# PIPFA JOURNAL

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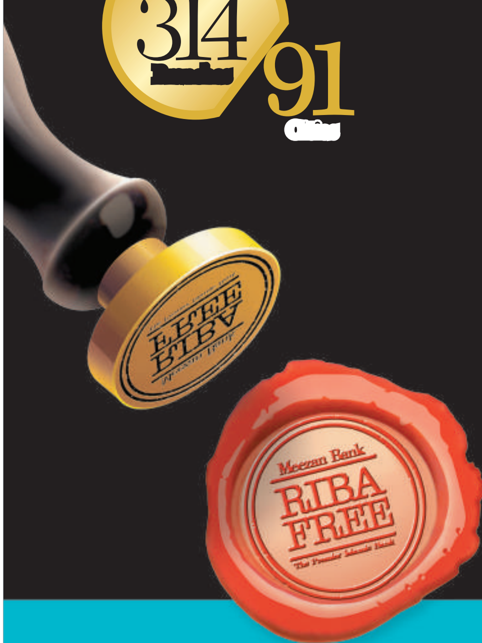
Celebrating 20th Year of Excellence

## ENVISIONING ECONOMY


PAKISTAN INSTITUTE OF PUBLIC FINANCE ACCOUNTANTS

314
91

# Meezan Current Account

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It is of immense pleasure to present 9th edition of PIPFA Journal. PIPFA has completed 20 years of success with a clear direction for the future. Since the founding of PIPFA in 1993, we have been carrying out all of our activities following our basic philosophy "Identification, development and imparting knowledge to provide a structure for the training of accounting professionals in the specialized areas", which commits us to making a contribution through our services for improving accounting education in the country, and further progress of the profession.

The honor and prestige of a professional depends on his knowledge, skill and understanding of the core professional concepts, processes and procedures. In fact the working and output of a professional is rooted in his comprehension of the basics of the subject. Unless & until a professional truly masters the core professional techniques and practices, he/she cannot deliver in accordance with expectations of stake holders. In accounting, auditing and financial management regimes, there have been continuous development and expansion over the last few decades. With the introduction of computers and information technology, an entirely revolutionary change has engulfed the accounting, auditing and financial management procedures and techniques. The combination of latest professional ideas with technology has posed a great challenge to the real professional if he is committed to keep him abreast with modern ideas. It also affords opportunies for us to contribute more effectively in organizational and national development.

PIPFA has been endeavoring for continuing professional development of supervisory accounting and auditing professionals in public and private sectors. As we celebrate the twenty years milestone, our focus is firmly on the sound professional growth of human capital. We would continue to work for the development of the profession with commitment to dvelope the human resource which is the most critical factor in overall development of the country.

The sharing of ideas and knowledge through this journal is another step in these efforts of PIPFA. I hope the readers would appreciate this humble effort.

Dr. Syed Turab Haider

# Chairman Publication & Seminar Committee

I am delighted to present 9th edition of PIPFA Journal. You will find it contains a comprehensive range of information about the field of accountancy. Facing new challenges in the 21st Century, PIPFA is dedicated to continuing its crucial professional & academic role. In an age where boundaries between countries, cultures, and fields of knowledge dramatically shrink, PIPFA aims to cultivate future leaders by providing Members & Students with a bigger, broader, and more expansive perspective on our global community.

We believe that Pakistan has potential to become a global economic player. It's powerful vision which can be realized if there is a focus on economic growth and implementing the vital reforms needed to stimulate and underpin growth.

Pakistan must take steps to harness private sector dynamism in boosting investment and growth. Inefficient public sector enterprises play too large a role in economy. They should be reformed or privatized. Bureaucratic barriers to private business need to be reduced and property rights better protected. Pakistan's economy is interlinked with global economies. If economies at global level perform well, it would have positive effects here as well. There is need to adopt national economic reforms agenda for better future of its economy.

We invite you to join our academic community, and to aid us in our commitment to create a better future. We always welcome our members' feedback so please let us know if you have any comments or suggestions.

Jawed Mansha

# ECONOMIC TIER

By: Rashid Pervez, FPFA

## Introduction

Economic tier is the satisfaction of goods supplied and goods consumed. The trading between the two countries are the factors govern on its proximity; prices; trade relationship; and comparative costs. What are the normal expenditures in social sectors, development sectors, indicate the priority of population of the country in the state of live-being. Food, clothes and shelter are the basic wants of the person, while we study the subject of Economics.

## Economy Reaches

The infrastructure in communication, population pressure, and traffic, indicate how it is united in interest of living and security of people among themselves. This factor helps in development in a priority of infrastructures. This also helps remove or reduce the inflammation among the people. It is always worthwhile to think before you leap or think hundred times before you leap, this is the temperament of the people by having good resources of personal and global infrastructures. The international trade of exports and imports teach the type of goods and services and its infrastructure in the meaning of men, machine, moral, discipline, confidence, and integrity, which can be adhered, to economize and develop towards its own resources. This infrastructure builds closer ties between the two traders.


## Transportations and Feasibility

The automation are the speed of development in the work and environment which also help mechanization of farming. Exploration in the most basic choice is finding food, clothes and shelter. Farming is the most simple exploration at the surface of earth. The mobility of environment is governed by effective transportations and communications. The companies may hold its power of achieving the benefit from automation. Transportation facilities can be analysed with the following reviews:

* What are the natural resources of the country in the field of forestry, minerals, and mines.
* How is agricultural growth of the country. Do the grows suffice the need of whole population.
* Are the crops' grows able to be exported in the international markets, which may give choice of over production in agriculture for more consumption and utilization of time, efforts and money.
* What source of transportation is normally used in agricultural crops exports. And what are the preservatives which are used for securing from perishibility of agricultural crops while transporting for exports.
* What are the general demands and supplies of the people and how it is looked after.

## Developed Studies

There should be motivation of developed studies in the country, which can be applied for research and development activities. The country which lacks in education of researches, it may mean that the people are not competitive worth to compete with other people who are actively engaged in developing their goods and services through continued researches. The research and development should be an active part in mobilization and modernization of goods and services. The outcome of research and development of goods and services may help the foreign exchange parities.

## Power Control

The companies should be encouraged to have their own power houses to cater power consumption in the company. This will help competition in the power sectors. The ratio of demand of power in general will be reduced by having more production and supply of power which will help cost effectiveness, against failures, production losses and also will be a sigh of futuristic dependency at one's own power house. The excess production in the power houses over their own consumptions can be a selling goods for the companies to the general power companies which may be a help in economy contribution in the basic need of power for development. If this becomes a commercial goods for the business, this can reduce the dependency of failure in power supply management.

## International Trading

While negotiating imports the companies should be encouraged to bring some exports order. On the basis, it can be an incentive option for international trade to monitor import and export with. The options brought available for exports can be promoted through to the general entrepreneurs who can export to the same country whom import orders are being given. This will control foreign exchange stability of cost and benefit basis. That an analysis can be made how much foreign currencies are expensed and how much foreign currencies are earned from such countries. On transaction to transaction basis it may be a more centralized monetary control which also monitors the prices of goods in the economy.

Certain understanding on the monitoring of international trade can be reviewed :

* How the goods are available for exports and in demand in the local markets are advertised promotionally. Can anyone take and pick the order for goods for exports, he can purchase or produce to export from certain source.
* Is in the international offices of the country accessed to any person for orders of imports.
* Can such promotion be directly a source to be in touch with the international market for exports of goods. Is there any bulletin periodically published for the purpose.
* What are the habbits of consumptions. Whether imported goods are the priority or locally manufactured goods.
* What are the distribution channels of goods and services. Are these

distribution channels cater to the whole area of the country, and the goods and services can be traded to the proximity of whole population.

* Which origin of goods are in demand in the country. Are they oftenly available in the market. What are the substitute of those imports in terms of employment of cost and services in purchase and production.
* Visits from abroad is a good amount of balance of trade functioning through the visiting services. What are the percentage in this sector in the GDP of the country. Are they needed to be upgraded with the facilities for foreigners visiting the country, which can be a feasible investment and development in this profit centre.
* Are there any alliances in the economic trade. What are exports and imports of the country with alliance economic trading countries.
* Is there barter trades with any country. What it is needed for; either the constraints in foreign exchange; or there may be availability of the goods between the bartering countries in supply and consumption.
* What is the minimum wage rate in the economy. What is the per capita income in the economy. What is the general price index of common people's necessaries. How imports are managed with international prices.
* Are there demography maintenance by class and groups in terms of prices. How general index of prices are maintained to the low income group, when import based economy are managed for the prices to the common people as modernization.

## Exchange Control-Franchises

While giving the importance of foreign exchange reserves, the franchises products which can be easily produced and catered and which are not as essential as the foreign exchange should be applied the cost and benefit analyses. Like what the franchise chains and supplies consumes the foreign exchanges, what impact it leaves the prices of foreign currency due to more requirement in reserves for the liability, what will be the impact on the general price index due to more consumption of foreign exchanges. Moreover it is also true that products which are of foreign franchise can be researched to bring in local production capacity for consumption and demand.

What people need, is the governance, and the governance is run by the per capita income of the economy. This can also be made responsible to the foreign exchange reserves in the cost and benefit analyses results in foreign exchanges. The goods offered for higher price affordability and the goods available for lower price affordability in its general consumptions of foods, clothes and shelter is the factor where price control exercises can be monitored.

## Exchange Control-Consumptions

In a struggle of foreign currency reserve building through the international trade, it may be may encouraging to control expenses in the society which should be analysed in the consumption of goods and supplies and are such which is under the exchange regulatory control i.e., imported supplies. The average prices maintenance can control excess expenditure. The savings in the society will be encouraged. The Central Bank when controlling the supply of cash resources does come in the open market operation to offer savings and investments, to the people. This controls the prices to the average earners. This also mobilizes the savings for development expenditures. The foreign exchange control is also monitored in self reliance of production and consumption. In all the way, prices are maintained.

## Budgetary Control Cost

How Annual Budget is monitored. Is it compared at the end of the year with previous year's budget to project achievements and losses. How the variances are studied with reasons to learn to cope those variances which indicates requirements for improvements. in those accounts. How the deficit or losses in the Budget is catered. Is the financing for deficit is paid back or absorbed by financing companies.

# Revised COSO Framework Improved but Additional Adjustments Still Needed

by Vincent Tophoff
Senior Technical Manager, IFAC

On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued the revised version of its Internal Control-Integrated Framework (the Framework). The revised Framework will help improve implementation of internal control but further adjustments are warranted to align internal control across the globe and to help organizations better manage their risks and improve their overall performance.

The Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) has been closely involved in the revision, with two representatives on the COSO advisory council for the project. Additionally, the PAIB Committee submitted two formal comment letters to both COSO internal control exposure drafts.


## Key Features of the Revised Framework

The revised Framework uses the same definition of internal control as the previous version and builds on the same five components of internal control: the control environment, risk assessment, control activities, information and communication, and monitoring activities. The Framework also continues to emphasize the importance of management judgment in designing, implementing, and conducting internal control, and in assessing its effectiveness.

So what has changed? The revised Framework now:

- articulates the fundamental concepts underlying the five components in the form of 17 guiding principles and more detailed points of focus;
- takes into account environmental changes, such as increased globalization, complexity, and regulation, the growing importance of technology, and increased expectations for better governance oversight and fraud prevention;
- expands the operations objective from "effective and efficient use of the entity's resources" to "effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss;"
- broadens the reporting objective from "published financial statements" to "internal and external financial and non-financial reporting;" and
- provides additional approaches and examples relevant to operations, compliance, and non-financial reporting objectives.

COSO also issued two additional publications.

- Illustrative Tools for Assessing Effectiveness of a System of Internal Control assists users when assessing effectiveness of internal control based on the requirements of the Framework.
- Internal Control over External Financial Reporting: A Compendium of Approaches and Examples assists users when applying the Framework to external financial reporting objectives.

The revised Framework will supersede the original Framework at the end of 2014, giving organizations time to transition. COSO anticipates a relatively easy transition process for those organizations that have properly applied the original Framework (1992). In fact, the new principles and points of focus should make it easier for organizations to see what is covered and where gaps may exist.

## IFAC PAIB Committee's View

The IFAC PAIB Committee commends COSO for being one of the first and foremost thought leaders in internal control, starting with the publication of the original Framework and followed by a series of related high-quality publications. The committee agrees that while many of the underlying concepts of the original Framework have proven themselves over time, global developments, including the financial crises, in recent years required a revision.

However, while the revised Framework represents a step forward in articulating principles of effective internal control and incorporating a number of considerations relevant to today's complex business environment, there remains work to be done to advance and harmonize risk management and internal control guidelines across the globe and to better support organizations dealing with the many economic, social, and environmental challenges they face.

The PAIB Committee believes that it is in COSO's long-term interest to continue evolving its Framework in order to make it more relevant to the broader global community and the challenges faced, and stands ready to assist COSO make progress in this area. The PAIB Committee has formulated a number of recommendations for further development.

- For the Framework to remain relevant in an environment of greater global integration, COSO should further integrate its Internal Control Framework with its Enterprise Risk Management (ERM) Framework, released in 2004, as well as better align it with the concepts and terminology in other frameworks, standards, and guidelines on governance, risk management, and internal control from across the globe. This will enable organizations to make internal control a natural and integrated part of their overall risk management and governance arrangements.
- The Framework should embrace a wider perspective than its current limited application to internal control over reporting, operations, and compliance, for example, by broadening the definition of internal control so as to permit the inclusion of other areas, such as business strategy and finance, in which internal control also plays a crucial role. Before the string of financial crises, many organizations were overly focused on financial reporting controls. These crises highlighted the fact that many, if not most, of the risks that affected organizations derived from external circumstances. This includes the increasing social and environmental risks that organizations encounter, such as mitigating the threats and taking advantage of the opportunities related to global warming.
- As the achievement of objectives is at the heart of the COSO definition of internal control, objective setting should be included in the components of internal control. This would assure better alignment with the related COSO ERM Framework, which includes objective setting as a separate component, and emphasize that strengthening an entity's systems of internal control can only be done from the perspective of the organization's objectives.
- The Framework should further align the various concepts and terminology in relation to risk management and internal control with the other standards, guidance, and frameworks that have been issued since the conception of the original Framework. This includes the definitions of risk and internal control, balancing the positive and negative sides of risk, and rethinking of difficult to understand concepts such as risk appetite and inherent controls.

## Constructive Dialogue

IFAC is well-positioned to facilitate a constructive dialogue with the issuers of standards, guidance, and frameworks in the area of governance, risk management, and internal control across the world on how the terminology, various concepts, and guidelines could be better aligned in the future.

Further international alignment is an ambitious and challenging goal, but the potential benefits are significant. It is up to all those responsible for developing, implementing, using, and enforcing requirements and guidelines on governance, risk management, and internal control to work together to produce globally-aligned terminology, concepts, and guidelines that are relevant to all. IFAC and the PAIB Committee look forward to contributing to this collaborative effort.

### *Additional IFAC Guidance*

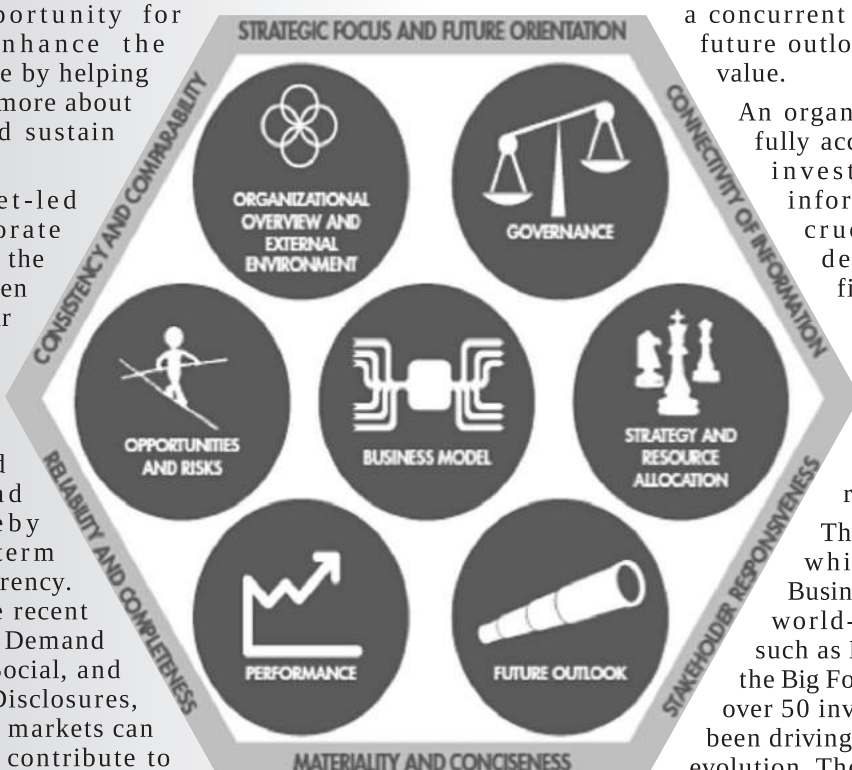
Despite the existence of sound internal control guidelines, such as the revised COSO Framework, it is often the application of such guidelines that fails or could be further improved in many organizations. With the International Good Practice Guidance, (IFAC, 2012), the PAIB Committee provides a practical guide focused on how professional accountants in business can support their organization in evaluating and improving internal control as an integral part of its governance system and risk management. The guidance is complementary to existing internal control guidelines and is based on those internal control matters that often cause difficulties in practice. Both the full guidance as well as an are available free of charge on the .

# Integrated Reporting (IR)

The International Integrated Reporting Council (IIRC) is a global coalition of business, investors, regulators, standard setters, the accounting profession, and NGOs. This coalition is driving forward developments in corporate reporting-responding to further shifts in thinking and behaviour in order to shape a new reporting model for the 21st Century. This initiative will have a profound and beneficial impact for businesses, investors, capital markets and economies.

The accounting profession will have a large role to play in this evolution of reporting, ensuring it becomes more relevant and meaningful to providers of financial capital and other stakeholders. Integrated reporting (<IR>) is an opportunity for accountants to enhance the profession's relevance by helping organizations reveal more about how they create and sustain value over time.

<IR> is a market-led evolution in corporate reporting. It enhances the communication between organizations and their stakeholders, ensuring that investors have greater insights into the business model and future outlook and prospects, thereby encouraging long-term thinking and transparency. As highlighted in the recent IFAC report, Investor Demand for Environmental, Social, and Governance (ESG) Disclosures, short-termism in the markets can create volatility and contribute to financial instability that erodes long-term value. To make decisions, providers of financial capital need to have an understanding of, and confidence in, the business model, as well as greater visibility over how the business creates value over time. A better relationship between business and its stakeholders, once Integrated Reporting becomes more widespread, will help to promote a more resilient global economy, and greater market-stability through longer term investments.




The composition of the market value of a business has changed substantially over the last 40 years, demonstrating that we live in a more complex business environment today. Research conducted by Ocean Tomo demonstrates that in 1975, 83% of a company's market value could be traced to tangible assets in financial statements. Today, only around 20% of a company's market value can be accounted for by its tangible assets.

All businesses rely on a variety of capitals for their success, including relationships with customers and the supply chain, the ability to innovate, as well as access to public infrastructure. Increasingly, as the businesses in our Pilot Programme are telling us, when businesses manage all relevant capitals such as intellectual, human, natural, and social and relationships capitals, there is a concurrent shift in focus towards future outlook and the creation of value.

An organization should be held fully accountable for its use of investor funds and this information clearly has a crucial bearing on any decisions providers of financial capital make. Integrated reporting builds on, and complements, rather than replaces the need for financial and corporate social responsibility reporting.

The IIRC Pilot Programme, which is made up of a Business Network with over 90 world-renowned businesses such as Microsoft, Unilever, and the Big Four accounting firms, and over 50 investor organizations, has been driving forward this market-led evolution. The participants' feed back to the IIRC their experiences whilst on the road to <IR> and thereby help shape the International <IR> Framework. The Framework establishes the fundamental concepts, guiding principles, and content elements that will underpin the preparation of an integrated report (see graphic).

Until the 15 July 2013 deadline, the IIRC will be calling on all stakeholders to sumbit feedback on the Consultation Draft of the Framework. Please visit www.theiirc.org/consultationdraft2013 and respond to the Draft to ensure the Framework is robust, allowing businesses to speak the language of resilient business.

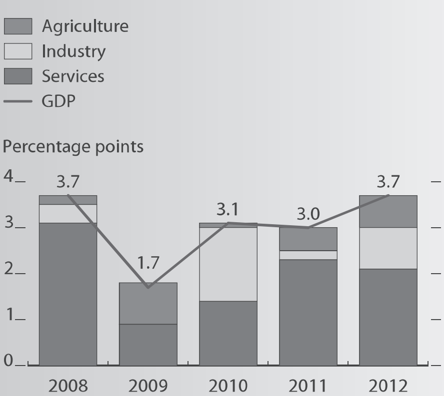
# Asian Developement Outlook - 2013 (Pakistan)

Pakistan growth picked up slightly, but for the fifth consecutive year low growth, falling investment, excessive fiscal deficits, high inflation, and a deteriorating external position weighed on the economy. While problematic security and natural disasters are endemic, a difficult political situation stalled effective policy response to macroeconomic and structural problems, especially regarding energy. As official reserves are steadily declining on low capital inflows and heavy debt repayments, downside risks color the outlook.

## Economic assessment

Economic performance during the first half of FY2012 (ended June 2012) was driven by a rebound from the devastating floods a year earlier that was partly offset by record power outages from load shedding in the second half. Growth strengthened to 3.7% but again remained well below the 7% pace needed to absorb new workforce entrants (Figure 3.20.1).

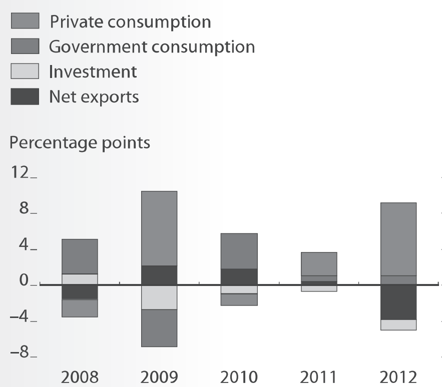
**3.20.1 Supply-side contributions to growth**




*Source:* Ministry of Finance. *Pakistan Economic Survey 2011–12.* http://www.finance.gov.pk

Agriculture recovered to grow by 3.1%, as better weather favored the production of major crops, though minor crops in parts of the country were hurt by floods. Industry expanded by 3.4%, mainly from post-flood reconstruction. The impact of the higher load shedding was apparent as large-scale manufacturing reversed early gains, tapering off to 1.2% expansion for the year, even lower than the flood-induced slowdown to 1.8% in FY2011. Output of intermediate goods declined for the third year in a row as Pakistan's steel, petroleum refining, and fertilizer industries continue to operate well below capacity. The large service sector, growing by 4.0%, continued to account for most GDP expansion. Private consumption expenditure expanded by 11.6% in FY2012 to provide nearly all GDP growth (Figure 3.20.2). As in past

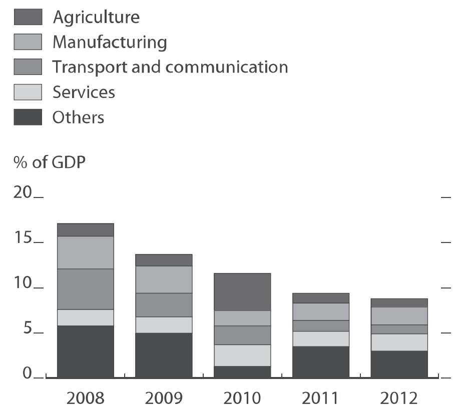
**3.20.2 Demand-side contributions to growth**




*Source:* Ministry of Finance. *Pakistan Economic Survey 2011–12.* http://www.finance.gov.pk

years, it benefited from rising remittances and government salary increases. Fixed investment fell for the fourth year in a row, to 10.9% of GDP, the lowest share since 1974 and the lowest among major Asian countries (Figure 3.20.3). This downdraft is being driven by prevailing security issues, worsening power shortages, and growing concern over the general direction and outlook for the economy. Clearly, the steady decline in investment, coupled with reliance on consumption for

**3.20.3 Gross fixed capital formation**



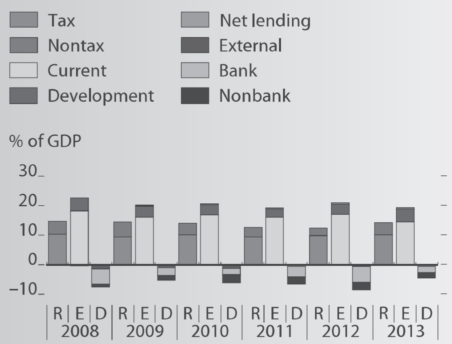

*Note:* Others include finance and insurance, electricity and gas, wholesale and retail, mining and quarrying, and ownership of dwellings.

*Source:* Ministry of Finance. *Pakistan Economic Survey 2011–12.* http://www.finance.gov.pk

growth, is unsustainable and undermines future growth prospects. Investment subtracted 1.4 percentage points from growth in FY2012. Net exports subtracted 3.8 percentage points partly because energy outages frustrated producers efforts to reliably meet export schedules and partly because demand was slack from the global slowdown. Food inflation eased in FY2012, allowing consumer price inflation to slow from the 13.7% average pace of FY2011 to 11.0% in FY2012.

The persistence of inflation in nonfood components is evident in the observation that core inflation measures, which exclude food and energy, accelerated from 9.5% at the beginning of FY2012 to 11.4% by June 2012, as more items in the basket experienced double-digit increases. The FY2012 budget deficit ballooned to 8.5% of GDP from 6.6% in the previous year, well above the 4% target (Figure 3.20.4). The bulk of the overrun was from recurrent outlays, mainly higher spending on power subsidies and funding to partly settle power sector arrears. Interest payments

**3.20.4 Fiscal performance**



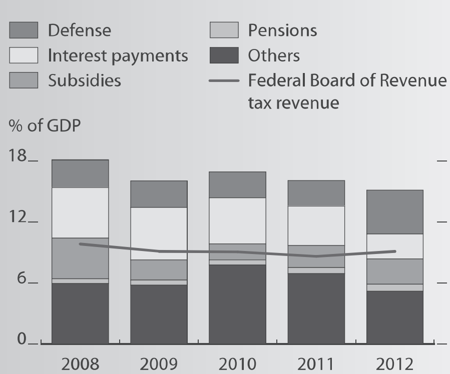

R = revenue, E = expenditure, D = deficit financing.

*Notes:* Data refer to consolidated federal and provincial governments. Net lending includes statistical discrepancy. Nonbank includes privatization proceeds.

*Sources:* Ministry of Finance. *Pakistan Economic Survey 2011–12*; Pakistan Fiscal Operations July–June 2011–12; *Federal Budget 2012–2013, Budget in Brief*; ADB estimates.

were also over budget, increasing to 4.0% of GDP and 42.2% of federal tax revenue, as domestic borrowing drove up the government's domestic debt by 27%. Patterns from previous years continued, as outlays for wages and other expenses, pensions, subsidies, defense, and interest payments substantially exceeded federal tax revenues, leaving the government's current operations to be substantially financed through debt (Figure 3.20.5).

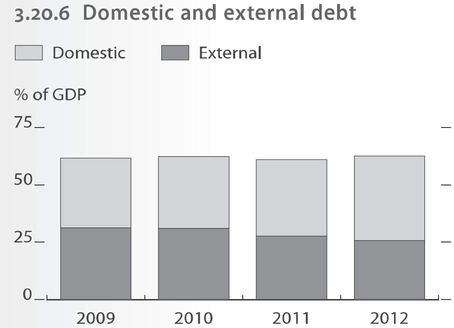
**3.20.5 Current revenue and expenditure**




*Sources:* Ministry of Finance. *Pakistan Economic Survey 2010–11*; Pakistan Fiscal Operations 2011–12. www.finance.gov.pk

Development expenditure, restricted by flooding in FY2011, bounced back and met its targeted 3.5% of GDP. Tax revenues collected by the Federal Board of Revenue increased to 9.1% of GDP from 8.6% in FY2011 but still fell short of budget targets. The 20.8% growth in tax revenue reflected in part receipts from flood- related emergency measures, higher sales tax receipts on imports (particularly oil), and administrative improvements. There was also a significant shortfall on nontax revenues as Coalition Support Fund receipts and the auction of 3G mobile phone licenses were delayed. Collections under the petroleum development levy fell short as it was reduced to offset the impact of higher oil prices on consumers. The magnitude of recent deficits worked against compliance with the Fiscal Responsibility and Debt Limitation Act, 2005. The provisions of the act called for a revenue surplus over current expenditure by FY2008 to ensure adequate capacity for public investment, doubling the share of spending allocated to health and education, and debt limits. While these goals appear distant at present, achieving them seemed feasible at the time, as FY2004–FY2007 fiscal deficits averaged a low 3.6% of GDP, there was near revenue balance, and foreign direct investment inflows to privatize state-owned enterprises were on the rise. As external financing covered a scant 10% of the FY2012 deficit, the bulk of financing came from domestic markets, including PRs505.7 billion in borrowing from the State Bank of Pakistan, the central bank. A legal restriction calling for borrowing from the central bank to be zero at the end of each quarter fell by the wayside. The 27% increase in government domestic debt was mostly in short-term issues that eroded the government debt maturity structure and heightened rollover risk. Public debt expanded to PRs1.6 trillion in FY2012, raising the ratio of government debt to GDP to 62.5% (Figure 3.20.6), which

**3.20.6 Domestic and external debt**

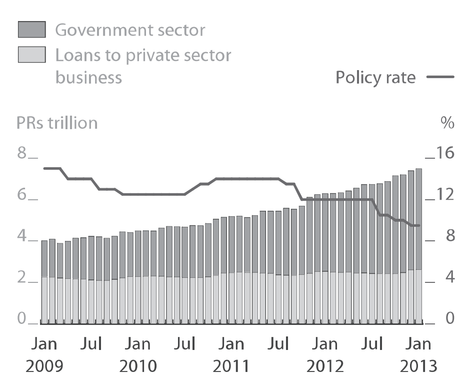



*Source:* State Bank of Pakistan. http://www.sbp.org.pk (accessed 6 March 2013).

substantially exceeded the limit set under the Fiscal Responsibility and Debt Limitation Act. External public debt dropped from 27.6% of GDP to 25.6%, while domestic public debt including the debt of state-owned enterprises increased from 33.3% of GDP to 37.0%. Pakistan's debt is higher than the recommended 30%–40% of GDP for economies at a similar stage of development.

The central bank policy stance in FY2012 was generally accommodative. As inflation eased early in the year, it lowered the policy rate by 200 basis points to 12% to stimulate investment and strengthen growth. However, surging deficits made government debt readily available and more attractive than lending to the private sector in a risky business environment, which inhibited commercial banks' financial intermediation. Bank loans to private businesses did increase by PRs18.3 billion, or 0.8%, but this amount was dwarfed by banks' PRs692 billion in lending to the government (Figure 3.20.7). Broad money growth of 14.1%

**3.20.7 Banking sector credit**




*Source:* State Bank of Pakistan, http://www.sbp.org.pk (accessed 6 March 2013).

in FY2012 was somewhat slower than in the year earlier, largely reflecting the drawdown of foreign exchange reserves, ensuring that money growth came entirely through an expansion of net domestic assets. The loss of foreign exchange reserves, combined with the large amount of government debt entering the market, caused liquidity shortages at banks that were met by weekly injections by the central bank of

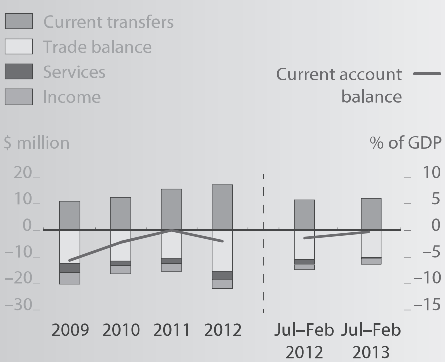
**3.20.1 Selected economic indicators (%)**

| | 2013 | 2014 |
|---|---|---|
| GDP growth | 3.6 | 3.5 |
| Inflation | 9.0 | 9.5 |
| Current account balance (share of GDP) | –0.8 | –0.9 |

*Source:* ADB estimates.

up to PRs600 billion, far larger than in the past. The current account returned to a deficit of 2.0% of GDP in FY2012, after a marginal surplus in FY2011 (Figure 3.20.8). The reversal came mainly from an 11.9% increase in

**3.20.8 Current account components**




*Sources:* State Bank of Pakistan. Economic Data. http://www.sbp.org.pk (accessed 21 March 2013); ADB estimates.

imports, as oil payments increased by nearly 17% and fertilizer imports doubled because of shortages of natural gas. Exports contracted by 2.8%, as textile exports stagnated, cotton prices fell, and food exports declined. Remittances continued to grow at a robust 17.7% pace, somewhat slower than a year earlier, but still providing an important cushion for the trade account deficit. Inflows in the capital and financial accounts continued to decline, while debt amortization payments increased, reducing net liquid foreign exchange reserves by about one-quarter in FY2012, to $10.8 billion, or 2.6 months of import cover. Foreign direct investment fell to $821 million, and private portfolio investment recorded net outflow. Sustained inflation and pressure on the foreign exchange market induced a 9.1% depreciation of the Pakistan rupee against the US dollar.

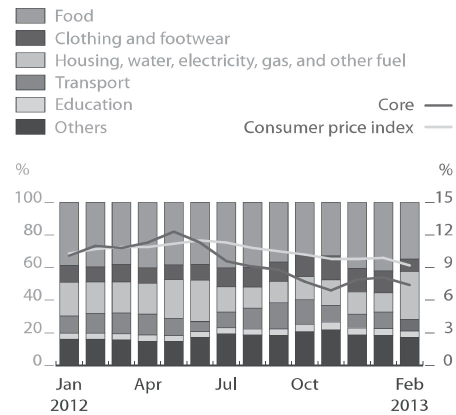
## Prospects

The end of the government's 5-year term in mid-March 2013 limited political scope for major policy or structural reforms. Economic developments in FY2013 are therefore unfolding along broadly similar lines as in FY2012 but with deepening concerns about sustainability and the adequacy of foreign reserves.

The economic situation weakened further in the first half of FY2013 as official reserves declined markedly, food and general inflation both reaccelerated in January following their earlier decline, and exports stagnated while imports contracted. Economic growth is expected to slow to 3.6% in FY2013, with risks on the downside from possible shortfalls in agricultural production, which may offset the modest improvement in large-scale manufacturing during the first half of the year. Production of petroleum products, iron, and steel picked up, but growth in textiles and food, which account for almost half of large-scale manufacturing production and the bulk of exports, remained negligible. Manufacturing performance for the year will hinge largely on limiting power outages during the hot season, when demand peaks. With little prospect for improving energy supply or investment, growth is expected to remain weak at 3.5% in FY2014.

Consumer price inflation continued a downward trend during most of the first 8 months of FY2013 as food price inflation decelerated. However, year-on-year inflation at 7.4% in February 2013 was higher than the year low of 6.9% in November 2012 as food prices moved higher (Figure 3.20.9). Nevertheless, food inflation in this fiscal year is much slower than a year earlier, reflecting improved supply. Core inflation, excluding food and energy, also improved but, at 9.6% in February 2013, remains stubbornly high with many of its subcomponents staying in double digits, reflecting entrenched inflationary pressure in the economy. However, with slower growth in food and energy prices, inflation is expected to average 9.0% in FY2013, or 2 percentage points lower than in the previous fiscal year. On the

**3.20.9 Weighted contribution to consumer price index inflation**

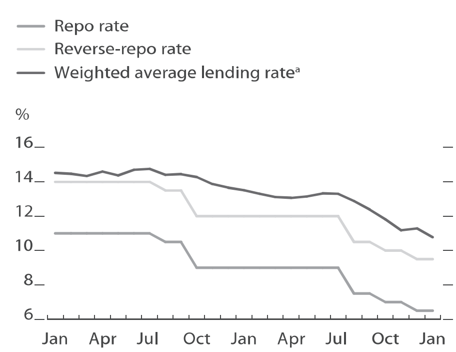



*Source:* State Bank of Pakistan. Economic Data. http://www.sbp.org.pk (accessed 5 March 2013).

expectation that there will be no substantive improvement in the country's fiscal and energy imbalances in FY2014, inflation is expected to edge up to 9.5%.

Easing inflation early in FY2013 prompted further reductions in the central bank's main policy rate by a total of 250 basis points, bringing it to 9.5% in December 2012 (Figure 3.20.10). While banks' weighted average rate on new loans in this period fell by about 200 basis points to 11.3%, overarching constraints coming from energy shortages and other uncertainties, such as law and order issues, will limit the

**3.20.10 Interest rates**



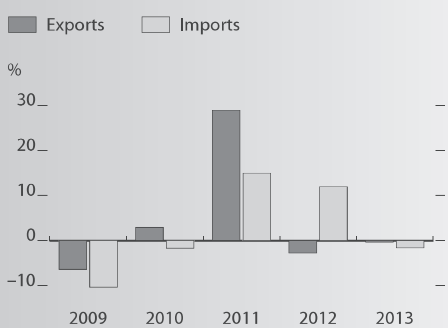

[a] On gross disbursements, the amounts disbursed by banks either in Pakistan rupees or foreign currency against loans during the month. Also includes loans repriced, renewed, or rolled over during the month. In case of running finance, the disbursed amount means the maximum amount received by the borrower at any point during the month.

*Sources:* State Bank of Pakistan. http://www.sbp.org.pk; CEIC Data Company (both accessed 21 March 2013).

impact of interest rate reductions on investment and business conditions in general. A modest increase in lending to private businesses in the first 7 months of FY2013 was mainly for working capital, with the bulk of lending going to textile firms.

A modest surplus in the current account during the first 7 months of FY2013, following inflows of $1.8 billion from the Coalition Support Fund, reverted to a deficit of $700 million in February 2013. As disbursements of the same magnitude are not expected during the second half of the year, it is expected that the current account will post a deficit on the order of 0.8% of GDP. Exports contracted by 0.9% during the first 8 months of FY2013, but a 3.5% contraction in imports was four times larger (Figure 3.20.11). Low export growth was largely the result of 2.7% lower textile exports, reflecting the impact of sustained energy shortages, difficulties in meeting production schedules, and slack global demand. The contraction in imports was mostly of food, transportation equipment, and petroleum.

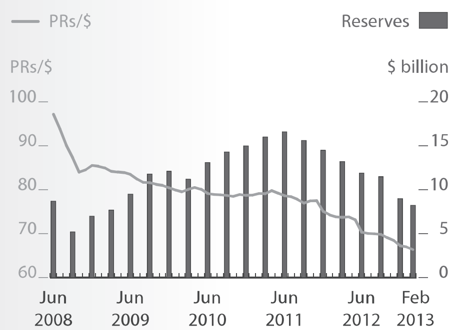
3.20.11 Growth in exports and imports




*Note:* 2013 data is from July 2012 to February 2013.
*Source:* State Bank of Pakistan. Economic Data. http://www.sbp.org.pk (accessed 17 January 2013).
*Click here for figure data*

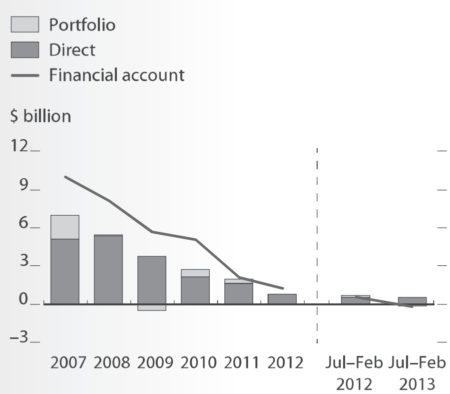
Despite improvement in the current account, net liquid foreign exchange reserves declined further, dropping from $10.8 billion at the end of June 2012 to $7.9 billion at the end of February (Figure 3.20.12), reflecting higher debt amortization payments, including payments to the International Monetary Fund (IMF), and lower financial inflows. Low reserves adequacy, at less than 2 months of imports cover as of February 2013, raises concern over external sector sustainability. Pressure on reserves is expected to continue, with an additional $1.7 billion due to the IMF before the end of FY2013 and $3.2 billion during FY2014. The financial account was in deficit during the first 8 months of FY2013 (Figure 3.20.13) despite a modest revival in portfolio inflows as foreign direct investment stagnated. The nominal exchange rate depreciated by 4% in the first 8 months of FY2013.

3.20.12 Foreign reserves and exchange rate




*Sources:* State Bank of Pakistan; CEIC Data Company (accessed 21 March 2013).
*Click here for figure data*

3.20.13 Foreign direct investment, portfolio, and financial account net flows




*Source:* State Bank of Pakistan. http://www.sbp.org.pk (accessed 6 March 2013).
*Click here for figure data*

Continued weak export prospects, combined with limited import demand held down by slow domestic growth and relatively stable global prices for oil, support a projection that the current deficit will increase marginally to 0.9% of GDP in FY2014. However, weak capital inflows and large debt repayments, including to the IMF, will put pressure on the official reserves and the exchange rate.

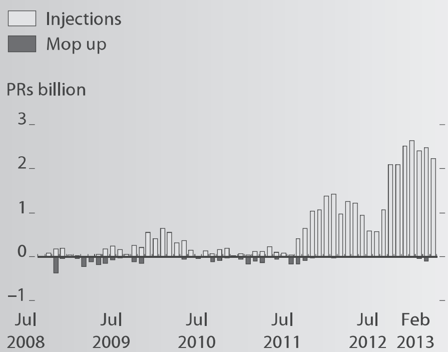
The fiscal outlook is largely unchanged from FY2012. Revenue targets announced with the FY2013 budget are unlikely to be met, as tax receipts have grown by only 12.0% in the first 6 months, well below the 23.7% increase needed to meet budget targets. On the expenditure side, overruns on interest outlays and subsidies are again expected, as subsidy allocations of PRs120 billion have already been exceeded and will reach at least PRs200 billion along with a further buildup of power sector arrears. The deficit for the first half of FY2013 is 2.5% of GDP, including the 0.7% of GDP from the Coalition Support Fund that is the single payment for the year. Given normal quarterly patterns for fiscal balances, the deficit for FY2013 is expected to breach the 4.7% target and is likely to come in at 7.0%–7.5% of GDP, excluding any payments to settle power sector arrears.

Government bank borrowing continued in the first half of FY2013. The government did acknowledge requirements under the State Bank of Pakistan Act by retiring PRs399 billion of the PRs505 billion borrowed from the central bank during the first quarter of FY2013, before borrowing back PRs183 billion in the second quarter in response to fiscal pressures, thereby breaching the act once again. Large government borrowing from commercial banks requires ever-larger injections from the central bank on a weekly basis to meet banks' liquidity requirements and keep money market rates anchored within central bank policy rates (Figure 3.20.14). Taming inflation would require shrinking these injections, which would require in turn lower government borrowing or else higher lending rates to further crowd out credit to the private sector.

## Development challenge—lifting constraints on growth

The economy faces fundamental challenges to growth. The existing

3.20.14 State Bank of Pakistan open market operations




*Source:* State Bank of Pakistan. 2013. *Statistical Bulletin.* January.
*Click here for figure data*

pattern of consumption-led growth with falling investment is unsustainable. In this context, macroeconomic sustainability and increasing investment go hand-in-hand with the improved growth prospects necessary to provide adequate employment. Unchanged policies marked by the lack of structural reform, high fiscal deficits, and accommodative monetary policies will mean continued slow growth, excessive inflation, and a weakening balance of payments that drains official reserves. Some drivers of the current situation, such as security challenges, are unlikely to change immediately. However, other factors, such as the energy deficit and the losses run up by public sector enterprises that drain fiscal resources needed for infrastructure development, are more malleable in the near and medium term. Deterioration in the power sector is the main physical constraint on growth and a major cause of financial and economic instability. Power outages are estimated to cut growth by 2 percentage points annually, making it unlikely that Pakistan will be able, without significant reform, to move toward the 7% growth rate needed to generate adequate employment and meaningful poverty reduction. The current environment in the power sector, in which receipts do not cover costs, means that for every unit of power sold there is a large loss that is either covered by a government subsidy or becomes part of the continuously accumulating arrears of the state-owned power companies. Growing arrears, which reached PRs450 billion at the end of December 2012, or about 2% of GDP, constrain the availability of cash needed to operate existing power-generation assets at full capacity. While it will take time to move to a more efficient system for generating, transmitting, and distributing electricity, improvements to collection, adjustments to pricing mechanisms, and improved management could enable higher power generation, lift the financial burden on the budget, and motivate private investment in the sector. Large loss-making public sector enterprises absorb fiscal resources without any apparent improvement in their operations or financial viability. Explicit subsidies included in the budget for them are limited, as most assistance is in the form of sovereign loan guarantees that require lump sum payouts from the government at crisis points. The end result is the inefficient provision of services at prices that are higher than necessary. The framework for economic growth approved by the government in FY2011 identifies the restructuring of public sector enterprises as a key focus area. Its recent approval of corporate governance rules for public sector enterprises is a step in the right direction, but the rules will need to be rigorously applied in the face of long-standing resistance to change. Finally, achieving the major challenge of boosting agricultural productivity and strengthening food security requires improving the management, storage, and pricing of water for irrigation. Anecdotal evidence suggests that agricultural productivity could be doubled with appropriate reform. Improved water management is critical to deliver sufficient water to the 80% of farmland in the country that is irrigated. Pakistan is one of the most water-stressed countries in the world, not far from being classified as "water scarce," with less than 1,000 cubic meters per person per year. Water demand exceeds supply, which has caused maximum withdrawal from reservoirs. At present, Pakistan's storage capacity is limited to a 30-day supply, well below the recommended 1,000 days for countries with a similar climate. Climate change is affecting snowmelt and reducing flows into the Indus River, the main supply source. Increases in storage capacity to manage periods of low snowmelt and low rainfall are required, as well as the rehabilitation of the distribution system to reduce losses.

*Source: ADB-Asian Development Outlook, 2013*



## Quote

*We have weathered the worst storms and the safety of the shore, though distant, is in sight. We can look to the future with robust confidence provided we do not relax and fritter away our energies in internal dissensions. There never was greater need for discipline and unity in our ranks. It is only with united effort and faith in our destiny that we shall be able to translate the Pakistan of our dreams into reality."*

*Quaid-e-Azam*
*Muhammad Ali Jinnah*
*Message, 27 August, 1948*

# Budget 2013

## Income Tax

- Dividend received by a company is proposed to be taxed under the Final Tax Regime.
- Losses will no longer be available for setting off against salary.
- Companies desiring to avail group taxation and/or group relief will be required to comply with Group Companies Registration Regulations, 2008 issued by the SECP.
- Non-profit organizations, corporate society, finance society or other society brought within the ambit of the term "company".
- Where a taxpayer fails to correlate his/her investment or expenditure etc. via properly taxed agricultural income under the relevant Provincial agricultural tax laws, such unexplained income/expenditure etc. will be liable to be taxed under the Ordinance.
- Rate of minimum tax on turnover enhanced from 0.5% to 1%.
- Adjustment of tax withheld from employee under other heads and tax admissible credits during the tax year will no longer be available against the tax to be withheld by the employer from salary.
- For the purposes of Section 152, the term "prescribed person" has been defined.
- A minimum tax on builders and developers has been prescribed.
- Trade body members and professionals required to file return of income irrespective of amount of income earned.
- Approval of Commissioner Inland Revenue required for revising the return of income.
- Every salaried taxpayer required to file return.
- Every individual taxpayer, member of an AOP and individual falling under FTR required to file a wealth statement along with a wealth reconciliation for the year.
- Power of the Board to introduce Amnesty schemes withdrawn.
- Time limit for finality of provisional assessment order reduced from 60 days to 45 days.
- Scope of prescribed persons for withholding tax from property income broadened.
- Provisions of section 165 to override all conflicting Banking provisions contained in any other law in respect of disclosure of information
- Banks no more immune from providing customers information to tax authorities.
- Refund to be treated due from the date of the refund order and not from the date of the deemed assessment order.
- Business connection for the purpose of section 172 explained.
- Commissioner's authority to conduct tax audit independent of the Board's power for selecting cases for tax audit
- Penalties enhanced but made more clear
- Scope of collecting advance tax by NCCPL has been broadened.
- Rates of withholding tax on motor vehicles enhanced and such tax made adjustable.
- Advance tax on functions and gatherings has been envisaged to be collected from a person arranging or holding a function in a marriage hall, marquee, hotel, restaurant, commercial lawn, club, a community place or any other place used for such purpose.
- Advance tax on foreign-produced film, a TV drama serial or a play, for screening and viewing, shall be collected by a person responsible for censoring or certifying such foreign film, serial and drama.
- Advance tax on cable operators and electronic media shall be collected by Pakistan Electronic Media Regulatory Authority, at the time of issuance of license for distribution services or renewal of the license.
- Every manufacturer or commercial importer dealing in specified goods shall collect advance tax at the time of sale to distributors, dealers or wholesalers.
- Every manufacturer, distributor, dealer, wholesaler or commercial importer dealing in specified goods shall collect advance tax at the time of sale to retailer.
- Educational institutions shall collect advance tax either from the parents or guardian making payment of the fee to the educational institution. The tax will be collected in the manner the fee is charged. The tax shall not be collected from a person where the annual fee does not exceed Rs.200,000/-.
- Every market committee will collect advance tax from dealers, commission agents or arhatis at the time of issuance or renewal of license.

- The maximum tax rate on salaried and non-salaried tax payers raised from the existing 20% to 30% and from the existing 25% to 35% respectively.
- Effective from tax year 2014, corporate tax rate reduced to 34%. Reduction in rate of tax from 35% to 25% in the case of dividend received by a banking company from Money Market Fund and Income Fund.
- Rate of tax applicable to income from properties enhanced.
- Advance tax payable at the time of registration of vehicles enhanced.
- Advance tax at the time of sale by auction or auction by a tender increased to 10% from the existing 5%.
- Advance tax at the rate of 10% levied on the total amount of bills in respect of functions and gatherings.
- Foreign produced films, TV plays and serials are subject to advance tax at prescribed rates.
- Cable Operators and distribution services are subject to advance tax at prescribed rates according to their license category and type of channel respectively.
- Collection of tax at imports increased from the existing 5% to 5.5% in the case of imports by all taxpayers other than companies and industrial undertaking.
- General rate of collection of tax from sales of goods raised to 4% from the existing 3.5% in the case of all taxpayers other than companies.
- Collection of tax from rendering of “services” raised to 7% from the existing 6% for all taxpayers other than companies.
- Exemption available to free/concessional passage provided by transporters including airlines and other like concessions i.e. subsidized food, subsidized education, subsidized medical treatment provided to employee by virtue of their employment withdrawn.
- Exemption to any income of any university or other educational institutions established solely for educational purposes and not for profit withdrawn.
- Tax payable at the time of import of hybrid cars reduced.
- Taxation at reduced rate of 2.5% on flying allowance and submarine allowance withdrawn.
- 75 percent reduction in the tax payable by a full time teacher or a researcher withdrawn.
- Reduction in rate of initial tax depreciation allowance applicable to plot and housing from 50% to 25%.

## Sales Tax

- Increase in the general rate of sales tax to 17%.
- Further tax reintroduced at the rate of 2%.
- Fixed tax reintroduced.
- Officers of Inland Revenue authorized to access records, documents, etc.
- Monitoring or tracking of production, sales, stocks, etc. by electronic or other means.
- Increase in the Third Schedule Goods.
- Amendments to the Sixth Schedule.
- Sales tax withholding on purchase of taxable goods from unregistered persons.
- Various sales tax SROs amended or rescinded.
- Extra tax at the rate of 5% on certain electric and gas consumers.

## Customs

- Submission of pay orders instead of post dated cheques in case of provisional assessments.
- Fixation of power of adjudication in case of exports.
- Director of Customs valuation authorized to file reference to High Court.
- Certain amendments in First Schedule.
- New set of in-house facilities for manufacturers availing benefit under SRO 656(I)/2006.
- Certain conditions of availing benefits under SRO 575(I)/2006 have now been changed.
- Reduced custom duty granted on import of hybrid electrical vehicles.

## Federal Excise

- Further duty at the rate of 2%.
- Rates of duty enhanced on aerated waters, etc.
- Rate of duty on cigarettes modified.
- FED levied on asset management companies.
- Officers of Inland Revenue authorized to access records, documents, etc.
- Inclusion of certain goods in Table I of the First Schedule.
- Various FED SROs amended or rescinded.

## Income Support Lev

- The income support levy shall be charged for every tax year commencing on and from the tax year 2013 in respect of value of net moveable assets held by an individual on the last date of the tax year at the rate of 0.5% of the net moveable wealth exceeding Rupees one million. An individual who is liable to pay the Levy shall pay it alongwith the wealth statement.

*Source: Budget briefing 2013,Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants*

# IFAC NEWS

## IAASB Strengthens Standard on Using Work of Internal Auditors

International Auditing and Assurance Standards Board (IAASB) has issued International Standard on Auditing (ISA) 610 (Revised), 'Using the Work of Internal Auditors', which addresses the external auditor's responsibilities if using the work of an internal audit function in obtaining audit evidence. The IAASB has also issued new requirements and guidance that address the auditor's responsibilities if using internal auditors to provide direct assistance under the direction, supervision, and review of the external auditor for purposes of the audit.

ISA 610 (Revised 2013) includes guidance to external auditors when determining whether they can use direct assistance from internal auditors, and if so, in which areas and to what extent. The material addressing direct assistance does not apply if the external auditor is prohibited by law or regulation from obtaining direct assistance. Related changes have also been made to ISA 315 (Revised), 'Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment', to explain how the internal audit function and its findings can usefully inform the external auditor's risk assessments.

In conjunction with ISA 610 (Revised 2013), the International Ethics Standards Board for Accountants (IESBA) also has released amendments to the definition of engagement team in its Code of Ethics for Professional Accountants (IESBA Code). The amendments clarify the relationship between internal auditors providing direct assistance and the meaning of an engagement team under the IESBA Code.

ISA 610 (Revised 2013) is effective for audits of financial statements for periods ending on or after December 15, 2013, except for material pertaining to the use of internal auditors to provide direct assistance, which is effective for audits of financial statements for periods ending on or after December 15, 2014.

## Revised Set of Proposals for the Impairment of Financial Instruments

The International Accounting Standards Board (IASB) has published for public comment a revised set of proposals for the impairment of financial instruments. Financial reporting requirements both internationally and in the US currently use an incurred loss model to determine when impairment is recognised on financial instruments. The incurred loss model requires that a loss event occurs before a provision can be made and was introduced to avoid the use of so-called 'big bath' general provisions that distorted the accurate reporting of financial performance to investors.

However, during the financial crisis the incurred loss model was criticised for delaying the recognition of losses and for not reflecting accurately credit losses that were expected to occur.

The IASB model is designed to recognise credit losses on a more timely basis. Expected credit losses are recognised on all financial instruments within the scope of the proposals from when they are originated or purchased. Full life time expected credit losses are recognised when a financial instrument deteriorates significantly in credit quality. The draft review is open for comments until 5 July 2013.

## Revised IES 5, Initial Professional Development - Practical Experience

The International Accounting Education Standards Board (IAESB) has issued the revised International Education Standard (IES) 5, Initial Professional Development - Practical Experience. IES 5 aims to assist educational organizations, employers, regulators, government authorities, and any other stakeholders who support the practical experience of professional accountants.

The revised IES 5, which is effective from July 1, 2015, recognizes that practical experience is relevant in developing the competence of an aspiring professional accountant while also promoting greater flexibility in measuring practical experience, permitting practical experience supervisors to direct advise and assist an aspiring professional accountant's experience and Requiring practical experience to be recorded in a verifiable and consistent form.

The release of the revised IES 5 represents the fourth IES released by the IAESB in a project to revise its suite of eight IESs. Recently, IES 1, Entry Requirements to Professional Accounting Education Programs, IES 6, Initial Professional Development - Assessment of Professional Competence, and IES 7, Continuing Professional Development were published in accordance with the clarity drafting conventions outlined in the Framework of International Education Standards for Professional Accountants (2009).

## G-20, EC Focus on Public Sector Accounting

Two influential organizations have stressed the need for stronger public sector accounting, and the International Public Sector Accounting Standards Board (IPSASB) has pledged its full cooperation, calling the developments “encouraging.”

At the February G-20 Finance Ministers' and Central Bank Governors' meeting, the group discussed the need for transparency and comparability of public sector reporting. The communiqué declared that “strengthening the public sector balance sheet is needed to better assess risks to public debt sustainability” and called on the International Monetary Fund (IMF) and World Bank to further explore the issue and provide appropriate updates.

On March 6, the European Commission (EC) issued a report finding that International Public Sector Accounting

Standards (IPSASs) "represent an indisputable reference for potential EU-harmonized public sector accounts." The report also states that harmonized accruals-based government accounting improves transparency, accountability, and the comparability of financial reporting in the public sector.

"My hope would be that they are proposing to take many IPSASs as they are [written] when they define how European Public Sector Accounting Standards (EPSASs) are going to be developed and implemented," IPSASB Chair Andreas Bergmann said in an interview with Public Finance International.

Dr. Bergmann said the adoption of accrual accounting by EU Member States would represent "a historic step in the direction of achieving governmental transparency and serving the public interest" but cautioned that developing high-quality accounting standards like the IPSASs "will require a rigorous process to ensure the EPSASs are of the same caliber."

The IPSASB offers the EU's public sector accounting authorities "its full cooperation and resources in producing, adopting, and implementing EPSASs," he added.

The IPSASB has published a complete suite of 32 standards for the accrual basis of accounting, as well as one cash basis standard for countries preparing for the move to the accrual basis. Nearly 80 countries and many international governmental organizations, including the United Nations, NATO, the Organisation for Economic Co-operation and Development (OECD), the EC, and the Association of Southeast Asian Nations (ASEAN), are currently using or have firm plans to use the standards.

## IAASB Releases ISA 610 (Revised 2013)

In follow-up to its 2012 release of stronger standards dealing with the external auditor's use of an internal audit function's work, the International Auditing and Assurance Standards Board (IAASB) has released International Standard on Auditing (ISA) 610 (Revised 2013), Using the Work of Internal Auditors.

The revised ISA now includes requirements and guidance for external auditors when determining whether they can use direct assistance from internal auditors and, if so, in which areas and to what extent. The material addressing direct assistance does not apply if the external auditor is prohibited by law or regulation from obtaining direct assistance. This new material is effective for audits of financial statements for periods ending on or after December 15, 2014.

In conjunction with ISA 610 (Revised 2013), the International Ethics Standards Board for Accountants (IESBA) also released amendments to the definition of "engagement team" in its Code of Ethics for Professional Accountants (the Code). The amendments clarify the relationship between internal auditors providing direct assistance and the meaning of an engagement team under the Code.

## IASB Exposes Guidance on Regulatory Deferral Accounts

The International Accounting Standards Board (IASB) has initiated a project to consider whether the IASB should develop specific guidance for Rate-regulated activities considering many jurisdictions applying the IFRS have industry sectors that are subject to rate regulation, such as the transportation and the utilities sectors and that rate regulation can have a significant impact on the timing and amount of an entity's revenue. The IASB is proposing an interim Standard that would allow entities to preserve the existing accounting policies that they have in place for rate regulated activities with some modifications designed to enhance comparability. The IASB has published the Exposure Draft 'Regulatory Deferral Accounts'. The proposed interim standard is applicable only upon the initial adoption of IFRSs and therefore must be applied at the same time as an entity applies IFRS 1 First Time Adoption of International Financial Reporting Standards.

The proposed interim standard cannot be applied by entities that have previously adopted IFRSs and entities applying this interim standard. The Exposure Draft is open for comment until 4 September 2013.

## IPSASB Publishes Public Sector Conceptual Framework Exposure Draft

The International Public Sector Accounting Standards Board (IPSASB) has released for comment the fourth Exposure Draft related to its project to develop a Conceptual Framework for the general purpose financial reporting of public sector entities. The Exposure Draft 'Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports', deals with the concept of 'presentation' in general purpose financial reports, including general purpose financial statements of governments and other public sector entities, but also extending to additional information and reports that enhance, complement, and supplement the financial statements. The first phase of the IPSASB's project was completed with the release of the first four chapters of the IPSASB Conceptual Framework project in January 2013, covering the role and authority of the framework, the objectives and users of general purpose financial reporting, qualitative characteristics of information included in general purpose financial reports, and the reporting entity. Exposure drafts dealing with the second and third phases of the project where issued in November 2012, covering the elements and recognition in financial statements, and the measurement of assets and liabilities in financial statements. Comments on the Exposure Draft are requested by August 15, 2013.

# SBP News

## Financial System must play a more meaningful role in the economic development of the country: Yaseen Anwar

The Governor, State Bank of Pakistan (SBP), Mr. Yaseen Anwar has observed that the financial system in Pakistan is yet to grow to its full potential and play a more meaningful role in the economic development of the country.

Delivering his speech on 'Developing Non-Bank Financial Models while addressing the risks of Shadow Banking' at the SECP Conference on Non-Bank Financial Institutions at a local hotel in Karachi, he said that we definitely need to add to its diversification and depth. NBFIs can play a meaningful role in this pursuit, he said, adding that in the light of the global financial crises, we are better informed about the various risks that the NBFIs/Shadow Banking carries with it. 'As regulators we need to remain vigilant to ensure that those risks are mitigated without inhibiting sustainable non-banking financing models,' he said.

Mr. Anwar said that while the overall assets of the financial sector in Pakistan have increased from Rs. 5.202 trillion in 2005 to Rs. 11.107 trillion in 2011, the share of the financial sector in terms of GDP is very low at 57.4 percent. He said that in 2011, Banks held 74 percent of the financial assets while the share of NBFIs was only 4.7 percent of the total financial sector assets which was around 7.6 percent in 2005. 'The low financial sector to GDP ratio and NBFIs declining share in financial sector assets clearly underscores the need for financial sector development and diversification of financial sector assets to attract investors with different return expectations and risk appetite and channelize financial resources for the economic development of the country,' he observed.

The "shadow banking system" is defined as "the system of credit intermediation that involves entities and activities outside the regular banking system", he said, adding that the emergence of the term reflected recognition of the increased importance of entities and activities structured outside the regular banking system that perform bank-like functions.

SBP Governor briefly outlined the following four major constraints that the NBFI sector in Pakistan is beset with:

- First, although there has been an increasing effort by NBFIs to broaden the range of their business activities and product base, thereby diversifying their revenue streams, the sector is yet to make a breakthrough in this regard.
- Second, the sector is fragmented and each NBFI is trying to create its niche market in pursuit of establishing a sustainable revenue stream. In this regard, most companies are concentrating on financial advisory and other fee-based income segments. Unfortunately, the sector is yet to capitalize on the huge opportunities offered by previously relatively untapped areas like SMEs, Consumer, and Agriculture segments to enhance avenues for fund deployment.
- Third, the sector needs to develop and diversify sources of funding for sustainable growth. This would require a shift from the traditional sources such as commercial banks credit lines etc. for on lending to clients. The NBFIs need to develop capital market instruments to pool funds from a diverse set of investors to ensure certainty to the source and cost of funding.
- Fourth, we need to strengthen the oversight and regulation of NBFIs to reduce the risks emanating from "shadow banking". As observed by Financial Stability Board (FSB), the objective of this exercise should be to ensure that shadow banking is subject to appropriate oversight and regulation to address bank-like risks to financial stability emerging outside the regular banking system while not inhibiting sustainable non-bank financing models that do not pose such risks.

He expressed the hope that Conference will give further impetus to our efforts in promoting NBFIs as an alternative source of funding for businesses and also as a separate class of assets for investors in the country, adding to the financial sector's diversity, stability and viability in the long-run.

Mr. Yaseen Anwar said that in Pakistan, NBFIs other than Investment banks and leasing companies, which offer saving and investment products on a relatively small spectrum, need to develop appropriate and affordable products to increase its market share.

# SECP NEWS

## SECP Issues Public Sector Companies (Corporate Governance) Rules, 2013

The SECP has issued Public Sector Companies (Corporate Governance) Rules, 2013. They shall come into force after ninety days from the date of gazette notification dated March 8, 2013. These rules shall apply to all Public Sector Companies, as defined in clause (g) of rule 2 to mean a company, whether public or private, which is directly or indirectly controlled, beneficially owned or not less than fifty percent of the voting securities or voting power of which are held by the Government or any instrumentality or agency of the Government or a statutory body, or in respect of which the Government or any instrumentality or agency of the Government or a statutory body, has otherwise power to elect, nominate or appoint majority of its directors, and includes a public sector association not for profit, licensed under section 42 of the Ordinance. In the case of listed Public Sector Companies, where there is any inconsistency with the Code of Corporate Governance, the provisions of these rules shall prevail.

SECP Issues Draft Principles of Corporate Governance for Non-Listed Companies

The Securities and Exchange Commission of Pakistan (SECP) issued draft principles of corporate governance for non-listed companies for stakeholders' comments. The set of thirteen principles aim to promote transparent and accountable governance practices in non-listed entities. NLCs constitute the bulk of businesses in Pakistan; over 60,000 NLCs are registered with the SECP compared to only 604 companies listed on the country's stock exchanges. It is believed that virtuous corporate governance in non-listed companies will yield higher investments and capital formation from local and foreign investors, and reduce economic vulnerability to financial crisis. Moreover, improved corporate governance practices may also assist non listed companies (NLCs), looking to be listed on stock exchanges, in their smooth transition to be a listed company

# ICAP NEWS

## Global Recognition for ICAP members

The Canadian Institute of Chartered Accountants (CICA) has accorded special recognition to the members of the Institute of Chartered Accountants of Pakistan (ICAP) in the form of the an evaluation of experience (Eve) program. According to this program the ICAP members with 12 years' experience and with 5 years at senior level, are now eligible to become members of the Canadian Institute of Chartered Accountants without appearing in any further examinations. This is a significant proof of the distinguishing status and acceptability of ICAP members by the CICA. This recognition opens up new avenues of global mobility of our CAs .

ICAP awards SDAI status to IBA

In line with the global trends The Council of The Institute envisaged collaborations with leading universities in Pakistan to attract the university graduate into the folds of the profession. A collaboration arrangement has been signed between IBA and ICAP that aim to attract top students with a 4 year BS Accounting and Finance degree providing strong academic knowledge of relevant subjects along with an excellent university exposure. Exemptions of 12 papers will be offered to students from this stream. This is for the first time that ICAP is offering a stream of entry by giving exemptions to students of any university. This initiative has been implemented after a long, rigorous and arduous process of evaluation of course content and mapping of syllabi.

The product of this alliance will be a highly skilled professional equipped to meet demands of the workplace and special needs of a changing society and business. We are optimistic that this stream will offer better quality intake leading to a higher success rate in CA examinations.

## Education Scheme 2013

In the current "information age", a new economy has emerged in which knowledge is traded as a marketable commodity. In this global knowledge economy, it is imperative that ICAP students are prepared to undertake the contemporary and future challenges of business, finance and economy.

Keeping this in view, the Institute of Chartered Accountants of Pakistan (ICAP) introduces Education Scheme 2013 by incorporating latest developments in curriculum and structure.

Modular structure prevalent in the CA curriculum is being transformed into a package of 4 tiers of CA qualification. All the stages of qualification are now stand-alone. The successful students of any stage will be allowed to use the corresponding designation. Each certification has its market recognition and will open the avenues for various employment ventures. Considering the modern testing methodology computer based examination at AFC and CAF stage is introduced for students. Study material is aligned with the examination structure and to the learning outcome that will ensure the development of professional knowledge, skills and competencies in the candidates. The Institute firmly believes that the new scheme will be an efficient step towards the value addition of the qualification and will provide a competitive edge to the candidates.

# ICMAP News

## Celebrating 62nd Year of Professional Excellence

Living nations celebrate their founding day with joy while rejuvenating their commitment towards purpose of existence. The same is true for the Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan). It is the time when the members, students, employees, faculty and other stakeholders proud of their past achievements, remember the lessons that history taught and make commitment towards an infinite future to maintain the legacy of achievements and to continue bringing innovation.

It is the day to reaffirm your promises to provide a better institution for the generations to come so as to see our country progressing. It is the day to realise challenges and to overcome the differences of opinion to give diversity a new positive look. It is the day to honor those who served the Institute in different capacities to give recognition for their services.

The fraternity of the Management Accountants has now its presence all across the globe. They play an important role in the development of economy. Currently, the members of the Institute are serving in more than 50 cities within the country and 43 countries abroad. The inception of this profession in Pakistan on May 23, 1951 was a dream become reality when the era of industrialisation demanded businesses to become internally effective and efficient for survival.

The focus was to ensure maximum utilisation of resources and to achieve cost effectiveness. Later, the factors of production become a focal point for the industries to achieve efficiency and economies of scale. The Management Accountants helped the industry achieve those objectives which were envisioned at the time of establishment of Pakistan Institute of Industrial Accountants (PIIA), former name of ICMA Pakistan.

The professionals provided by this Institute to the corporate sector proved themselves to be cornerstone in the progression of economy of the country in particular and other economies in general.

We can say with proud that Management Accountants' specialty towards cost management and management accounting made them part of the strategic and decision making team where nucleus of future direction depends on effective utilisation of resources and cost efficiency. The Management Accountants throughout the world in general and Pakistan in particular concentrated their competencies, skills and energy to: develop processes for the businesses; prepare, interpret and communicate such information required by strategic management to plan, evaluate and control within an entity; assure appropriate use of and accountability for organisation's resources. Apart from strategic change from within, Management Accountants remained instrumental in resolving matters related to non management groups such as shareholders, creditors, regulatory agencies and tax authorities. Even today, if the corporate sector, industry, trade and businesses want to come out of ongoing crisis situation, they need to turn their focus more towards Management Accounting.

Today, the Management Accountants across the globe are considered as Business Leaders and by virtue of their accounting and finance competencies and business acumen, they are now the choice of employers for top management positions. The industry, trade and businesses consider Management Accountants an integral part of their strategic team due to effective amalgamation of finance and business knowledge and skills.

With this legacy, we the members, employs, students and faculty celebrate 62nd Management Accountants Day on May 23, 2013 and reaffirm our commitment to further up bring the standards so as to make the Institute able to continue serving the country and its people. On behalf of the Council and myself, please accept our heartiest congratulations on the anniversary day of the Institute.

## ICMAP holds certificate distribution ceremony

The Certificate Distribution Ceremony of 2nd Directors' Training Programme organised by the ICMA Pakistan was held on Wednesday. Muhammad Haroon Rasheed, Acting Managing Director-BSC, State Bank of Pakistan was the Chief Guest. Nazir Ahmed Shaheen, Executive Director, Securities & Exchange Commission of Pakistan and Abdul Khalil, Member National Council, and Chairman CPD, Seminars & Conferences Committee were also present on the occasion.

Speaking on the occasion Rasheed congratulated the participants and said that he was pleased to learn that the Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan) has been duly approved by the SECP to conduct the certified Directors' Training Programme (DTP).

He said that it was heartening to know that the 2nd Directors' Training Programme (DTP) has concluded today successfully by ICMA Pakistan which has been participated by the Chief Executive Officers and Directors of reputable listed companies. Abdul Khalil congratulated the participants on successfully completing the training and said that the DTP of ICMA Pakistan has been specifically designed to impart knowledge and develop necessary skills of the Board of Directors of Listed companies for successful achievement of company's objectives. It has been focused on the possible role and duties of Directors, and the knowledge and competencies expected from them in today's environment, leading to creation of an effective board culture and performance.

## SECP issues license to non-life insurance company

The Securities and Exchange Commission of Pakistan (SECP) has issued a license to the Sahara Insurance Company Limited (SICL), a wholly-owned subsidiary of the Employees Old-age Benefits Institution (EOBI), to transact non-life insurance business in the country.

With continuing emphasis on social insurance, the EOBI decided to incorporate the SICL with the primary objective of providing health insurance coverage to the EOBI pensioners, aged between 60 and 70. In addition, accidental death and disability coverage will be provided to expatriate Pakistanis working abroad.

In case of health insurance the premium will be funded by the Workers Welfare Fund while premiums for accidental death and disability insurance will be paid directly by the expatriate Pakistani labor force to Sahara Insurance Company Limited (SICL).

Following the registration of the SICL, the total number of active non-life insurers has reached 40, while the total number of active insurance companies (life and non-life), including Pakistan Reinsurance Company Limited, now stands at 50. It is important to note that the last time a license was issued by the SECP to an insurance company was in 2009, and that was to a life insurer.

With this move, it is anticipated that the health insurance sector in Pakistan will witness visible growth, while holistically improving insurance penetration and density figures that have remained one of the lowest in the region.

# The News Education Expo-2013

PIPFA Participated in The News Education Expo-2013, arranged by the Jang group at Karachi, Lahore & Islamabad. A large number of students visited PIPFA stall in all cities.







## PIPFA Seminars ( Karachi)

PIPFA Head office Karachi arranged seminars in various departments of Karachi University, in coordination with its faculty members. Approximate 500 prospective students attended the seminars and show their inclination toward PIPFA Qualification.

First seminar arranged in Economics Department on the topic of "Public Budgeting" & the second seminar held at Commerce Department under the banner of "Trade and Investment Opportunities in Pakistan" Our guest speakers were Mr. Mansoob (FCMA) Mr.Amjad Qadeer (FPFA) & Mr. Shabbir (APFA) who delivered very interesting and knowledge full speeches. Departmental Heads and faculty members admired the PIPFA team efforts and encouraged for more visits regarding seminars. In the last PIPFA BOG member and Chairman Publication and Seminar Committee Mr. Jawed Mansha after his speech distributed the shields of Honor to Dr. Abdul Wahab-Chairman Economics Department, Dr. Tahir Ali-Chairman Commerce Department, Ms Safiya Minhaj & Mr.Arfeen Siddiqui faculty member of concern departments of Univesity of Karachi.






## Seminar in Lahore

PIPFA Lahore arranged a student's Career Counseling Seminar at Hazrat Ayesha Siddiqa Degree & Commerce College for Women conducted by PIPFA Lahore marketing team. The objective was orientation of PIPFA program and to guide and facilitate young students with professional qualification and its importance in the current scenario.



# Seminar in Hyderabad City

PIPFA Head Office Karachi, Education / Marketing team visited Hyderabad City & Conducted Career Counseling Seminars in several Boys & Girls Colleges. like Govt. Ghazali College, Govt. Sachal Sarmast College & Govt. Sindh Commerce College. A large numbers of students of different level of education attended the seminars


# Visit to PIPFA Corporate Office by trainee officers of 106th Batch of PMFC

The PIPFA secretariat hosted a group of 20 trainee officers of 106th batch of "Public Finance Manager's Course (PFMC)" visited PIPFA Corporate Office on April 24, 2013. The said visit was a part of their training as a study tour organized by Pakistan Audit & Accounts Academy (PAAA) Quetta, so that they can understand the working mechanism of PIPFA.

This session prolonged couple of hours then questions/answers session and finally ended by Acting Executive Director's speech. The visitor presented a shield on behalf of their organization. The co-ordinator and trainee officers found this event very helpful in their study project. The event was ended by serving hi-tea to guests.



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