost of equity instead of rounding WACC.
- Most of the examinees took face value instead of market value of shares for calculation of WACC.
- Few examinees ignored tax effect in WACC.
- Taxes on cash flows were calculated by some examinees, whereas the cash flows given in question were net of tax.
- Most of the examinees failed to calculate combined probabilities of scenarios.

Question No. 4

Calculation of Adjusted Present Value (APV):

Examinees were asked to calculate adjusted present value (APV) and advice the Board of Directors on project viability. Overall poor performance was observed in this question as majority of the examinees committed following mistakes.

- Most of the examinees used face values of debt and equity instead of market values for calculation of WACC.
- Examinees either did not calculate company's assets beta (assuming risk free debt) or not increased by 0.2 (as given in question) for project's assets beta.
- Majority of the examinees ignored inflation or revenues were also inflated whereas revenues were nominal value as per contract.
- Most of them missed to release working capital in the calculation.
- Many examinees calculated depreciation on working capital or machinery was depreciated in 3 years instead of 20% straight line basis given in question.
- Some examinees either ignored tax or applied UK rate of tax instead of local tax rate on local cash-flows. Few of them applied PTR rate instead of corporate tax rate or losses were not carried forward.
- Un-adjusted cash-flows were not translated in pound sterling (£) by many examinees.
- Adjustments (tax shield and interest rate subsidy) were not calculated/ translated year-wise.

Question No. 5

Calculation of Transfer Price:

(a) Examinees were asked to provide acceptable transfer price (TP) range at which GMCH and ICH to be transferred internally, if labour is a constraint. Majority of the examinees could not perform well in this part of the question and committed following errors:

- Most of the examinees failed to calculate correct variable cost per unit.
- Examinees failed to calculate contribution margin or margin per constraint resource (labour hours).
- Many examinees could not calculate contribution lost on constraint resource as a result of internal transfer.
- Almost all the examinees failed to calculate transfer prices acceptable to 'B-Division' and 'C-Division'. Resultantly, failed to mention acceptable transfer price range.

(b) In this part of the question examinees were asked to revise requirement (a) above under two given scenarios. Most of the examinees failed to calculate variable cost per unit after savings due to internal transfers. Moreover, mistakes in part (a) were repeated resulting in wrong calculation of this part.

Question No. 6

Linear Programming:

This question was based on linear programming and examinees were asked to calculate optimum mix, contribution slack times and the change in contribution if 2,000 more hours were available in Packing process and the change in solution column of given optimal tableau. If company has an order of from a special customer. Overall poor performance was observed as either examinees did not attempt this question or just re-wrote the question in their answer scripts.

Question No. 7

Economic Value Added (EVA):

Examinees were required to calculate economic value added (EVA), almost all the examinees attempted this question but were able to provide partially correct answer. Majority of them committed following errors:

- Most of the examinees failed to calculate tax relief on debt.
- Examinees failed to calculate adjusted net operating profit after tax (as a result to above failure).
- None of the examinee could correctly calculate adjustment of research & development expenses.
- Most of the examinees could not calculate adjusted working capital at start.
- None of them could calculate capital charge and EVA due to above errors.

Strategic Financial Management

Chartered Level



Question No. 1

Cash Flow Forecasting:

This question tested examinees knowledge about forecasting cash flows and forecasted financial statements. Overall performance was very good as almost all examinees attempted well and secured good marks.

Part (a) of the question required preparation of a cash budget which was correctly prepared by most of the examinees with minor deviations from the actual requirements.

Part (b) required determining of additional bank borrowings necessary to maintain cash balance of Rs.200 million, this part was poorly attempted as most examinees could not calculate the additional bank borrowing.

Part (c) required preparation of forecasted statement of financial position, this part was well attempted and good marks were secured except for calculation of closing balance of retained earnings and bank borrowings.

Question No. 2

Factoring Account Receivables:

Examinees were required to determine which alternative is financially beneficial for Royal Limited i.e. recourse or non-recourse factoring. It was poorly attempted by almost all examinees as they could not understand the question and hardly any examinee was able to score decent marks. Following observations were noted:

- Cash discount was wrongly calculated while average collection period was also not calculated correctly.
- Cost of funds was wrongly calculated.
- Wrong calculation of lost contribution on foregone sales.
- Wrong calculation of discount charge was calculated.
- Since relevant cost of in-house management alternative were not properly calculated hence, correct calculation for relevant cost of recourse or non-recourse factory does not arise.

Question No. 3

Bond's Yield-to-Maturity (YTM):

This question pertained to valuation of bonds. The question was partly attempted by the examinees and some of them were able to score good marks.

- (a) Examinees were required to calculate current yield. Almost every candidate correctly worked out the bond's current yield, hence they secured maximum marks.
- (b) This part required calculation of YTM. Most examinees correctly calculate the yield to maturity and scored good marks.

- (c) Comparison and analysis of current yield, YTM and coupon interest rate was required but this was poorly attempted by almost all the examinees.

Question No. 4

Lease vs Buy Decisions:

Examinees were required to advise regarding purchase versus lease decision. The question was attempted by most examinees and some of them were able to score maximum marks. It required calculation of present values of cash outflows under both the option and conceptually the answers were correct thus they secured full marks. Most examinees correctly computed the estimated annual loan instalment but messed up the workings of buying and lease alternatives which was necessarily separately to be examined. Examinees included the maintenance cost in the lease option however they did not consider maintenance cost in the buying option which was not correct. Maintenance cost either has to be added in both option otherwise it has to be eliminated from the both options.

Question No. 5

Weighted Average Cost of Capital (WACC):

This question required examinees to calculate company's WACC. Almost all examinees attempted the question and many of them were able to score good marks. The calculations for cost of preference shares, cost of equity shares and cost of long-term debt were simple and calculated correctly, whereas the calculation of cost of debentures was a bit tricky and only a few were able to do it correctly.

Question No. 6

Business Valuation:

This question testing examinees knowledge about business valuations and acquisitions. The question was attempted by most examinees but they were not able to understand the given data and exact requirements. It was a relatively technical question requiring deep understanding of the concept and thorough practice. The percentage gain under each offer was not calculated correctly and the examinees were having no clue about what to do in such type of calculations. Some examinees mixed the concepts and offered irrelevant calculations particularly for bond offer.

Question No. 7

Financial Derivatives:

This question pertaining to stock option was not attempted by most examinees and those who attempted lacked technical understanding of the concept and offered irrelevant calculations as they were not prepared for such type of questions. They used wrong formula and wrong working was put in the formula and thus arrived at incorrect figures.

Strategic Management

Chartered Level



Question No. 1

(a) Forecasting Methods:

Examinees were required to discuss the importance, methods and benefits of forecasting, as well as focus of internal forecasting. Majority of the examinees attempted this question but could not perform well and committed following mistakes:

- Many examinees did not describe forecasting methods properly, while others forgot to elaborate the focus of internal forecasting.
- Most of the examinees repeated almost similar points for the importance of forecasting and benefits of forecasting.

(b) Retrenchment Strategy:

Examinees were required to define retrenchment strategy and suggest their appropriateness for Z-Sharp. Most of the examinees answered correctly, yet few examinees wrote suggestion regarding the strategy without giving proper justification.

Question No. 2

(a) SPACE Matrix:

Examinees were asked to define SPACE Matrix, calculate the score and recommend the future strategy. Overall poor performance was observed in this question as most of the examinees were unable to calculate the score correctly and could not plot the graph correctly.

(b) Human Resource Concerns when Implementing Strategies:

Examinees were required to investigate the Human Resource Concerns and suggest the strategies. The most common mistakes were:

- Most of the examinees did not provide the relevant HR Concerns.
- Many examinees just defined some strategies or models but they did not relate with strategies with give scenario.

(c) Organizational Resources:

Examinees were required to write the factors which can prohibit effective resource allocation by Mc Royal and what company should do to allocate these resources effectively in order to implement its strategies successfully. Majority of the examinees well attempted this part of the question except few who generally attempted this part.

Question No. 3

(a) Restructuring and Reengineering:

Examinees were required to describe scenarios in which restructuring and reengineering could be used. Examinees could not understand the requirement of question as most of them just defined the terms but did not describe the relevant scenarios for restructuring and reengineering.

(b) Reasons why Annual Objectives are Essential for Strategy Implementation:

Examinees were required to describe the reasons for the relevance of annual objectives for strategy implementation. Majority of the examinees attempted this part correctly and scored good marks.

Question No. 4

(a) Globalization and Global Strategy:

Examinees were asked to define Globalization and Global Strategy and to justify organization's choice to operate globally or locally. The most common mistake observed was that examinees wrote common factors which they assume may be responsible for global or local operation, but they did not provide separately the factors inducing a firm to operate globally and the factors causing a firm to operate locally.

(b) Influence of Culture for Strategy Formulation:

Examinees were required to elaborate the usage of culture for strategy formulation and implementation by giving the real world examples. Almost all the examinees misunderstood the requirement as most of them defined the term culture, role of culture etc., but they could not explain the influence of culture for strategy evaluation by giving real world examples.

Question No. 5

(a) Five Elements of Contingency Plans:

Examinees were required to elaborate the elements which should be included in the contingency plan. Most common mistake observed was that majority of the examinees discussed the contingency plan only and many of them provided irrelevant factors, only few examinees provided correct and relevant answer.

(b) Strategy Evaluation:

Examinees were required to discuss the reasons that why strategy evaluation could be more difficult for Tropicaso. Most of the examinees just defined and explained the strategy evaluation, only few examinees justified that why strategy evaluation is a difficult task for Tropicaso.

(c) Characteristics of an Effective Strategy Evaluation System:

Examinees were required to explain the characteristics of effective strategy evaluation system. Majority of the examinees attempted this part correctly and scored good marks

Question No. 6

(a) How Companies can Foster the Culture of Innovation:

Examinees were required to suggest the ways which foster the culture of innovation. Overall average performance was observed, however, common mistake observed was that most of the examinees discussed the importance of culture of innovation rather than the means which may enhance the culture of innovation.

(b) Why Firms should consider Environment Sustainability Important:

Examinees were required to explain the importance of environmental sustainability and role of sustainability report. Most of the examinees forgot to write the role of sustainability report, they just discussed the importance of environmental sustainability.

(c) Information Technology and Competitive Advantages:

Examinees were required to discuss the role of Information Technology for competitive advantages. Majority of the examinees could not understand the requirement as most common mistake observed was that many examinees explained the competitive advantages while some discussed the advantages of competitive advantages for a firm, hence both answers were irrelevant. Examinees were supposed to discuss the role of Information Technology for competitive advantages.

Question No. 7

(a) Social Obligations for Organizations:

Examinees were required to argue about the social obligations for organizations. Many examinees answered this part correctly, yet the common mistake was that some examinees focused their discussion on the importance of Corporate Social Responsibility rather than discussing the social obligations.

(b) Formal Planning Processes:

Examinees were required to argue the problems with formal planning. This question was correctly attempted by almost all the examinees.

Information System & I.T. Audit Semester-3



Question No. 2

(a) SLA:

Examinees were required to define the term SLA and enlist five different tools, which are used to monitor and measure the effectiveness and efficiency of services in SLA's. Majority of examinees correctly defined the term SLA but could not describe different tools like exception reports, system and applications logs, operator problem reports and operator work schedule etc and wrote irrelevant and self-produced answer.

(b) E-business Models:

In this part of the question, examinees were required to discuss B2B, B2C and B2B2C e-business models used by the company in conducting transactions. Majority of the examinees well attempted this part and secured good marks, while few of them were confused while describing B2B2C and mixed it with other business models.

(c) Database Controls:

In this part it was required to explain different database controls needs to be implemented in order to ensure security of database record of all transactions of company. Most of the examinees well performed while some examinees discussed database types rather than focus on controls like database access controls, backup and

recovery techniques, database restructuring procedures and reporting tools etc.

(d) Back-up Schemes:

It was required to compare features of full, incremental and differential backup schemes. Overall average performance was observed, majority of examinees correctly defined full and incremental backup schemes, while lacking in concept while comparing differential backup scheme, which copies all files and folders that have been added or changed since a full backup was performed.

(e) Advantages of Application Firewalls:

Examinees were required to discuss the advantages of application firewall. Majority of the examinees knew about application firewalls but were unable to elaborate its key advantages properly. Majority of them just focused on general advantages of deploying firewall in network. Key features like implementation of proxy server, NAT, security for commonly used protocols were missing in answer scripts.

Question No. 3

(a) Cloud Computing Essential Characteristics:

In this part of the question, examinees were asked to explain different cloud computing essential characteristics

which can be incorporated/ provided in outsourcing business model in order to ensure business reliability. Overall average performance was observed, as some examinees explained public, private cloud rather than focusing on cloud model key characteristics like its rapid elasticity or flexibility, demand self-service, broad network access, resource pooling and measured services as well most economical /reliable for commercial prospects.

(b) Overview of a Risk-based Audit Approach:

Examinees were required to describe simplistic overview/ steps involved in a risk-based audit approach, majority of the examinees wrote general and irrelevant answer like risk types and other details. It was required to highlight different areas of risk-based audit approach like how to gather information, obtain understanding of internal controls, how to perform compliance and substantive testing and finally how to conclude audit but very few examinees discussed this part correctly.

Question No. 4

(a) Approaches of Computing:

It is required to discuss advantages/disadvantages of centralized, network and distributed computing approach. Majority of the examinees performed well which shows good concept in network domain of information systems. Few examinees were unable to distinguish between distributed vs network computing approach.

(b) Database Accessing Methods:

Examinees were required to discuss different methods for accessing data in a computer system from database. Overall average performance was observed, some examinees correctly attempted this part while others wrongly discussed database types like hierarchy, network, object oriented data base and hard drive access mechanism

instead of writing Sequential, Direct and Index access as major techniques used for accessing database.

Question No. 5

(a) Task cover by IS Auditor in Auditing System Development, Acquisition and Maintenance Project:

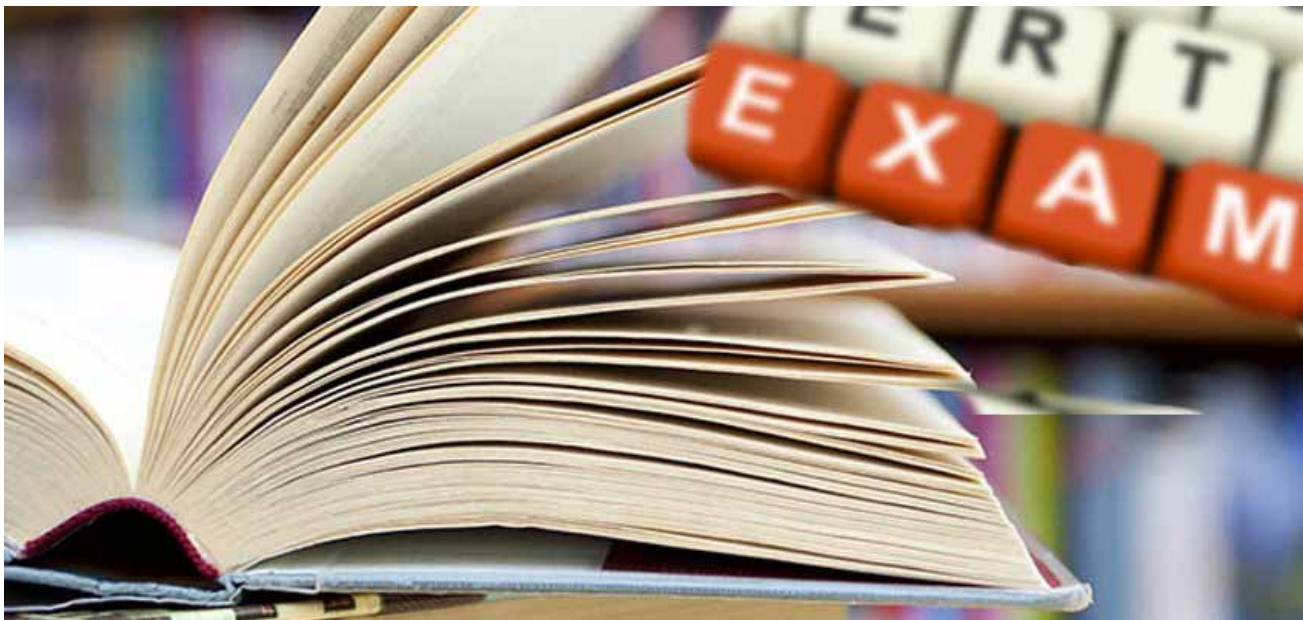
It was required to enlist seven different tasks, which should cover by IS auditor in auditing system development, acquisition and maintenance project of IT Data centre. Majority of the examinees failed to understand the requirement as they focused on audit approach and audit methodology instead of writing the techniques like snapshots, mapping, test data, parallel operations transaction selection programs, parallel simulations and extended records.

(b) Encryption:

Examinees were required to differentiate between 'symmetric' and 'asymmetric' encryption techniques and the key elements of encryption system to ensure data security. In this part majority of the examinees correctly differentiated between symmetric and Asymmetric encryption. Most of them were unable to provide key elements of encryption system like key encryption algorithm, encryption key and key length.

(c) E-commerce Audit and Control Issues (Best Practices):

It is require to briefly discuss best practices of e-commerce audit and control issues in order to minimize e-commerce risks and secure e-commerce business interest of all stakeholders. Overall satisfactory performance was observed as examinees correctly wrote about ecommerce audit procedures to check security while reviewing firewall access policies, encryption techniques, digital certificates, applications logs, IDS/ IPS implementations.



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