# PIPFA JOURNAL

Vol: 12, Reg. No. MC-1112

January - March 2014

Pakistan Institute of Public Finance Accountants

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# PIPFA JOURNAL

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*Compiled by: Zubair Muhammad*

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As President of the Pakistan Institute of Public Finance Accountants, it is immense pleasure for me to present 12th edition of PIPFA Journal. As both a member and now President, I can say that our institute is among the finest in the country.

If the economic performance since 1947 is evaluated, the overall results are not very encouraging. Pakistan faces so many economic obstacles which includes external debts, fiscal deficits, financing the budgetary gap, deficiency of capital, scarcity of foreign exchange, energy crisis etc. The practical means of setting aside the barriers to economic development are now to be stored out. It is a big challenge to the planners. As per my opinion by taking measures like expanding the tax base, tax on agriculture income, self reliance, export led growth, development of agriculture sector, administrative reforms, development of physical & human capital etc are right earnestly applied, the rate of economic development can go up.

Continuing Professional Development (CPD) in any type of career is necessary to prevent knowledge and skills from becoming obsolete and to remain on the forefront of theory, research, applied techniques, and other advancement in the profession. Completion of a qualification is an initial starting point for a career in PIPFA's strategic plan for life-long learning is necessary for continued effective services and responsive professionalism.

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I have personally always been a big proponent of the PIPFA CPD Program. I firmly believe that, where as feasible, most accountants will take advantage of any appropriate opportunity for the betterment their delivery of professional services to their clients.

We are also deeply indebted to all fellow board member, staff, members and students for their hard work. Your support is the driving force for our progress. We will continue to endeavour to cultivate more talents for Pakistan.

Shahzad Ahmad Awan, FCMA, FPFA

# Chairman Publication & Seminar Committee

It gives me great pleasure to present 12th edition of PIPFA Journal. PIPFA experience is demanding but it is eminently rewarding. Here you can follow your curiosity to explore new things, to encounter new ideas and opinions and discover your own capabilities.

Journal will provide you extensive knowledge about exchange rate arrangements & related policies, how to turn white elephant organizations in to profitable engines which lead the country's economy and other very edifying information.

On the other hand, as you know that Auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, auditors help public sector organizations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders.

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Over the years, we have been blessed with unwavering support by all of our stakeholders from students to members and from business partners to general public. At this critical moment in our development, we need your support more than ever. Together we will turn challenges into opportunities, dream into realities, adding a new chapter to PIPFA's fabled history.

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Thank you for your dedication to PIPFA.

Jawed Mansha, FCMA



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# Exchange Rate arrangements and policies in Pakistan

By: Sammer Ahmad, FPFA

## Introduction and Background

Pakistan came into being on 14th August, 1947, as a result of partition of sub-continent, the United India. It is located in South Asia with the area of 770,900 square kilometer and the current population is approximately 180 million (World Bank 2013). Rapid industrialization was considered necessary for rapid economic growth. As a result of this, economic growth was striking and industrial output was substantial in the initial two decades of the economic history of Pakistan. Pakistan's economic progress showed such an amazing trend that it became the model for other developing countries in 1960s. For the next coming decades, attention was also given to the equal distribution of income along-with high economic growth. In the last decade, there appeared some good economic indicators but those could not last long. So, the economy of Pakistan has had to face fiscal imbalances, unsustainable growth rates, high level of poverty and unemployment (Husain 2009).

Exchange rate can be defined as "An exchange rate is the price of one country's currency in terms of another country's currency. Exchange rates play a role in spending decisions because they enable us to translate different countries' prices into comparable terms. All else equal, a depreciation of a country's currency against foreign currencies (a rise in the home currency prices of foreign currencies) makes its exports cheaper and its imports more expensive. An appreciation of its currency (a fall in the home currency prices of foreign currencies) makes its exports more expensive and its imports cheaper" (Krugman and Obstfeld 2012, p.346).

Pakistani currency remained connected with British Pound Sterling since its inception till September 1971 (State Bank of Pakistan [SBP], 2013) and afterward till January 1982 it remained linked with American Dollar. Pakistan got independence from British Crown and so after independence, link of Pakistani rupee was developed with pound sterling, largely due to member of sterling area (Mahmood, Ehsanullah and Ahmed 2011).

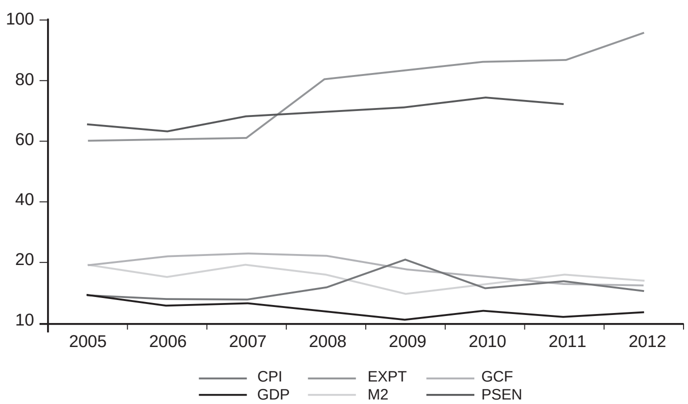
With effect from January 8, 1982, managed floating system of exchange rate was adopted in Pakistan, and under this system the value of Pak-rupee was established on daily basis keeping in view the basket of various currencies of country's main trading partners and rivals. Subsequently, with effect from 22nd July 1998, Pakistan adopted two-tier system, i.e. official rate and floating interbank rate after nuclear detonation in 1998. However, market-based system of floating exchange rate was adopted w.e.f. 19th May 1999 and this system was based on demand and supply of foreign currencies in foreign exchange market. So, at present, Pakistan is keeping floating exchange rate.

First time Pak rupee was devalued by 30% in June 1955. This depreciation of Pak rupee was made in relation to British pound. The purpose of this depreciation was to bring in line various currencies of different trading partners of Pakistan. After that its nominal exchange rate was kept fixed at the level of Rs. 4.76/1 US dollar for next seventeen years. Some analysts are of the view that, during most of the time, rupee was over-valued in those seventeen years. In Zulfiqar Ali Bhutto (ZAB) government in 1970s, rupee was devalued by 58% and resultantly, exchange rate reached at the level of Rs. 11/1 US dollar. By this significant devaluation, the subsidy in the form of over valuation of Pak rupees in favor of industrialists was removed (Mahmood et al., 2011).

If we look at the history of exchange rate policy with the socio-cultural aspect, it is evident that it was kept fixed for the initial 35 years with twice depreciation. The reason was to give subsidy to the industrialists for the expansion of industries for the ultimate social benefit of the country as a whole. Simply saying to enhance the economic pie of the country, exchange rate remained tilted to the industrialist. Unfortunately, efficiency increased but equality could not be attained because the economic pie could not be divided in letter and spirit. That is why the country excelled a lot but poverty could not be reduced.

(i) Exchange Rate (EXRT)

**Analysis** Graphical representation of data of last seven years are presented below




If we look at trend of exchange rate of Pakistan, it shows a continuous rising trend for the last ten years. This shows the nonstop depreciation of Pakistani currency. This fact is also shown by the position of CPI in Pakistan because the data of CPI also present the similar trend. The rationale behind the depreciation of Pak rupee is to increase the exports or at least maintaining the exports levels. Because we know by increasing the exchange rate or by increasing the depreciation of Pak rupee, foreign customers can buy Pakistani products on cheaper prices while the domestic customers have to pay higher prices of domestic products on one hand and they also have to pay higher prices for the purchase of foreign goods. So increasing the exchange rate has the sole benefit of increase in the exports.

Whereas, the major source of foreign exchange earnings is being obtained on textile products and sports items. The other major source of foreign exchange in Pakistan is due to the remittances of Pakistani workers from sending from abroad. The irony of fate is that there has always been a negative net balance. To remove this difficulty Pakistan always has to ask for loans from different donor agencies on high rates of interest. To pay back the loan, Pakistan has to get more loans to pay the interest of the previous loans!

(ii) Real Gross Domestic Product (GDP)

Real GDP is the measure of output of a country (Blanchard 2011). It is calculated by the adding all the quantities of output in a country and then multiply it with their prices of a base year. Real GDP is also known as GDP at constant prices.

Real GDP growth rate is one of the prime variables in the assessment of a country's economic progress. The graph shows a downward trend. Real GDP growth rate showed maximum value at the level of 9% in the year 2005, and in the very next year it reduced to 5.8%. Again, it showed somewhat better performance in 2007 but once again it touched the lowest ebb of the real GDP growth history of Pakistan in 2009 by getting the growth rate of only 1.2%. After 2009, once again there is an upward trend.

(iii) Gross Capital Formation (GCF)

Capital formation consists of production, transportation and then distribution of the fraction of a nation's output which is not utilized instantly rather that portion is preserved and included in the stock of the nation's wealth (Kuznets 1994). If an allowance is made by subtracting the current consumption from current production, it is called net capital formation, and if such an allowance is not made, then it would be termed as gross capital formation.

The data of last seven years (2005-2012) for gross capital formation for Pakistan has been taken from World Development Indicators (WDI). The curve obtained is just like a bell-shaped frequency curve. This curve shows that gross capital formation increases from 19% of GDP to 23% during the period of 2005-2007, and then it shows a declining trend till 2012 and reaches its lowest value of 12.5%. For a developing country such a Pakistan, this curve should be moved in upward slope for economic progress with the passage of time but here the case is opposite. Gross capital formation is declining with the passage of time.

(iv) Money Supply (M2)

It is a broader definition of money. Usually money supply (M1) refers to the currency in circulation and checking deposits. But we use here M2 and it includes M1 and time deposits too. So, it is called broader definition of money. It also shows a non-stationary trend. Usually interest rate and money supply have a close relationship with each other . If in an economy price level and real income level is kept fixed, then increase in the money supply reduces the interest rate. More simply, at the given price levels and income levels, there is an inverse relationship between money supply and interest rate (Krugman et al., 2012).

In 2005, M2 was kept 19.3% and in the very next year it was kept at the level of 15.2%. In 2007 it again reached the level of 19.3% then for the next two years it was kept low till it reaches at the lowest level of 9.6% in 2009. After 2009, again there is an upward trend of money supply.

(v) Primary School Enrollment (PSEN)

This curve shows a good trend for the long term economic progress of Pakistan. It shows a positive relationship (directly proportional) between primary school enrollments with the time. It seems that education imparts awareness among the masses of a country. Awareness about their rights and about their responsibilities leads a country to the road of progress including economic progress. But primary education is a long term investment to masses; however, it is indispensable for economic development of a country. Primary enrollment was 65.3% in 2005 and it declined a little in 2006 and reached at the level of 63.1%. From 2006 to date, the graph is showing upward trend.

### (vi) Consumer Price Index (CPI)

This graph shows a random trend. There are two types of inflation. First is measured by CPI and it is applicable to around 300 items of consumer basket. The other is GDP deflator and it is applicable to both consumers and producers. But we used CPI because it covers the items of common use for ordinary citizens. In the different countries of developed world, inflation is around 1 to 3% except Japan where deflation is prominent. In the developing countries like India, Sri Lanka and Bangladesh, it is about 9 to 12%. In Pakistan, in 2005 and 2006, inflation remained single digit but in 2008 it reached at the level of 12%. In 2009, it crossed 20%. However, again it showed the downward trend and reached at the level of around 11%. Moderate inflation is good for GDP growth but after threshold level of inflation, it is disastrous for a country.

### Conclusion

There is no blinking at the fact that Pakistan was very weak on all fronts at the time of its inception. But the leaders of Pakistan along with the nation backing excelled at lot economically in the first two decades. Debacle of East Pakistan in 1971 proved disastrous for the nation in general and the economy in particular. East Pakistan (Now Bangladesh) was a huge jute exporter to the rest of the world and that was the major source of foreign exchange as revenue. The other big loss of the same magnitude, as the debacle of East Pakistan, was the nationalization of private industries/ institutions. The institutions which were working under profit stated showing loss and government had to face the music. So, on all fronts the whole nation suffered a lot. Exchange rate stated increasing speedily. At the moment, the current exchange interbank rate is about 107 rupees/ US dollar. However, the retail rate is more that Rs. 110 per dollar.

Owing to these menacing elements, real GDP growth rate is very low as compared to the other developing countries of the region; demand pull inflation and cost push inflation are increasing day by day; money supply is increasing which is the mother of rapid inflation; and gross capital formation is also stagnant. In short term, there is no remedy at all. Moreover, country can be on the track of progress if it is succeeded in managing the worst law and order situation. The moment peace comes in Pakistan, foreign investment will start coming in the country. By the arrival of foreign investment, all types of developments will be started and, of course, exchange rate will also become low and the value of Pak rupee will be appreciated!

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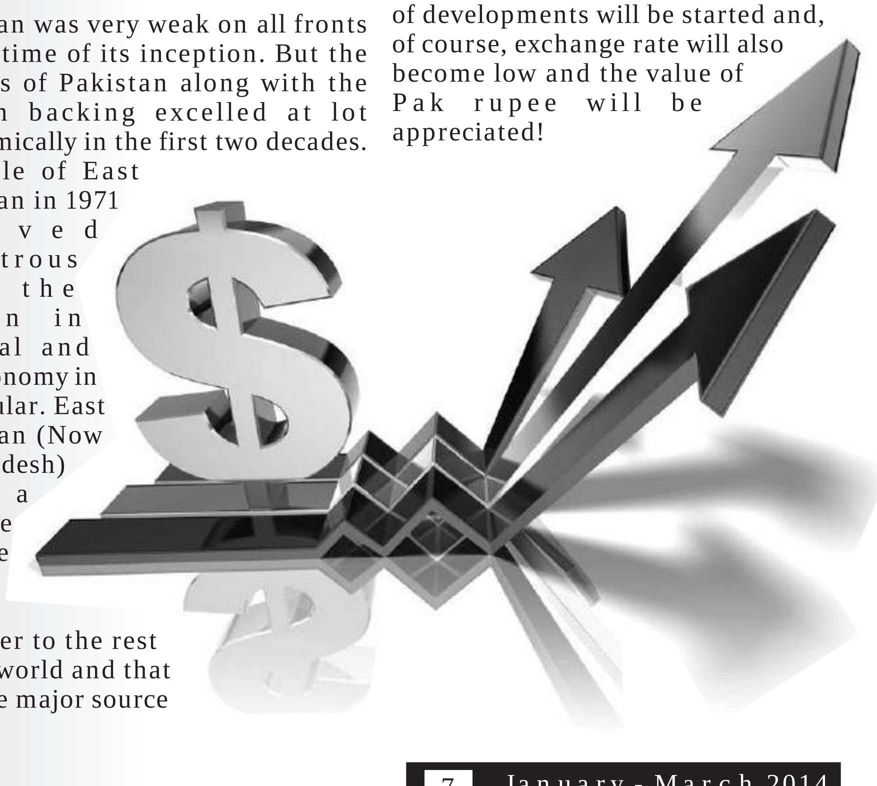

of foreign exchange as revenue. The other big loss of the same magnitude, as the debacle of East Pakistan, was the nationalization of private industries/ institutions. The institutions which were working under profit stated showing loss and government had to face the music. So, on all fronts the whole nation suffered a lot. Exchange rate stated increasing speedily. At the moment, the current exchange interbank rate is about 107 rupees/ US dollar. However, the retail rate is more that Rs. 110 per dollar.

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# STAKEHOLDERS ANALYSIS

By: Bunti Lal, APFA

*"Aim of this article is to uncover traditional and modern philosophy of stakeholder's treatment, understand why it is important to identify all the stakeholders and their impact in urging the organisation's strategic objectives"*

## CONCEPT

*Stakeholders Analysis was originally published by R. Edward Freeman known as the "Father of Stakeholders Theory" an American Philosopher and Professor of Business Administration, in the book Strategic management. In 1984, he best defined stakeholders as: 'Any group or individuals who can affect or be affected by the achievement of an Organization's objectives'. This shows the important bi-directionality of stakeholders that they can be both affected by an organisation.*

## Traditional Philosophy

Stockholder theory is a traditional view which advocates shareholders alone have legitimate claim to influence over company, it argues that shareholders are owners of the company wish to maximise their return therefore management has moral, fiduciary, and legal duty to take into account only shareholders interest i.e. to pursue profit maximisation nothing new being primary objective of every commercial entity. Grey, Owen and Adams called this pristine capitalist view in their book Accounting and Accountability. Inherent drawback of this view is perceives everything to shareholders may jeopardise company; in fact shareholder is one among others coming under the umbrella of stakeholders. However, Modern Philosophy of stakeholders is discussed under Corporate Ethics and CSR content coming later in this article.

## Illustration

Suppose an entity has obtained loan from a bank with covenant attached to maintain gearing ratio not exceeding to some percent, if covenant breach loan will be repayable immediately. Here bank is important stakeholder getting priority in addition to shareholders and will keep eyes on entity's future performance to ensure covenant condition has not breached and strictly adhered, entity must remain conscious about power and interest of bank, which might influence over future performance of entity.

Analysis of above situation crystallise that shareholders interest is to get dividend unlikely to bank interested in receiving timely interest and principle amount payment on due date. Every stakeholder has desired interest expected to be fulfilled by entity, not any stakeholder afford to compromise his stake he wishes to be considered on priority basis always he does not want to be ignored. Considering all stakeholders collectively might give rise to conflict of interest which give rise to more critical situation at the time of decision making when setting priorities who should be first and then after.

## Types of Stakeholders

When we think of stakeholders, it is possible to have many examples but those who usually come into our mind are shareholders, management, employees, trade unions, customers, suppliers, and communities. Despite the size, structure and nature of business no one entity has similar stakeholders may vary from one entity to another even operating in same country's Micro and Macro environment.

Generally, all stakeholders can be classified into three (3) broad categories internal, connected and external few examples of each category are tabulated below respectively:

1. Internal Stakeholders are those operating internally within the boundaries of organisation.
2. Connected Stakeholders also called primary stakeholders who have an economic or contractual relationship with organisation.
3. External Stakeholders or secondary stakeholders are those who are not directly connected to organisation but have an interest in the organisation's activities or might be impacted by the same in some way.

### Stakeholder Examples

| INTERNAL | CONNECTED | EXTERNAL |
|---|---|---|
| • Executive Management | • Shareholders | • Federal Government |
| • Managers | • Bankers / Financiers | • Local Government |
| • Employees | • Suppliers | • Regulatory Bodies |
| • Lower level staff | • Customers | • Public / Society |
| • Union | • Alliance Partners | • Media |

## Stakeholders Analysis-overview

In 1999 Mendelow introduced Stakeholders Analysis Matrix based on two dimensions power held and likelihood of showing an interest in organisation activities by stakeholders this is known as Power / Interest Grid (Stakeholder influence = Power x Interest). During preparation phase of a project stakeholders analysis objective is to assess attitude of stakeholders regarding potential changes, can be done once or on a regular basis to track changes in stakeholder's attitude over time becomes supportive for entity in order to avoid any disturbance while making future strategies.

Therefore, stakeholders analysis has goal of developing co-operation between stakeholders and the project team and, ultimately, assuring successful outcomes for the project. Stakeholders analysis is performed when there is a need to clarify the consequences of envisaged changes or at start of new projects and in connection with organisational changes generally. It is important to identify all stakeholders for the purpose of identifying their success criteria and turning these into quality goals.

## Corporate Governance

The Organisation of Economic Co-operation and

Development (OECD) established few Principles of Corporate Governance in 1999 and subsequently reviewed in 2004 in those established principles one principle talks about the stakeholders, which is quoted as under:

"The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises".

## Ethics and CSR

A debatable issue has always remained regarding recognition of stakeholders or if not then why? Possible solution, which might help to understand and resolve this issue in light of Ethics and Corporate Social Responsibility (CSR) are two view points instrumental and normative, are expressed below respectively.

1. Instrumental stakeholders theory was advanced by T. M. Jones in (1995), this argues only those views are valued and accounted for which results in economic benefit to entity in other words congruent with primarily fundamental performance objective common to every entity might always running on road of competition with expectations to chase profit maximisation or increase in investors wealth.
2. T. Donaldson & L.E. Preston (1995) stresses stakeholders in normative theory based on the ideas of German Philosopher Immanuel Kant which is contrary to above instrumental theory, in normative theory views are acknowledged irrespective of condition that only those views will be welcomed which results in economic benefit or congruent with primarily fundamental performance objective of entity. However entity recognises all views assuming its ethical and philanthropic responsibility, philanthropic responsibility means sense of moral duty to take into account concerns and opinions of all stakeholders unconditionally.

## Stakeholders Mapping Techniques

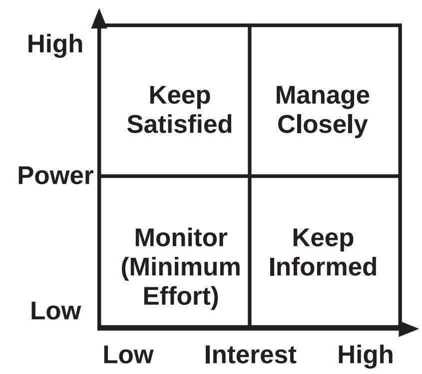
Step 1 Identify Stakeholders: The first step is to brainstorm who entity's stakeholders are. As part of this, think about all the people who will be affected by entity's operations, have influence or power over it and have an interest in its successful or unsuccessful conclusion.

Step 2 Prioritize Stakeholders: An entity may now have a long list of people and organizations that are going to be affected by its operations. Some of these may have the power either to block or advance and some may be interested in what organisation is doing, others may not care.

Step 3 Map out Stakeholders: On a Power/ Interest Grid as shown below, Stakeholders are classified by their power over and interest in organization work.

## Grid Interpretation

How to deal with all stakeholders would become so easy after mapping position on the power-interest grid, which recommends the appropriate actions/ strategies organization has to take with are described as follows:




High power-High interest: these are the key players, entity must be fully engaged and make the greatest efforts to satisfy them.

High power-Low interest: put enough work to keep them satisfied, but not so much that they become bored.

Low power-High interest: keep adequately informed and talk to them to ensure that no major issues are arising. These people can often be very helpful with the detail of entity's project.

Low power-Low interest: again, monitor these people requiring minimum effort to handle them, but do not bore them with excessive communication.

## Stakeholders Analysis Benefits

The benefits of using a Stakeholders Analysis approach are:

a) Enabling the entity to use the opinions of most powerful stakeholders to shape activities at an early stage. Not only does this make it more likely that they will support but also their input can improve the quality and performance of entity.

b) Entity will be gaining support from powerful stakeholders who help to win more resources – this makes it more likely that entity will be successful.

c) By communicating with stakeholders early and frequently can ensure that they fully understand what entity is doing and understand the benefits will be realised– this means they can support you actively when necessary.

d) Entity can anticipate what stakeholder's reaction may result out, and incorporates into the action plan that will win stakeholder's support.

*Stakeholders Analysis is principle of "Who or What Really Counts."*

## Conclusion

In order to achieve strategic objectives of an organization smoothly without any interruption or delay, to avoid conflict of interest and for future survival in dynamic environment highly recommended modern approach is taking into account of all stakeholders should not be ignored; sometimes ignorance of stakeholders might results in dangerous consequences of litigation leading to winding up of entity, therefore it is important to consider all prioritised stakeholders and their respective interest claims towards entity.

# Commercial Papers' Regulations - 2013

By: Wasful Hassan Siddiqi, FPFA, FCMA

## Preamble

The Securities and Exchange Commission of Pakistan (SECP) has approved and notified the Issue of Commercial Papers' Regulations, 2013 vide SRO # 1036(I)/2013 dt. December 04, 2013. It is aimed at facilitating highly-rated companies to raise funds from the capital market to meet their short-term financial needs through issuance of Commercial Papers (CPs), to provide the investors an additional financial product and to develop and broaden the domestic debt market.

The Commercial Paper (CP) is an unsecured short-term debt instrument issued by corporates at a certain discount to its face value normally for meeting working capital requirements. These regulations have replaced the previous guidelines for the issue of commercial papers issued in 2002.

The regulations provide a set of procedures for issue of Commercial Papers as under:

The regulations require the CP issuer:

i) that it is authorised by its Memorandum and Articles of Association or other constitutive document, if different from the Memorandum and Articles of Association

ii) that its equity is not less than Rs25 million,

iii) it is rated by a credit rating agency (CRA), with rating no less than A- (long term) and A2 (short term), and

iv) that it has appointed a scheduled bank, an investment finance company or a development finance institution as an issuing and paying agent (IPA).

The regulations describe the role and responsibilities of the issuer, the CRA and IPA.

Under the regulations:

i) the IPA has been given a key role. The regulations allow and encourage the issue of CPs under the shelf registration arrangement.

ii) CPs can be issued only in dematerialised form, ie electronic form, therefore, the issuers shall seek eligibility of their CPs through the Central Depository System.

iii) the CPs can be issued with a maturity of not less than 30 days and not more than one year.

iv) The size of the issue of a CP shall not be less than Rs10 million. Being short-term instruments, the CPs are normally issued to the institutional investors through private placement, however, may be issued to retail investors through public offer.

In case of a public offer, approval of the SECP is required whereas in case of private placement no such approval is necessary. The regulations require that in case of private placement CP shall be issued only to the qualified institutional buyers (QIBs) as defined therein. A sizeable CP market serves as an anchor for the corporate bond market of a country.

So far, as many as 34 issues of CPs have been floated by various corporates for an aggregate amount of Rs16.15 billion. It is hoped that with the promulgation of the regulations, the CP market will further flourish.

Salient features of the Commercial Papers Regulations, 2013 are as follows:

## Conditions for issue of Commercial Paper

Any company or body corporate can issue Commercial Paper if it fulfills the following conditions, namely:-

(a) it is authorized by its Memorandum and Articles of Association, or other constitutive document to issued Commercial Paper;

(b) its equity is not less than Rs. 25 million as per the latest audited balance sheet;

(c) it has obtained the entity credit rating from a Credit Rating Company and such rating is not less than “A” (medium to long-term) and A2” (short term) and more than six months old;

(d) it has a credit rating contract with its credit rating agency valid till the period not earlier than the date of the maturity of the Commercial Paper; and

(e) it has no overdue loans or defaults in the report obtained from the Credit Information Bureau of the State Bank of Pakistan and the said report is not more than two months old.

## Period of Commercial Paper

(1) The Commercial Paper shall be issued for maturities between minimum of 30 days and maximum of one year and the date of maturity shall be reckoned from the first day of subscription.

(2) Where the maturity date happens to be a holiday, the issuer shall make payment on the immediate following working day.

## Size and Denomination of Commercial Paper

(1) Size of an issue of Commercial Paper shall not be less than Rs. 10 million and denomination of a Commercial Paper shall be its face value.

(2) Where Commercial Paper is issued through private placement it can be issued in denomination of Rs. 100,000 or in multiples thereof and where Commercial Paper is issued to general public it can be issued in denomination of Rs. 10,000 or multiples thereof.

## Ceiling on amount of Issue of Commercial Paper

The aggregate amount of a Commercial Paper shall be within such limits as may be approved by its Board of Directors, provided the total liabilities of the issuer after the issue of such Commercial Paper do not exceed four time of the issuer's equity.

## Mode of issue and discount rate

The Commercial Paper shall be issued in scrip less form at such discount to face value as may be determined by the issuer keeping in view the prevailing Karachi Inter Banks Offer Rate (KIBOR) and its credit rating.

## Issue expenses

The issuer shall bear all the expenses relating to the issue of the Commercial Paper including the fees payable to the issuing and paying agent and the Credit Rating Company concerned, and the stamp duty payable to the concerned provincial government under the Stamp Act, 1899(Act II of 1899) at the rules prescribed by them and any other relevant charges connected with such issue.

## Investment in Commercial Paper

Commercial Paper may be issued by way of public offer and/or through private placement or Qualified Institutional Buyers. In case of public offer approval of the Commission shall be sought under section 57 of the Ordinance.

## Procedure for issue of Commercial Paper

(1) Every issuer shall appoint an issuing and paying agent through an agreement in writing and the agreement executed shall contain all the basic terms and conditions and role & responsibilities of both the parties of the agreement.

(2) The issuing and paying agent appointed under sub-regulation (1) shall not be associated company or associated undertaking of the issuer.

(3) Where the issue of Commercial paper is through private placement it shall be completed within a period of two weeks from the date on which the issue opens for subscription and any unsold portion of the issue after two weeks of its opening for subscription shall not be issued.

(4) Where the issue of Commercial Paper is through public offer it should be completed within the time period as specified in the Ordinance.

(5) Where the issue of Commercial Paper is through private placement, the initial subscribers of Commercial Paper shall pay through the Issuing and Paying Agent the discounted value of the Commercial Paper by means of crossed cheque or any other mode acceptable to the issuing and paying agent, to the account of the issuer.

(6) The issuer shall intimate in writing to all initial subscribers and all financial institutions, who have provided working capital limits to it, about the amount and tenure of the issue of Commercial Paper and copies of such intimation shall also be provided to the Issuing and Paying Agent.

(7) An issue of Commercial Paper may be underwritten if so desired by the issuer and in case thereof,-

(a) the number of underwriters should not be less than two; and

(b) the underwriters should not be associated companies or associated undertakings of the issuer.

## Issue of Commercial Paper under Shelf Registration

Where the issue of Commercial Paper is under Shelf Registration, following conditions shall be fulfilled, namely:-

(a) Issuing and paying agent for all the tranches shall remain the same;

(b) Complete plan for issue of Commercial Paper in tranches under the Shelf Registration (the Shelf Registration Plan) shall be disseminated to the prospective investors through the websites of Issuing and Paying Agent and the issuer;

(c) Change, if any, in the Shelf Registration Plan subsequent to its initial dissimination shall be dissiminated in the same manner as provided in clause (b);

(d) Issing and Paying Agent, before the issue of first tranche, shall provide copy of the agreement executed with the issuer containing the term sheet and complete Shelf Registration Plan to the Commission; and

(e) Issuing and Paying Agent shall confirm in writing to the Commission before the launch of each tranche that the issuer fulfills all the conditions as mentioned in regulation 3 of the Registrations.

## Duties and Responsibilities of Issuer, Issuing and Paying Agent and Credit Rating Company

The duties and responsibilities of issuer, Issuing and Paying Agents and Credit Rating Company are set out as follows,-

### (1) Issuer:- The issuer shall ensure that,-

(a) the Regulations and procedures laid down for the issuance of Commercial Paper are strictly adhered to;

(b) Issuing and Paying Agent is provided copies of all the investor agreements i.e. the agreements executed with the initial subscribers and the said agreements contain salient features and other terms and conditions of the issue including the following:-

(i) convenants of the issue of Commercial Paper;

(ii) non availability of any recourse to the initial subscribers on the issuer and Issuing and Paying Agent and to the subsequent purchasers on the sellers in the secondary market;

(iii) non availability of any guarantee by any bank or other financial institution;

(iv) default history of the issuer including rescheduling/restructuring of loan for the last 5 years; and

(v) detailed provisions on rollover, if any.

(c) specimen of the investors' agreement between the issuer and the subscribers containing minimum terms and conditions is placed on its website and on the website of Issuing and Paying Agent for information of the investors;

(d) within five days of the close of subscription list, report to Issuing and Paying Agent and the Commission the following information, namely:-

(i) province and place of issue;

(ii) amount and rate of all Federal and Provincial levies paid if applicable; and

(iii) term sheet containing salient features of the issue.

(e) the Commercial Paper shall be redeemed through

Issuing and Paying Agent; and

(f) roll over, if any, shall be made through Issuing and Paying Agent.

## (2) Issuing and Paying Agent.-

The issuing and paying Agent shall.-

(a) enter into an agreement in writing with the issuer to act as Issuing and Paying Agent for the issue of the Commercial Paper;

(b) ensure that the issuer has the minimum credit rating as specified in regulation 3 above;

(c) ensure that the quantum of amount proposed to be raised through issuance of the Commercial Paper is within the limit as prescribed in regulation 5 above;

(d) ensure that the issuer has met all the requirements as prescribed in these Regulations before the issuance of Commercial Paper;

(e) verify all the documents submitted by the issuer i.e. copy of Board's resolution etc. and have in custody certified copies of the original document and issue a certificate that documents are in order;

(f) credit, on the issue date, the Commercial Paper to investors against proof of payment and at maturity having received funds from the issuer, it will effect repayment on receipt of the Commercial Paper back from the investors;

(g) make it clear to the initial subscribers in the investor agreement/offering document that investors investment is subject to credit and other risks inherent in such instruments and payment will be made to them only if the issuer has made the funds available to Issuing and Paying Agent;

(h) inform the initial subscribers that in case of any default by the issuer, it will not be in a position to seek recovery from the issuer or initiate any action against the issuer either on its own or on behalf of the investors;

(i) in case of any default by the issuer, be responsible for the immediate notification of such default to the holders of the Commercial Paper and the Commission but not later than three (3) working days of occurrence of such default;

Explanation:- For the purpose of these Regulations the term "default" shall include partial payment of redemption amount.

(j) in case of partial payment by the issuer, distribute the received funds, among all the holders of the Commercial Paper, on pro-rata basis and while doing so it shall take all necessary measures to safeguard its position against any adverse consequences including incorporation of this provision in the agreement executed between the issuer and the Issuing and Paying Agent;

(k) submit a report on the issue to the Commission within fifteen days from the last date for closing of the subscription of the Commercial Paper and the report shall contain all the material facts and figures relating to the issue including those as required under these Regulations to be reported to the Commission; and

(l) obtain from the concerned depository company list of Commercial Paper holders on monthly basis.

## (3) Credit Rating Company

The Credit Rating Company which conducts credit rating of the issuer shall, at the time of rating, clearly indicate,-

(a) the circumstances where the rating shall be due for review; and

(b) circumstances of issue of subsequent tranche(s), fresh issue of securities by the issuer and any other activity undertaken by the issuer which may adversely affect the credit rating of the issuer.

## Payment of Commercial Paper

On maturity of Commercial Paper, the holder shall present the instrument evidencing deposit of the Commercial Paper in depository account for payment to the Issuing and Paying Agent who, having received funds from the issuer, shall effect repayment through crossed cheque or bank transfer.

## Periodic Reports

Issuing and Paying Agent shall submit a report to the Commssion on the redemption of Commercial Paper within ten (10) working days of the date of its maturity and the report must be signed by any officer authorized by Issuing and Paying Agent to do so.

## Transfer of Commercial Paper

Commercial paper shall be transferable according to the clearing and settlement systems developed for transfer of securities in such form under the stock exchanges, Central Depository Company of Pakistan Limited and National Clearing Company of Pakistan Limited's Regulations.

## Roll Over and Early Redemption Options

(1) Commercial Paper may be rolled over at maturity for a maximum of two terms of the same tenor subject to the following conditions, namely:-

(a) the circumstances where a Commercial Paper can be rolled over and full modus operandi for such roll over are provided in the investors' agreement or the offering document;

(b) the option of role over is agreed in writing between the issuer and the Issuing and Paying Agent;

(c) written consent of all the holders of the Commercial Paper is obtained; and

(d) the issuer fulfills all the requirements of regulation 3 at the time of roll over.

(2) The issuer may redeem a Commercial Paper before maturity under a call option and an investor may ask the issuer for early redemption under a put option subject to the condition that such options are provided in the investors' agreement or the offering document.

## Penalty

Any contravention of these Regulations shall be punishable with a fine which may extend to five hundred thousand rupee and, where the contravention is a continuing one, with further fine which may extend to ten thousand rupees for every day after the first during which such contravention continues.

# Errors and omission usually made in the Public Sector

BY: Shabbir Ahmed Pasha, APFA

Financial statements furnish bits of knowledge into an organization's health and fiscal status for a specific time period. Fiscal financial statements are intended to furnish information to the organization's shareholders, incorporating potential shareholders or speculators. Consequently, these reports must furnish correct and applicable information to empower decision making. Relevant component of financial statements may as well hold enough information to help moguls in settling on key monetary decisions for the business.

The International Accounting Standards Board has made the International Financial Reporting Standards (IFRS) to help achieve consistency in the models of standardized financial reporting. This additionally helps guarantee consistency in the reports that are processed. The IFRS illustrates how to state finance related transactions inside a report, consequently making for a more standard arrangement, crosswise over reports. The guidelines built by the IFRS make it simpler for financial statements for be contemplated all around, without making disarray because of diverse governs in distinctive nations.

Notwithstanding set norms being followed in making financial statements, there are still mistakes that surface and that can bargain the nature of a financial statements. These might be identified with mistakes of oversight, or include matters, for example, long haul obligation. Mistakes can likewise happen when managing data going with the financial statements.

## 1. Mistakes of exclusion/omission

Now and again, reporting of expenses/cost may be deficient, for instance, expenditures may be represented however expenses included in raising subsidizes and incomes could get precluded in reporting. This could apply to occasions too, where overhead expenses are not archived legitimately or timesheets are not administered.

## 2. Cash and cash equivalent

It is known that statement of financial accounting standards no. 95 para 8 defines the cash and cash equivalent for purposes of this Statement, as short-term, highly liquid investments that are both: Readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. It continues while stating that generally, only those investments with original maturities of three months or less qualify under that definition.

BUT the mistaken part found here that not all investments that qualify are required to be treated as cash equivalents. Because here enterprise should establish a policy concerning which short-term, highly liquid investments that satisfy the definition of paragraph 8 may be treated as cash equivalents. For example, as statement of financial accounting standards no. 95 illustrated that an enterprise having banking operations might decide that all investments that qualify except for those purchased for its trading account will be treated as cash equivalents, while an enterprise whose operations consist largely of investing in short-term, highly liquid investments might decide that all those items will be treated as investments rather than cash equivalents. An enterprise shall disclose its policy for determining which items are treated as cash equivalents. Any change to that policy is a change in accounting principle that shall be effected by restating financial statements for earlier years presented for comparative purposes.

## 3. Data going hand in hand with report

When furnishing data incorporating monetary archives, mind must be taken to guarantee that corresponding references are available in the financial statements, also. Illustrations of going with data can incorporate postings holding work plans, accounts and liabilities.

## 4. Long term obligation disclosure

Inappropriate statement of long term obligation is a regular lapse found in the financial statements. While the standard is that any long term obligation or borrowings must be revealed, slips might incorporate fragmented disclosure or obligation portions completely precluded out of human failure or through estimation botches. Hence, inadequate disclosure may be made, or revelations are not made whatsoever, bringing about


budgetary reporting failures.

## 5. Related party disclosure

When there is a trade of cash included, there is related party disclosure that is relevant. In any case, now and again, this may not be accounted for properly. On occasion the sum or terms accompanied by both gatherings may not be accurately revealed. This can bring about an error.

Who are related parties?

Para 9 of IAS 24 defines a related party is a person or entity that is related to the entity that is preparing its financial statements (referred to as the 'reporting entity').

a) A person or a close member of that person's family is related to a reporting entity if that person:

   i) has control or joint control over the reporting entity;

   ii) has significant influence over the reporting entity; or

   iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions applies:

   i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

   ii) One entity is an associate or

joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

iii) Both entities are joint ventures of the same third party.

iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v) The entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

vi) The entity is controlled or jointly controlled by a person identified in (a).

vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity (It is the requirement added by Annual Improvements to IFRSs 2010-2012 Cycle, effective for annual periods beginning on or after 1 July 2014).

Para 11 of IAS 24 defines the following are deemed not to be related:

a) two entities simply because they have a director or key manager in common

b) two venturers who share joint control over a joint venture

c) providers of finance, trade unions, public utilities, and departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process)

d) a single customer, supplier, franchiser, distributor, or general agent with whom an entity transacts a significant volume of business merely by virtue of the resulting economic dependence

What are related party transactions?

As defined under para 9 of IAS 24 related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

## Disclosure

As defined under para 16 of IAS 24 Relationships between parents and subsidiaries. Regardless of whether there have been transactions between a parent and a subsidiary, an entity must disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so must also be disclosed.

## Management compensation

As defined under para 17 of IAS 24 Disclose key management personnel compensation in total and for each of the following categories:

- short-term employee benefits
- post-employment benefits
- other long-term benefits
- termination benefits
- share-based payment benefits
- Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the entity. [IAS 24.9]

As defined under para 17A and 18 A of IAS 24 If an entity obtains key management personnel services from a management entity, the entity is not required to disclose the compensation paid or payable by the management entity to the management entity's employees or directors. Instead the entity discloses the amounts incurred by the entity for the provision of key management personnel services that are provided by the separate management entity (This requirements were introduced by Annual Improvements to IFRSs 2010-2012 Cycle, effective for annual periods beginning on or after 1 July 2014).

The point when planning financial statements for your business, take note to keep away from the normal slips recorded previously.

# Audit in Distressed Conditions

By : Rashid Pervez, FPFA

## Auditing

Audit is a conduct of checking the accounting aspect from each angle to stream line the accounting transactions and reporting the highlights, where it is sound proofing of recovery and desired checks either within the organization it is practiced or the system of operation of accounting and its reporting to the management where the weakness is sounded and requiring improvements and/or implementations.

## Audit Problems in Distressed Circumstances

Audit in uncongenial or internal distress atmosphere is something that the Auditor is to behave below his capacity to oblige his responsibilities. If any information is desired by the Auditor, and the accounting staff is not co-operating the auditor with his required information, it seems that the auditor is hung around in discharge of his duty. He takes different measurement of coherence among the staff vis-à-vis controlling the Management with his desired options and modus operandi from which the Auditor can satisfy himself regarding the accurateness of accounting and operational data on which he can report and convince the Management without lime lighting the conditions of distress. The Auditor can quantify the objects of financial activities that if under the system of internal control the cost and benefits can be an outlook to measure and compare with the actual financial activities in the organizations.

## Fund Investment in Stock

Sometimes heavy investments in purchases or imports are being carried which could be disparity to the lead time sales, and unwanted fund blocking. This can be a situation the Auditor can think what actual benefit is being earned for the organization in bulk purchases and imports. Is the supplier same? Are the goods actually needed for processes for ultimate according to Sales Plan and Sales Contracts? Is the price of purchase or imports are general and not unusual which may creep in mind that there can be some financial intimacy with persons ordering for purchases and imports and the suppliers.

## Acquaintances to Board of Directors

There are certain circumstances where under the distress the proper books of accounts are not shown to the Auditor and time taking circumstances prevail which the Auditor has to sustain from his own time of money. There must be comprehensive Representation Letters to be used for all departments where the head of departments will answer all his related activity in duly signed notes. All the Representation Letters of each department will then be put to the Board of Directors. The Board of Directors should be made educated for particular Audit that certain

Management Information Systems which should be required from the Principal Officers who are accountable to the Corporate Law. The Board of Directors can directly ask the guided informations from the concerned departments. At the end, the Master Representation Letter from the company's Board of Directors will be obtained by the Auditor in support of consensus of Audit and liability of conduct of different departments.

Say for instance, Auditor reaches to the financial controller for checking the investment in company physically, the accountant has delayed or avoided in providing such books and records for satisfaction of his audit responsibility. The Auditor can go to the higher management for such supportive co-operation from financial controller. The higher management also could not do much help to the Auditor. What auditor can do , he can mention the outstanding observations in his Management Letter regarding the unsettled areas of audit operation which forms part of Audit Report. Audit Report is issued to shareholders of the company and the Management Letter is issued to Board of Directors.

## Books And Accounts

There are circumstances when all the books of accounts are not provided to the Auditor. The Auditor in such circumstances takes the third parties' confirmations, like :

1 Bank confirmations, including bank statements during the year.
2 Debtors confirmations, including transactions with debtors during the year.
3 Creditors confirmations, including transactions with creditors during the year.
4 Utility confirmation :
   a) Electricity confirmation from Electricity company
   b) Gas confirmation from Gas company
   c) Telephone confirmation from Telephone company
5 Company's lawyer confirmation regarding any litigation pending for and against the company.
6 Sales Contracts.
7 Purchases Contracts.
8 Capital works contacts.
9 CDC Confirmation of share investments of the company in the listed securities.
10 Members on Board
11 Minutes of Board Meeting
12 Minutes of Annual and Extra Ordinary General Meeting.
13 Premise ownership or rental agreement.

## Stock Handling

There can be distress for the Auditor for production report of the company. The auditor may analyse physical goods handling as from warehouse keeper, if not receipts entered accurately, then the Auditor may go to check gate pass payments and payables to the trade creditors , opening stock of raw material, closing stock of raw material and the company normal input and output relativity. From such analysis the Auditor can form the production of finished goods. The closing stock of finished goods can give a tentative Sales output. Which the Auditor can discuss with the Board of Directors. The Board of Directors will help confirm the production and sales. In any case the Auditor can use the Representation Letters and Management Letters from and to the Board of Directors.

## Cash in Hand

Cash in hand is operated through the imprest account, which are replenished after the ceiling is exhausted by the normal allowed expenses through petty cash or cash in hand. There are the policy that certain maximum per payment can be made through cash. The Auditor should check if there is any distress in the functioning of cash in hand. Normal monthly ceiling should have established. If the imprest replenishment is crossed to the normal monthly ceiling in the expense in cash in hand. The Auditor should analyse what excessive expenses in particular or same accounts have been incurred or what extra amount has been used from cash in hand ceiling. And if there was management approval sought for such expenses crossing the normal fixed ceiling?

## Purchases & Contracts

There can be distress in the Audit that there are purchases and contracts awarded for capital works in progress or services. Are there proper quotations called from different parties are they analysed for quality and low price. Are they performing the job according to terms of contract. Is there any compensation available to the company in the case of deviation of purchases quality and contract performances?

## Audit Papers

There are certain distress in the audit that Auditor has to face the difficulty getting audit papers for working on it and keeping in the record. The staff normally stress to make papers by yourself. This situation is a very time consuming and unwanted works which cost the Auditor within the time frame of Auditing schedules. Sometimes staff complain the stationery cost for making Audit papers. The Auditor has to go to the Managing Director for such distresses and even non providing of general ledger accesses on computer, for which the Managing Director may ask to bring Management Information System of details of stationery cost from the finance manager and may make accountable for extra expenditures on stationery cost as wasteful expenditures and may order to arrange audit papers and general ledger excesses on separate computer with lock of data handling.

## Audit Environment

Audit is a task where there is least bearable disturbance to concentrate in auditing and proper proofing. Audit environment distress can be that the seating arrangement of the audit staff is not properly provided despite the premise has sufficient amount of separate spaces in the shape of extra rooms. The staff of the company do distress to the Auditor that seating among us will make us easier to approach for any need your staff may require. The Auditor may not want such distress as open environment of audit is non-confidentiality vis-à-vis not a healthy or peaceful environment to do the auditing of full year accounting activities in a limited time. Nor the Auditor may wish to be very informal with all the staff of the company. The Auditor may speak to the managing director for such issue and may arrange the separate room for his boys for smooth audit checking.

The Auditor ask the Management that the company's internal control system is not effectively run or being operated nor the system is compatible to measure the accounting and operational checks. The Management asked the Auditor what should be the effective system of internal control whereby we can monitor our business operative in an effective and smooth manner. The Management said that we control the payments and realizeablity of our business income. The Auditor said there are lot of chances of over payments of the same bills as it is not properly maintained by the responsibility of the bills purchased meaning to say a bill is purchased for expenses or goods is personal of custodian responsibility as such goods or services are purchased and duly paid marked, but normally it was observed that authority was not being adhered by the internal checks and the financial controller.

For any purchases there should be duly purchase order raised and approved by authorized person. Quotations should be called and statement of such quotations should be submitted for approval. Good price should have been opted for purchase. A proper gate pass serial numbered should be issued at gate; the goods or services which are either purchased for stock or personal use should be acknowledged as received; upon the person concerned for purchase or services' authorization that the bill is a genuine bill which is against the purchase of goods or services is duly signed by him and given to finance department for payment processes.

## Management Controls

While discussing with the Auditor, the Management concisely briefed ' that we do not rely all to our finance department, reason is, operations has to be smooth line first, what I myself can control is better than borrowed controls'. We have the Cheque Register System. The System controls all the cheques we approve for payment are entered therein with Purchase Orders. We get the reports Cheque Register and Purchase Orders. We control the Purchase orders with payments. But as you said there can be duplicate payments. We would like from you to investigate that all the purchases of goods including fixed assets and services are really supporting billed with consideration of receipts of goods and services. The Auditor said ' Sir this I would take as a special task to be assigned with separate billing by us for 'Purchases and Creditors checking and reviews'. The Management said okay it is agreed.

## Dispatch Controls

The Management said , as we have already said that all we can not timely rely on our finance and accounting functions, that is why subsequent checking is required as you are here with us and obviously mainly for financial statements, any way. We have notes in which we have quantified the amount with the package, which we enter in our Dispatch system with all details. The collections are to be done by Marketing Operational Management and set off under each dispatch. All the receipts from customers are banked in separate account and is entered in our System. For payments we transfer this collection accounts to payment bank accounts.

The Auditor said fine it is very good. In the end I will appreciate your co-operation. The Management said you may please include this gesture in your Management Letter. The Auditor said why not it is my appreciation.

# IFAC News

## IAESB Publishes New Standards on Content of the Professional Accounting Education Program

The International Accounting Education Standards Board (IAESB) published the following three International Education Standards (IESs):

- IES 2, Initial Professional Development-Technical Competence;
- IES 3, Initial Professional Development-Professional Skills; and
- IES 4, Initial Professional Development-Professional Values, Ethics, and Attitudes.

These three IESs will replace the educational requirements of the three extant standards:

- IES 2, Content of Professional Accounting Education Programs;
- IES 3, Professional Skills and General Education; and
- IES 4, Professional Values, Ethics, and Attitudes.

The content of a professional accounting education program supports the aspiring accountant in developing the appropriate professional competence. Professional competence is the integration and application of (a) technical competence, (b) professional skills, and (c) professional values, ethics, and attitudes. Each of the new IESs specifies competence areas and learning outcomes that describe the professional competence required of aspiring professional accountants.

These new standards, which are effective from July 1, 2015, aim to assist professional accountancy organizations, as well as educational organizations, employers, regulators, government authorities, and any other stakeholders who support the learning and development of professional accountants.

"These three education standards form the content of the professional accounting education program," explained IAESB Chair Peter Wolnizer. "The learning and development that is demonstrated within a professional accounting education program by aspiring professional accountants remain one of the fundamental pillars in achieving high-quality financial reporting."

Highlights of each new IES include:

- IES 2 prescribes the learning outcomes for technical competence that aspiring professional accountants are required to demonstrate by the end of Initial Professional Development (IPD). Technical competence is the ability to apply professional knowledge to perform a role to a defined standard.
- IES 3 prescribes the learning outcomes for professional skills that aspiring professional accountants are required to demonstrate by the end of IPD. Professional skills are the (a) intellectual, (b) interpersonal and communication, (c) personal, and (d) organizational skills that a professional accountant integrates with technical competence and professional values, ethics, and attitudes to demonstrate professional competence.
- IES 4 prescribes the learning outcomes for professional values, ethics, and attitudes that aspiring professional accountants are required to demonstrate by the end of IPD. Professional values, ethics, and attitudes are defined as the behavior and characteristics that identify professional accountants as members of a profession. These include the ethical principles generally associated with, and considered essential in defining, the distinctive characteristics of professional behavior.

As part of its initiative to improve the clarity of its standards, the IAESB has redrafted and revised IESs 1-6 to prescribe the requirements for IPD. In addition, IES 7, Continuing Professional Development, has been redrafted in accordance with its new drafting conventions. IES 8, the remaining standard in the suite of eight IESs, is expected to be redrafted and revised by the fourth quarter of 2014.

## IASB issues interim Standard, IFRS 14 on rate-regulated activities

The IASB has issued an interim Standard, IFRS 14 Regulatory Deferral Accounts. The aim of this interim Standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities. IFRS 14 Regulatory Deferral Accounts is effective from 1 January 2016, with early application permitted. Many countries have industry sectors that are subject to rate regulation, whereby governments regulate the supply and pricing of particular types of activity by private entities. This can include utilities such as gas, electricity and water. Rate regulation can have a significant impact on the timing and amount of an entity's revenue.

IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already applies IFRS and do not recognize such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the Standard

# SECP

## SECP amends Code of Corporate Governance

The governance standards are dynamic and changing with the development of constantly evolving corporate sector and financial markets. This calls for a constant review of the governance framework to keep pace with global benchmarks. In an endeavor to align their governance regime with enhanced requirements of the present times and global best practices, the Securities and Exchange Commission of Pakistan (SECP) has approved amendments to certain provisions of the Code of Corporate Governance for listed companies. The amendments have been made taking into account the lessons learnt from the practical issues and considerations relevant to the listed companies and to ensure that it reflects changing governance concerns, practices and economic circumstances and best international practices.

The amended provisions relax eligibility requirements for the chief financial officer (CFO) and the head of internal audit (HOIA) for listed companies. The experience requirements for the CFO have been reduced from five years of handling financial or corporate affairs of a listed company or a bank/financial institution to three years of experience in a public practice (audit/accounting) firm or in managing financial/corporate affairs of a company. The experience requirements for HOIA have also been reduced from the earlier restrictive five years of relevant audit experience to three years in audit, finance or compliance function. As per an earlier clarification issued by the SECP, experience in a public practice (audit/accounting) firm would also be considered relevant audit experience.

These amendments have been approved following a review focused primarily on further refining practicality of the code for listed companies. The said amendments are expected to improve compliance with the code and encourage new entrants to the fields of finance, audit and related functions, thereby expanding the existing talent pool of professionals in the country.

Moreover, the mandatory condition of appointing an independent director as chairman of the audit committee has been made voluntarily to facilitate companies in appointing suitably qualified non-executive directors as chairmen to the said committee.

# PIPFA News

## Syllabus for following subjects of Public Sector has been changed/revised from Summer-2014 onwards

PIPFA has introduced new/revised subjects of public sector as hereunder:

1. The subject of Cost & Management Accounting has been replaced with the subject of Financial and Management Accounting for Commercial Audit Branch.
2. The syllabus for the subject of Work (MES) & Stores for Defense Audit Branch has been revised.
3. The syllabus for the subject of Postal and Telecom Accounts & Works Rules and Procedures for PT & T Audit Branch has been revised.
4. Further, former RRA Branch has been replaced by Customs and Petroleum Branch and Income Tax Audit Branch has been replaced by Inland Revenue Branch with their specialized papers at Final Level. The sequence of the subjects for Foundation and Intermediate Levels will remain unchanged.

## New PIPFA Website Launch

PIPFA has launched its new website. In an increasingly virtual age, a site represents the public face of an Institute, as well as a forum for interaction with students, members and rest of the world. Throughout the process of developing our new website, it has been our goal to create an accurate depiction of PIPFA that is not only direct and informative, but also inviting and engaging. We are excited to announce the launch of our new website. We are very thankful to Mr. Tariq Zafar (Software Engineer) to achieve PIPFA's New Website Development Target well before time. The advantages of the new website include a more robust page layout, easy navigation, more detailed information about PIPFA and an easier way for existing students & members and as well as for prospect students & members to find relevant information. The site will be updated on regular basis to better reflect current accounting industry developments. When you have a few minutes, please review PIPFA new website. You will feel the commitment, the passion, and dedication of everyone in the PIPFA family. We hope you find the new website has a fresh look, is easy to use and is informative.

As always, if you have any quries or need assistance you can contact us at:

software.engr@pipfa.org.pk

## Employee of the Quarter

Mr. Tariq Zafar has been serving in PIPFA as a Software Engineer, since last three years. He possesed B.E. degree in Computer System Engineering and currently doing Masters in Software Engineering.

He initially developed Members Affairs Software in PIPFA to automate the Members Affairs Department and providing online login facility to Members on PIPFA Official Website.

He is the one who introduced a customized ERP solution that integrates and automized the internal PIPFA departmental structure, and also facilitate the online connectivity to regional offices.

In recognition of his services he is awarded "Employee of the Quarter" for developing Payroll and Launching of updated version of PIPFA website.

## Invitation for Articles

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

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

*member@pipfa.org.pk*

# First Ever Graduation Ceremony 2014



PIPFA arranged its first ever Graduation Ceremony on March 22, 2014. The qualified students received their certificates during this prestigious ceremony held at the Crown Ball Room, Regent Plaza Hotel, Karachi, attended by 250 guests, including families, faculty, staff and businesses.

The 72 graduates were congratulated by Mr. Shahzad Ahmad Awan, President, Mr. Mohammad Maqbool, Vice President, Mr. Sajid Hussain, Secretary, Mrs. Rozina Muzammil, Executive Director of PIPFA and Chief Guest Barrister, Mrs. Shahida Nighat Jamil, who, each in turn, encouraged the students to be committed and optimistic in their future endorsement.

Mr. Shahzad Ahmad Awan (President) explained to the congregation that a professional qualification is a key that opens the door to a professional avenue, with its official accreditation by the International Federation of Accountants, and also to keep their feet firmly on the ground in order to seize the opportunities and new perspectives that arise. In this quest for success, commented Mrs. Rozina Muzammil, the important thing is "to know your rough edges and refine them but liking people is also so important if you want to succeed in life".

Mr. Mohammad Maqbool, vice President remarked, "Armed with a PIPFA's professional qualification, you will go out into the world with an enormous amount of knowledge and analytical capability but it is probably advisable to retain a healthy dose of humility, self-awareness and ethics."

Mr. Sajid Hussain, Secretary said try to be a good person and good manager don't become typical dry & rude sort of an accountant or a person and how that is known for it, so try to read many books and novels about fiction, adventure, politics, nature, sports, autobiographies etc. and try to improve your knowledge about life it develops skills to become good manager & decision maker.

In her keynote address, Mrs. Shahida N. Jamil Ex Federal & Provincial Minister emphasized how important it is for qualified students to regard their professional certification as the most recent stage of their education. "Life in the 21st century is increasingly become a process of constant learning and annotation. Never stop learning." "People to people links are becoming more important in diplomacy, because the world is a much smaller place and people are connecting with each other at an ever increasing speed and intensity."

During the evening guests engaged in lively discussion in the hotel lobby, where a lavish dinner reception was served. We wish our qualified students every success in their careers, but remember, as Mrs. Rozina Muzammil remarked, "success nearly always comes when you least expect it".

# Seminar on Economic Challenges & Way Forward

PIPFA Lahore office organized its CPD session seminar on "Economic Challenges and Way Forward" at Mumtaz Hall, ICMA Pakistan, Lahore on 17th January, 2014.

The guest speakers Prof. Dr. Muhammad Ehsan Malik, Director IBA and Dean Faculty of Economics and Management Sciences, University of the Punjab and Prof. Muhammad Ijaz But, Head of Economics Department, Punjab Group of Colleges their presentation which mainly covered the Factors which affect the economy like energy crisis, water shortage, political stability, Law & order situation, environmental issue, high cost of production, Balance of payment, budget and trade deficit. They also shared their ideas and views to resolve the economical issues.

The session was quite interactive wherein the speakers responded to various questions raised by the attendees.

Mr. Shahzad Ahmad Awan, President PIPFA graced the event as a Chief Guest. Mrs. Rozina Muzammil, Executive Director PIPFA presented Welcome Address. She apprised the participants about objectives of the Seminar. Besides, she presented a comprehensive briefing upon PIPFA to make a distinction of PIPFA education from that of ICAP and ICMAP.

The President PIPFA distributed shields amongst keynote Speakers & the ED PIPFA. The Seminar ended with a Vote of Thanks by Mr. Muhammad Sharif, Member BOG.

The participants took keen interest in the Seminar and praised the PIPFA Management for organizing such a successful of event.

In the end, all guests and participants were served with Dinner.



# Seminar on Corporate Governance

PIPFA Islamabad office organized seminar on "Corporate Governance" on January 10, 2014 at Islamabad Stock Exchange Auditorium. Speakers were Mr. Waheed Sharif, Fellow Member of ICMAP, Managing Director of IBL, Islamabad and Mr. Basharat A. Mirza, Fellow Member of ICMAP attached with OGDCL, Pakistan as Executive Director (Admin/HR/SBP). Chief Guest of the event was Mr. Nazir Ahmed Shaheen, Fellow Member of ICMA Pakistan and PIPFA, currently working with SECP, Islamabad as Executive Director (CCD).

The topic covered in this seminar was need of Corporate Governance in Private and Public Sectors Organizations, and how better Governance achieved through effective Corporate Governance Practices.

Mr. Sajjad Ahmad, FCMA, FPPA appreciated the efforts of the speakers and also the Organizing Committee of PIPFA Islamabad & Corporate Office and encouraged the participants for attending such an informative seminar.

The event was a great success and was attended by PIPFA members & students from different Industrial & Services sectors. At the end, Shields were distributed to distinguished Chief Guest and Speakers.


## Resigned

PIPFA Board of Governors has accepted resignation of Mian Muhammad Shoaib, as he resigned from PIPFA BOG due to his personal engagements.

He had been associated with PIPFA since 2005 as a member of the Board of Governors. He actively participated and made contributions to the Institute's activities since his inception as member of various committees. He also served PIPFA as President in 2012.

PIPFA Board has appreciated his efforts and contribution during his tenure and wish him all the best for future endeavors.

## Best Employee of the Year Award

We are pleased to share that Mr. Sajjad Ahmad, member Board of Governors-PIPFA has received the "Best Employee of the Year Award" in recognition of his valuable services rendered for the PTCL.

He is serving as General Manager (Cost Accounts) in Pakistan Telecommunications Company Limited (PTCL) The Publication & Seminar Committee congratulates its member on achieving laurels at his workplace and wishes Mr. Sajjad Ahmad all the best for his future professional endeavor.

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