Pakistan Institute of Public Finance Accountants

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AN EXCLUSIVE INTERVIEW OF
THE AUDITOR GENERAL OF PAKISTAN

Pakistan Institute of
Public Finance Accountants

The Words from the Noble Qur'an

بِسۡمِ اللّٰهِ الرَّحۡمٰنِ الرَّحِيۡمِ

اَلرَّحۡمٰنُ۝عَلَّمَ الۡقُرۡاٰنَ۝خَلَقَ الۡاِنسَانَ۝عَلَّمَهُ الۡبَيَانَ ۝ الشَّمۡسُ وَالۡقَمَرُ بِحُسۡبَانٍ ۝ وَالنَّجۡمُ وَالشَّجَرُ يَسۡجُدَانِ۝

In the Name of Allah, the Most Gracious, the Most Merciful

The Most Gravious (Allah)! He has taught (you mankind) the Qur'an (by His Mercy). He created man. He taught him eloquent speech. The sun and the moon run on their fixed courses (exactly) calculated with measured out stages for each (for reckoning). and the herbs (or stars) and the trees both prostrate themselves (to Allah). *(Tafsir Ibn Kathir)*

PAKISTAN INSTITUTE OF PUBLIC FINANCE ACCOUNTANTS (PIPFA)

constituted by

The Auditor General of Pakistan (AGP),

The Institute of Chartered Accountants of Pakistan (ICAP)

and Institute of Cost & Management Accountants of Pakistan (ICMAP).

PIPFA is also an associate member of

International Federation of Accountants (IFAC).

MISSION STATEMENT

"Identification, development and imparting Knowledge to provide a structure for the training of accounting professionals in the specialized areas."

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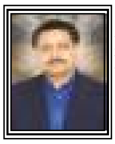

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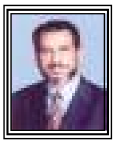

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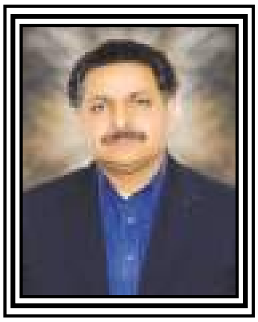


Dear Members,

I am really honored to serve as the President of Pakistan Institute of Public Finance Accountants. The years to come will be challenging one for all of us due to economic conditions within the country and outside world. The rule ‘survival of the fittest’ will operate in its extreme form. The Accountancy Profession has to share great responsibilities in bringing out the society out of the crunch of the international recession. The time requires a serious rethinking for the optimal professional education for grooming the new generation of true Accountants. Pipfa, one of the three recognized bodies of accountants in Pakistan, has a well defined targets for developments of Qualified Accountants of high standing who should be capable of holding the key positions and playing their role in organizations of both corporate and public sector.

By exercising our collective strength and leveraging the tremendous talent of our membership and qualification we can work successfully to address issues concerned to members, the business community, investors as well as government.

PIPFA’s legacy is to facilitate its students and members to maximum level which requires continued efforts for improvement of system and its functions. We, the Office Bearers and the Members of the Board of Governors, are always open and ready to accept any suggestions for the betterment of our system, accomplishment of our mission improvement in any area concerning PIPFA. You may come up with your ideas and suggestions. I, on behalf of the BOG, assure you that we will stick to the principles and good corporate governance practices in conducting the affairs of PIPFA. May Almighty Allah help us in achieving the goals.

Chairman Publication & Seminar Committee’s Message

Welcome to the second PIPFA journal.

I would like to take this opportunity to thank members of the Publication & Seminar Committee for their valuable contribution towards development of the PIPFA journal. The J&PC has redesigned few pages which we are sure would improve the outlook of the journal.

This issue has covered few articles on enterprise governance, project portfolio management, water accounting and an exclusive interview of the Auditor General of Pakistan. It also includes certain financial sector news which will be a continuous source of information for our readers.

Please enjoy reading the rest of the journal to discover more information about important news, events and developments related to the profession.

Keep us posted from your views. Happy reading.

AN EXCLUSIVE INTERVIEW OF THE AUDITOR GENERAL OF PAKISTAN

THE AUDITOR GENERAL:

Mr. Tanwir Ali Agha became the 16th Auditor General of Pakistan on 20th July, 2007. As the head of the Supreme Audit Institution (SAI) of Pakistan, Mr. Agha is entrusted by the Constitution with the responsibility of reporting on the results of the financial operations of the Federal, Provincial and District governments to the National, Provincial and District legislatures.

Mr. Agha joined the Pakistan Audit and Accounts Service in 1972. He has had a diverse career since then. Besides various positions in the Audit Department, he has held key slots in the Ministry of Finance for more than two decades. The positions held by Mr. Agha include Executive Director on the Board of the World Bank Washington DC and Finance Secretary to the Government of Pakistan. In this capacity he was a member of the Government's Economic Team, responsible for formulating macro economic strategy and reforms, besides overseeing implementation. Mr. Agha has had an extensive exposure to public finance policy planning and coordination at the highest levels of decision making.

His vision as the Auditor General of Pakistan is to deepen the wide ranging reforms within the SAI. This would ensure an SAI that incorporates best international practices and standards; is effective, credible and plays a leading role in supporting good governance and accountability.

As Auditor General of Pakistan, Mr. Agha has focused the efforts of SAI Pakistan on effectively serving the needs of Parliament through objective and reliable reporting, bringing efficiency in the internal business process and ensuring compliance with international standards in the audit work. Mr. Agha led the development of SAI Pakistan's strategic plan based on three pillars of Integrity, Quality and Partnership. He is deeply committed to institutionalization and seamless strategic planning to make SAI Pakistan “A Model SAI Adding Value to National Resources".

The Chairman Publication Committee with the permission of the Auditor General of Pakistan started the interview session by introducing PIPFA as a constituted body by the Auditor General of Pakistan, Institute of Cost and Management Accountants of Pakistan (ICMAP) and Institute of Chartered Accountants of Pakistan (ICAP). These three major stakeholders contribute 75% share in the Board of Governors of PIPFA and they are responsible for dealing with all issues of the working of the institute.

PIPFA is also associated with International Federation of Accountants which comprises of 159 members in 124 countries, representing 2.5 million accountants world-wide.

The Chairman extended his gratitude to AGP for sparing his precious time for PIPFA from his busy schedule. Following this, the interview session started by requesting Auditor General to brief about the Office of the Auditor General of Pakistan with special emphasis on its objectives and contribution to the society.

The Auditor General expressed his immense pleasure on the opportunity of talking on the occasion. He briefed that the Office of the Auditor General is the only institution that is mandated by the constitution of the country to facilitate the oversight by Parliament on the use of public resources while being partner with both the parliament and the executive.

He further informed that the strategic objective of the office is to support the institution in promoting transparency, accountability, and good governance. These are important issues for all countries but very crucial for this country. It is extremely important that all public resources are used in economical, efficient, and effective manner and in compliance with the rules and regulations framed according to the prevalent laws. The fundamental goal is to promote and support good governance and management of public sector corporations. The constitution lays down that Auditor General shall submit his reports on both the accounts and audit of the Federation and Provinces to the President and Governors respectively, who shall compulsorily place them before the parliamentary committees for scrutiny with the intent of not having any individual discretion in this regard.

The Auditor General confirms playing an increasingly effective role in achieving the stated objectives. There are various criteria on the basis of which the opinion is formulated and conclusion is drawn. These are objective criteria and not a matter of self generated opinions or speculations. In the financial year 08-09, over 19 billion rupees were recovered which were over payments and under assessment of revenue. In the first half (July-December) of the current financial year, over 13 billion were recovered clearly indicating that the equivalent of the allocated budget to the Auditor General Office is being returned to the treasury giving a cost benefit ratio of 1:15.

The other criterion for the judgment of effectiveness is the timeliness. Someone may submit best report in the world but if it comes too late after the event then the relevance is diluted up to a great extent. This year all the reports for the FY 08-09 after certification of accounts and all audit reports at the level of the Central government and Provincial governments have been submitted within 8 months after the closure of the financial year, which is another source of satisfaction.

Another important consideration is to gauge the impact of reporting on the improvement of the overall system. The Office of the Auditor General has a mandate of the test check of 10 to 15% which can indicate the status of improvement in the system. The mandate of audit is not only to find out the faulty and fraudulent transactions but also to highlight the weaknesses in the system, which is successfully being done and indicate the improvement in the overall system.

The audit reports are not only meant for having debate in the assembly but also to ensure change in the system by holding people accountable and recovering government money. In the last submitted report, over 130 public issues were discussed and various punishments were awarded depending upon the magnitude of lapse.

The progress and pace of work is good but still a lot needs to be done. A process of continuous improvement is in progress.

The work of Auditor General is based upon 3 fundamental pillars. These three great pillars are:

- Integrity
- Quality
- Partnership

Integrity is self explanatory that whoever is charged with the responsibility of managing public resources or managing public assets should manage them with the highest level of integrity. The management and staff working for the Office of Auditor General needs to exhibit an exemplary professionalism and their conduct need to be devoid of any doubt.

The second pillar is Quality. Quality means that the reports need to be up to the given standards, relevant, completely professional without any bias and submitted in time. These four elements ensure quality in the reports.

The Chairman while appreciating the submission of reports in short span of time and recovering 19 billion, inquired about the way challenges are dealt by the Office of the Auditor General in performing its duty in state of the art manner.

The Auditor General responded that our biggest challenge is being a knowledge based organization. Other government organizations may achieve their targets by different means but Auditor General's nature of work entirely depends on knowledge. If auditors or accountants are not having the relevant knowledge, they can't perform their duties. The knowledge acquired should be deep and continuously updated, therefore Auditor General as an institution greatly focuses on HR development. There are different level of training e.g. Audit competency, Managerial competency etc. It is the duty of Auditor General to ensure that auditors in the field must be equipped with requisite skills.

The second challenge is also related to knowledge that is change in the structure of audit team. Keeping in mind the fact that more knowledgeable and trained person prepare more comprehensive reports, special emphasis is laid on the strategic objective that most of the audit / certification work should be done by middle level managers. To achieve the purpose the Office of Auditor General has directly inducted 350 Assistant Audit Officers (AAO) besides inducting people in Grade-17 through Central Superior Service (CSS) examination. Besides these, PIPFA trains junior employees for Grade-16 positions.

The third challenge is to make effective audit plan keeping in view the constraints of recession in the economy of the country. Risk assessment is the main criterion used for the evaluation of the entity along with its nature of work and amount of public resources dedicated.

Based on these criteria, organisations are divided into 3 categories and audited every year, every alternate year or once in three years time.

Chairman: In corporate and in some government organizations, Oracle, SAP and other kinds of ERP systems are used. Are staff and officers of the Office of the Auditor General capable of understanding and using these software?

Auditor General, Chairman P & S Committee and Syed Imtiaz Husain Bukhari (member P & S Committee) during the interview.

Auditor General: ERP system is frquently used by the staff of Auditor General Office. AMIS (Audit Management Information System) will be in place and used by the department shortly. Special importance is given towards imparting these contemporary skills to the staff and officers.

Chairman: Change is inevitable and office of the Auditor General and its team is focusing on system for improvements. For improvements new projects must be launched. Would you brief us about new projects to cater to these objectives?

Auditor General: The Auditor General Office is working with an umbrella project i.e. Project for Improvement in Financial Reporting and Auditing (PIFRA) and this project is funded by World Bank. This project has sub-components of Audit, Accounts and Financial reporting etc. The whole idea is to develop cutting edge through the use of technology and software, keeping a vigilant eye on the market and acquiring relevant contemporary skills. The most important thing is not to change but how to handle the change. One can have best plan in the world but if change is not managed properly, it may go down the drain. Carefully harnessing the change and dealing with the same in phases while ensuring its progression in the right direction can save it from failure.

Chairman: Sir you mentioned that if accountants are not well aware about their jobs, they can't deliver right reports. Very true a universal truth. There is a good team of chartered accountants, Managements accountants and PIPFA members. Do you think they are justifying their role.

Auditor General: Even developed countries are also working on improvement & development model of working. It is a basic and fundamental principle of life that nothing is permanent except change. The professions like Audit, Accounts or Medicine, knowledge is always on the priority list leading to the proper execution of job. You might have all knowledge in the world but if good accountants or auditors don't use the knowledge in the manner that is compatible to their accountability then a wide gap develops. Keeping this in mind, all professionals must ensure that the knowledge is updated regularly.

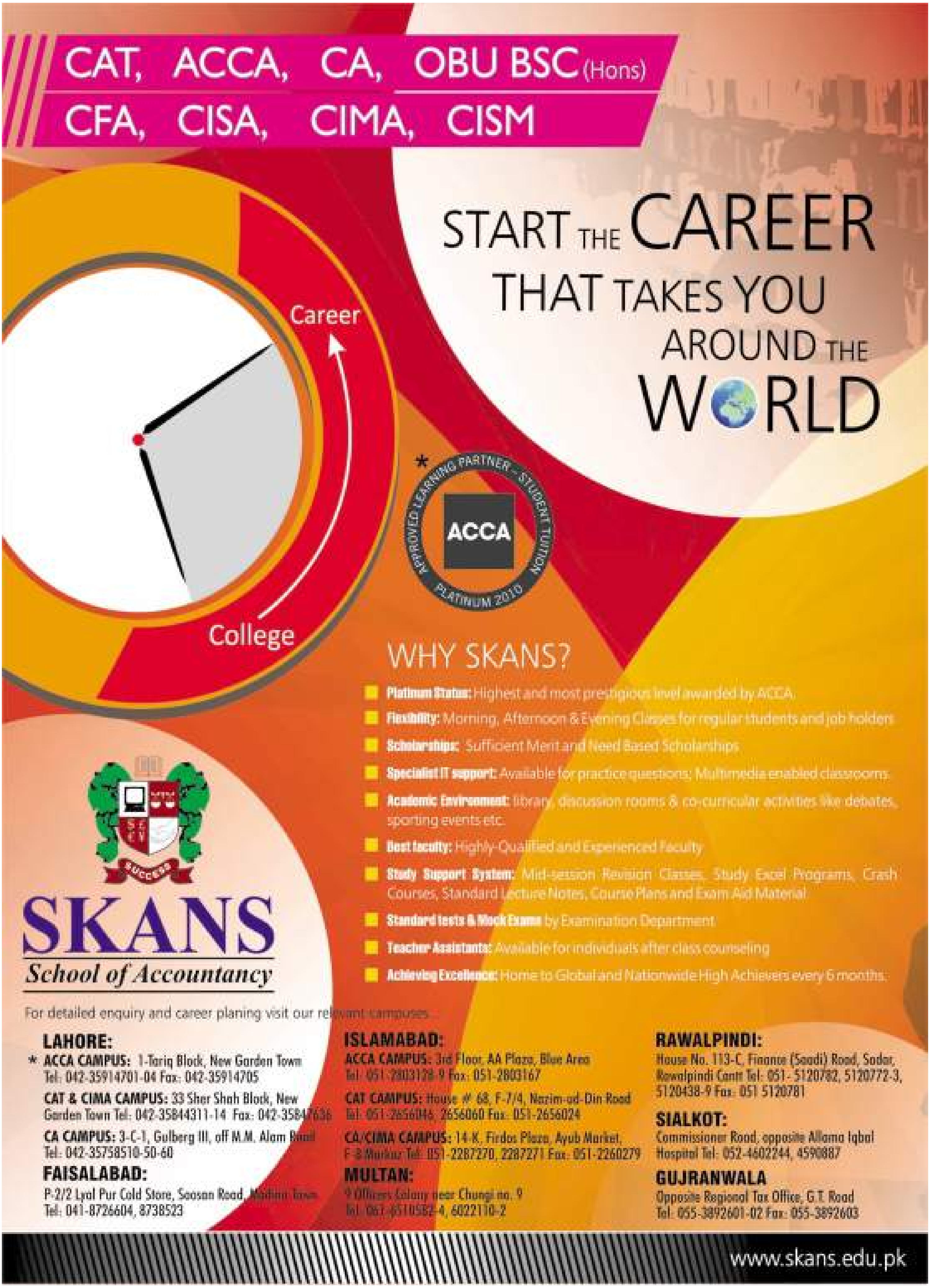
A big change has come all over the world as a result of which the stakeholders' expectations from auditors and accountants have never been as high as in the present time. The number of stakeholders used to be limited in the past but now the whole society expects from you that you do your work with full integrity and disclosure. I think the demand on accountants/auditors of public or private sector has never been as great as it is today. The challenge that we face today is to essentially understand the nature of demands of the stakeholders and try to fulfill them in the best possible manner. If we fail to fulfill the same then it will damage our reputation badly.

Finally Chairman offered services of Professional Financial Institutes like PIPFA, ICAP and ICMAP at the disposal of AGP. The services can be utilized in carrying out any assignment meant for the progress of the country.

The Auditor General stressed on the need of working together because skill requirements are so much diversified that any single institution would fail to meet all the demands. There is a need to rely and learn through each other. It would be a big public and private partnership which already exists in the office of AGP.

The Chairman finally thanked AGP for sparing his time for PIPFA and mentioned the wish of the entire board of PIPFA of having an exclusive interview for them.

Chairman Publication Committee and Syed Imtiaz Husain Bukhari while giving the souvenir to the Auditor General of Pakistan.



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GOOD GOVERNANCE

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PRELUDE

The whole World is in search of "Good Governance". Countries claiming to be super powers are in great financial crisis. USA is in search of above system. Cash Stimulus was used to inject money to keep up the purchasing power of people. Sub-prime lending in a reckless manner resulted in bank failures in USA. Over 300 banks failed. UK was also affected. Global financial crises at corporate level in several countries resulted in formation of G-20. This group is led by Central Bankers of most of developed part of the world including representation from some developing countries including Saudi Arabia, India, China and some African Country. Lending institutions keep recommending "Good Governance" for countries and there is an outcry for "Corporate Governance" starting from 1990s. Leadership was provided in UK by establishment of Cadbury Committee and later by Hampfel Committee.

Growing interest in Japan, Malaysia, Hong Kong, France, USA, SARRC countries etc. has been of great interest.

CONSTITUENTS

This paper consists of the following parts:

Part I: A Brief Review of Corporate Governance
Part II: Selected Countries Experiences
Part III: World Bank Indexes
Part IV: Way Forward

A brief review in respect of each of the above is now presented.

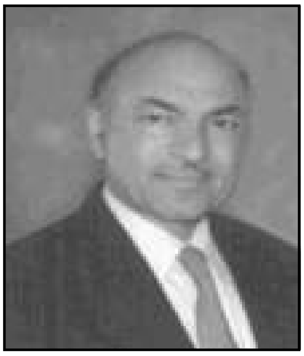
PART I: A BRIEF REVIEW OF CORPORATE GOVERNANCE

The first aspect is to understand the concept of Corporate Governance. OECD has defined Corporate Governance as under:

"Corporate Governance Comprehends that structure of relationship and corresponding responsibilities among a core group consisting of:
- Shareholders
- Board Members
- Corporate Managers

designed to best poster the competitive performance required to achieve the corporation's primary objective".

The concept of Joint Stock Companies with limited liability concept is the product of industrial and commercial revolutions which started in Europe during 16th / 17th century. The traditional model was to run the companies with a Board of Directors. (BOD). Unfortunately, the role of BOD though legally defined, could not deliver in managerial perspective in a befitting manner. The problem arose due to the fact that there was a divorce between those who contributed the capital as owners of the company and those who managed the affairs of the company through BOD. Due to several problems of low education of shareholders and routine role of BOD, the management could not deliver the goods in a befitting manner. Consequently, most of the companies should low performance. The managements were clever and benefited internally



from their various decisions and shareholders could not be beneficiaries in terms of higher dividend or other benefits through bonus shares etc. Consequently, there was a global outcry. It started with the setting up of Cadbury Committee in UK in the early part of 1990s. Four issues were addressed namely, Board of Directors, Non-Executives, Executive Directors and Reporting and Controls. There was a greater emphasis on holding regular Board Meetings, effective and full control on the Company by Board of Directors, monitoring of Executive Development and maintain a balance between authority and power.

The guidance provided was that Directors must keep the control formally in their hands. An independent professional advice is to be obtained from Non-Executive Directors who should have caliber for inclusion in BOD. The secretary of the Board should stay independent and his removal should be by the Board as whole. The Non-Executive Directors should focus their contribution on strategy, performance, key appointments and developing standards of conduct. The Executive Directors should have contact of three years with formal approval from BOD and their emoluments should be transparently disclosed and Audit Committee should be set up with clear terms of reference in black and white and deal with the matters with clarity, authority and clear-cut duties. Effective internal controls should be in operation to ensure business as a going concern.

Later in 1995 Hempel Committee was set in UK. This Committee was given two years to complete their assignment with six aspects as their scope of work namely, Principles of Corporate Governance, Application of the Principles, The Future, Directors, Directors, Remuneration and Shareholders and Annual General Meeting. They gave recommendations in January 1998 to lay sound basis for Corporate Governance.

PART II: SELECTED COUNTRIES EXPERIENCES

Following the lead provided by UK, South Asian and African countries also followed the suit and started developing Corporate Governance Standards to pave the way for sound Corporate Management for the benefit of stakeholders. Some selected countries experiences are briefly shared below:

HONG KONG

Accounting profession in Hong Kong has great impact from UK. Some Working Groups were set up. The report of the first Working Group on Corporate Governance was released in 1995 and thee report of the Second Working Group was released in January 1998. The following ten (10) point Code was issued for compliance:

Box No. 1

1. Compliance Matters to be identified.
2. Board Same family members not to have more than 50%.
3. CFO Mandatory.
4. AGM Attendance record was made mandatory.
5. Board Meeting Four Compulsory every year. Six preferred.
6. Auditors Other Fees Separate disclosure.
7. Annual Report Separate Disclosure: Corporate Governance.
8. Audit Committee Be established with defined functions.
9. Interim Report Be released Scope: Balance sheet, income and cash flow.
10. Auditors To review No. 9 above.

MALAYSIA

Two separate Codes of Ethics for Directors and Company secretaries were issued. The five point Code of Ethics for Board of Directors emphasized on introductory Aspects, Principles, Objectives, Definition, Code of Conduct for Corporate Governance. Four parts constituted Code of Ethics for Company Secretaries namely, Introductory Aspects, Principles, Objectives and five point Code of Conduct.

SOUTH AFRICA

The Kings Report on Corporate Governance was published by the Institute of Directors in South Africa on November 19, 1994 and detailed recommendations were released for implementation. This produced productive results.

PAKISTAN

The first Code of Corporate Governance was released by Securities & Exchange Commission of Pakistan with the assistance from the Institute of Chartered Accountants of Pakistan and other stakeholders with the mission that sound Corporate Practices will be developed and implemented. Currently it is applicable to listed companies, banking companies, DFIs, NBFIs, Insurance Companies, Mutual Funds, Unit Trust, and Company Corporations held or controlled by the Government. Constituents of the Code of Corporate Governance include Director, CFO and Secretary, Corporate and Financial Reporting Framework and Audit Committee. The crying need is to legislate through amendments to be incorporated in the Companies Ordinance, 1984 so that its application can be made across the board in a full-fledged manner for the benefit of stakeholders.

PART III: WORLD BANK INDEXES

The World Bank has developed the following two Indexes in respect of: Corporate Governance Index (CGI):
1. Overall Corporate Governance Index (Box 2) [CGI]
2. World Governance Index (Box 02) [WGI]

CGI was 90.8% as the highest for Germany and 24.3% as the lowest for Bangladesh. Pakistan earned 31.3% showing big gap to be bridged. Accordingly, all stakeholders e.g corporate management, professional institutes (Institute of Chartered Accountants of Pakistan, Institute of Cost & Management Accountants of Pakistan, Institute of Chartered Managers and Secretaries Corporate, Pakistan Institute of Corporate Governance etc.------), Securities & Exchange Commission of Pakistan, Government of Pakistan Professional Educational Institutions, Stock Exchanges and other stakeholders must rise to the occasion and ensure sound Corporate Management for solid corporate governance.

BOX NO. 2

OVERALL CORPORATE GOVERNANCE INDEX

S. No.	Country	CGI (out of 100)
1.	Germany	90.8
2.	United States	89.8
3.	Singapore	80.9
4.	Hong Kong	69.2
5.	Malaysia	66.7
6.	India	55.4
7.	South Korea	55.4
8.	Thailand	49.7
9.	Philippines	48.9
10.	Indonesia	44.7
11.	Vietnam	38.1
12.	China	35.3
13.	Pakistan	31.3
14.	Bangladesh	24.3

WORLD GOVERNANCE INDEX (WGI)

For developing the above Index (box 3) the following three constituents were considered:

A. REGULATION

Regulatory Framework exists in all countries of the World. However, the quality of the framework, the policy package it offers and the implementation of the legal provisions contained in it and their effectiveness or otherwise are evaluated. Out of 100, Pakistan earned 28.6%. This speaks volumes of the fact that there is considerable room for improvement.

B. CORRUPTION

Corruption exists all over the world. However, hardly anyone agrees that it exists in their country. It is generally agreed that corruption is, globally speaking, a fact of life. The misfortune is that in some countries corruption is a way of life. This approach needs to be discouraged and uprooted. A Hadith of Holy Prophet Mohammad (PBUH) reads as under: “The giver and taker of corrupt money is destined to hell”. Corruption has no moral or ethical justification. Transparency International releases Corruption Perception Index (CPI) on an annual basis. The recent one is CPI 2009 which has ranked 180 countries of the world. The least corrupt country was New Zealand (9.30 out of 10) and the highest corrupt country earned 1.00 out of 10. (Somalia). The overall calculated average is 4.02 and Pakistan earned 2.40 securing 139th position out of 180 countries. This shows high level of corruption and we need to take a positive feedback. Based on above World Governance Index, corruption was 21.3 percent in Pakistan.

C. RULE OF LAW

Rule of Law is a first pre-requisite for attracting investment from home and abroad. Sunshine legislation must exist as a product of democratic set up and strict implementation is the crying need of today. Our humble submission is that we, constituting as all stakeholders, must address this serious issue and ensure strict compliance in the true and genuine spirit of implementation. Moral reformation is a strong logistic to respect of rule of law. Strong belief in “Hereafter” is the crying need for being a true Muslim. The World Governance Index for Pakistan was 19.5% out of 100. This is a wakeup call for all of us to rise to the challenge and ensure a sound framework for Rule of Law and its strict implementation.

BOX NO. 3
WORLD GOVERNANCE INDEX

Country	Regulation	Corruption	Rule of Law
Block A	**%**	**%**	**%**
Hong Kong	99.0	92.3	90.5
Singapore	95.5	96.1	95.2
Germany	92.7	93.2	94.3
United States	90.8	91.3	91.9
Bock B			
Taiwan 79.6	70.0	70.5	
South Korea	78.6	68.1	74.8
Malaysia67.0	62.3	65.2	
Thailand 56.3	44.0	52.9	
Sri Lanka	51.5	57.5	55.7
Philippines	50.5	22.2	33.8
Block C			
India	46.1	47.3	56.2
China	45.6	30.9	42.4
Vietnam	43.7	27.1	27.1
Cambodia	35.9	28.0	38.6
Papu New Guinea	30.1	9.2	21.0
Block D			
Pakistan	28.6	21.3	19.5
Bangladesh	20.9	9.7	24.8
Laos	15.0	13.0	17.1
Myanmar	1.5	1.4	5.2

PART IV: WAY FORWARD

1. Guidance may be sought from Cadbury Committee. This includes key fundamental principles of Corporate Governance with emphasis of openness (Transparency), integrity and accountability, similarly, three fundamental principles of Corporate Governance need to be adopted by us for the public sector as published in the International Federation of Accountants Study. These include openness, integrity and accountability.

2. Seven (07) principles of public life taken from the first report of the Committee on Standards in public life published in UK in May 1995 is given the following box:

BOX NO. 4
THE SEVEN PRINCIPLES OF PUBLIC LIFE

1.SELFLESSNESS:	Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.
2. INTEGRITY:	In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
3. OBJECTIVITY:	Holders of public office should not place themselves under any financial or other obligation to outside individuals or organizations that might influence them in the performance of their official duties.
4. Accountability:	Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
5. Openness:	Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
6. Honesty:	Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
7. Leadership:	Holders of public office should promote and support these principles by leadership and example.

3. Wherever Code of Corporate Governance is applicable in Pakistan at present, there is a need to monitor the implementation.
4. The Securities & Exchange Commission of Pakistan (SECP) may kindly move amendments relating to incorporating legal provisions relating to sound Code of Corporate Governance through changes in the Companies Ordinance, 1984. Home work in this respect needs to be undertaken at the earliest so that the Parliament of Pakistan may consider these amendments and bring Pakistan in line with a sun-shine legislation in the comity of the nations in the world relating to sound Corporate Governance in Pakistan.
5. Only professionally qualified persons should be appointed to handle corporate management affairs.

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ACCOUNTING FOR WATER

By: Lisa Lowe, The University of Melbourne

Financial accounting concepts have a useful application to the measurement and management of Australia's dwindling water resources.

Lisa Lowe is a PhD candidate at The University of Melbourne.

Introduction

The impact of Australia's water crisis has been widespread and is featured regularly in public commentary. What is not so commonly known is the potential for accountants to play a key role in the management of Australia's precious water resources.

There are many demands on our water supplies. In the future, our need for water resources will only increase as we provide for a growing population. Australian governments also appear committed to maintaining and restoring the environmental health of our rivers and this will involve reducing the amount of water we currently divert away from rivers. To make matters worse, scientists are predicting that climate change will result in reduced rainfalls in South-Eastern Australia.

In response, our major cities are searching for additional water supplies and are considering alternatives such as recycled water and the desalinisation of sea water. Concerned Australians are taking shorter showers, planting drought-resistant gardens and even installing their own rainwater tanks. But as accountants there is much more we can do. The emerging discipline of water accounting will play a key role in the future management of our nation's most important resource. The emerging discipline of water accounting will play a key role in the future management of our nation's most important resource.

A New Discipline Emerges

Australian governments have recognised the need to provide enhanced water-related information. For example, a key component of the Federal Government's $10 billion water plan was to improve the availability of water-related information and Commonwealth legislation now stipulates the annual publication of a National Water Account. The emergence of the discipline of water accounting will play an important role in water reform in Australia through the provision of relevant and reliable information for use by governments and a range of other important stakeholders. Water accounting involves the systematic measurement, recording and reporting of relevant information about water. A robust system of water accounting which produces general purpose water reports will provide support for investment decisions made by governments and private investors and will help stakeholders to more clearly assess the stewardship of the resource.

Notwithstanding the above, water accounting is in its infancy. Only a few water accounts have been produced to date in Australia. The ABS has produced three Australia-wide water accounts. The focus of these water accounts is on the movement of water from the environment into, and within, the economy. In Victoria, the Department of Sustainability and Environment is preparing its fourth State Water Report. This report differs from the Bureau of Statistics water accounts in both format and information content. The report provides information on water availability and the allocation to, and use by, water authorities. While the past few years have seen significant advances in water accounting, there is no doubt that this new discipline can and must continue to evolve.

Converting Dollars to Litres

There are several key similarities in the focus of water accounting and financial accounting. Both approaches record and report information on the stocks and flows of scarce resources for use by a range of interested parties. While financial accountants report in dollars, water accountants are concerned presently with the physical volumes of water.

In a water balance sheet, the assets recorded for the relevant entity would include the volume of water held in reservoirs and the volume of water stored in underground aquifers. On the credit side of the balance sheet, liabilities would show how the available water is allocated between different user groups such as urban consumers, industry, irrigators or even for environmental purposes. The volume disclosed as equity refers to the volume of water that is not earmarked for any particular use.

Comparing two successive water balance sheets will clearly indicate that the volumes of water have changed. A flow statement, prepared on an accrual basis, shows how and why the stocks have changed in much the same way as a profit and loss statement does in financial accounting. Changes are due to inflows and outflows occurring in the catchment and are analogous to revenues and expenses. Inflows consist of the rain falling on the catchment and outflows include the consumption of water by cities, industry and irrigation, evaporation and water that flows out to the ocean. In this way, robust water accounting has potential to shed light on changes in stocks and flows of water resources and in doing so, the management of the resource can be more directly understood and evaluated.

Developing the Conceptual Framework

There is much for accountants to contribute to the developing field of water accounting. Financial accounting concepts are already being drawn upon to inform the development of a conceptual framework for general purpose water accounting. The conceptual framework will define the nature, scope and objectives of water accounting and address issues such as the appropriate reporting entity, required qualitative characteristics of the information reported, as well as setting out the definition, recognition and measurement of water accounting elements. As water accounting continues to develop as a discipline, financial accounting concepts are sure to inform the focus and content of key water accounting standards which define the nature and content of primary general purpose water accounting reports,.

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ENTERPRISE GOVERNANCE

By: Wim Van der Stede

Wim Van der Stede, CIMA professor at the LSE, explains why businesses should be more circumspect during a boom – and prepared to take risks when conditions get tougher.

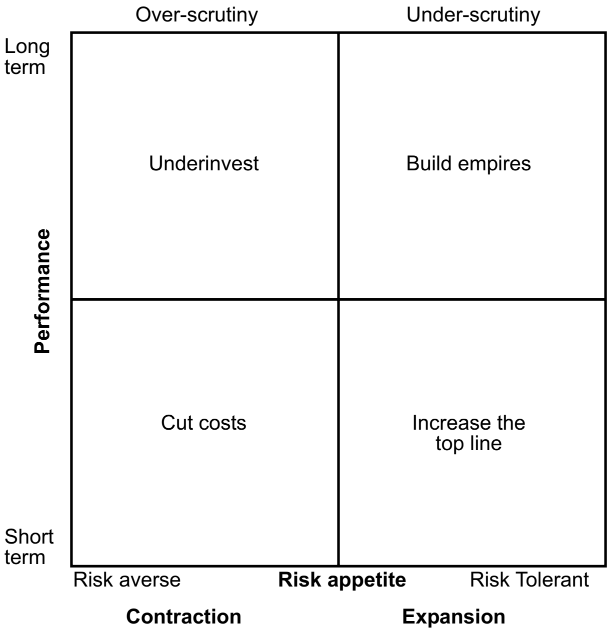
Wim Van der Stede is CIMA professor of accounting and financial management at the London School of Economics

Companies tend to become complacent when business is good, letting their guard down when performance is meeting or beating expectations. But, when things are not going so well and targets aren't being met, they tend to overreact by tightening their belts too much. This is perhaps quite a natural reaction, yet it's also an outcome of the management-by-exception approach that most organisations use. This focuses on problem areas, assuming that all is well where targets are being hit. Some risk management practices also tend to do this, particularly quantitative tools (e.g., value at risk) based on historical figures that tend to look best when they should be looking worst – i.e., at the end of a boom.

As a business's performance goes through cycles, the level of management scrutiny tends to move inversely and asymmetrically to it. In other words, there is more vigour to combat contractions than there is sensible restraint or healthy scepticism towards unusually strong performance during expansions. While there may be plausible reasons for this, I am not convinced that it's good practice. Examples of lopsided performance scrutiny cycles are easy to find, particularly in the current downturn. Since the credit crunch began in August 2007, everyone has started to listen to risk managers again. Articles on risk management abound in the business press. In the immediate aftermath of a crisis we hear calls for government action. This was certainly true in 2002 following the collapses of Enron and WorldCom. These scandals spawned a slew of new policies and regulations on corporate governance and risk management worldwide. But, once a crisis passes, the new rules bed down, the boom times return and the cautious tone changes. Shareholders start to enjoy high returns once again and the appetite for scrutiny of any kind quickly wanes or, worse, is dismissed as a drag on performance. Similarly, the tendency inside many firms to investigate an unusual profit is weaker than the tendency to investigate an abnormal loss. Yet there's evidence to suggest that unusually big profits are often where the seeds of future distress are sown. They may be a sign that managers have been taking too many risks or been excessively short-termist, particularly where scrutiny has been lax. The crisis in the financial services sector is a case in point. Whatever the industry's ills are blamed on, they are to some extent self-inflicted: too much complacency when things were great, leading to a failure to ask tough questions and challenge assumptions.

Under-scrutiny often prevails during periods when there is a focus on the top line, driven by aggressive, rose-tinted growth plans, overconfidence and weak controls. It often results in empire-building through risky investments and ill-advised acquisitions. Over-scrutiny, on the other hand, is characterised by a tightening of the screws through cost-cutting, a clampdown on investments (even worthwhile ones), balance sheet "clean-ups" and divestments (sometimes at huge discounts) driven by excessive risk aversion, over-compliance in the face of potential litigation and other stifling, protective attitudes. Clearly, neither situation seems ideal.

The yo-yo approach to risk and performance management

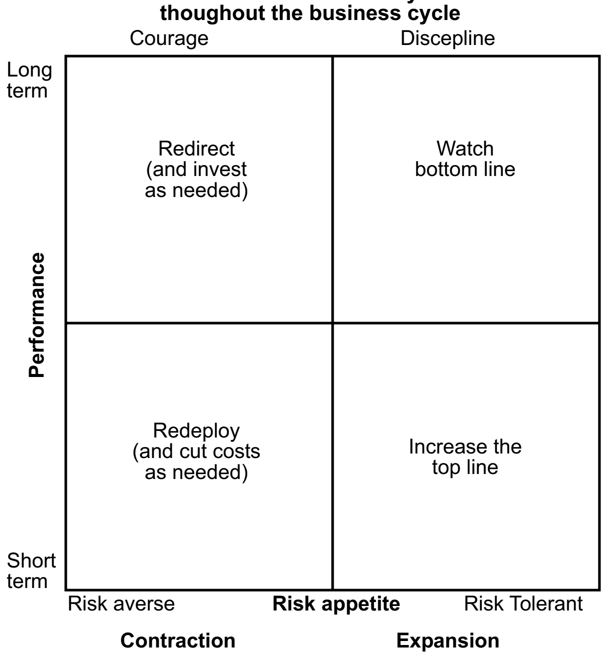


On the right half of the matrix in figure 1, companies are upbeat and overconfident when times are good and capital is readily available. Their tolerance for risk is high and they tend to emphasise growth through acquisition. This expansion may benefit the bottom line in the short term as new sales come in and some cost savings have an immediate effect, while other costs are amortised or "taken out" as one-off items. But such empire-building often earns substandard returns in the long term – hence the use of the colour red for danger in the top quadrants of the matrix. Examples abound of aggressive acquisitions, built on hubristically estimated synergies, that fail to create the value that was promised. The time factor is clearly important here, so it is depicted along the vertical dimension of the matrix. The short-term effects of weak scrutiny and excessive risk-taking on performance are often good, which further discourages firms to question such an approach.

On the left half of the matrix, when the going gets tough and performance is weaker than expected, companies often lose their appetite for risk. In order to tackle their performance problems they often go for the low-hanging fruit: they cut costs, reduce R&D and raise the hurdle rate for accepting capital projects, thereby often underinvesting in otherwise promising enterprises. Again, the results of such actions are often beneficial in the short term, but they tend to hamper value creation, effectiveness and competitiveness in the long term. Again, what might seem to be wise decisions may well come back to haunt the company. Risk aversion in this case, rather than hubris, can put the business in jeopardy.

So how can companies have the discipline in good times to not overreach themselves and the courage in bad times to continue investing for the long term? How can the process of scrutiny be calibrated through the business cycle so that it makes managers appropriately risk conscious? The matrix in figure 2 illustrates the recommended approach. Note that the colour in the top quadrants is still amber, denoting caution. This makes the point that companies should not seek to eliminate risk entirely. Measured risk-taking is crucial in driving long-term performance, which inevitably involves uncertainty. Risk is, after all, what drives a wedge between a good decision and a good outcome, where it must be accepted that even good decisions made under appropriate scrutiny and with sensible restraint will not always have good outcomes. My key inference, therefore, is that if we are willing to accept that calibrating scrutiny and performance throughout the business cycle is desirable, then performance and risk management really are two sides of the same coin. They should be considered in unison rather than subjugating the level of scrutiny as a mere reaction to performance fluctuations.

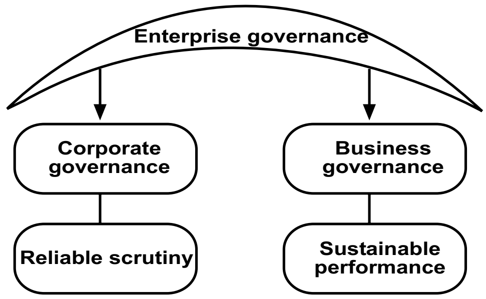
A better method: scrutiny thoughout the business cycle



Enterprise governance1 is a conceptual framework – not a practical tool per se – that puts reliable scrutiny and sustainable performance under one umbrella, addressing how firms might think about the need to align both items in the short and long term (see figure 3). It resonates with formal risk management approaches such as the enterprise risk management framework (ERM) developed by the Committee of Sponsoring Organisations of the Treadway Commission.

The ERM's formal definition posits risk management as a tool to provide "reasonable assurance regarding the achievement of entity objectives," which clearly marries risk ("assurance") and performance ("objectives"). By doing so with reference to risk appetite and emphasising "reasonable assurance," it also suggests that risk is to be managed, not eliminated. As such, risk management is

Conformance *and* performance



not only about ensuring that bad things don't happen, but also about ensuring that good things do happen. The ERM's definition also mentions the "board of directors, management and other personnel," indicating that risk management should pervade the organisation rather than remain the concern of a few senior people. So, even though performance and conformance may be separable, they are not independent. It is hard to consider one without the other, especially if you're taking a long-term view. But research suggests that organisations still often treat performance and risk management separately. For example, one study found that companies implemented ERM as a reaction to regulatory pressure and corporate governance requirements.3 They tended to do it not because it made good business sense, but rather because they felt obliged to. Yet, when asked about the benefits of adopting this approach to risk management, those same companies hinted primarily at performance benefits such as the ability to make better-informed decisions. Not surprisingly, they also mentioned some compliance benefits such as improvements to their corporate governance practices. They even mentioned some "cycle-busting" benefits – notably: reduced earnings volatility and improved performance.

So, although many firms have engaged reluctantly in risk management chiefly for compliance purposes, research suggests that the benefits of doing so have been mainly performance related. It also indicates that performance and risk management need not work against each other. I didn't set out in this article to assign blame for the financial crisis or to provide a "how to" tool for handling downturns – there are no easy answers for such complex issues. But I do hope that I've highlighted some spasmodic tendencies that cause performance and risk management to become misaligned and may contribute, at least partly, to adverse performance over time. With this in mind, firms can consider ways to rebalance their lopsided performance scrutiny cycles. Daring to ask the tough questions – even when nobody else does because they are too consumed by their current successes – is a good start. In respect of the current crisis, it would have been good to ask such questions about whether "millennium finance" really was the panacea it was thought to be.

Those banks that decided not to invest in complex financial instruments whose risks were misunderstood were "often pilloried for being boring," said Mervyn King, governor of the Bank of England, in April 2008, criticising the City of London's complacent attitude to risk. "Boring" should perhaps be understood as "appropriately prudent." Healthy scrutiny should be encouraged throughout our organisations. Risk management is not only about

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FINANCIAL SECTOR NEWS

SBP NEWS

SBP and IFC launch Project on SME Market Segmentation in Pakistan:

The State Bank of Pakistan (SBP) and the International Finance Corporation (IFC) launched a Joint Project on Small & Medium Enterprises Market Segmentation with a view to providing credible information base on key SME clusters/sub-sectors of economic importance.

The objective of the Project, funded jointly by SBP & IFC, is to develop key drivers of business of important SME subsectors located in various cities of the country. The Project would specially help banks in identifying and targeting priority SME segments through appropriate products, program schemes and marketing/distribution strategies, thereby increasing their penetration into the SME sector.

This is an important project as availability of reliable and comprehensive data on Small & Medium Enterprises play an important role in the development of SME sector, helping relevant stakeholders to devise sector-specific effective regulatory and policy strategies.

M/s. Grant Thornton International, Pakistan has been hired as consulting firm to carry out the Project.

Deputy Governor, State Bank of Pakistan terms launch of MF-CIB as significant step towards improving risk management.

Muhammad Kamran Shehzad, Deputy Governor, State Bank of Pakistan has termed the launch of pilot Microfinance Credit Information Bureau (MF-CIB) as a significant step towards improved risk management practices and reducing over-indebtedness of low-income clients.

Speaking at the launching ceremony of MF-CIB, which is a joint venture of Pakistan Microfinance Network (PMN), UK's Department for International Development (DFID), Citi-Foundation and the State Bank of Pakistan at a local hotel in Lahore. Mr. Kamran said that MF-CIB will not only strengthen and expand the microfinance sector, but also create a healthier credit culture, identify credit-worthy borrowers, reduce instances of over-borrowing and fraud. "The Microfinance CIB will also aid policy instruments by providing accurate indebtedness and delinquency information," he added.

Kamran said that the Federal Government is reviewing a law which provides a framework for regulating all credit bureaus. "This law will strengthen CIBs, bring transparency, and provide clients' grievance redressal mechanism," he added.

Currently, Microfinance Banks (MFBs) regulated by the State Bank have access to SBP's e-CIB; however, a large number of MF clients (approximately 50%) are served by non-regulated Microfinance Institutions (MFIs) with no credit history of their customers either at SBP or a private CIB. The pilot Bureau will provide an opportunity for the Microfinance Providers (MFPs) to experience real benefits of a fully functional credit bureau as it will provide client's credit profile, containing demographic information, ensuring proper identification, and including pertinent information relating to the creditworthiness and repayment capacity of an applicant.

Initially, the pilot Credit Bureau will contain data only from eleven Microfinance Providers working in Lahore district.

Banks disburse over Rs 188 billion agricultural credit in first ten months of FY10

Agricultural credit disbursement by commercial and specialized banks rose 7.58 percent year-on-year to Rs 188.025 billion in the first ten months (July-April) of the current 2009-10 fiscal year (FY10). In absolute terms, disbursement of credit to the agriculture sector increased by over Rs 13.246 billion in July-April, 2010 when compared with total disbursement of Rs 174.778 billion in the same period last year.

Overall credit disbursement by five major commercial banks including Allied Bank Limited, Habib Bank Limited, MCB Bank Limited, National Bank of Pakistan and United Bank Limited stood at Rs 95.958 billion in July-April, 2010 compared with Rs 86.552 billion in July-April 2009, depicting an increase of Rs 9.406 billion or 10.87 percent. Zarai Taraqiati Bank Limited, the largest specialized bank, disbursed a total of Rs 56.194 billion in July-April, 2010, up 7.03 percent when compared with Rs 52.505 billion in the same period last year.

E-payments grow to Rs 4.5 tln in third quarter of FY10
Electronic payments continued to show a rising trend as both the number and value of such transactions increased in the third quarter (January-March) of the current 2009-10 fiscal year (FY10)

According to State Bank's Third Quarterly Report on Retail E-Payments and Paper Based Instruments released May 18, 2010, the volume and value of E-Payments transactions in the country during the third quarter of FY10 reached to 50.3 million and Rs 4.5 trillion respectively showing an increase of 8.4 percent in number and 8.2 percent increase in value as compared to 0.2 percent increase in number and 6.1 percent increase in value in the previous quarter. The Report said the use of electronic channels has showed a consistent growth as during the third quarter contribution of electronic transactions in total retail transactions recorded at 37.75 percent in number compared to 35.3 percent share recorded during the previous quarter. In terms of value, the electronic channel's composition recorded at 11.38 percent against 10.9 percent share recorded in the previous quarter.

During the third quarter of FY10, the volume and value of ATM transactions in the country reached to 29.4 million and Rs 232.6 billion respectively showing an increase of 7.9 percent in number and 10.4 percent in value as compared to 2.2 percent decrease in number and 0.5 percent decline in value in the previous quarter. Whereas, the volume and value of real time online banking transactions in the country reached to 15.9 million and Rs 4.2 trillion respectively showing an increase of 12.1 percent in numbers and 8.2 percent increase in value as compared to 8.8 percent increase in numbers and 6.4 percent increase in value in the previous quarter.

According to the Report, total number of Automated Teller Machines during the third quarter reached to 4,375 registering a growth of 3.7 percent as compared to 4.0 percent increase in the previous quarter. The volume of Real Time Online Branches (RTOB) during third quarter reached to 6,634 and recorded a growth of 0.7 percent as compared to 7.6 percent increase recorded in the previous quarter. The total quantity of POS terminal reached to 51,577 showing an increase of 1.3 percent in number as compared to 1.5 percent decrease in previous quarter. The volume and value of debit cards transactions were reported at 32.75 million and Rs 256.95 billion respectively showing an increase of 9.2 percent both in numbers and value as compared to 3.7 percent increase in numbers and 9.7 percent increase in value in the previous quarter. Similarly, during the third quarter of FY10 the volume and value of credit cards transactions were reported to be 3.6 million and Rs 16.35 billion respectively showing a decrease of 3.9 percent in numbers and 4.0 percent decrease in value as compared to 10 percent decrease in numbers and 8.7 percent decrease in value in the previous quarter. In addition, the total number of cards (debit / credit /ATM only) in circulation during the third quarter reached to 10.45 million which shows an increase of 4.9 percent compared to 6.8 percent increase in the previous quarter. The Report pointed out that during January-March 2010 quarter, the volume and value of Point of Sales (POS) transactions in the country were recorded at 3.7 million and Rs 17.2 billion respectively showing a decline of 5.1 percent in numbers and 6.2 percent decrease in value as compared to 11.8 percent decrease in numbers and 20.25 percent decrease in value in the previous quarter.

Remittances rise 15% to $7.307 Bln during first ten months of FY10:

Remittances sent home by overseas Pakistanis continued to show a rising trend as an amount of $7,306.65 million was received in the first ten months (July-April) of the current fiscal year 2009-10, showing an increase of $951.07 million or 14.96 percent over the same period of the last fiscal year. The amount of $7,306.65 million includes $1.02 million received through encashment and profit earned on Foreign Exchange Bearer Certificates (FEBCs) and Foreign Currency Bearer Certificates (FCBCs).

In April 2010, an amount of $755.77 million was sent home by overseas Pakistanis, up 8.35 percent or $58.25 million, when compared with $697.52 million received in the same month last year. It may be mentioned here that International Fund for Agriculture Development (IFAD), a specialized agency of the United Nations, in its quarterly Financing Facility for Remittances newsletter has reported Pakistan as a top nation which has shown the highest growth in the world in remittances despite recent global financial crisis. According to the newsletter, Pakistan is followed by Bangladesh, Mauritius, Swaziland, Guinea-Bissau and Philippines which have also shown strong growth in remittances.

The inflow of remittances in the July-April, 2010 period from UAE, Saudi Arabia, USA, GCC countries (including Bahrain, Kuwait, Qatar and Oman), UK and EU countries amounted to $1,663.22 million, $1,525.90 million, $1,461.80 million, $1,033.00 million, $734.59 million and $210.22 million respectively as compared to $1,366.79 million, $1,264.07 million, $1,435.65 million, $996.02 million, $467.98 million and $196.53 million respectively in the July-April, 2009 period. Remittances received from Norway, Switzerland, Australia, Canada, Japan and other countries during the first ten months of the current fiscal year amounted to $ 676.86 million as against $ 628.09 million in the same period last year.

The monthly average remittances for the July-April 2010 period comes out to $730.67 million as compared to $ 635.56 million during the same corresponding period of the last fiscal year, registering an increase of 14.96 percent.

Islamic finance acceptability in the world increasing: Dr. Umer Chapra

Dr. Umer Chapra, a renowned international scholar on Islamic economics and finance, has said that there is a greater acceptability of Islamic finance in the world after the recent global financial crisis. Delivering a lecture on 'Current Islamic Banking Paradigm and the Way Forward' at SBP, Dr. Chapra said that Islamic Finance is now more respected all over the world because of several economic crises created by the global financial system in the last four decades. He said the recent financial turmoil was the most severe of all involving approximately $3 trillion to $4 trillion in bailout funds.

He said that primary cause of the recent crisis was excessive and imprudent lending by the banks which happened because of inadequate market discipline and lack of regulation and supervision. He gave a complete run down on how the international financial crisis evolved and highlighted salient features of the Islamic financial system which can prevent occurrence of such a crisis in future.

Dr. Chapra said that risk-sharing and equitable allocation of credit are the hallmark of Islamic financial system based on Islamic principle of justice. He said the Islamic financial system lays greater emphasis on equity and profit and loss sharing which make banks more cautious in lending and added that in Islamic system debt is not created through direct lending and borrowing but rather through the sale and purchase of real goods and services. He said the Islamic financial system puts several conditions on debt financing which, inter alia, include that the asset being sold or leased must be real and not notional or imaginary. Similarly, debt cannot be sold and the risk of default associated with it must be borne by the lender himself which will motivate creditor to be more careful in lending, he added. He said the market discipline that Islam imposes put a check on excessive expansion of debt. Dr. Chapra said that Islamic finance is still in its infancy stage but there is a lot potential of its growth. "Islamic financial system has showed the world why conventional system failed…..and this system can save the international financial system," he added.

Earlier, Syed Salim Raza, Governor, State Bank of Pakistan in his welcome address acknowledged the valuable contributions made by Dr. Chapra in the field of Islamic economics and finance. Dr. Chapra is currently a Senior Research Advisor at Islamic Research and Training Institute (IRTI) of the Islamic Development Bank. Before joining IRTI, he worked as Senior Economic Advisor at the Saudi Arabian Monetary Agency where he served for 35 years. He has authored 10 books and monographs, and more than 70 papers and book reviews.

SBP extend Rs 138 bn credit to private sector: Banks have extended credit amounting to Rs 138.4 billion to the private sector during July 1st , 2009 to March 20th, 2010 compared with Rs 106.9 billion provided in the same period last year. This was disclosed by the Deputy Governor, State Bank of Pakistan, Mr. Muhammad Kamran Shehzad while presiding over a meeting of the Private Sector Credit Advisory Council (PSCAC) at SBP in Karachi. He said that about 63% of total credit has been availed for working capital while 37% for fixed investment purposes and added the main sectors that availed credit included manufacturing (including textiles), electricity, gas, water and agriculture.

Mr. Kamran said that SBP's efforts to facilitate exports have resulted in rise in banks' credit disbursement for export finance by Rs 26.2 billion during the second quarter (October - December) of FY10 in contrast with a decline of Rs 2.6 billion in the first quarter of FY10. He also pointed out that sector-wise analysis of credit to private businesses has shown healthy growth of 6.2% during Jul-Feb FY10. All major sectors availed credit; however the highest share was availed by manufacturing sector (69%) followed by electricity, gas & water (29%), agriculture (5%) etc. Out of the total credit to manufacturing sector (Rs 92.4 billion) 46% was extended to food products & beverages, 41% to textile and 10.7 % to chemicals & chemical products while spinning, weaving, finishing of textiles received Rs 38.0 billion, the Deputy Governor added.

Mr. Kamran opined that favourable performance by the agriculture sector has had a healthy impact on the Large Scale Manufacturing (LSM) which grew by 2.3% in July –January, FY10 as against a contraction of 5.4% in the same period last year.

SBP Deputy Governor said that weighted average lending rate declined to 13.71% in December 2009 from 14.32% in June 2009 while real interest rate has also declined to 2.9% from 3.5 % during the period. "However, its effect has not trickled down to private sector, as most of the resources were preempted by government for commodity financing, fertilizer import, partial settlement of power sector circular debt and financing of budget deficit," he added.

Pakistan's economy likely to sustain growth revival in FY10:

State Bank Quarterly Report: Pakistan is likely to sustain revival of economic growth during the current fiscal year (2009-10) because of an above-target recovery in manufacturing, strong rebound by the construction sector, reasonable performance by the services sector and strong domestic consumer demand, according to the State Bank of Pakistan's Second Quarterly Report on the State of the Economy for FY10 which was released March 29, 2010. State Bank's estimates for FY10 gross domestic product (GDP) growth remain unchanged from the previous quarter, with real GDP growth for the year projected to fall in the range of 2.5 percent to 3.5 percent. It pointed out that the resurgence in inflationary pressures due to revival in aggregate demand, exchange rate pass-through, etc. have, so far, not exceeded levels already embedded in the earlier SBP forecasts. The annual headline CPI inflation projection for FY10 also remains unchanged and it is estimated to be in the range of 11.0 percent to 12.0 percent, the Report said.

Encouragingly, due to a better than expected performance by the exports in recent months and robust performance of remittances earlier in the year, the current account deficit has narrowed more than projected earlier. Thus, even incorporating relatively less positive trend in months ahead, it seems likely that the full year FY10 deficit will be lower than earlier SBP forecasts. "Current projections suggest that the FY10 current account deficit is likely to fall in the range of 3.2 percent to 3.8 percent of GDP, which represents a 0.5 percent to 1.1 percent of GDP improvement from the earlier estimates," it added. But SBP's Report pointed out that FY10 fiscal deficit is estimated to be higher on account of extraordinary defense related spending and weakness in revenue collection. In recent consultations with IMF, need for a cut in PSDP and relaxation in fiscal deficit target was also recognized, it said and added that the fiscal deficit is projected to lie in the range of 5.0 percent to 5.5 percent of GDP during FY10.

The State Bank's Report stressed that the country's overall economic outlook 'is mixed.'

While inflation decelerated significantly during FY10 compared with the preceding year, inflationary pressures have decisively remerged in recent months, it said and added that although, the current account deficit witnessed improvement, sustaining it at low levels will be challenging given rising import requirements of the economy, and evident weakness in the pace of growth in remittances. "Prospects for real GDP growth are better relative to the preceding year. However, this level of growth is not adequate to generate required employment opportunities," it pointed out.

The Report stressed that there is a need for serious policy efforts to achieve sustained high growth. "This needs both macroeconomic stability (low inflation, prudent fiscal stance, low current account deficit, high investment and savings), and political stability, including improvement in law & order and security conditions," it said and added that implementation of structural reforms focused on elimination of subsidies, reduced role of government in price setting, formulation of effective regulations to ensure optimum market-based outcome, are needed to sustain growth and enhance resilience of the economy against exogenous shocks.

It reiterated that while tax reforms are most readily legislated during times of economic stress, this is also the period where the revenue impact of reforms is most limited. "In other words, revenue measures will gain most traction other words, revenue measures will gain most traction only when the economy recovers somewhat. This implies that, in the short run, there may be few options to contain the fiscal deficit," aggressive fiscal reforms are key to achieving and retaining macroeconomic stability in the medium term. These need to focus on the entire range of options from increasing efficiency of public expenditures, reducing size of government, raising the tax-to-GDP ratio, etc.,

The growth prospects for the agriculture sector remain weak in contrast to the strong growth seen last year. Negative contribution by the two major crops of FY10 i.e. rice and sugarcane and expected decline in wheat harvest are mainly responsible for this gloomy outlook. On the positive side, however, it said the relatively lower prices of fertilizer and higher farm incomes in FY09 encouraged farmers to use fertilizers aggressively. Fertilizer off-take also increased due to government support in terms of maintaining a higher support price for FY10 wheat crop despite a substantial decline in international prices of the grain.

The pace of recovery in the Large Scale Manufacturing (LSM) sub-sector increased in Q2-FY10 largely in response to rising domestic demand. Most of the recovery emanated from the consumer durable industries as demand for automobiles & allied industries increased sharply despite the quarter-on-quarter increase in prices.

In terms of monetary aggregates, the Report pointed out that the growth in Broad Money (M2) accelerated to 5.7 percent during July-Feb. FY10 from 2.0 percent in the corresponding period of FY09. "This improvement resulted entirely from an expansion in net domestic assets (NDA) of the banking system on the back of rise in private sector credit and increased recourse of government to finance its deficit from the banking system," the Report said. On the other hand, trend improvement in the external account visible since December 2008, has started to reverse from October 2009 onwards. "Resultantly, NFA (Net Foreign Assets) of the banking system recorded a depletion of Rs 46.6 billion in July-Feb. FY10; though much lower compared to last year's contraction,".

The detailed Report is available on State Bank's website www.sbp.org.pk

State Bank's Policy Rate to Remain unchanged at 12.5 percent:

The State Bank of Pakistan has decided to keep its Policy Rate unchanged at 12.5 Percent. This decision was taken at a meeting of the Central Board of directors of the State Bank of Pakistan held under the Chairmanship of SBP Deputy Governor, Mr. Yaseen Anwar in Lahore on March 27, 2010.

Building on initial gains in macroeconomic stability the economy is looking to further its traction for sustainable recovery. Inflationary pressures have dampened but continue to persist, mainly due to alignment of energy sector prices with market factors. Large Scale Manufacturing (LSM) has consistently grown since October 2009 after contraction for almost 20 months but remains fragile. Reduction in the external current account deficit has allowed SBP to rebuild foreign exchange reserves, despite shortfalls in external financial flows. However, uncertainty has increased in some areas, particularly the fiscal sector, with implications for the rest of the economy, including monetary policy. Although CPI inflation (YoY) has come down to 13.0 percent in February 2010, it is high and exhibits persistence. After a low of 8.9 percent in October 2009, inflation slipped back largely due to increases in electricity tariffs, adjustments in the prices of domestic petroleum products, and administered prices of commodities like wheat. To which extent these factors will influence other prices in the economy and expectations of inflation in the coming months remain difficult to assess. Nonetheless, SBP expects the average CPI inflation for FY10 to remain close to 12 percent.

Despite presence of high inflation, crippling electricity shortages, and challenging security conditions, domestic economic activity has picked up in recent months. A cumulative growth of 2.4 percent during the first seven months of FY10 in the Large Scale Manufacturing (LSM) is encouraging. Sustainability of this trend in LSM and overall economic growth would depend on improvements in the availability of electricity and security situation. In addition, this would need supportive growth in private sector credit, which in turn depends on a reduction in the scale of government and public sector's reliance on bank borrowings.

The balance of payments position has improved considerably. The external current account deficit has come down to \$2.6 billion during July – February, FY10 compared to \$8 billion in the same period last year. This has allowed SBP to accumulate foreign exchange reserves, \$11.1 billion as on 26th March 2010, and has facilitated stability in the foreign exchange market. However, other developments in the external sector, such as Foreign Direct Investments (FDI) and workers' remittances, need to be monitored closely, especially when prospects of foreign official flows remain unclear.

The key source of uncertainty, however, lies in the weak fiscal position. Burdened by significant security related expenditures and shortfalls in revenues, keeping the fiscal deficit for FY10 within target would be challenging. Partial phasing out of subsidies and reduction in development expenditures have helped in containing expenditures but has lead to surge in domestic prices and is hurting crucial public sector investment.

Similarly, increased Petroleum Development Levy (PDL) receipts, due to higher oil imports, have cushioned the lower tax revenues to some extent but have contributed towards inertia in domestic inflation. During the remaining months of FY10, uncertainty regarding non-tax revenues on account of foreign reimbursements and extent of remaining power sector subsidies adds to fiscal complications.

The financing mix of the fiscal deficit also seems uncertain. The external financing for budget, especially the part pledged by the Friends of Democratic Pakistan (FoDP), has mostly been elusive. Of the Rs110 billion net external budget financing received during H1-FY10, Rs93 billion were provided by the IMF. With an understanding that this part of IMF money, provided in lieu of FoDP flows, is for short term, the importance of the timing of external budgetary flows cannot be overemphasized. Not surprisingly, therefore, government borrowing from the SBP has been substantial in Q3-FY10. According to provisional figures the outstanding stock of government borrowing from SBP (on cash basis), as on 25th March 2010, stands at Rs1240 billion, which is Rs110 billion higher than the quarterly ceiling limit.

With less than expected retirement of credit availed by the government for commodity operations and commencement of the 2010 wheat procurement season, pressure will build on the banking system resources. Continued borrowings by the Public Sector Enterprises (PSEs), partly because of the lingering energy sector circular debt, are also straining systemic liquidity. Further, the high infection ratio of credit to Small and Medium Enterprises (SMEs) at 22 percent and Agriculture at 17 percent may lead banks to show reluctance to extend credit to the private sector even when the pace of growth of incremental Non-performing Loans (NPLs) has slowed considerably in the last quarter of 2009.

In this environment, with resources tied up in both commodity and circular debt and risk averse behaviour, banks will tend to negotiate higher rates on risk-free or government guaranteed debt. For instance, the first issuance of the Term Finance Certificate (TFC) in March 2009 was priced at KIBOR plus 1.75 percent, while the second issuance in September 2009 was at KIBOR plus 2 percent. Similarly, the rates for financing commodity operations were around KIBOR plus 2.5 to 2.75 percent. This reflects that banks are building in the cost of ongoing rollover, instead of repayment, of outstanding credit. Thus, the attractively priced government borrowing may lead to stagnation in private sector credit growth.

Government will have to revisit its commodity intervention strategy, sooner than later, so that commodity operation requirements may go back to normal levels. Similarly, a complete resolution of the circular debt would be essential. Apart from releasing banking system resources and easing pressure on market rates, it will alleviate some constraints impeding production of electricity in the country thus paving way for sustainable economic recovery.

Given the uncertainties pertaining to the fiscal and quasi-fiscal sectors, present stance of monetary policy is striking a difficult balance between reducing inflation, ensuring financial stability, and supporting economic recovery. An upward adjustment in SBP's policy rate, at this juncture, runs the risk of impeding the still nascent recovery, while a downward adjustment runs the risk of fuelling an already high inflation. Hence, SBP has decided to keep the policy rate unchanged at 12.5 percent.

E-payments grow to Rs 4.1 tln in second quarter of FY10:

Electronic payments continued to show a rising trend as both the number and value of such transactions increased in the second quarter (Oct-December) of the current 2009-10 fiscal year (FY10). According to State Bank's Second Quarterly Report on Retail E-Payments and Paper Based Instruments released on February 19, 2010 , the volume and value of E-Payments transactions in the country during the second quarter of FY10 reached 46.4 million and Rs 4.1 trillion respectively showing an increase of 0.2 percent in number and 6.1 percent increase in value as compared to 4.0 percent increase in number and 0.3 percent increase in value in the previous quarter. The Report said the use of electronic channels has showed a consistent growth as during the second quarter contribution of electronic transactions in total retail transactions recorded at 35.3 percent in number compared to 35.7 percent share recorded during the previous quarter. In terms of value, the electronic channel's composition recorded at 10.90 percent against 10.1 percent share recorded in the previous quarter.

During the second quarter of FY10, the volume and value of ATM transactions in the country reached 27.3 million and Rs 210.7 billion respectively showing a decline of 2.2 percent in number and 0.5 percent decline in value as compared to 10.5 percent increase in number and 12.0 percent increase in value in the previous quarter. Whereas, the volume and value of online banking transactions in the country reached to 14.2 million and Rs. 3.9 trillion respectively showing an increase of 8.8 percent in numbers and 6.4 percent increase in value as compared to 4.5 percent decline in numbers and 0.4 percent decrease in value in the previous quarter.

According to the Report, total number of Automated Teller Machines during the second quarter reached to 4,217 registering a growth of 4.0 percent as compared to 1.4 percent increase in the previous quarter. The volume of Real Time Online Branches (RTOB) during second quarter reached at 6,587 and recorded a growth of 7.6 percent as compared to 1.3 percent increase recorded in the previous quarter. The total quantity of Point of Sales (POS) terminal reached 50,920 showing a decrease of 1.5 percent in number as compared to 4.0 percent increase in previous quarter.

The volume and value of debit cards transactions were reported at 29.98 million and Rs. 235.25 billion respectively showing an increase of 3.7 percent in numbers and 9.7 percent increase in value as compared to 3.0 percent increase in numbers and 2.2 percent increase in value in the previous quarter. Similarly, during the second quarter of FY10 the volume and value of credit cards transactions were reported to be 3.8 million and Rs. 17.0 billion respectively showing a decrease of 10.0 percent in numbers and 8.7 percent decrease in value as compared to 6.9 percent decrease in numbers and 2.6 percent decrease in value in the previous quarter.

In addition, the total number of cards (debit / credit /ATM only) in circulation during the second quarter reached to 9.95 million which shows an increase of 6.8 percent compared to 4.3 percent increase in the previous quarter. The Report pointed out that during October-December 2009 quarter, the volume and value of POS transactions in the country were recorded at 3.9 million and Rs 18.4 billion respectively showing a decline of 11.8 percent in numbers and 20.25 percent decrease in value as compared to 5.3 percent decrease in numbers and 1.75 percent decrease in value in the previous quarter.

FBR NEWS:

Govt. allows import of cars to disabled persons:

The government has allowed import of custom-duty free new car of engine capacity not exceeding 1350cc by a Pakistani disabled national for personal use, says a press release issued by FBR.

The decision announced vide Customs Notification No. SRO 277(1)2010 dated 27th April, 2010, of the Revenue Division, has been taken in pursuance of a government decision announced vide Notification No 16(1)/2006 – Import II, dated the 28th September, 2009, issued by the Ministry of Commerce, to allow import of duty free cars for personal use of disabled persons, to overcome the disability, subject to fulfillment of criteria and conditions laid down in the policy.

According to the conditions, at the time of import of car the disabled person must have import authorization certificate issued by the Ministry of Commerce in his favour. Moreover, only one car shall be allowed to be imported by a disabled person, and the car shall not be sold or otherwise transferred to any person before the expiry of five years from the date of its arrival in Pakistan. Senior citizens can avail 50pc tax rebate in payable income: Senior citizens over 60 years of age are entitled to claim 50 per cent rebate in the payment of tax outstanding against them.

In a press statement, the FBR has clarified that this facility is available to all senior citizens under section 53(1)c and clause 1A of Part-III of the Second Schedule of the Income Tax Ordinance, 2001 which clearly provides that "where the taxable income, in a tax year, of a taxpayer aged 60 years or more on the first day of that tax year does not exceed seven hundred fifty thousand rupees (Rs. 750,000/), his tax liability on such income shall be reduced by 50%".

The facility is also available in case a tax has already been paid at any stage by senior citizens who can claim the refund while filing their annual tax returns. For further guidance and facilitation, the taxpayers can visit FBR's website or contact helpline staff on 051-111-227-227 and 0800-00227 during the working hours.

VAT debate not to risk IMF's stand-by arrangement: Federal Board of Revenue (FBR) has made it clear that the differences on Value Added Tax (VAT) are not likely to jeopardize the IMF's stand-by arrangements. The spokesman of FBR on Monday pointed out that there have been reports recently in the media trying to link the debate on VAT to the IMF's stand-by arrangements but there is no truth whatsoever in such speculative news items which appear to be stemming from an inadequate understanding of VAT's introduction in the country.

The spokesman said the existing sales tax in Pakistan is fundamentally based upon VAT principles. However, unnecessary tax concessions and exemptions have distorted the overall VAT character of the sales tax system and seriously damaged the tax base. The new VAT laws have already been tabled in the National and Provincial Assemblies within the existing constitutional framework and the respective Standing Committees are considering the VAT bills before their enactment. Legislation of VAT is therefore progressing as scheduled.

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The spokesman also noted that the FBR had already launched a nationwide campaign to brief all the Chambers of Commerce & Industry, including FPCC&I about the forthcoming VAT system. The existing sales tax system has 12 different tax rates ranging from 16 per cent to 25 per cent, while the proposed VAT scheme will introduce a single rate at 15 per cent. Similarly, registration threshold has also been increased from Rs 5 million to Rs 7.5 million per annum turnover.

The spokesman said the VAT regime will extend the scope of tax to hitherto untaxed sectors, especially services. Withdrawal of unnecessary exemptions on commodity sector and expansion of tax scope on services will broaden the tax base. Broad-based VAT on goods and services will not only progressively bring additional revenues to the exchequer but will also accelerate economic documentation, eventually leading to improvements in other tax regimes, especially income tax. The VAT regime will also increase the tax-to-GDP besides leading to economic equity in the country.

No closing down of PACCS:

Federal Board of Revenue (FBR) has vowed to achieve 100 per cent automation of its different organs, including customs, income tax and sales tax etc. In a statement on March 3, 2010, the FBR spokesman has maintained that automation of FBR and its key organs like customs, income tax and sales tax, is in good progress and FBR is fully committed to achieving 100 per cent automation of work processes in key wings and departments.

However in some recent media reports it has been wrongly reported that Pakistan Customs Computerised System (PaCCS) is being closed down. These reports have mixed up PaCCS with the M/s. Agility which is a company providing software to run the system for PaCCS. It has been decided following the input received from the system audit of the software and some other related issues that the automation of Customs may not be rolled out through M/s. Agility and FBR will come up with a substitute for PaCCS for providing automated services and rolling it out to all the customs stations in the country.

No additional burden on existing taxpayers: Federal Board of Revenue (FBR) has vowed to broaden the tax base without putting additional burden on the existing taxpayers. This was stated by Mr. Shahid Anwar Khan, Chief

Commissioner Inland Revenue, RTO Rawalpindi, while chairing the 8th meeting of Regional Tax Advisory Committee at the RTO on February 20, 2010.

The meeting was attended by representatives of Rawalpindi Chamber of Commerce & Industry (RCC&I), Rawalpindi Islamabad Tax Bar Association (RITBA) and a number of Trade Bodies and Associations from Rawalpindi as well as from Mufassil Areas (Jhelum, Chakwal, and Gujar Khan).

Mr. Anwar said the government wanted to take on broad the traders and business community before launching an exercise for broadening of tax base. The exercise to bring more people in the tax net would be facilitated by the FBR through distribution of a simple form amongst the traders of new commercial areas which have emerged during the last few years.

The form will require individuals to provide information about the name and nature of business, name of proprietor, CNIC number along with a copy, NTN (if existing taxpayer), along with proof of filing of return for tax year 2009. No further information will be obtained from these taxpayers. The traders and businessmen attending the meeting appreciated the efforts of the Inland Revenue Department with regard to identification of new taxpayers in specified areas of Rawalpindi and Mufassil and to bring them into tax net, so that the tax burden was distributed amongst the existing taxpayers and the new ones. They also offered valuable suggestions to make this exercise successful.

No hike in WHT on commercial power bills: Federal Board of Revenue (FBR) on January 23, 2010 denied the government was considering increasing Withholding Tax on electricity bills of commercial consumers by 100 per cent as reported in a section of the press.
A spokesman of the FBR has clarified that the government after looking at the revenue collection performance of Federal Board of Revenue during the second quarter (Oct-Dec 2009) has decided not to take any additional taxation measure.

SECP NEWS

Registration of Companies in April 2010

Islamabad, May 10, 2010: Securities and Exchange Commission of Pakistan (SECP) registered 322 companies during the month of April, 2010, as compared to 254, 270 and 293 companies registered during Jan., Feb., and Mar., 2010, respectively. An increasing trend in incorporation of new companies has been witnessed for the last six months. The total corporate portfolio as on 31st April, 2010 comprises of 55,522 companies.

Total 322 companies incorporated during April, 2010 comprise of 6 public unlisted companies, 298 private companies, 13 single member companies and 5 associations not for profit under Section 42 of the Companies Ordinance, 1984 (the Ordinance). Authorized capital and paid up capital of companies incorporated during April, 2010 amounted to Rs. 2,125.10 million and Rs. 604 million, respectively. During April, 2010, highest number of companies was incorporated at Lahore, whereby 115 companies have been registered, followed by Islamabad and Karachi registering 91 and 75 companies respectively. Peshawar, Multan, and Faisalabad registered 14, 12, and 11 companies respectively, while Quetta and Sukkur registered 3 and 1 company respectively.

Major share of new incorporation during April, 2010, was observed in the trading sector whereby 47 companies were registered, followed by 38 in services, 30 in tourism, 27 in information technology, 20 in construction, 17 in communications, 16 in food and beverages 12 in pharmaceuticals, 10 each in education, power generation and textile sector.

Legal Advisor yet not appointed. The Securities and Exchange Commission of Pakistan (the SECP) has placed a list of companies which have not yet appointed the Legal Advisors as required under the law, on the direction of the Honorable High Court of Sindh, on its website under the link,http://www.secp.gov.pk/notification/pdf/2010/List_of_Companies.xls

The Honorable High Court of Sindh, vide its order dated 16th March, 2010, in CMA No.9056 of 2009 (CP 3162 of 1993), has directed the SECP to compile and provide to the Secretary Finance, Government of Pakistan, a report containing the names of all companies who have not appointed Legal Advisors in terms of the Act, for the purpose of initiating necessary action against such companies as per law. However, before sending the report to the Federal Government, the SECP wants to ensure that the list is accurate in all respect.

Every company registered in Pakistan, having paid up capital of Rs.500, 000 or more is required to appoint a legal adviser in terms of the Companies (Appointment of Legal Advisors) Act, 1974, (the Act) and failure to appoint a Legal Advisor renders the manager or other responsible officer of the company liable to imprisonment which may extend to three months or fine, or with both.

ENFORCEMENT ACTIONS TAKEN BY THE SECURITIES MARKET DIVISION DURING LAST ONE YEAR:ISLAMABAD – April 19, 2010:

Market integrity is the core objective of any securities regulator and is crucial for the well-functioning of the capital market. Market surveillance, in particular plays a significant role in detecting and deterring potential market abuse and avoiding disruptions to the market from anomalous trading activities. Where such cases are detected, the actions are taken in accordance with the law.

The Securities Market Division of the Securities and Exchange Commission of Pakistan (“the Commission”) performed active monitoring and surveillance of the stock market during the last twelve months. The focus was to check the compliance of prevailing regulatory framework, enforcement and development of fair and transparent market. This is also evident from numerous enforcement cases initiated and actions taken during the period under review.

In twenty two different cases for violation of securities laws with special reference to insider trading, price manipulation, short/blank selling, wash trades, broker misconduct and noncompliance of the Listing Regulations, the Orders were issued after conducting hearings and penalties were imposed under the Securities & Exchange Ordinance, 1969 and Brokers & Agents Registration Rules, 2001 to the members of the Stock Exchanges and other market stakeholders (copies of the Orders available on SECP website). Moreover, warning letters were issued to forty four members of the Karachi Stock Exchange and six members of Lahore Stock Exchange for possible violations. Besides, warning letters were also issued to two banks for non-compliance of the securities laws. In addition, a Stock Exchange was also penalized for violation of the Securities & Exchange Ordinance, 1969. The Commission suspended the registration of five members of the Karachi Stock Exchange on June 26, 2009 due to unresolved investor's complaints. Subsequently, to ascertain the quantum of these complaints and other related issues, the Commission initiated enquiry against these brokerage houses under Section 21 of the Securities & Exchange Ordinance, 1969. The said enquiries were conducted by joint teams comprising of officers from the Commission, Karachi Stock Exchange and Central Depository Company of Pakistan. The enquiry teams have submitted the enquiry reports to the Commission. Based on the findings of these reports, the Commission has initiated legal action under the relevant provisions of the laws against the persons who were involved in prohibitive activities.

Moreover, in the interest of public at large and in view of the large number of investors complaints mainly pertaining to the alleged non-transfer of shares and non-payment of funds, the enquiries have also been initiated under section 21 of the Securities & Exchange Ordinance, 1969 against the four expelled / defaulter brokerage houses of the Karachi Stock Exchange during the first half of 2010. During the period, twenty six cases of possible violation of Section 224 of the Companies Ordinance, 1984 were detected / processed with respect to tenderable gain. The gain was tendered to the issuers in three cases and to the Commission in four cases. The Orders were passed in five cases after due process and Show Cause Notices have been issued in nine cases.
The Commission is determined to pursue its agenda for fair market practices, transparency and investor confidence for the growth, development and stability in the capital market.

IFAC NEWS

IFAC Releases 2010 Handbooks Containing All IAASB Pronouncements and the Code of Ethics for Professional Accountants: The International Federation of Accountants (IFAC) has released the 2010 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, and the 2010 Handbook of the Code of Ethics for Professional Accountants.

The Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements includes the International Auditing and Assurance Standards Board's (IAASB) complete set of clarified International Standards on Auditing (ISAs) and International Standard on Quality Control (ISQC) 1 now in effect. It also includes the IAASB's standards on review, other assurance, and related services, a glossary, and a preface to the international standards.

The Handbook of the Code of Ethics for Professional Accountants contains the Code of Ethics for Professional Accountants (the Code), which has been revised by the International Ethics Standards Board for Accountants (IESBA) for improved clarity and strengthened independence requirements. The revised Code becomes effective on January 1, 2011, with early adoption permitted. The handbooks can be downloaded free of charge in PDF format or purchased in print from IFAC's Publications and Resources site: web.ifac.org/publications

IAASB Welcomes New Auditing Research Initiative :

(New York/March 16, 2010) - The International Auditing and Assurance Standards Board (IAASB) looks forward to findings from four new auditing research projects announced today by the Association of Chartered Certified Accountants (ACCA) and the International Association for Accounting Education and Research (IAAER). ACCA, which is funding the project, the IAASB, and the IAAER are committed to supporting this initiative as it will help to inform debate within the profession on a range of important subjects relating to auditing and assurance, and thereby contribute to public confidence in financial reporting.

Through conducting this research, ACCA and the IAAER seek to contribute to the development of the assurance profession around the world and the quality of the standards underpinning the services they provide. The research is expected to provide insights into matters of relevance to the IAASB.

Research topics have been selected in the following four areas:
* International consistency and convergence in the application of auditing standards;
* The implications of eXtensible Business Reporting Language (XBRL) for audits of, or other assurance services on, financial statements;
* The use of risk-based audit methodology by small- and medium-sized practices; and
* The nature of professional judgment in auditing.

"We welcome this research, as we expect it to make a contribution to the implementation and application of international standards and our future standard-setting decisions," said IAASB Chair Arnold Schilder. "This initiative aligns with the IAASB's ongoing agenda for innovation within the field of auditing and assurance and our efforts to further our understanding of international developments, including the needs of those using our standards." The research, which will be conducted by international teams from Australia, Germany, the Netherlands, the U.K., and U.S., will be presented in stages. Research designs will be presented at the International Symposium on Audit Research this summer. Interim research findings will be presented in the spring of 2011, and final results will be available in October 2011.

Further information on the research projects can be found on the websites for ACCA (www.accaglobal.com) and the IAAER (www.iaaer.org).

ICMAP NEWS

INTERMEDIATE / A-LEVEL ENTRY PROGRAM:

Institute of Cost and Management Accountants of Pakistan (ICMAP) has announced career opportunity for students who have passed Intermediate / A-Level examination or awaiting result.

For students qualifying Intermediate / A-Level Entry Program, Stage-1, 2 and Financial Accounting paper of Stage-3 will be exempted. Detailed syllabus is available at ICMAP link:
http://www.icmap.com.pk/pdf/syllabus_2006.pdf

ICMAP Invites Expression of Interest for Coaching of ICMAP Courses of Studies:

Apart from ICMAP centres, reputed institutions, located within the country and abroad are invited by ICMAP to apply for coaching of prescribed courses and to register / affiliate as ICMAP Registered Education Provider (IREP) latest by May 25, 2010. Details are available at ICMAP website www.icmap.com.pk

ICAP NEWS

CHANGES IN EXAMINATION POLICY: ICAP has announced the amendments in Bye Laws relevant to the above have been published in the official Gazette of Government of Pakistan with the approval of the Federal Government on February 26, 2010. Official copy of the Gazette has been received by the Institute on March 16, 2010. Consequently, the following changes, as approved by the Council, are being implemented:

1. At present, the candidates retain a pass in paper(s) if they obtain specified marks in other paper(s) of the same module. Effective from June 01, 2010, a candidate shall retain a pass in paper(s) irrespective of the marks obtained in other papers.

2. Effective from Autumn 2010 examinations and onwards, candidates appearing in Module A to D shall be allowed maximum of six attempts for passing each module. An attempt shall be counted even if the candidate is absent or does not appear in any attempt.

3. Candidates appearing in Module E and F shall be allowed ten years to qualify both Modules. The period often years shall be counted from the first day of the month in which the candidate becomes eligible to appear in Module E for the first time. For all existing candidates who are already eligible for Module E and F examinations, the period often years shall be counted from June 01, 2010.

PIPFA NEWS

Computer Competency Practical Training (CCPT):

All the students of Corporate, Public, and Punjab Finance Sectors who are appearing in Final level Examinations are hereby informed that completion of Computer Competency Practical Training (CCPT) is mandatory. The students are supposed to produce CCPT Completion Certificate (in original) before declaration of Result of Summer Examinations-2010 failing which their Result Card will be withheld.

Further to note above mentioned para is also applicable on to those trainees who got failure in the subject of Information Technology in Old Syllabus.

Admission for Winter-2010:

Registration / Admission for Winter-2010 Session has been started the coaching classes for the same will be commenced from 4th week of June-2010.

Registration Forms are available at PIPFA centres, approved colleges & on PIPFA official website: www.pipfa.org.pk

Annual Subscription:

Members and students who have not paid yet their annual subscription for the year 2009-10 are reminded to pay the same at their earliest. Annual subscription for FY-10-11 will also become due from July 01, 2010.

VISIT OF PROBATIONARY OFFICERS (36th STP) OF P A&A SERVICE:

A batch of 20 probationary officers of Pakistan Audit & Accounts Training Institute (AAT), Lahore visited Head Office of Pakistan Institute of Public Finance Accountants (PIPFA), Karachi on April 6, 2010. The said visit was a part of their training as a study tour planned by AAT, Lahore, so that they can understand the working mechanism of PIPFA.

Visit of Prabationary Officers (36th STP) of Pakistan Audit & Accounts Services to PIPFA Head Office, Karachi

Fellow Members List

1.	SHAHZAD A. AWAN	(FPA-1571)
2.	SAJJAD AHMED	(FPA-1929)
3.	ASIF MAHMOOD	(FPA-2057)
4.	M. ZUBAIR RASHID MIRZA	(FPA-2067)
5.	MOHAMMAD HASSAN KHALID	(FPA-2140)
6.	ROHAIL AJMAL	(FPA-2144)
7.	MUHAMMAD SHER AHMED KHAN	(FPA-2175)
8.	IRFAN AHMED	(FPA-2343)
9.	IMRAN SHAHZAD	(FPA-2434)
10.	MUHAMMAD FAYAZ IQBAL	(FPA-2471)
11.	NADEEM ALAM	(FPA-2501)
12.	SYED MUHAMMAD AKBAR	(FPA-2531)
13.	ASIM ASHFAQ AHMAD BHATTI	(FPA-2600)
14.	OMAR NASHEED AHMAD	(FPA-2603)
15.	MUHAMMAD KHURAM SHAHZAD	(FPA-2660)
16.	SAQIB ASLAM	(FPA-2661)
17.	SALMAN MASOOD	(FPA-2697)
18.	HASSAN SAEED	(FPA-2750)
19.	SYED AHMED KAMAL	(FPA-2762)
20.	AAMIR	(FPA-2766)
21.	TEHSEEN IQBAL	(FPA-2792)
22.	AROOJ ASGHAR	(FPA-2802)
23.	JAWAD AHMED	(FPA-2814)
24.	ZEESHAN AHMAD	(FPA-2920)
25.	MUHAMMAD HASSAN	(FPA-2935)
26.	YOUSUF ALI	(FPA-2991)
27.	SYED ASIF RAZA	(FPA-2996)
28.	MUHAMMAD SHAHZAD HABIB	(FPA-3000)
29.	ABDUL REHMAN NUTKANI	(FPA-3008)
30.	SYED MUHAMMAD RASHID SHAH	(FPA-3012)
31.	TARIQ JAMAL SIDDIQUI	(FPA-3019)
32.	ALI AKBAR SADIQ	(FPA-3030)
33.	MUHAMMAD ISHFAQ	(FPA-3039)
34.	ANTHONY CYRIL WILLIAMS	(FPA-3068)
35.	ABDUL MAJID	(FPA-3072)
36.	MUHAMMAD MEHTAB KHAN	(FPA-3088)
37.	HOSHEDAR B. MANA	(FPA-3115)
38.	ABDUL QAYYUM	(FPA-3155)
39.	MUNIR AHMAD	(FPA-3163)
40.	MUHAMMAD ANWAR-UL-HAQ	(FPA-3171)
41.	TARIQ HUSSAIN	(FPA-3186)
42.	SYED ALI HASHMI	(FPA-3198)
43.	TALIB HUSSAIN BALOCH	(FPA-3201)
44.	NADEEM AHMED MAZARI	(FPA-3223)
45.	MUHAMMAD AMIR	(FPA-3242)
46.	OMAIR ZAFAR	(FPA-3246)
47.	ADNAN HAMEED KHOKHAR	(FPA-3247)
48.	MOHSIN HUSSNAIN	(FPA-3251)
49.	MIAN ZUHAIB ZAFAR	(FPA-3264)
50.	MUHAMMAD ARSHAD	(FPA-3278)
51.	INAM UL HAQUE	(FPA-3297)
52.	MUHAMMAD AZHAR LATEEF	(FPA-3952)
53.	MUHAMMAD MANZOOR RAB	(FPA-1717)
54.	ASHER NOOR	(FPA-1860)
55.	MUHAMMAD SHOAIB	(FPA-2264)
56.	MOHAMMAD RAQUIM	(FPA-2279)
57.	MUHAMMAD UZAIR KHAN	(FPA-2435)
58.	SHAH RUKH WASEEM QURESHI	(FPA-2453)
59.	MUHAMMED TAHA	(FPA-2574)
60.	FEROZ SHAH	(FPA-2604)
61.	AAMIR MUNIR	(FPA-2665)
62.	SAJID HAZOOR	(FPA-2928)
63.	ASHFAQ ULLAH KHAN	(FPA-2974)
64.	MUHAMMAD AMJAD QADEER	(FPA-3094)
65.	MUHAMMAD TARIQUE	(FPA-3119)
66.	SOHAIL HUSSAIN ALI POONAWALA	(FPA-3127)
67.	JAVAID IQBAL	(FPA-3144)
68.	MUHAMMAD AZMAT ULLAH KHAN	(FPA-3154)
69.	ARIF ALI	(FPA-3208)
70.	SYED MUHAMMAD SHOAIB WASIM	(FPA-3229)
71.	ATIF HALIM QURESHI	(FPA-3253)
72.	MUHAMMAD NAEEM QURESHI	(FPA-3254)
73.	ABDUL WADOOD KHAN AFRIDI	(FPA-3267)
74.	ADEEL AHMAD	(FPA-3285)
75.	HARIS WAHEED	(FPA-3310)
76.	RASHID SHUJA BUTT	(FPA-3348)
77.	HARRIS IBRAHIM	(FPA-3355)
78.	SHAHZAD AHMAD	(FPA-3371)
79.	WAHEED ANWAR	(FPA-3415)

WELCOME NEW MEMBERS

FELLOW MEMBERS

1.	CHAUDHRY NAUMAN ZAFAR	(FPA-4880)
2.	OSMAN JAWED LONE ``	(FPA-4881)
3.	BABAR BASHIR	(FPA-4882)
4.	NAFEESA HAMEED	(FPA-4883)
5.	ARSALAN HANEEF	(FPA-4884)
6.	EJAZ ALI PIRZADA	(FPA-4900)
7.	MOIZ HASSANALI	(FPA-4896)
8.	MAHMOOD LATIF	(FPA-4910)
9.	SAAD FAROOQI	(FPA-4911)
10.	ASHFAQ AHMAD	(FPA-4936)
11.	SYED UMAR ALI SHAH BANOORI	(FPA-4937)
12.	MUNNAZA AISHA	(FPA-4938)
13.	NIAZ AHMED	(FPA-4975)
14.	ABDUL KHALIQ	(FPA-5001)
15.	MIRZA WAQAR BAIG	(FPA-5011)

ASSOCIATE MEMBERS:

1.	MUHAMMAD ARSHAD	(APA-4850)
2.	AZHAR HUSSAIN SHAH	(APA-4851)
3.	SHABBIR AHMED	(APA-4852)
4.	SYED KHALIL UR RAHMAN SHAH	(APA-4853)
5.	MUKESH KUMAR	(APA-4854)
6.	NAVEED HUSSAIN	(APA-4855)
7.	MUHAMMAD KHURRAM	(APA-4856)
8.	MARYAM NAZIR	(APA-4857)
9.	SHAHEEN ABBAS	(APA-4858)
10.	MUHAMMAD SHAHZAD	(APA-4859)
11.	ADEEL SARFRAZ	(APA-4860)
12.	SYED IFTAKHAR ALI	(APA-4862)
13.	IJAZ UL HASAN	(APA-4863)
14.	MUHAMMAD SARFRAZ SIDDIQ	(APA-4864)
15.	ATA UR REHMAN	(APA-4865)
16.	MEHTAB KHAN	(APA-4866)
17.	MUHAMMAD AQIB NADEEM	(APA-4861)
18.	MUHAMMAD YOUSUF IMTIAZ	(APA-4867)
19.	MAJID ALI	(APA-4868)
20.	AHSAN ULLAH KHAN	(APA-4869)
21.	JAWAD AHMAD KHAN	(APA-4870)
22.	NISAR ALI	(APA-4871)
23.	FAISAL AHMED	(APA-4872)
24.	MUDASSAR GHULAM NABI	(APA-4873)
25.	USMAN SAEED	(APA-4874)
26.	KAMRAN ABBAS	(APA-4875)
27.	RAHIM BUX BUGTI	(APA-4876)
28.	MUHAMMAD IMRAN SHAUKAT	(APA-4877)
29.	MUHAMMAD ZUBAIR	(APA-4878)
30.	MUNIR HUSSAIN	(APA-4879)
31.	MOHAMMAD SALMAN	(APA-4885)
32.	WASIM YOUSAF	(APA-4886)
33.	SYED HUSSAIN AKHTAR	(APA-4908)
34.	SYED DAIM RAZA HAMDANI	(APA-4887)
35.	SYED JAFFAR ABBAS	(APA-4888)
36.	FAISAL ANWAAR	(APA-4889)
37.	MUHAMMAD NAEEM	(APA-4890)
38.	MUHAMMAD HAROON AZIZ	(APA-4891)
39.	FAIZ UL HASSAN	(APA-4892)
40.	MAHADEV MAHESWARI	(APA-4893)
41.	FAISAL RASHEED	(APA-4894)
42.	WAHEED AHMED	(APA-4895)
43.	JOUDAT ALI MALIK	(APA-4897)
44.	SAQUIB SIRAJ	(APA-4898)
45.	MATEEN ISHAQ	(APA-4899)
46.	KASHIF HASSAN	(APA-4901)
47.	ZAINAB IQBAL BHATTI	(APA-4902)
48.	MUHAMMAD SUFYAN	(APA-4903)
49.	RASHID JAVID	(APA-4904)
50.	MUHAMMAD IMRAN KHAN	(APA-4905)
51.	RIZWAN AHMAD SIDDIQUI	(APA-4906)
52.	SAJJAD AHMED	(APA-4907)

53. ATIQUR REHMAN (APA-4909)
54. SYED AHSAN AHMAD (APA-4912)
55. MUHAMMAD KASHIF NAVEED (APA-4913)
56. QASIM AMIN (APA-4914)
57. MUZUMIL HUSSAIN (APA-4915)
58. MUHAMMAD YASEEN (APA-4916)
59. SHEHZAD AHMED BEGA (APA-4917)
60. MUHAMMAD KASHIF (APA-4918)
61. ADEEL MUMTAZ (APA-4919)
62. MUHAMMAD LUQMAN RAFIQ (APA-4920)
63. MUHAMMAD ALI (APA-4921)
64. MOHAMMAD NAWAZ (APA-4922)
65. MUHAMMAD ASLAM (APA-4923)
66. MUHAMMAD AFZAL (APA-4924)
67. SAFDAR IQBAL (APA-4925)
68. SYED MUHAMMAD NASEER ALI (APA-4926)
69. ZAHEER ABBAS (APA-4927)
70. INAM UL HAQUE (APA-4928)
71. HAMMAD UL AHAD (APA-4929)
72. MUHAMMAD ABBAS (APA-4930)
73. SYED REHAN KAZIM KAZMI (APA-4931)
74. SYED USMAN KARIM (APA-4932)
75. WAQAS AHMED (APA-4933)
76. MUHAMMAD ASIM (APA-4934)
77. MUHAMMAD UMAIR (APA-4935)
78. MUHAMMAD FAROOQ AZIZ (APA-4939)
79. GHULAM MUSTAFA (APA-4945)
80. SYED HAIDER ALI SHAH (APA-4941)
81. RAFAQAT ALI (APA-4942)
82. MUHAMMAD IFTIKHAR RASHID (APA-4943)
83. MUHAMMAD BAQIR ALI (APA-4944)
84. GHULAM MURTAZA (APA-4940)
85. IMRAN ALI (APA-4946)
86. NUSRAT ABBAS (APA-4947)
87. SARA NASEER (APA-4948)
88. ATIQUR RAHMAN (APA-4949)
89. MUHAMMAD KASHAF MANZOOR (APA-4950)
90. IMRAN KHAN (APA-4951)
91. MUHAMMAD SHAHID (APA-4952)
92. SYED MOHAMMAD IDREES (APA-4953)
93. MUHAMMAD RIZWAN SHAMSHAD (APA-4954)
94. TOSEEF SAFDAR (APA-4955)
95. AKHTAR ALI (APA-4956)
96. SHIRIN NOORULLAH (APA-4957)
97. SYED GULZAR HUSSAIN NAQVI (APA-4958)
98. MUHAMMAD FAISAL KHAN (APA-4959)
99. UMAIR ABDUL KARIM (APA-4960)
100. ALI EJAZ (APA-4961)
101. IRFAN HABIB (APA-4962)
102. SHAHID ALI (APA-4963)
103. ABRAR AHMAD (APA-4964)
104. KHURRAM RASHID (APA-4965)
105. MUSTAFA MUHAMMAD (APA-4966)
106. SHAHID IMRAN (APA-4967)
107. MUHAMMAD TUFAIL MUGHAL (APA-4968)
108. MUHAMMAD NAVED SHAHID KHAN (APA-4969)
109. ASIF ALI (APA-4970)
110. IMRAN AKHTAR (APA-4971)
111. MUHAMMAD ASLAM (APA-4972)
112. MUHAMMAD JAVED ISLAM (APA-4973)
113. MUHAMMAD JAVED IQBAL (APA-4974)
114. MUDASSAR ULLAH (APA-4976)
115. NAZIR AHMAD HASRATI (APA-4977)
116. SEEMA HANIF (APA-4978)
117. JAVED AHMED (APA-4979)
118. HAFIZ HASHIM ZIA UR REHMAN (APA-4980)
119. SHAHID MEHMOOD (APA-4981)
120. MUHAMMAD UMAR (APA-4982)
121. HAROON ZEB (APA-4983)
122. SHIRAZ SHARIF (APA-4984)
123. ABDUL BASIT (APA-4985)
124. SHOAIB SHAMIM (APA-4986)
125. ARSLAN HAROON (APA-4987)
126. MOHAMMAD ARIF GHAFFAR (APA-4988)
127. UMAR HAROON (APA-4989)
128. MUHAMMAD IRFAN ZAFAR (APA-4990)
129. MUHAMMAD KASHIF (APA-4991)
130. ZEESHAN MUMTAZ MEMON (APA-4992)
131. HAFIZ MUHAMMAD BILAL (APA-4993)
132. SYED KHALID AHMAD (APA-4994)
133. MUHAMMAD ASIF JAVED (APA-4995)
134. QAMMER UZ ZAMAN (APA-4996)
135 WAQAR UR REHMAN (APA-4997)
136. MUHAMMAD FEROZE QAESER (APA-4998)
137. MUHAMMAD RAFIQ (APA-4999)
138. JAWDAT KADER HASAN (APA-5000)
139. MUHAMMAD HANIF (APA-5002)
140. TASNEEM KAMRAN (APA-5003)
141. TAJWAR ANJUM (APA-5004)
142. USAMA IBRAHIM (APA-5005)
143. SARFRAZ AHMED (APA-5006)
144. HUSSAN FAROOQ (APA-5007)
145. RAHEEL (APA-5008)
146. MUHAMMAD ISHTIAQ (APA-5009)
147. NOUREEN AL AMIN (APA-5010)
148. MOHAMMAD ANEES KHAN (APA-5012)

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(ACCOUNTING FOR WATER)

The importance of Reliability

There are considerable problems in quantifying all of the elements reported in relation to water. Guauges, which measure the flow in our rivers and the volumes we extract, cannot take precise measurements and in some instances there are substantial uncertainties associated with the measurements. The volume of other stocks and flows, such as the volume of our underground aquifers, are difficult to measure and the water accounts rely on assumptions and models of physical processes. For such reasons, water accounting requires several trade-offs to be made between quantitative characteristics such as relevance and reliability and it is crucial that the accuracy of information provides is conveyed to report users. At present, this measurement uncertainty is not systematically captured and reported in accounts. Hence the usefulness of the accounts for decision-making by interested parties is limited.

Financial accounting provides an established and accepted approach for reporting uncertainties. Concepts such as depreciation, provisions and contingencies can all be used to enhance the usefulness of water accounting.

Financial accountants have established reporting approaches to make a real difference in the management of Australia 's water resources, but there remains much for us to do. So, without further hesitation, let us begin.

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(ENTERPRISE GOVERNANCE)

organisational culture. If there is no healthy scrutiny in an enterprise, then everyone simply assumes that someone else has considered the risks – a common fallacy that will further inflate an economic bubble.

Further Reading

1. Enterprise Governance: Getting the Balance Right, IFAC/CIMA, 2004 www.cimaglobal.com/enterprisegovernance
2. Enterprise Risk Management – Integrated Framework, Committee of Sponsoring Organisations of the Treadway Commission, 2004 www.snipurl.com/7qIb8
3. Stephen Gates,"Incorporating strategic risk into enterprise risk management: a survey of current corporate practice," Journal of Applied

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Sajjad Arif	Financial Accounting & Auditing	All Levels	ACA, APA, MBA
Ms. Kauser Parveen	Business Taxation	Intermediate	ACA, CIMA, ACCA
Talha Shahid	Cost & Management Accounting	Foundation/Inter	APA, MA, ICMA(F)
Ms. Zehra Zafar	Basic Accounting & Economics	Foundation/Inter	ACMA, APA
Altaf Hussain	Communication & Beh. Studies	Intermediate	MBA, MA (Eco.)
Zeeshan Ahmed	Maths & Stats	Foundation	ACMA, APA, MSc.

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2008 - Dec	46%	54%	58%	55%	55%	56%
2009 - June	38%	52%	48%	45%	40%	60%

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