



**Pakistan Institute
of Public Finance Accountants**

Model Solutions

**Rules and Regulations of
Public Sector Enterprises
(Application)**

**AGP
May Exam-2026**

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Q.1. SUBJECT: WASTEFUL EXPENDITURE OF RS. 100,000,000/- PER ANNUM ON SECURITY STAFF.

During the scrutiny of Accounts records of PSM for the year 2024-25, it was noticed that, the wage bill of security staff is Rs. 100,000,000/- per annum. Despite that a theft of Rs. 50,000,000/- of spare parts and machinery were taken place.

It needs a high level inquiry to be conducted and strict action against the officials at fault and make the loss good through recovery against the persons responsible.

(XYZ)

Audit Officer, Commercial Audit Directorate
Karachi.

Q.2. Overhead expenses are the ongoing, indirect costs of running a business that aren't directly tied to producing a specific product or service, like rent, utilities, insurance, and administrative salaries, essential for supporting overall operations but not directly generating revenue. These are fixed or variable costs that must be paid regularly to keep the business running, even if sales are slow, and are crucial for pricing and profitability analysis.

These are results for Pakistan Ordnance factories has high overhead charges

Pakistan Ordnance Factories (POF) has historically faced challenges with high production costs, largely driven by excessive overhead charges

Key factors contributing to these high costs include:

Inefficient Cost Structure: Audit reports have highlighted high production costs stemming from excessive overheads.

Asset-to-Production Ratio: The ratio of average assets employed to production has been high (e.g., 2.8:1 in previous reporting), indicating, inefficient asset utilization.

Operational Factors: The organization has faced challenges related to old technology, weak inventory management, and a lack of professional accounting staff.

Capacity Constraints: While operating as a monopoly, POF has faced high dependence on the army and a need to better utilize spare capacity for civil products to offset costs.

Despite these issues, POF remains the largest defence industrial complex in Pakistan, producing a wide range of arms and ammunition.

Q.3. The privatization of Pakistan International Airlines (PIA) represents a strategic shift from a state-owned, debt-ridden entity to a market-driven enterprise. It aims to eliminate decades of inefficiencies and massive fiscal drains by injecting private capital, modern management, and structural accountability into the national flag carrier.



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Strengths

Clean Balance Sheet: Prior to the sale, the Pakistani government absorbed accumulated debts and legacy liabilities, transferring a significantly cleaner financial slate to private investors.

Established Brand & Route Rights: PIA retains tremendous brand recognition, historical landing slots, and lucrative bilateral air service agreements worldwide.

Strategic Assets: The sale encompasses valuable core infrastructure, including engineering services, flight kitchens, and established ground-handling operations.

Weaknesses

Legacy of Bureaucracy: Historically plagued by overstaffing, political interference, and powerful labor unions, which historically hindered operational turnaround.

Aging Fleet: The airline's existing fleet requires substantial capital expenditure to upgrade, as older aircraft drive up maintenance costs and reduce fuel efficiency.

Damaged Customer Confidence: A history of flight cancellations, operational delays, and past safety incidents severely eroded market trust.

Opportunities

Operational Modernization: Private ownership enables agile fleet modernization, route optimization, and the implementation of globally recognized aviation software.

Untapped Revenue Streams: Expanding high-demand routes (e.g., Middle East, UK, and Canada) and increasing capacity for religious tourism (Umrah/Hajj).

Ancillary Services: Carving out and aggressively monetizing non-core services like cargo (Speedex) and aircraft maintenance.

Threats

Macroeconomic Volatility: Vulnerability to fluctuating global jet fuel prices and local currency devaluation against the USD, which inflates lease and maintenance costs.

Fierce Regional Competition: Aggressive low-cost and premium carriers, such as Airblue and Gulf airlines, dominating the regional and international diaspora market.

Regulatory & Policy Risks: Changes in international aviation safety regulations or disruptions from the Pakistan Civil Aviation Authority could impact operational capacity.

- Q.4.** The State Bank of Pakistan (SBP) regulates private banks by setting rules (prudential regulations, capital adequacy, corporate governance), licensing/closing institutions, supervising through off-site monitoring and on-site inspections, managing risks (credit, operational), ensuring fair customer treatment (FTC), and enforcing compliance, all to maintain financial stability and protect depositors' interests. SBP uses departments like Banking Policy & Regulations (BPRD) and Banking Supervision (BSD) to implement its comprehensive regulatory framework, adapting to new challenges like financial technology.

Key Regulatory Functions:

Licensing & Structure: Grants licenses to new banks (conventional, Islamic, microfinance), approves mergers/acquisitions, and facilitates branch expansion.



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Prudential Regulations: Issues guidelines for risk management (credit, operational), capital adequacy, and fair treatment of customers (FTC).

Supervision (Risk-Based): Conducts off-site surveillance (monitoring data) and on-site inspections (checking assets/compliance) to assess risk profiles.

Enforcement: Takes action against non-compliant banks to ensure adherence to laws and policies.

Corporate Governance: Sets standards for bank management, including fitness and propriety for key executives and directors.

Financial Stability: Monitors systemic risks and manages crises through its Financial Stability Department (FSD).

Promoting Inclusion & Innovation: Creates frameworks for financial inclusion, branchless banking, and adapting to financial technology (FinTech).

How it Works in Practice:

Policy Formulation (BPRD): Develops rules for risk, capital, governance, and customer conduct.

Monitoring & Inspection (BSD): Analyzes bank data (off-site) and visits branches (on-site) to check compliance and asset quality.

Enforcement: Addresses violations of prudential standards, legal requirements, and ethical conduct.

Adaptation: Updates regulations (like IFRS 9) to address new banking complexities and technological changes.

By performing these functions, SBP ensures private sector banks operate soundly, protect depositors, and contribute to a stable financial system.

Banking Policy & Regulations Department

One of the key objectives of The State Bank of Pakistan (SBP) is to ensure a robust and efficient financial sector, capable of

- Q.5.** Based on financial data, the National Insurance Company Limited (NICL) of Pakistan has achieved significant, sustained profitability leading into the 2024–25 period. NICL has transformed from a struggling entity into a high-earner for the government, with profits and premium underwritings increasing significantly.



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Key factors driving this "handsome" profit in recent periods include:

Substantial Growth in Underwritten Premium: NICL achieved a milestone in underwriting by crossing the Rs. 15.5 billion mark (and aiming for Rs. 20 billion) by the end of 2021, growing by nearly 50% from 2019 levels, and this high-volume trend has continued.

Strong Investment Performance: The company recorded all-time high investment profits (e.g., ~Rs. 4.5 billion in 2021) by diversifying its portfolio and securing high returns, particularly from Government of Pakistan securities and bonds.

Expansion of Business Portfolio: NICL has expanded beyond traditional fire and property insurance, launching Agri Loan Insurance (in collaboration with NBP and Bank of Khyber) and developing Micro Finance and Health Insurance products to cover rural and low-income populations.

Effective Risk Management and Reinsurance Strategy: The company successfully reduced its dependence on foreign reinsurance from 80% to less than 10%, keeping premium earnings within the country.

Captive Clientele and Strategic Leadership: As a state-owned entity, NICL enjoys a stable, captive client base (public sector organizations). New management appointed around 2021 implemented a "turnaround" strategy, improving operational efficiency and profitability.

Alignment with Government Policies: NICL has actively partnered in projects like the Silk Route Reconnect Policy, promoting trade through road transport to increase its underwriting portfolio.

Note: The results discussed reflect the turnaround strategy initiated under new management and continued, strong financial performance, as reported up to the end of 2024 and in 2025 planning, as per search results.

- Q.6.** The financial statements of Sui Southern Gas Company (SSGC) for the year ended June 30, 2023 deserves issued a **Qualified Opinion**. Because

Massive Doubtful Receivables: Trade debts include huge overdue receivables from K-Electric Limited (KE) and Pakistan Steel Mills Corporation (PSML) amounting to Rs. 25,706 million and Rs. 21,778 million, respectively. The auditors noted that these are classified as current assets and considered fully recoverable by management, despite a large portion being significantly overdue, making the exact timeframe for recovery indeterminable.



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Impact of Deferred Tariff Decisions: The finalization of the audit and general meetings was heavily delayed due to pending decisions from the Oil and Gas Regulatory Authority (OGRA) on the company's Final Revenue Requirement (FRR) petition. The delay required extensions for laying the financial statements before shareholders.

State-Owned Enterprise Exemptions: It was noted that SSGC sought and utilized certain regulatory exemptions (e.g., from IFRS 14) regarding the accounting of state-owned enterprise balances, adding further complexity to the financial measurements.

Financial Performance: Despite the audit qualifications, the company reported an Earnings Per Share (EPS) of Rs. \((1.82)\) for the 2023 financial year, weighed down by heavy financial and operational charges.
