PIPFA JOURNAL

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Celebrating 20th Year of Excellence
PIPFA

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Pakistan Institute of Public Finance Accountants

greets you

HAPPY NEW YEAR

May each day of the New Year be full of fun, merriment, festivity, and happiness. Let no dark cloud mar your happy spirit.

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- Exemptions in examination of ICAP, ICMAP, CIMA-UK, ACCA etc.
- Professional activities like election of representatives etc.
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- Dealing also with Federal Broad of Revenue (FBR), Pakistan to allow PIPFA members for Tax Practicing.

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President Message

It is great honor and privilege for me being President PIPFA to present the Institute's Journal Volume 8. Our Vision is to develop the human resource of public and private sectors in the professional regimes of public finance, accounting, auditing and financial management. Professionally equipped and skilled manpower is the key to professional capacity and success of any organization. Unless and until the working force has reasonable knowledge of core professional concepts, ideas and techniques, they cannot perform their duties towards attainment of organizational objectives.

In the present age, financial management, accounting and auditing are the critical tools for effective management, governance and accountability. Furthermore the information technology systems and computer based accounting and auditing techniques are also relevant in the IT age. PIPFA has been making efforts over the last many years to impart knowledge in these areas for the public and private sector employees of a certain level. To keep trainees abreast with modern needs, we have been revising, improving and updating the courses and syllabi so that they get latest concepts and skills.

The above said efforts would not have been successful without active support of Board of Governors, members of the Institute, faculty, and students. The members of the Board of Governors, with their vast knowledge and experience, have been helpful in institutional development and progress of the Institute. I am thankful to all for their support and trust, and urge all to work for further improvement in standards of syllabi, teaching, examination and the overall systems. I hope that all of us would continue to work tirelessly for professional development in the areas of public finance in the years ahead.

Dr. Syed Turab Hyder

Chairman Publication's Committee Message

With tremendous pleasure and great honor, I present volume 8 of PIPFA Journal. This Journal would indeed prove to be a great source of harmonious and enthusiastic interaction amongst PIPFA community comprising its members and students.

The Journal is dedicated to promoting and publishing research on accounting education issues and to improving the quality of accounting education all over Pakistan. The Journal does provide a vehicle for making results of empirical studies available to educators and for exchanging ideas and instructional resources that help improve accounting education. The journal publishes material related to the business topics with its primary mission of seeking to enhance the educational base of accounting practice.

Let me give you my input about oil prices. I think oil prices may get a boost from a brightening global economic outlook. The eurozone economy would recover later in 2013 and there are already signs of stabilisation. China's export and import growth rebounded more strongly than expected in December, suggesting a rebound in economic activity and early signs of an increase in global demand for its goods. The good news are that Saudi Arabia, the top producer of the Organisation of Petroleum Exporting Countries (OPEC), favours an oil price of about $100 a barrel and output from North America would grow rapidly over next two years bringing about ease in cost of doing business.

I have experienced that whistleblowers frequently face reprisal, sometimes at the hands of the organization or group which they have accused, sometimes from related organizations, and sometimes under law. Questions about the legitimacy of whistle blowing, the moral responsibility of whistle blowing, and the appraisal of the institutions of whistle blowing are part of the field of political ethics which must be looked at before going for any decision.

One of the primary roles of the Board Members of an education institution is to foster excellence in teaching, learning, scholarship and research. It is a role that we take very seriously here at PIPFA, and one that determines the nature of the oversight given to the PIPFA programmes and academic activities.

Let me appreciate the meritorious work done by PIPFA Journal Team, members and students to make this publication a success. All comments, views and suggestions would always be welcome to make it more valuable and meaningful and to perform PIPFA functions as per its Mission Statement i.e. "*Identification, development and imparting knowledge to provide a structure for the training of accounting professionals in the specialized areas*".

Jawed Mansha

WHISTLE BLOWING — AN INSIDE BARK

By: Shabbir Ahmed Pasha-APFA

Introduction

We live in a complex world, the evidence is that our world is full of humans. Every day, decisions are made that can affect our health, safety, economic and human rights. Some of these decisions are made for the worst reasons. They are made by the corrupt, the incompetent or the lazy. Accidents happen or corruption flourishes because employees who know about wrongdoing are afraid to say anything in fear of losing their jobs.

The Objectives:

The objective of the paper in your hands is to consider how far we have advanced towards the consciousness of a significant ethos of revelation. The consciousness of a significant ethos of revelation requires an empowering whistleblowing legal framework, meaningful implementation and enforcement within all organisations especially in the Public Sector Entities, bringing up the practices and protections provided in terms of the laws essentially and as well as the social culture which yield respect to the whistleblower.

Before getting in depth in it let us clear in our mind that what actually is Whistle Blowing?

- *US academics – Marcia P. :* Act of disclosure of illegal activities.
- *UK academics –Guy Dehn:* Act of disclosure to reduce and remove risks.
- *Australian academics— Peter Jubb:* Act of disclosure to rectify a wrongdoing.
- *Oxford English Dictionary:* Bringing an activity to a sharp conclusion as if by the blast of a whistle.
- *UK Committee on Standards in Public Life:* Raising a concern about malpractice within an organisation or through an independent structure associated with it.
- *Chambers Dictionary:* Giving information (usually to the authorities) about illegal or underhand practices.
- *US, Brewers Dictionary:* Exposing to the press a malpractice or cover-up in a business or government (origins) Police officer summoning public help to apprehend a criminal; referee stopping play after a foul in football.

Here actually we are talking about an effective system in place that allows ways of disclosure by any person of any information about misconduct, corruption, misuse of powers, misappropriations or illegal activity etc. which may leads towards some sort of protection as well as some kind on incentives to the whistle blower in order to promote accountability.

There are few countries in the world which have adopted Whistle Blowing National Laws a few are as under:

- US - Whistleblower Protection Act
- UK - Public Interest Disclosure Act
- Canada - Public Servants Disclosure Act
- Japan - Whistleblower Disclosure Act
- New Zealand - Protected Disclosures Act
- Romania - Act on the Protection of Whistleblowers

We also have following United Nations International Instrument on Whistle Blowing:

- Convention against corruption in 2003
- Convention against corruption in 2005
- 140 countries have signed for, as of 2011

Whistleblowing is relevant to all organisations and all people, not just those few who are corrupt or criminal. This is because every business and every public body faces the risk of things going wrong or of unknowingly harboring a corrupt individual. Where such a risk arises, usually the first people to realize or suspect the wrongdoing will be those who work in or with the organisation. Yet these people, who are best placed to sound the alarm or blow the whistle, also have most to lose if they do.

"There are obvious tensions, public and private, between the legitimate interest in the confidentiality of the employer's affairs and in the exposure of wrong. The enactment, implementation and application of the "whistleblowing" measures and the need for properly thought out policies in the workplace, have over the last three years, received considerable publicity from various quarters, including the valuable activities of an independent charity, Public Concern at Work, established in 1993 and experienced in providing assistance to both employers and employees."

Lord Justice Mummery - giving the judgment of the Court of Appeal - in its first consideration of the Public Interest Disclosure Act. (ALM Medical Service v Bladon (2002) IRLR 807)

The dilemma

In practical terms, if someone is concerned about corruption or serious wrongdoing in or by an organisation, they have three options. These are

- To stay silent.
- To blow the whistle internally or with the responsible person.
- To blow the whistle outside to the authorities or the media.

Silence

Silence is the option of least risk both for the individual worker and for a responsible firm which comes across corruption. It will be attractive for many reasons. The whistleblower will realise that his or her facts could be mistaken or that there may be an innocent explanation. Where colleagues or competitors are also aware of the suspect conduct but stay silent, the whistleblower will wonder why he or she should speak out. In organisations where labour relations are adversarial and in cultures where corruption is common, the whistleblower is likely to assume that he or she will be expected to prove that the corrupt practice is occurring, rather than see those in authority investigate and deal with the matter. Even though he or she has no control over it, the whistleblower may feel responsibility for any action that may be taken against the wrongdoer. Finally, unless the whistleblower believes there is a good chance that something will be done to address the wrongdoing, it is almost inevitable that he or she will stay silent.

Even if he or she thinks the alarm should be sounded, the whistleblower will want to consider his or her private interests before taking action. Without reassurance to the contrary, the whistleblower will fear reprisals be it harassment or dismissal. The whistleblower may also suspect (rightly or wrongly) that the corruption involves, implicates or is condoned by more senior people in or outside the organisation, in which case he or she will fear the matter will be covered up. Even where these obstacles are overcome or reduced, the whistleblower will fear that he or she will be labelled as disloyal by the generality of colleagues whose respect and trust the whistleblower may want or need in future.

The results of this culture of silence are that:

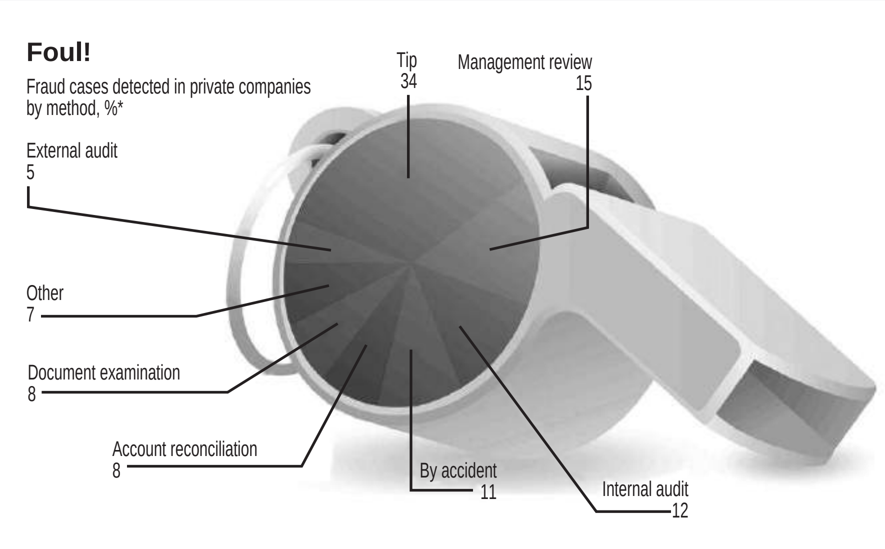
- responsible employers are denied the opportunity to protect their interests;
- unscrupulous competitors, managers or workers are given reason to believe that 'anything goes';
- society focuses more on compensation and punishment than on prevention and deterrence.

Problems in whistleblowing

Whistleblowing always involves two parties with opposing rights and interests; on the one hand there is the whistleblower who has a right to equality, freedom of expression and fair labour practices; and on the other hand there is the organisation against which an allegation is made which has rights to a reputation and to loyalty from staff.

The aims of a whistleblowing culture

The primary aim of a whistleblowing culture is that concerns about corruption and wrongdoing should be properly raised and addressed in the workplace or with the person responsible. Crucially, it sees the whistleblower as a witness, not as a complainant. Where communication channels in organisations are designed for grievances and complaints, that is how they are used by the workforce. In the context of concerns about abuse, it is important to bear in mind that malicious and aggrieved people do already make damaging disclosures when there is not any recognised whistleblowing scheme. Recognising this a whistleblowing culture should be concerned with the silent majority who think it is not in their interests to blow the whistle on corruption or serious wrongdoing. Drawing on the theory of efficient markets (that competitive forces begin to operate once one quarter of consumers will consider switching suppliers), a whistleblowing scheme will help organisations and societies deter corruption and wrongdoing where a significant minority of those who now stay silent can be encouraged to see internal whistleblowing as a viable, safe and accepted option.



The main beneficiaries of a culture which disapproves of, and penalises, people who blow the whistle in good faith are those few corrupt firms and individuals. Knowing that the alarm will not be sounded, they are confident that their wrongdoing (especially if it is corruption or bribery) will go undetected and unpunished. (In any case, when the successful investigation and prosecution of criminal activity outside of the workplace depends overwhelmingly on the information the police receives, it is not clear why the communication of information about wrongdoing in organisations is generally assumed to be undesirable.) Quite apart from people with a predisposed criminal intent, the current culture adversely affects the conduct of the great majority of people. For them the strongest deterrent is the fear of being caught and the shame and embarrassment that goes with it. Where a culture of secrecy and silence exists, otherwise reasonable people may be tempted to engage in malpractice because they believe they will not be caught. Equally if such a culture exists in a society, then otherwise responsible organisations may feel they will be at a competitive disadvantage if they do not also pay bribes or engage in illegal practices.

Blowing the whistle internally

the approach many organisations now take to information from workers is similar to the attitude taken toward consumers thirty years ago (that they were troublesome, untrustworthy complainants). This is a mistake since not only is information from the workforce readily accessible and free to collect, but it enables the organisation to put a potential problem right before it causes any real damage to it, its reputation or its stakeholders. The self-interest of the organisation in whistleblowing is now being recognised and recently a few large firms have begun to use outside advice lines to encourage and reassure staff to raise concerns about wrongdoing. These developments have been given added impetus particularly in the USA - by legal requirements to demonstrate due diligence, where safety, competition, finance and certain criminal laws have been breached.

Organisations are now beginning to realise the importance of providing an alternative to (but not a substitute for) line management, since without it their managers will have a monopolistic control over the information which goes to those higher up. As with any monopoly, one weak link - be it a corrupt, lazy, sick or incompetent person will break the communication chain and stop those in charge receiving information which could be critical to the organisation.

Blowing the whistle outside

If, however, it is not safe and accepted for people to blow the whistle internally, then we need to turn to the options which exist for those people who consider some action is warranted when they come across corruption. Without a safe internal route, the only option is for them to disclose the matter outside - be it to the authorities or more widely. This is an increasingly important matter since the opportunities for such wider disclosure particularly to the media and public interest groups are likely to be increased with new technology. A relevant example to consider in the context of any anti-corruption measure is where a worker or an audit firm discovers, or reasonably believes, that account books or entries may conceal bribes. If they feel unwilling or unable to blow the whistle internally, the only options they will have are to blow the whistle outside, or to stay silent.

Wind of Change

There is growing acceptance to

whistleblowing. With the changing nature of employment, globalisation and the increased flow of information, there is also a recognition that the traditional approach of trust and confidentiality in the workplace cannot be relied upon to operate as it did through much of the 20th century. While trust and confidence is of critical importance in any community or organisation, to be effective it cannot be blind or unquestioning. Whistleblowing cultures which emphasise internal reporting are a means by which the abuse of trust and confidence can be checked and by which asymmetrical accountabilities of those within the workplace can be understood and developed. If the organisation is prepared to promote and implement such a culture, any risk of it being hijacked by petty campaigns will be minimised, if not removed.

Whistleblowing as a means to deter wrongdoing, promote transparency and good governance, underpin self-regulation and maintain public confidence. It is the approach which has been put on a legislative footing in the UK and in South Africa in recent years.

ESSENTIALS

Essential 1 - Create an Anti-Fraud Policy

- Outline an anti-fraud culture
- Outline the need for accountability
- Outline reporting mechanisms
- Outline the owners of the process
- Outline the authority of these owners

Essential 2 - Create Case Management Framework

- Outline incidents criteria
- Outline incidents level
- Outline incident response teams
- Outline investigative process
- Outline evidence retention timeline

Essential 3 - Create a dedicated department

- Legal experience
- Forensics Accounting experience
- IT Forensics experience
- Fraud experience

Essential 4 - Get endorsements from the top

Essential 5 - Get endorsements from Clients

Essential 6 - Awareness, Awareness, Awareness!

- The policy
- Anti-fraud culture
- The department

Essential 7 - Investigate and Take Action

- Investigate incidents reported
- Take action on the incidents reported

Essential 8 - Protect the Whistle Blower

Essential 9 - Reward the Whistle Blower

Essential 10 - Encourage anonymity- Assess and evaluate the system

- Is it working
- Is it yielding the intended results
- Are employees comfortable using it
- Are employees using it

A whistleblowing culture cannot succeed without a strong and clear signal from the very top of the organisation that it is against corruption and is resolved to go about its business lawfully. Such a culture will provide assurances against reprisals for whistleblowing on wrongdoing. These will apply even where the whistleblower is mistaken, provided he or she acted honestly and reasonably. In terms of disclosures, such a culture will direct the worker toward seeking impartial advice (be it from unions, lawyers, professional bodies or a designated ethics service) and/or to blowing the whistle internally or with the person responsible. This will help ensure that even if the whistleblower is mistaken, no unwarranted damage is done to the organisation or to individuals within it. Critically it provides a safe and viable alternative to silence.

To be effective, such a system will also provide that where there is good evidence to support the concern, whistleblowing to a designated authority will be protected. This will greatly encourage the organisation to reassure the whistleblower that the matter can safely be raised internally. One recent example demonstrates the value of such a provision. When an international bank "road-tested" a new global corporate compliance culture ethic, employees in all cultures said that they did not believe the assurances that they would be protected. The bank then introduced new whistleblowing mechanisms and declared they would rather concerns were raised with regulators than left unreported.

Such a clear provision will also encourage managers to be receptive to concerns about corruption and to deal with them properly. As importantly it will reassure those in charge that managers will address the matter properly. It will give a clear indication to the authorities that the organisation is seeking to operate responsibly and this will influence the conduct of any investigation that may prove necessary (whether prompted by a whistleblower or not). It will also enable the authorities to readily distinguish reputable organisations from reckless ones. The practical consequences of this provision will be that an organisation with a whistleblowing culture will be able to demonstrate that it is fit to regulate itself. Furthermore, it will itself be well placed to notify the authorities of any proven wrongdoing a whistleblower has raised with it.

If such a culture is to maintain the confidence of the wider community, any scheme must also address the particular circumstances in which a wider disclosure may be justified. Essentially this should be an option of last resort and, where reasonable, would include a disclosure to the media. An example of such circumstances would be a flagrant cover-up or the failure by the authorities to deal effectively with a serious issue such as the sexual abuse of children in a care home or the payment of bribes to a senior official or politician. One way forward is to introduce a carefully weighted four-step structure:

1. Impartial advice;
2. Internal whistleblowing;
3. Whistleblowing to authorised independent agencies;
4. Wider whistleblowing (where appropriate to the police, victims, shareholders, politicians or the media).

Such a structure should also influence the actions of a malicious person as he or she will for the first time have reason not to go direct to the media. Where he or she does, society will have good reason to expect the media to look into his or her motives and bona fides.

Five Factors to Success

1. Protection
2. Reward
3. Taking Action
4. Showing Action
5. Confidentiality

Let's Agree

- That Fraud is here to stay
- That we need whistleblowers
- That we need whistle blowing system

Recommendations

1. There is a need to develop a consolidated and consistent whistleblowing framework that provides equal protection to all whistleblowers and which imposes the same effective duties on organisations, in both the public and private domains, to promote a culture of disclosure that protects whistleblowers.
2. The law must be made comprehensive in the provision of an expanded scope of protection.
3. It must draw all potential whistleblowersinto its protective field and allow disclosures to any person or agency that is able to do something about the allegation concerned.
4. Organisations may be via Audit Committees must be compelled and/or encouraged to proactively promote a culture of disclosure, adopt more appropriate and expansive interpretations of the whistle blowing related guidelines, and to be more pro-active and attentive to effective implementation of obligations and protections provided by the guidelines at least until it got legislative cover/security.

References

- *WHISTLEBLOWING & INTEGRITY: a new perspective (Guy Dehn, Director, Public Concern at Work)*
- *UK Committee on Standards in Public Life, Second Report, May 1996, page 22.*
- *Asia Week 19/11/99 – commented that Japanese culture deprecates whistleblowing yet seems to condone the resignation or even suicide of top executives when unchecked wrongdoing leads to major disaster.*
- *The Committee of Independent Experts, Second Report, para 7.6.9.*
- *Lord Nolan, who had also chaired the Committee on Standards in Public Life.*
- *See note 9 supra, para 7.6.10. The European Commission's proposals were published in Feb 2000.*
- *See OECD Labour/Management Programme – PAC/AFF/LMP(2000)1. This Paper is a revised version of the discussion paper set out in that report.*

Resolving the complex revenue recognition issues in the development companies and construction of real estate

By: Dev Anand - APFA

Background

A real estate development company is the company which facilitates by providing a platform and basic infrastructure facilities to other companies in construction.

The basic problem arises whether the developer is selling a product e.g. sale of factory or building or is selling a service i.e. a construction service as a contractor engaged by the buyer. Revenue from selling products is normally recognized at delivery. Revenue from selling services is normally recognized on a percentage of completion basis as construction progresses.

IFRIC 15 'Agreements for the Construction of Real Estate' is an Interpretation defined for guidance on the accounting for the construction of real estate, and specifically where the contractor generates revenue from the construction project prior to the completion date.

Accounting treatment for the construction of real estate depends upon the substance of the agreement. IFRIC 15 defines the accounting for revenue for development companies that undertake construction of real estate directly or through subcontractors, IFRIC 15 requires components accounting.

IFRIC 15 mainly distinguishes two areas which have given rise to divergence in practice:

(i) whether, the transaction is a sale of goods or a provision of a service, and

(ii) timing of the revenue recognition where the transaction is considered to be a sale of goods.

Construction contracts are under the scope of IAS 11 'Construction Contracts'. Construction contract can be defined as the work done on a specifically negotiated contract for the construction of an asset or combination of assets. In accordance with IAS 11, revenue arising from construction is recognized based on the percentage of completion method.

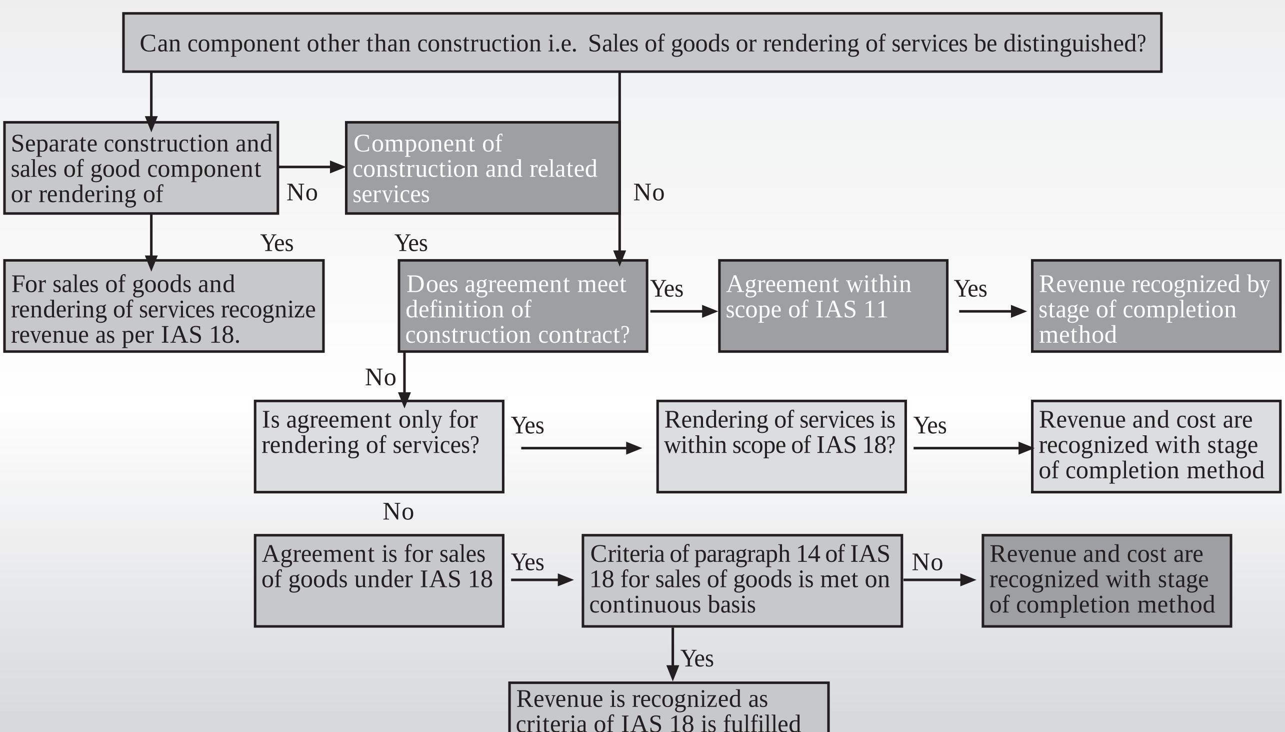
On contrary the sale of a good or the rendering of a service do not within the scope of IAS 11 and are accounted within the scope of IAS 18 'Revenue'. Sale of goods may be treated as the converse to a construction service, i.e. the sale of non-tailored asset; but ultimately is all contracts that do not fall within the scope of IAS 11.

Accounting treatment of revenue recognition is dependent upon the nature of the sale agreement:

- If the development company provides construction materials along with services in order to perform its contractual obligation, the said agreement is an agreement for the sale of goods and revenue is recognized in accordance with paragraph 14 of IAS 18 which elaborates five criteria for the revenue recognition for sales of goods. In simple words, revenue is recognized when risk and rewards are transferred to the buyer without any further involvement of seller.
- If developing company does not supply construction materials, i.e. the agreement for the rendering of services. Revenue would be recognized in accordance with IAS 18 paragraph 20, using the stage of completion method.

Separation point-construction, goods or services, and when to recognize income

IFRIC 15 states that where the buyer is able to specify the major structural elements of the design of the real estate before



construction begins and/or specify major structural changes once construction is in progress, then the contract would be considered to be specifically negotiated, and would hence fall within the scope of IAS 11. However, any minor improvements are not considered to be treated under IAS 11. For example: minor change in location of parking area.

A detailed example

ABC Ltd. is a development company. Total development price is Rs. 1 billion (Rs. 600 million for materials and Rs. 400 million for services) exclusive of land price which is Rs. 10 million for each unit. Maintenance service of Rs. 1 million each unit is provided.

Scenario 1:

ABC Ltd. sells land for the construction of industry comprising of many factories. Sale is simply sales of goods under paragraph 14 of IAS 18. Thus revenue of Rs. 10 million / unit is recognized for every unit sold.

Scenario 2:

If ABC Ltd not only sale the land but also provides maintenance services to the industry. In this case two different types of sales component are involved i.e. the sale of land and rendering of maintenance services.

- Sale of the land would be recognized under IAS 18, as the land would be transferred at one time. Hence, the revenue would be recognized at the time of transfer of the land. Revenue is recognized as in scenario 1.
- The rendering of maintenance services would be recognized under paragraph 20 of IAS 18. Thus recognition of Rs. 1 million/unit after fulfilling four conditions in paragraph 20.

Scenario 3:

ABC Ltd sells land along with the infrastructure development (road, electricity, water, gas etc.) to the industry as well as maintenance services. Here are three different sales components i.e. the sale of land, rendering of maintenance services and the sale of the infrastructure development.

- The sale of the land would be recognized under IAS 18, as the land would be transferred at time. Hence, the revenue would be recognized at the time of transfer of the land. Revenue is recognized as in scenario 1.
- Rendering of maintenance services would be recognized under paragraph 20 of IAS 18. Thus recognition of Rs. 1 million/unit after fulfilling four conditions in paragraph 20.
- The sale of the infrastructure development. Here IFRIC 15, clearly distinguish whether the agreement is under IAS 11 or under IAS 18 and if under IAS 18 whether it is sale of goods or rendering of services.

If the buyer is able (does not matter if buyer exercise or not the ability) to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress, then the contract would be considered to be specifically negotiated, and would hence fall within the scope of IAS 11. Here buyer usually engages the company for construction. For example, buyer asks for the separate wide-road facility along with power from alternative energy source for his factory, which is not readily included in the master plan for the construction of industry infrastructure for all the factories. Thus Revenue of Rs. 1 billion will be recognized as per stage of completion method under IAS 11 with progress of development.

In absence of such ability where buyer is not able to specify major structural changes at his own will the contract will fall under the scope of IAS 18.

Under IAS 18, there are again two options:

1. Whether this is falls under sale of goods, or
2. Under the sale of service.

If developing company provides infrastructure material along with the development services for developing industrial structure, the scope is under the sales of goods and revenue will be recognized as per paragraph 14 of IAS 18. For example, developing company provides concrete, steel, coal tar and all other materials necessary for construction of main road and access roads to all the factories spotted locations. Thus revenue of Rs. 1 billion should be recognized to the extent of each completed unit sold.

In any other case of selling of services, revenue is recognized as per paragraph 20 of IAS 18. Stage of completion method is used to record the service revenue over the period of time. For example 20 % of stage is completed thus revenue should be recognized to extent of Rs. 80 million (400 million X 20%).

However, for practical purpose, when services are performed by an indeterminate number of acts over as specified period of time, revenue is recognized on a straight line basis over the specified period unless there is evidence that some other method better represents stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until that significant act is executed. For example, terms of payment receipt from buyer are: 1st installment at signing of application, 2nd installment on transfer of land possession and provided with infrastructure facility to the buyer who can construct his factory and final installment at complete construction of factory buildings by respective buyer. Thus revenue can be postpone till the 2nd installment which is a significant act (when risk and rewards are transferred and seller does not have managerial involvement). Assuming stage completion is 50% thus revenue of Rs. 200 million (400 million X 50%) will be recognized starting at 2nd installment time and remaining over final payment time using stage of completion method.

Implications of IFRIC 15

IFRIC 15 was developed in order to facilitate the development companies as well as real estate companies that otherwise have recognized their income either in accordance with the wrong accounting standard, or have recognized too much in advance.

This Interpretation allows companies to review all active contracts to determine:

(a) Whether it meets the recognition criteria in IAS 11, or if the contract would now falls within the scope of IAS 18,

(b) at what point risks and rewards are transferred to the buyer, and

(c) if any of the components of the contract are delivered after the others, which may result in an element of revenue being deferred.

Conclusion

In order to resolve the complex environment of development companies and real estate companies for revenue recognition, IFIRC 15 is designed. IFRIC 15 allows not only to ensure that accrual concept of accounting is followed but also considers substance over form concept, this interpretation properly guides a user to recognize revenue at what stage and to what extent either under IAS 11 or IAS 18.

Sky Rocketing Oil Prices—a 'Stealth Threat' to Shipping Industry

By: Shenila Shallwani - APFA

The extraordinary rise in oil prices has an indelible impact on many industries. Being an activity that depends greatly on oil, shipping has not escaped this development.

Shipping is a crucial facilitator of much of the world's trade; hence, the rising cost of shipping as a result of the rise in oil prices is naturally a matter of great concern to the industry and beyond.

Shipping companies are decidedly edgy to market trends, particularly rising crude prices point to a more challenging year in 2012. Overcapacity across all shipping segments has put pressure on freight rates, with this being further compounded by the relentless rise in bunker prices since the beginning of 2011.

The Economist Rubin & Benjamin, argued that “the cost of moving goods, not the cost of tariffs, is the largest barrier to global trade today”

Shipping companies are facing volatile situation with regards to the high bunker fuel costs, lower demand for shipping services, depressed freight rates as well as more seriously, declining asset values of ships,”

The bunker fuel prices have risen steadily from a range around US$500 per MT in late 2010 to early 2011 to above US$700 per MT and are now hovering around US$600 per MT in 2012. Bunker prices are not expected to ease well into middle of next year and higher bunker prices would eat into any improvements in freight earnings.

“Shipping companies are being backed into a corner by rising input costs and falling freight rates,” moving even larger shipping companies towards operating losses”

The spike in bunker prices has “drastically eroded” the already slim profits experienced by shipping companies, which were already saddled with the rise of other costs. They are already paying more for vessel purchase, for onboard equipment, and for repair & maintenance of their fleet. All these add pressure to the operating costs of shipping companies.

Such is the dependency of the business world on oil, that the hike in its price triggers an all-round increase in prices of many goods, materials and services.

Fuel cost represents as much as 60% of total ship operating cost. Such an increase cannot be taken lightly. Adding more vessels, steaming or sailing at lower speed, reconfiguring their routes and focusing on fuel-saving measures via incorporating technology, increasing the maintenance of their ships and increasing surcharge and bunker adjustment factor (BAF) are such solutions that shipping companies are now using to cope with the raise in bunker fuel prices to save their costs.

How carriers seek to obtain recovery of these rapidly rising fuel costs in the current market is a matter for commercial negotiations, but the significance, magnitude and the consequences of the challenge continue to grow.

The slow steaming approach adopted by shipping lines to reduce bunker consumption is good news for environmentalists as lower average speed of vessels reduces emissions by the shipping sector. High oil prices on the other hand may even provide greater impetus for greater technological Improvements of ship performance and encourage the use of alternative energy such as gas and biofuels.

The World Shipping Council has fully supported the efforts of the U.S. and other governments to establish new environmental standards for vessel air emissions, and supports the new standards that the International Maritime Organization has recently agreed for new engine standards and new fuel standards. However, the cost of low sulfur fuels to be used in Emission Control Areas will roughly double the cost of bunker fuel, thus creating even more upward operating cost pressures going forward.

It is important to recognize that ocean shipping is the most energy efficient form of freight transportation. Recent estimate shows that moving goods by ocean container can be 17 times more fuel efficient than transporting the same goods by air and 10 times more efficient than transporting the goods by road. However, increase in International fuel prices is affecting the current variable service cost of shipping industry.

So even if we go pass this cyclical problem with the recovery of the global economy, there is limited chance of the freight rates moving up because of the overhang in the supply of shipping capacity. “This can be very structurally damaging for the shipping industry because several shipping lines are already trying to keep their heads above waters and counting on the upturn in the freight market, which may be elusive, given the current situation,”

Surviving under the current situation is going to prove very difficult to many shipping lines and it is important that the Government takes some initiatives to introduce some supportive measures to help the industry. “Given the fact that shipping is the lifeline of our trade dependent economy, it is important to address the concerns of the industry to ensure that growth of trade is not jeopardized,”

Role of the Forensic Accountant/Auditor (FA) in the prevention and detection of business fraud

By: Majid Latif Bhatti, PIPFA Student

Forensic refers to something pertaining to or used in a court of law. However, in practice, forensic typically refers to the method of obtaining evidence related to any investigation, not just a crime or legal matter. In the latter context, the forensic financial expert investigates and analyzes financial evidence with the goal to provide expert testimony on financial damages for parties in litigation. The definition of forensic accounting is changing in response to the growing needs of corporations. Bologna and Lindquist (in Fraud Auditing and Forensic Accounting, 1995) defined forensic accounting as "the application of financial skills, and an investigative mentality to unresolved issues, conducted within the context of rules of evidence.

As a discipline, it encompasses financial expertise, fraud knowledge and a sound knowledge and understanding of business reality and the working of the legal system." This implies that the forensic accountant should be skilled not only in financial accounting, but also in internal control systems, the law, other institutional requirements, investigative proficiency, and interpersonal skills.

Corporations can rely on these skills for developing a consistent system of corporate governance, disseminating such information within and outside the company, ensuring that governance policies and objectives are interwoven into the internal control system, setting up fraud prevention systems, and investigating any existing fraud.

The role of the forensic accountant has expanded significantly during the last several years for many reasons, including the requirement for greater scrutiny on corporate governance brought about by the Sarbanes-Oxley legislation and the widespread recognition of the risks and prevalence of financial fraud in today's business environment.

As a result, forensic financial specialists are usually retained to support special investigations related to a broad range of subjects. This can include the financial impact of marketplace events, such as intellectual property infringement and anti-trust actions, financial reporting fraud, asset impairment and business valuation.

These investigations occur in contexts such as civil litigation, alternative dispute resolution, insurance claim adjustment, internal fraud investigation, securities class action and internal corporate investigations. The questions posed to the forensic financial expert are increasingly more complex, requiring skill sets beyond a typical understanding of financial records and Generally Accepted Accounting Principles (GAAP).

Knowledge of forensic accounting is only part of the equation. More often, a team of forensic financial specialists with a variety of skill sets is needed to address the many challenges posed by a case. For example, the logistics of finding data in numerous locations such as tape drives, personal computers and BlackBerry wireless devices require forensic technology specialists who are familiar with electronic data systems and who can identify and ferret through electronic storage devices to find case critical documents.

An allegation of market manipulation often requires an understanding of economics, finance and how financial investment firms operate to fully document issues of causation and actual loss sustained. Permanent impairment of a company's value due to an alleged act will necessitate the use of accepted valuation skills.

This complexity has created a need for a multidisciplinary profession of "Financial Forensic Experts" who are proficient in accounting, finance, economics, computer technology, statistics, valuation and legal processes. Specific industry expertise is also an important element in the equation, making this team a group of highly-specialized experts indeed.

The investigative forensic team rarely has access to all of the relevant information related to a case. Therefore the ability of the team to respond with absolute certainty is not always possible. Manipulation of records, destruction of evidence, time limitations on completing the investigation and restrictions imposed by the litigation investigative process by the parties involved are some of the reasons that certain data cannot be found. With this in mind, the forensic team must utilize a number of skills and techniques to reconstruct or uncover the facts.

As many damage calculations require construction of a theoretic reality "but for the event," the team must also be adept at working through the facts and a hypothetical situation as if no damage event occurred. The complexity of the financial issues posed in litigation and forensic investigations requires a very broad, multidisciplinary approach to the investigative and damage calculation phases of the legal process.

The new professional field of financial forensics and the variety of experts that fill this bill provide corporations and attorneys with the tools required to respond to complex litigation and dispute resolution.

Types of fraudulent acts

Fraud can be committed through many media, including mail, wire, phone, and the Internet (computer crime and Internet fraud). The international dimensions of the web and ease with which users can hide their location, the difficulty of checking identity and legitimacy online, and the simplicity with which hackers can divert browsers to dishonest sites and steal credit card details have all contributed to the very rapid growth of Internet fraud.

Types of criminal fraud include:

- Advance-fee fraud
- Bait and switch
- Bank fraud to obtain money, assets, or other property owned or

  Held by a financial institution
- Bankruptcy fraud
- Benefit fraud, committing fraud to get government benefits
- Counterfeiting of currency, documents or valuable goods
- Charlatanism
- Confidence tricks such as the 419 fraud and Spanish Prisoner
- Creation of false companies or "long firms"
- Embezzlement, taking money which one has been entrusted

with on behalf of another party

- False advertising

- False billing
- False insurance claims
- Forgery of documents or signatures,
- Franchise fraud where the real profit is earned, not by the sale of the product, but by the sale of new franchise licenses.
- Fraud upon the court
- Health fraud, for example selling of products known not to be effective, such as quack medicines,
- Identity theft
- Impersonation
- Impostery
- Insurance fraud
- Investment frauds, such as Ponzi schemes and Pyramid schemes
- Marriage fraud to obtain immigration rights without entitlement
- Moving scam
- Religious fraud
- Rigged gambling games such as the shell game
- Securities frauds such as pump and dump
- Tax fraud, not reporting revenue or illegally avoiding taxes. In some countries, tax fraud is also prosecuted under false billing or tax forgery

Intrinsic fraud is an intentionally false representation that goes to the heart of what a given lawsuit is about, in other words, whether fraud was used to procure the transaction. (If the transaction was fraudulent, it probably does not have the legal status of a contract).

Intrinsic fraud is distinguished from extrinsic fraud which is a deceptive means of keeping a person from discovering and/or enforcing legal rights. It is possible to have either intrinsic or extrinsic frauds, or both.

During a trial, perjury, forgery, and bribery of a witness constitute frauds that might have been relieved by the court. Such actions will usually lead to a mistrial being declared and after any penalties for the involved parties a new trial will take place on the same matter.

Two types of intrinsic fraud in contract law are fraud in the inducement and fraud in the factum.

Fraud in the factum is a legal defense, and occurs where A signs a contract, but either does not realize that it is a contract or does not understand the nature of the contract, because of some false information that B gave to A. For example, if John tells his mother that he is taking a college course on handwriting analysis, and for his homework, he needs her to read and sign a pretend deed. If Mom signs the deed believing what he told her, and John tries to enforce the deed, Mom can plead "fraud in the factum."

Fraud in the inducement is an equitable defense, and occurs when A signs a contract, knowing that it is a contract and (at least having a rough idea) what the contract is about, but the reason A signed the contract was because of some false information that B gave to A. For example, if John tells his mother to sign a deed giving him her property, Mom refuses at first, then John explains that the deed will be kept in a safe deposit box until she dies. If Mom signs the deed because of this statement from John, and John tries to enforce the deed prior to Mom's death, Mom can plead "fraud in the inducement."

Forensic accountants utilize an understanding of economic theories, business information, financial reporting systems, accounting and auditing standards and procedures, data management & electronic discovery, evidence gathering and investigative techniques, and litigation processes and procedures to perform their work. Forensic accountants are also increasingly playing more proactive risk reduction roles by designing and performing extended procedures as part of the statutory audit, acting as advisers to audit committees, fraud deterrence engagements, and assisting in investment analyst research.

In criminal law, a fraud is an intentional deception made for personal gain or to damage another individual; the related adjective is fraudulent. The specific legal definition varies by legal jurisdiction. Fraud is a crime, and also a civil law violation. Defrauding people or entities of money or valuables is a common purpose of fraud, but there have also been fraudulent "discoveries", e.g., in science, to gain prestige rather than immediate monetary gain.

Forensic Accountant (FA) may work in collaboration with a legal team, with investigators from the police department, or with other law enforcement professionals.

Forensic Accounting in Other Criminal Cases While forensic accounting skills are most relevant to finance-based cases, a Forensic Accountant's (FA) knowledge is sometimes used in investigation of other crimes. For example, when it is necessary to prove a suspect's involvement by following the trail of a payment for an illegal act, a Forensic Accountant (FA) may take the lead on that aspect of the case.

In rarer situations, a Forensic Accountant (FA) may be asked to help determine whether or not a suspect is under financial pressure, which can be part of a legal strategy when showing adequate motivation for a crime. In these kinds of cases, a Forensic Accountant (FA) may be called as an expert witness to interpret and explain data before a jury. Forensic Accounting at a Federal Level Forensic Accountants (FAs) working for the federal government may be tasked with even greater responsibility, and more complex projects, than those serving in other private or public arenas.

According to spokespeople at the Federal Investigation Agency (FIA), Forensic Accounting is a key part of the FIA's strategy in cases as diverse as criminal matters, counterterrorism, and even foreign counterintelligence investigations. Forensic Accounting in the Private Sector Forensic Accountants (FAs) are also employed by businesses that are seeking to identify and prevent fraud within their own companies, or with business partners.

A Forensic Accountant (FA) may be employed by a corporation that wishes to prove it has clean practices to its stockholders, or may be asked to investigate a potential partner before a merger or acquisition takes place. Forensic Accounting encompasses the process of auditing to recognize and investigate financial fraud occurring in an organization.

There is a growing need among law enforcement professionals, small business owners, and department managers to better understand basic forensic accounting principles, how different types of fraud occur, and how to investigate a fraud that is detected in a way that maximizes the chances of successful prosecution of the perpetrator.

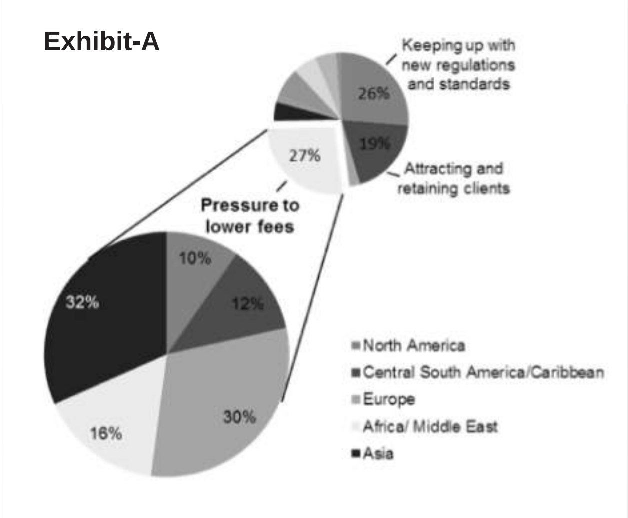
Executives, managers, criminal investigators, and prosecuting attorneys all require a basic understanding of accounting principles and investigative techniques to protect organizations from fraud. Forensic Accounting and Fraud Investigation for Non-Experts break down this knowledge, which is invaluable for better insight into where an organization is most susceptible to fraud as well as to a more productive investigation process when fraud is suspected.

How to Cope with Pressure to Lower Fees

Practice Management Tips for SMPs

Introduction

As the global economy continues to struggle to gain momentum, accountancy practices are finding that pressure to lower their fees for their professional services continues to present a significant challenge. That is one of the key messages coming out of the May-June 2012 edition of the IFAC SMP Quick Poll, which attracted 3,678 respondents from around the world. Asked to name the biggest challenge their small- and medium-sized practice (SMP) is facing right now, the largest number (27%)-especially those from Europe and Asia-cited pressure to lower fees. This was followed closely by keeping up with new regulations and standards (26%). See also Exhibit A for the complete data.



While fee pressure is nothing new-the profession has always faced various degrees of fee pressure, in certain areas more than others-the ongoing economic malaise has likely contributed to increased concerns about fee pressure among many SMPs. Many clients are faced with subdued demand for their products and services (tied for 3rd biggest challenge faced by SME clients in poll). They are continuing to look for ways to reduce costs, so it's not surprising to find SMPs facing demands to negotiate fees or cut prices while also maintaining the quality of services that SMPs are known for. For various reasons, this heightened fee pressure threatens to become the new norm-lasting long after the global economy has recovered. First, clients may be determined to keep their bills down and may feel that all professional services, including legal and accounting, may not warrant the fees paid before the economic downturn. Second, globalization and the benefits of lowered costs from outsourcing to cheaper offshore contractors may prompt clients to demand a share in the cost savings. Third, technological advances mean software can perform some tasks long the preserve of trained human judgment, again leading some clients to expect to share in corresponding cost reductions. Regardless of whether downward pressure on fees is a temporary phenomenon or more permanent, the following tips should help SMPs to react to this pressure while preserving the quality of professional services rendered. Indeed, maintaining the quality of services provided in the face of ongoing fee pressure is essential not only to the reputation of individual SMPs, but in the long run, to the reputation of the entire accountancy profession.

Some Tips for Coping with Fee Pressure

1. Adopt New Approaches to Pricing-For some service offerings, like business advisory, the hourly billing model may place a strain on the practice and value pricing-which sets prices primarily, but not exclusively, on the value, perceived or estimated, to the customer rather than on the cost of the service or historical prices-may be part of the solution to alleviating fee pressure. Special prices could be offered as an incentive for clients to order a wider range of advisory services. Persistent and widespread under-pricing, however, will impair the perceived value of the service over time, so such practices should be avoided. Packaging services, sometimes more desirable services together with essential but less desirable ones, can also be a useful way of getting clients to focus on the concept of comprehensive service provision rather than on hourly charge-out rates.
2. Stress to Clients the Value of Services Offered-SMPs should regularly and often communicate the value of their services to their clients so that they appreciate the benefits of the services they receive. Articulating this value to clients may help mitigate fee pressure. The ability to communicate value is an important part of value pricing.
3. Focus Efforts on Most Valuable Clients-SMPs should evaluate which clients are the most valuable by ranking them and then focusing their efforts on serving these clients. For non-audit services like business advisory, tax, and accounting, practices might wish to implement different service levels (basic, premium, etc.) to suit different categories of clients and price accordingly. This technique, referred to as yield management, is widely used in the airline industry to price seats. Ensuring a proper amount of capacity is allocated to various client segments, while offering a differentiating value proposition within each segment, is an essential element of implementing value pricing strategies. In some cases, it may pay to move away from less profitable clients.
4. Leverage Technology to Improve Processes and Lower Costs-SMPs can implement process improvements to maintain profitability in the face of stagnant or declining fees by maximizing the use of technology. For example, cloud computing

solutions offer the possibility of delivering the same services like payroll and bookkeeping for less cost. And, simple choices like using email instead of regular postal services, and SkypeTM instead of telephone or in-person meetings can also help lower costs. Practices may be in a position to pass on a portion of the cost savings associated with IT efficiencies, which will likely be well received by clients.

5. Re-examine the Practice's Service Offerings-SMPs should consider whether they can add value (and hence fees) with additional services for little extra cost or provide the same for less cost. Specializing in niche markets or services might be worth pursuing to set the practice apart in the marketplace. For others, providing a broad range of advisory services and offering value pricing (see above) may prove profitable.

6. Find Cheaper Sources of Supply-many suppliers, for anything from Internet service to computer hardware, may offer benefits to new clients that warrant switching providers. Competitive pricing and choice in suppliers may have improved considerably since the practice chose its suppliers, and therefore, warrant a fresh review.

7. Tackle Overheads-SMPs should seek to minimize waste and make the most efficient use of resources, both human and environmental, including workspace, energy, and consumables. For example, practices should consider optimizing the utilization of expensive office space and energy by encouraging staff to perform much of their work at the client's premises or at home and to pre-book a desk space when in the office. Similarly, practices should seek the most efficient use of staff through improved distribution of workloads, ensuring adequate planning and supervision of engagements, and delegating work to the appropriate levels. Flexible working hours may enable the practice to avoid staff redundancies, which can erode morale and may make it difficult to recruit new staff as and when conditions improve. Shifting more routine work onto more junior staff can help cut costs, but, without adequate guidance, could also diminish the quality of the end result, which in turn, may impair the practice's brand. Therefore, staff assignments need to be managed carefully.

IFAC Resources:

- *Guide to Practice Management for Small- and Medium-Sized Practices* Second Edition (especially Module 3; the 3rd Edition [December 2012] will include enhanced content on pricing)
- Links to free *practice management resources and tools* (especially Module 3)
- *Business Advisory Video Series*, featuring tips from SMP Committee members

Article written by Giancarlo Attolini, Chair, IFAC SMP Committee (see bio) and Paul Thompson, Deputy Director, SME and SMP Affairs, IFAC

Exhibit A

What is the biggest challenge your practice is facing?	North America %	Central South America/ Caribbean %	Europe %	Africa/ Middle East (%)	Asia (%)
Keeping up with new regulations & standards	44	25	25	23	23
Attracting and retaining clients	9	19	20	33	17
Ability to adapt to changing client needs	1	4	3	2	2
Pressure to lower fees	10	12	31	17	32
Rising costs	5	5	4	5	5
Succession planning	6	4	1	3	1
Work-life balance	14	12	8	5	4
Attracting and retaining staff	8	11	3	6	7
Competition	2	5	4	5	7
Keeping up with new technology	1	3	1	1	1

Boldface indicates highest percentage per region.

Human Resource Accounting

By: Muhammad Faisal - APFA

Definition:

Human resource accounting is the process of identifying, measuring and communicating information about human resources which treats people as machines with a monetary value attached to them. According to Flamholtz the definition of HRA is “the measurement and reporting of the cost and value of people in organizational resources”.

Importance:

Adam Smith, in his renowned book "Wealth of Nation", classified the factors of production into Land, Labor, and Capital on the other hand the modern management reclassified them as Men, Material, Machinery and Money. The terms 'Labor' and 'Men' have now been termed as 'Human Resource'.

The competitive position of any organization largely depends upon its assets while human being is the most important asset among them. Managers often say that people are their most important asset. Especially in case of IT firms, academic institutions, consulting firms etc., the total worth of the organization depends mainly on the skills of its employees. Without introduction of human being no production is possible, that's why today the importance of human resources as well as development of human resources have been well recognized. Demand of professionally qualified persons has now been increasing worldwide even production workers are required to be skilled not only on the base of experience of years but also knowledge about technical side of production including know how to work with modern and more sophisticated computer based machinery. Moreover, a person has to know how he can save time and wastage of material in addition to be more productive.

Non-Disclosure in the Balance Sheet:

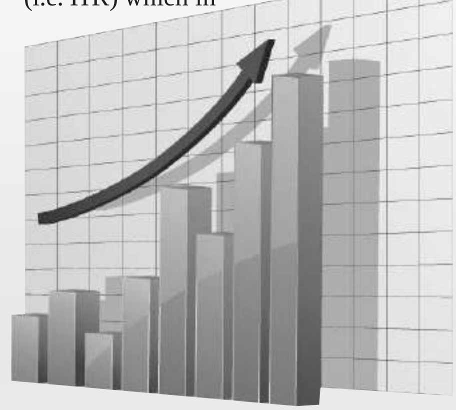
Instead of so much importance of human resources it is also fact that a balance sheet which is supposed to disclose all the assets of the enterprise completely missing this asset. Human asset is virtually never shown on the face of balance sheet as a distinct category. It seems that economic value of human resources is recognized but off the accounting books. So how an auditor can claims in his report that the balance sheet shows a true and fair view of the business on a specific date. The situation gets more awkward when we see that profit and loss statement accounted for all human resources related costs. The cost of HR encompasses cost of recruiting, selection, contracting, placing, training, orientation, promotion, improvement, substitution, exit rewards, facilities, health, safety, pensions, contributions to social security, retirement, redundancy and dismissal.

Valuation Problem:

The biggest challenge in HRA is that of assigning monetary values to the worth of employees which may be equally acceptable to all in turn which may be disclosed in the balance sheet. In this regard we can go to the methods developed to appraise performance of individuals. Among number of these methods no one can suggest which method free of major limitations. Because if we assign a value to an employee then it will be based on personal judgment (which may be different among different appraisers even one appraiser may also decide slightly different during different times regarding same person) on the other hand an effective human resources as a team create a synergy effect i.e. 2+2>4. So researchers are facing a considerable issue to develop a framework model to be used to quantify human qualities into monetary terms which is based on systematic standardized parameters. Furthermore, this asset cannot be sold therefore there is no independent check of valuation.

Relevant International Accounting Standard (IAS):

IAS 38 deals with the accounting treatment of Intangible Assets, however, states that a resource will be qualified as an asset only after meeting two conditions one of which is control of the entity over the resource, in turn the control may be assumed if entity can legally enforce others not to benefit from the resource (i.e. HR) which in the use of the entity, similarly an entity has insufficient control due to the absence of any legal or contractual right over the expected future economic benefits arising from customer relationship or customer loyalty. In this way International Accounting Standards Board does not allow an accountant to recognize and disclose HR as an intangible asset in the balance sheet of the entity. Therefore, The Companies Ordinance does not require so, however, some companies in order to maintain good practice disclose HRA or some aspects of HRA in the annual report.



References:

- *http://en.wikipedia.org/wiki/Human resource accounting*
- *International Accounting Standard 38*

News Update

IFAC News

Proposal for amendments to IFRS 9

The International Accounting Standards Board (IASB) has released Exposure Draft ED/2012/4 'Classification and Measurement: Limited Amendments to IFRS 9 (proposed amendments to IFRS 9 (2010))'. The proposed new fair value through other comprehensive income (OCI) measurement category would include certain financial assets when two conditions are met:

- the contractual cash flows of the assets are solely payments of principal and interest and
- the assets are used in a business model which is neither to exclusively hold nor sell.

In addition, a newly introduced paragraph clarifies that gains or losses on a financial asset in the new measurement category would be recognised in other comprehensive income, with the exception of impairment losses and foreign exchange gains and losses. Upon disposal, any gain or loss previously recognised in OCI would be recycled to profit or loss for the period. The comments on the exposure draft are requested by March 28, 2013.

Statements of Membership Obligations (Revised)

IFAC completed its revision of the Statements of Membership Obligations (SMOs). The result is a clarified set of SMOs-seven benchmarks that are globally recognized as a framework for strong, credible, and high-quality professional accountancy organizations (PAOs). The revised SMOs, which are the basis of the IFAC Member Body Compliance Program, are designed to assist PAOs in leading the way to serve the public interest by supporting adoption and implementation of international standards and maintaining quality assurance review systems and investigation and discipline mechanisms.

With the exception of SMO 1, the effective date for the revised SMOs is January 1, 2013. SMO 1 has an extended effective date, January 1, 2014, to provide member bodies or responsible authorities sufficient time to implement the revised requirements.

To explain all the revisions to the SMOs, IFAC Member Body Development staff has also published a guidance document, A Comparison Guide to the 2012 SMO Revisions, to explain the revisions and assist member organizations and their technical staff to identify changes and understand and address them.

IPSASB Publishes Public Sector Conceptual Framework Exposure Drafts

The International Public Sector Accounting Standards Board (IPSASB) has released for comment two Exposure Drafts related to its project to develop a Conceptual Framework for the general purpose financial reporting of public sector entities.

Conceptual Framework Exposure Draft (ED) 2, Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements, refines the issues highlighted in the Consultation Paper published in 2010 and reflects the IPSASB's consideration of the responses to that Consultation Paper.

Conceptual Framework Exposure Draft (ED) 3, Measurement of Assets and Liabilities in Financial Statements, identifies the measurement concepts that should guide the IPSASB in the selection of measurement bases for International Public Sector Accounting Standards. Comments on the Exposure Drafts are requested by April 30, 2013.

IFAC Issues New Report for Professional Accountants in Business

The Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) has issued 'Integrating Governance for Sustainable Success', which uses case studies to analyze how professional accountants in business support the performance of their organizations by integrating governance into the key drivers of sustainable organizational success. The report addresses how professional accountants support their rganizations to build good governance into the entire cycle of strategic planning, resource utilization, value creation, accountability, and assurance. Such a holistic approach ensures that governance is integrated into all aspects of an organization.

Draft Educational Material for Measuring Fair Value of Unquoted Equity Instruments

As part of the IFRS Foundation Education Initiative, the IFRS Foundation staff is developing educational material to support IFRS 13 Fair Value Measurement. The material will cover the application of the principles in IFRS 13 across a number of topics. These topics will be published in individual chapters as they are completed. Draft of the first chapter of this educational material titled 'Measuring the fair value of unquoted equity instruments within the scope of IFRS 9 Financial Instruments' is available at:

http://www.ifrs.org/Alerts/ProjectUpdate/Pages/Educational-material-FVM-Unquoted-equityinstruments.aspx

IASB Issues Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

The International Accounting Standards Board (IASB) has issued Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). The amendments apply to a particular class of business that qualifies as investment entities. Under IFRS 10 Consolidated Financial Statements, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The amendments are effective from 1 January 2014 with early adoption permitted.

IES 7 Continuing Professional Development (Redrafted)

In a continuing effort to improve the clarity of its standards, the IAESB has undertaken a project to redraft all eight of its IESs in accordance with its new clarity drafting conventions. IES 7, Continuing Professional Development, is the first clarified standard to be released since the project began in December 2010. IES 7 prescribes continuing professional development (CPD) for professional accountants to develop and maintain their professional competence so as to provide high-quality services to clients, employers, and other stakeholders. The IAESB has clarified the obligations of CPD through the redrafting of IES 7, and draws international attention to the requirement on professional accountants to develop and maintain professional competence throughout their careers.

IPSASB Welcomes IMF Paper Supporting International Public Sector Accounting Standards

The International Public Sector Accounting Standards Board (IPSASB) welcomed the recent release of the International Monetary Fund (IMF) paper, , and its support for International Public Sector Accounting Standards (IPSASs), the globally accepted, high-quality, accrual-based standards issued by the independent standard-setting body.

Many governments, jurisdictions, and international institutions have already adopted IPSASs, while others are working toward their implementation.

The IPSASB advocates for better financial reporting by governments worldwide and the need for improvements in the management of public sector resources. Since 1997, the IPSASB has developed and issued a suite of accrual standards and a cash-basis standard for countries moving toward full accrual accounting. IPSASs promote greater transparency and accountability in public sector finances and allow for enhanced monitoring of government debt and liabilities.

The IMF paper highlights the seriousness and extent of the current inadequacies in governments' fiscal reporting and accountability and underscores the immense risks associated with these shortcomings.

Fiscal Transparency, Accountability, and Risk also calls for other measures supported by the IPSASB, including:

- Updating fiscal transparency standards to address gaps in, and inconsistencies between, individual jurisdictions' standards;
- Including all entities that have fiscal implications for governments (including central banks, public entities, and corporations outside of the general governments) in fiscal forecasting, budgeting, and financial reporting;
- Evaluating countries' compliance with fiscal transparency standards using, for instance, auditing and assurance as a means for assessing compliance with standards;
- Strengthening incentives for improvements in fiscal transparency practices;
- Aligning the methodologies and standards for fiscal forecasting, budgeting, and financial reporting to reinforce the links between fiscal transparency and long-term sustainability; and
- Strengthening fiscal transparency and public sector financial management in all nations and, in particular, in developing and emerging nations.

IPSASB Chair Andreas Bergmann said the IPSASB agrees with the IMF that the requirements of accounting standards and the statistical framework should be harmonized, as far as the different purposes of the two frameworks permit, adding that it is critical for transparency and accountability that governments around the world have unambiguous guidance. He said the IPSASB also concurs that the efforts to monitor and enforce compliance with international standards, including IPSASs, need to be reinvigorated.

"The IMF paper underlines the need for strong and transparent financial reporting, which has the potential to improve public sector decision making and make governments more accountable to their constituents," Bergmann said. "As we have witnessed with the sovereign debt crisis, when governments do not properly manage their finances, the consequences can include a loss of democratic control, social unrest, and the failure to meet their current and future commitments."

SECP News

SECP launches new takaful rules

Takaful, the Islamic alternative of insurance, is a scheme based on the principles of mutual assistance in compliance with the provisions of Islamic shariah, and which provides for mutual financial aid and assistance to the participants in case of occurrence of certain contingencies and whereby the participants mutually agree to contribute to the common fund for that purpose. The existing Takaful Rules were issued in year 2005. During the course of business activity and implementation of these Rules, a number of practical issues were highlighted by the stakeholders.

To address these concerns, the Securities and Exchange Commission of Pakistan (SECP) constituted a Committee in year 2007 with a mandate to review the existing Takaful Rules and recommend the possible enhancements. The Committee laid a special focus on the areas including the coherence with accounting provisions of the SEC (Insurance) Rules 2002, guidelines for allowing conventional insurance companies to do Takaful business through specialized "window" operations, prescribing of percentages in respect of various modes of the Shariah complaint investments for the purpose of determining solvency, among others.

The Committee after detailed deliberations finalized and submitted its recommendations based on which the new Takaful Rules have been drafted. The SECP reviewed the draft rules and after seeking expert opinion of Shariah scholars and legal experts, the draft new Takaful Rules have been approved by the SEC Policy Board. The launching ceremony of new rules took place at a local hotel in Karachi where Chairman SECP, Muhammad Ali officially announced the promulgation of the new Takaful Rules, 2012. These rules will also be available on the official website of SECP.

The Chairman further said that SECP is committed to partner with key stakeholders for the development of Takaful, to extend the insurance services and awareness to people around Pakistan. The SECP's unconditional support to such initiatives is another example of this strong commitment and represents the path of progress SECP want to take together over the upcoming times.

While speaking at the occasion, Commissioner (Insurance), Mohammed Asif Arif said that at present three General Takaful (non-life insurance) and two Family Takaful (life insurance) companies are operating in Pakistan but it is expected that after the promulgation of new Takaful Rules, the number of Takaful service providers in Pakistan will increase substantially as the conventional insurance companies will also be allowed then to offer the Takaful products. Pakistan is the second country in the world, after Indonesia, which has allowed such window Takaful operations. It has been seen from the empirical experience that since existing conventional companies have edge in terms of better reinsurance & retakaful accessibility with years of expertise, along with the customers having brand loyalty, such companies may serve the larger portion of the market with their larger sales force and vast branch network.

SBP News

SBP slashes refinance rate under three financing schemes by 150 basis points

The State Bank of Pakistan (SBP) has with immediate effect reduced the refinance rate under the Export Finance Scheme (EFS) and the service charges under the Long Term Financing Facility (LTFF) and the Scheme for Financing Power Plants Using Renewable Energy by 150 basis points or 1.5 percentage points.

Now the exporters can get financing from banks under EFS at 9.5 per cent per annum (p.a.). Earlier, the exporters were getting the financing under this scheme at 11 per cent p.a.

It has been decided that rate of refinance under the Export Finance Scheme applicable from September 10, 2012 and onward till further instructions shall be 8.50% p.a. The commercial banks shall ensure that where financing facilities are extended by them to the exporters for availing refinance facilities under the Export Finance Scheme, their maximum margin/spread does not exceed 1% p.a. says IH&SMEFD Circular No. 4 issued to all banks.

The reimbursement of mark-up rate benefit to exporters, on excess performance under Part-II of the Scheme, as specified in SMEFD Circular No.15 dated October 31, 2009, will be adjusted accordingly keeping in view the revised mark-up rates, the circular added.

The rates of service charges for Participating Financial Institutions (PFIs) and rates for end users under the Long Term Financing Facility (LTFF) have also been reduced by 150 basis points with effect from September 10, 2012. The rates of refinance under LTFF will now be 9.50% for financing up-to 3 years, 8.60% for over 3 years and up-to 5 years and 8.20% for over 5 years and up-to 10 years. Participating Financial Institutions'(PFIs') spread for these tenors will be 1.50%, 2.50% and 3.00% respectively. Hence, the end users' rates for these tenors have now been reduced to 11.00% from 12.50%, 11.10% from 12.60% and 11.20% from 12.70% respectively, according to IH&SMEFD Circular No.5.

Similarly, the rates of service charges under the Scheme for Financing Power Plants Using Renewable Energy have been re-fixed at 8.60% for financing up-to 5 years and 8.20% for over 5 years and up-to 10 years with effect from September 10, 2012. Banks/DFIs will be allowed to charge 2.50% and 3.00% spread respectively for these tenure. Hence, the end users' rates for these tenure have now been reduced to 11.10% from 12.60% and 11.20% from 12.70% respectively, according to IH&SMEFD Circular No.6.

SBP brings down policy rate to a single digit (9.5%)

The State Bank of Pakistan (SBP) has cut its policy rate by 50 basis points to bring it down from 10 percent to 9.5 percent with effect from 17th December, 2012. This was decided by the Central Board of Directors of the State Bank of Pakistan at its meeting held under the chairmanship of SBP Governor, Mr.Yaseen Anwar in Karachi.

According to the Monetary Policy Decision, the decline in CPI inflation is considerably faster than earlier estimates. The year-on-year CPI inflation for November 2012 stands at 6.9 percent, with food inflation dropping to 5.3 percent and non-food inflation coming down to 8.1 percent. Even the core inflation measures are in single digits. This broad based deceleration in inflation is now expected to keep the average inflation for FY13 below the 9.5 percent target for the year. Therefore, the Central Board of Directors of SBP has decided to reduce the policy rate by 50 basis points to 9.5 percent with effect from 17 December 2012.

FBR News

Clarification regarding differences in the Export to Pakistan figures of China Viza-a-Viz Pakistan import figures.

1. The Additional Secretary Revenue Division, Shahid Rahim Sheikh has clarified here that during meetings with the Federation and the various Chambers, the issue of under invoicing especially with regard to imports from China are repeatedly raised. While the undesirable fact of under invoicing cannot be denied and Pakistan Customs has in the past and at present also taken legal and administrative measures to address this problem, the complaint regarding huge gap in the trade figures of Pakistan and China has been examined at length.
2. It has been stated in different meetings and also in a section of national media that reportedly China exported goods worth US $ 12 billion to Pakistan during last year while the import figure of Pakistan indicate an import of US $ 4 billion. This stated gap is attributed entirely to under invoicing in the import from China. It is clarified for the information of all concerned that this assertion is incorrect. As per official trade figures of both the countries, available on the website of International Trade Centre (ITC) (www.trademap.org), the value of China's exports to Pakistan during 2011 was US $ 8.4 billion. Pakistan imports were US $ 6.4 billion. The discrepancy was thus of only US $ 02 billion and not US $ 8 billion as reported in different trade meetings and a section of press.
3. The issue of disparity in the trade figures of the two countries in addition to the element of under invoicing is attributed to different accounting periods and methodologies. Pakistan Customs has taken up this matter with China Customs in the past also and the matter is being again attended to. It is further informed that disparity in trade figures of China is not unique to Pakistan and such variations also exist between trade figures of China and some of its other trading partners.

Career Enhancement Tips For First Jobbers

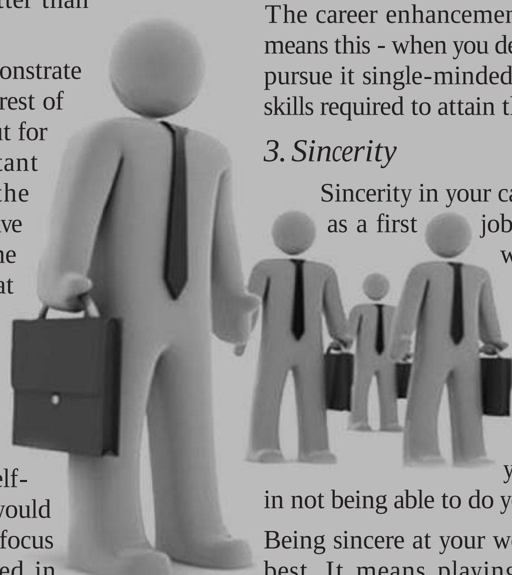
3 KEY TIPS TO GROW YOUR CAREER

You found your first job and you feel a little anxious. You think to yourself - "How am I going to survive through all these?" With the right attitude and guidance, you will soon look forward to doing your best.

Like any other career enhancement tips, there are no guarantees for success. However, if you bring the right attitude and decide to take action then you are half way there. Nothing will stop a first jobber like you from shining at your workplace.

1. Self-discipline

The value of self-discipline in a first jobber is often underestimated. Now that you are in the working world you think to yourself, "Is self-discipline overrated?" We will tell you, no. It is not overrated. We have often found new staff with good self-discipline doing better than those who are poor in it.



Let us use a simple example to demonstrate this, assuming it's a Friday and the rest of the department is planning to go out for a fun night. You have an important document to be completed for the coming Monday. What do you do? Give the fun night a pass and complete the work? Or join the fun and hope that you will find time to finish it over the weekend thus leaving you little chance to perfect it before submission?

Part of self-discipline is also about sacrifice. When you have strong self-discipline, it is inevitable that you would need to sacrifice some fun time to focus on your goals. If you are interested in advancing your career you may take some courses, or even read books to increase your knowledge. All these activities come with an opportunity cost. It could very well mean less time for leisure activities.

2. Success

You're probably thinking, "Success as part of these practical career enhancement tips is funny." Let us assure you it is not. What I want to explain here is this - if you want to enhance your career, define what success is to you. Once you know what success is to you then you can plan towards that goal. Spend some time thinking what success is to you. Crystallize this in your mind. Assuming you know what success is to you, the next step is to besingle-minded in the pursuit of your goal.

Being single-minded means to be focused on your goals. When you focus your energy on your goal, you get more out of your effort. You inch closer to your goals. When you are single-minded other things do not distract you. You know what you want and you power yourself towards it as best as you can so you can clearly see what you want.

Knowing your goal and your personal definition of success is an important element amongst these career enhancement tips for first jobbers. Equally important is to know your own strengths and your skills. If you want to enhance your career, play up on your strengths and improve on your skills required for your job. What are you good at? What are the skills sets you do not have that are required for the job? Build up on those skills.

The career enhancement tips in this sub-section basically means this - when you define what is success to you, you then pursue it single-mindedly knowing your strengths and the skills required to attain that success.

3. Sincerity

Sincerity in your career means a lot of things. For me, as a first jobber you should look at doing your work sincerely and joyfully. Meaning, do not treat your work as a drag. If you feel that your work is a drag, then start by asking yourself. Why is it so, before blaming anyone else - be it the company, your boss or your colleagues. So, be sincere with yourself. What is your core challenge in not being able to do your work sincerely?

Being sincere at your work means doing it with your level best. It means playing your part and taking personal responsibility for your work. It also means to share your learning and knowledge. When you share what you know about a certain task, you become an asset to your unit and this inevitably enhances your career. Many people think, the more they hoard what they know the more advantage they have. However, in our experience this is not true. We find that the more you share the more others are willing to share with you and the more you know.

In summary, the most important and practical career enhancement tips you can start now is - developing self-discipline, learning to sacrifice, define what success means to you, be single-minded in pursuit of your goals by knowing your strengths and skills, and doing your work with sincerity and have sharing as a work value you carry.

PIPFA NEWS

PIPFA arranged a Seminar at Hotel One, Faisalabad as part of its Continued Professional Development (CPD) program for its members & students specially and for other professional accountants generally, on “Introduction & Features of Islamic Banking” presented by Dr. Khalil Ahmad Aazami (Ph.D. in Islamic Jurisprudence) Shariah Advisor, Bank Alfalah Islamic Banking.

The seminar covered vast areas of Islamic Banking, key issues and misconceptions regarding Islamic Banking, its various products (e.g. Musharakah, Murabahah, Ijarah, Salam & Istisna) Comparison between Conventional and Islamic Banking.

The chief guest was Mr. Muzammil Sultan, President, The Faisalabad Chamber of Commerce & Industry who expressed his views and encouraged the efforts of PIPFA for arranging this professional event.

The event was attended by more than 250 members & students of PIPFA, ICAP, ICMAP & ACCA. The participants appreciated the efforts of the institute for organizing such an informative seminar.

Invitation for Articles

PIPFA Journal is the official publication of the Pakistan Institute of Public Finance Accountants and is being published to keep abreast its members and students with the latest developments in Accounting Industry.

We would welcome articles from our valued students and members for forthcoming issue. Articles are not restricted to specific topic; students & members may send us the articles of their field of interest at following email address;

member@pipfa.org.pk

19th Annual General Meeting of PIPFA

The 19th Annual General Meeting of Pakistan Institute of Public Finance Accountants (PIPFA) held on October 31, 2012, at Office of the Auditor General of Pakistan, Constitution Avenue, Islamabad.

Insertion of Pakistan Military Accounts Department

PIPFA is continuously expanding its services of promoting professional accounting education in over all Pakistan generally and Government Sector specially. The valuable addition of Pakistan Military Accounts Department shows great trust and confidence in PIPFA education. Allahumduallah, the honorable Military Accountant General, Malik Khadim Hussain signed an agreement with PIPFA for training of PMAD employees in Public Sector Stream. The classes of the same will commenced from mid of January, 2013.

Career Counseling Seminars

PIPFA Education Department organized a series of Career Counseling Seminars during last session and covered different Colleges at Karachi, Lahore Faisalabad & Islamabad. The objective was to guide & facilitate those young students who are not familiar with Professional qualification & its need in the current scenario.

In these sessions PIPFA covered major areas like qualification & scope of Public Finance Accountancy, PIPFA exemption policies, International Affiliation, membership & the shortest path to the professional venue. More than 2200 Students attended those seminars. PIPFA brochures, journals & promotional materials were distributed among the participants.

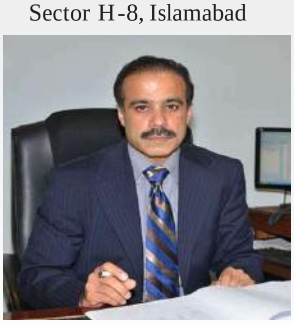
Colleges / Institutions managements admired PIPFA efforts and encouraged PIPFA team for more visits regarding further students counseling and for spreading knowledge about Professional Accounting.

Following persons greatly supported PIPFA for Conducting Career Counseling Seminars

Prof. Abdul Hafeez
Principal, Govt. Commerce College
Sector H-8, Islamabad

Prof. Syed Ali Yar
Principal, Islamabad Model College
F.10/4, Islamabad

Prof. Abdul Sattar
Principal, Govt. Premiere
College Nazimabad. Karachi.



Prof. Agha Tahir Ejaz
Principal
Punjab Groups of Colleges Lahore

Mr. M. Ibrahim Zakir
Lecturer, Govt. Degree Science &
Commerce College Gulistan-e-Jauhar, Karachi.

Mr. Ahsan Afzal
Lecturer, Govt. Degree College
Gulshan-e-Iqbal near SZC, Karachi.

Mr. M. Anwar ul Haq
(FPFA-3171), Director,
Deans Shibbli College, Faisalabad.

Mr. Ehtesham Shaukat
(APFA-4198), Principal,
Phool Academy of Commerce, Faisalabad.

Mr. Junaid Subhani
(FPFA-1636)
Director TIPS Faisalabad.

Karachi

PIPFA Karachi arranged an in house session at PIPFA Head office Karachi and various Career Counseling Seminars in Boys & Girls Colleges. The audience were from all level of qualifications including Intermediate Graduate & Master. These sessions were conducted by PIPFA Education / Marketing team along with PIPFA Faculty members. Approximate 600 prospective students attended the seminars and show their inclination toward PIPFA Qualification.

Seminars were conducted at Govt. Premier College North Nazimabad, Govt. Degree Girls College Gulshan-e-Iqbal near Shaikh Zaid Centre (S.Z.C), Govt. Degree Boys College Gulistan-e-Jouhar-near SZC, Govt. College For Men Nazimabad, Govt. Degree College For Women Korangi No. 04, Govt. College Gulshan-e-Iqbal near Safari Park and Federal Urdu University (Abdul Haq Campus).









Faisalabad

PIPFA Faisalabad Centre covered various Institutes for conducting Counseling Seminars such as Deans Shibbli Girls College Samundari, Shibbli College for Boys Samandari, The Istle of Professional Studies (TIPS), Phool Academy, Pakistan Boys College, Pakistan Degree Girls College, & Al-Habib Group of College.



Lahore

PIPFA Lahore Centre organized Career Counseling Seminars in several Institutes / Colleges including Government Dayal Sing College, Links Academy, Punjab Group of Colleges & Iqra Meridian Academy. A vast number of participants were observed in the events, belonging from all levels of educational streams.



Islamabad

In Islamabad City seminars were arranged in well reputed Government Colleges in different areas including Govt. Post Graduate College H-8, Govt. Post Graduate Commerce College H-8/4, Govt. Model College F-10/4. An In-house session was also conducted at PIPFA Islamabad centre.



Glimpse of some newspapers coverage (Daily Express, Daily Pakistan & Daily Dunya) about PIPFA Career Counseling Seminars


پاکستان انسٹی ٹیوٹ آف پبلک فنانس اکاؤنٹس کے زیر اہتمام کیریئر کونسلنگ سیمینار سے اسسٹنٹ ڈائریکٹر پیفا محمد سعد اور محمد نعیم اختر لیکچر دے رہے ہیں

پروفیشنل تعلیم کے بغیر دور جدید میں ترقی ممکن نہیں، محمد سعد

طلباء بغیر وقت ضائع کئے اکاؤنٹس کی پروفیشنل تعلیم پر بھرپور توجہ دیں، نعیم اختر

(پ ر) پاکستان انسٹی ٹیوٹ آف پبلک فنانس اکاؤنٹنس (پیفا) کے زیر اہتمام شہر کے مختلف کالجز میں کیریئر کونسلنگ کے موضوع پر سیمینارز منعقد کروائے گئے جس میں طلباء کو اعلیٰ تعلیم کے حصول بارے معلومات فراہم کی گئیں اور اکاؤنٹس کی پروفیشنل تعلیم کی اہمیت کو بھی اجاگر کیا گیا۔ سیمینارز سے خطاب کرتے ہوئے اسسٹنٹ ڈائریکٹر پیفا محمد سعد اور محمد نعیم اختر نے کہا کہ طلباء پروفیشنل تعلیم حاصل کر کے نہ صرف اپنے مستقبل کو روشن بنا سکتے ہیں بلکہ انہیں ملازمت کے بہترین مواقع بھی میسر آ سکتے ہیں۔ پیفا طلباء کو اس اہم ترین تعلیم سے روشناس کرانے میں نمایاں کردار نبھا رہا ہے جدید اور پروفیشنل تعلیم کے بغیر دور جدید میں ترقی کرنا ممکن نہیں رہا طلباء کو چاہیے کہ وہ بغیر وقت ضائع کیے اکاؤنٹس کی پروفیشنل تعلیم پر بھرپور توجہ دیں۔

PIPFA NEW OFFICE BEARERS FOR 2013

The Board of Governors of Pakistan Institute of Public Finance Accountants in its 95th meeting has elected new office bearers for 2013. Dr. Syed Turab Hyder as President of the Institute for the year 2013. Further, Mr. Shahzad Ahmad Awan as Vice President, Mr. Rafaqat Ullah Babar as Secretary and Mian Muhammad Shoaib as Treasurer have been elected for the same term.

Annual Subscription

Students who have not paid yet their annual subscription for the year 2012-13 are reminded to pay the same at their earliest along with late fee surcharge of Rs. 500/-.

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