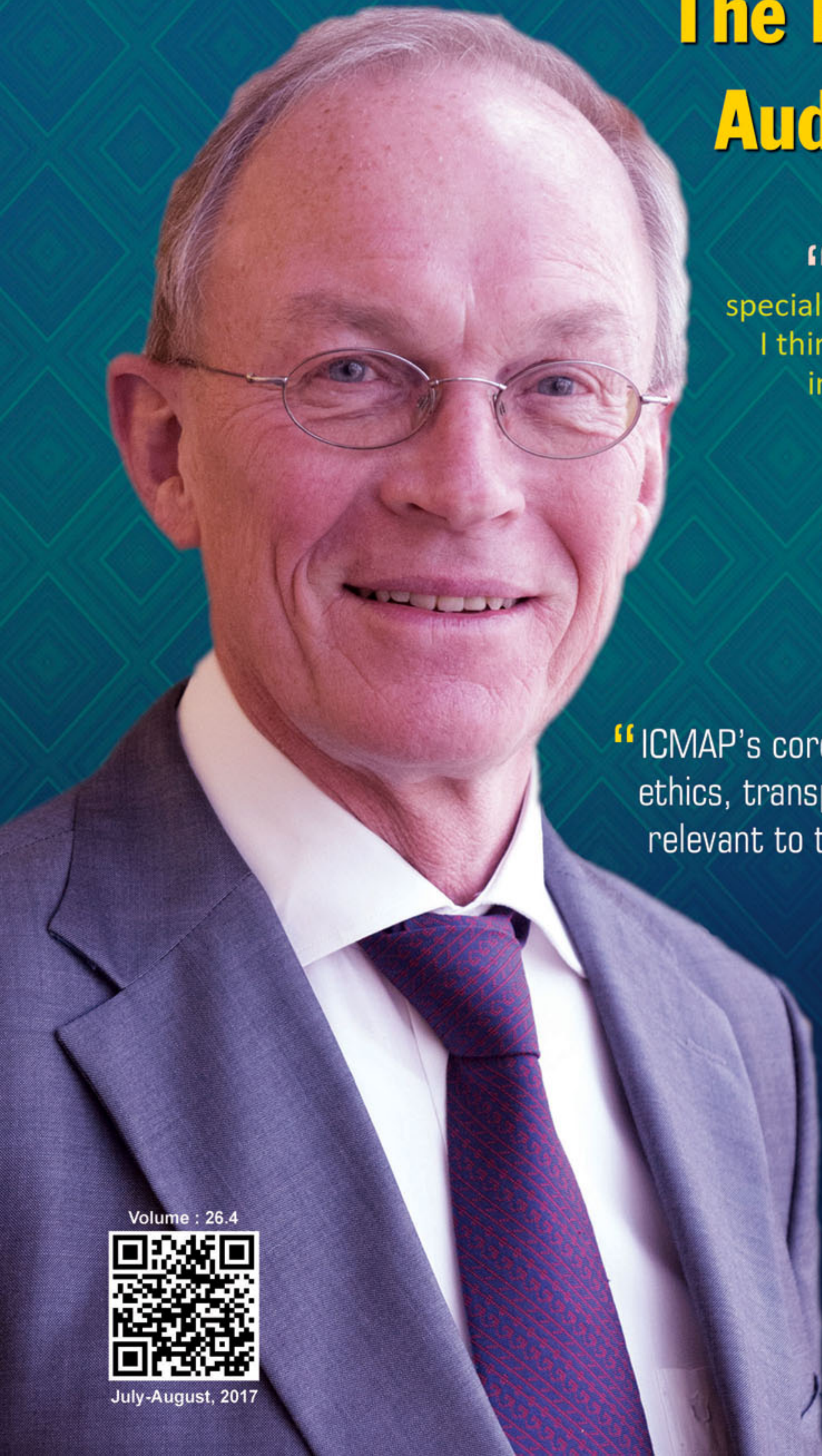
MANAGEMENT ACCOUNTANT

The official flagship Journal of ICMA Pakistan

Inside

The Performance of Audit in Pakistan



"The Management Accountants are specialized in costing aspect and therefore I think they have a pivotal role to play in improving the industrial efficiency"

Exclusive Interview

Ghulam Murtaza Khan Jatoi
Federal Minister for Industries & Production

"ICMAP's core values of competence, innovation, ethics, transparency and professionalism are relevant to today's audit environment"

Prof. Arnold Schilder
Chairman, International Auditing and Assurance Standards Board(IAASB)

Volume : 26.4

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Institute of Cost and Management Accountants of Pakistan

From the Holy Quran

In the name of ALLAH, the Most Magnificent, the Most Merciful

Alif, Lam, Mim, Sad.(1) This is) a book sent down to you. Therefore, your heart must not be straitened because of it. (It is revealed to you) so that you may warn through it, and it may be an advice for the believers. (2) O humankind,) follow what has been sent down to you from your Lord, and do not follow any masters other than Him. 3 Little you heed to advice! (3) How many a town We have destroyed! Our punishment came upon them at night or when they were having a nap at midday. (4) So, when Our punishment came upon them, they could say nothing but cry, "We were wrongdoers indeed." (5) So, We shall ask those to whom the messengers were sent, and We shall ask the messengers (how they conveyed the message). (6) Then, having full knowledge, We shall tell them the whole story, as We were never far from them. (7)

Surah Al-Araf, Ayat 1 to 7

Translation: Mufti Taqi Usmani | http:///www.quranexplorer.com

Vision Mission & Core Values

Vision

To be the Preference in Value Optimization for Business

Mission

To develop Business Leaders through imparting quality education and training in financial and non-financial areas to bring value-addition in the economy

Core Value

- Competence
- Innovation
- Ethics
- Transparency
- Professionalism

From the

President's Desk

Audit performance and costs are critical components that not only ensure good corporate governance in the private sector but also competitive pricing of public goods and utilities in the regulated sector. In spite of the financial audits well in place, the regulators cannot safeguard the interests of all investors and stakeholders in the absence of credible audits. Audit quality is the key to consumers' and investors' trust and confidence in our market and with this perspective in mind, it was thought prudent to bring out this issue of 'Management Accountant' on the theme of 'The Performance of Audit in Pakistan'. The underlying idea was to explore inherent deficiencies in auditing process and to identify grey areas that need improvement by the regulator. The readers' valuable comments on this issue would tell us how successful we are in accomplishing this task.

At the outset, I would like to express our gratitude to Prof. Arnold Schilder, Chairman, International Auditing and Assurance Standards Board (IAASB) for sending his special message for this issue in which he has praised the role of ICMA Pakistan in quality control and management as well as towards its commitment to high-quality accounting.

We are also grateful to Mr. Ghulam Murtaza Khan Jatoi, Federal Minister for Industries and Production for sparing from his precious time to give an exclusive interview for the Journal. We welcome his suggestion about joint collaboration between the Ministry and ICMA Pakistan to conduct industry-specific research for identifying bottlenecks impeding industrial growth.

The articles contributed by our valued members and others in the Focus section reflect their insight on the audit profession and I hope that readers, especially the students of audit and finance, would greatly benefit from these contributions. The Research and Publications Directorate also conducted a Survey on the 'Audit Profession in Pakistan', the report of which is included in this issue. Majority of the respondents have endorsed that monopolistic audit rights prevail in Pakistan and for ensuring good corporate governance and improving the audit quality, an Independent Financial Reporting Council (FRC) need to be established. The government and policy makers must, therefore move forward to implement this consensus of all stakeholders.

At the Institute's front, the National Council has taken some new initiatives which would surely yield far-reaching benefits for the Institute. As a humble attempt towards encouraging hard working employed individuals and with aim to meet the increasing demand for professional management accountants in the corporate sector, the Council has decided to offer 90 percent waiver in admission fee for a course/level to employed students who are aspiring to join CMA qualification under this program. The working-class individuals can avail this incentive, subject to some conditions, the details of which are available on website.

As per tradition, ICMA Pakistan and ICAP jointly organized an impressive ceremony of 'Best Corporate and Sustainability Report Awards' (BCSRA) 2016 on 25th August 2017 where the Governor of Sindh, Mr. Mohammad Zubair was the Chief Guest. I took the opportunity to highlight in my speech the dire need for establishing an Independent Financial Reporting Council to regulate the accounting and auditing profession in Pakistan. Let's hope that this voice is heard and finds a place in the corridors of power.

I would urge upon our members to come forward and contribute their write-ups in the Journal. Please also share your valuable comments and suggesting for bringing improvements in Journal on **rp@icmap.com.pk**

Mohammad Iqbal Ghori, FCMA
President

MANAGEMENT ACCOUNTANT
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Our Next Issue
Sept-Oct, 2017
Corporate Governance
Research & Publications Committee would welcome articles on the above-mentioned topic for Journal's forthcoming issues.

ICMAP's core values of competence, innovation, ethics, transparency and professionalism are relevant to today's audit environment. They are all critical to supporting a culture of professional skepticism and challenging biases that are fundamental to successful audit work.

Let me illustrate the link between your values and a few recent key projects of the IAASB.

Enhanced Auditor's Reporting Model

The new Auditor's Reporting Model is an example of changing the standard auditor's report in an innovative way, whereby the auditor discloses Key Audit Matters (see International Standard on Auditing 701) to users of the annual reports of listed entities (and others as mandated nationally or on a voluntary basis). Until recently users saw only the short auditor's opinion on the financial statements. The new enhanced auditor reporting standards will provide users with more insight about 'what kept the auditors awake at night'.

The auditor's report will now describe significant audit areas and procedures with direct references to financial statements. They reveal the relevance of the auditor's work and their underlying competence and professionalism. But think also of the increased dynamics and communications between management and its financial reporting technical staff, the audit committee, audit inspectors, users and the auditors may also result in increased transparency. Robust ethics also underpin this change: the auditor speaks independently and with objectivity.

Auditing Estimates and Related Disclosures

The IAASB's Exposure Draft of Proposed , is another innovative example. Today's financial statements comprise many accounting estimates, including credit losses and allowances, goodwill and other intangible assets, and pension liabilities. The Exposure Draft strengthens the audit requirements around these difficult areas to audit by focusing on three core areas: 1) complexity, 2) estimation uncertainty, and 3) use of judgment. To assist with transparency, the proposed standard extends the auditor's focus to related disclosures, not just primary financial statements.

Quality Control and Quality Management

ICMAP's Quality Assurance Board first public report of 2016 demonstrates how active ICMAP has been in quality control and management. The IAASB's International Standard on Quality Control 1 was drafted some ten years ago. Unsurprisingly, it's time for an extensive update in the light of the IAASB's Audit Quality Framework, recent International Forum of Independent Audit Regulators inspection findings, and many consultations. The IAASB is currently discussing a more preventative approach to quality management, rather than a retrospective compliance-driven approach. Such a Quality Management Process may be built on four fundamental concepts: 1) quality objectives, 2) quality risks, 3) quality responses, and 4) monitoring and remediation. Scalability from sole practitioners to large networks is an important but difficult element. Here again we see the relevance of ICMA Pakistan's Core Values, in particular ethics and culture.

While the global profession works to stay ahead of rapidly advancing technology, the IAASB's agenda also includes thinking on new technologies and the use of audit data analytics. But all of the important initiatives outlined above benefit from ICMA Pakistan's commitment to high-quality accountancy.

Prof. Arnold Schilder,
Chairman, International Auditing
and Assurance Standards Board

“ICMA Pakistan's Quality Assurance Board first public report of 2016 demonstrates how active ICMA Pakistan has been in quality control and management”

Ghulam Murtaza Khan Jatoi

Federal Minister for Industries & Production

> "The management accountants are specialized in costing aspect and therefore I think they have a pivotal role to play in improving the industrial efficiency and advising the manufacturing sector to adopt cost-efficient measures for enhancing production capacity"

ICMAP: What are the objectives and functions of the Ministry of Industries and production?

GMKJ: The sole objective is to formulate and implement a comprehensive strategy for sustainable industrialization of Pakistan aiming at poverty alleviation, job creation and enhancing Pakistan's international competitiveness. The Ministry's primary role is, however, to act as a facilitator in creating an enabling environment for industrial growth in the country.

ICMAP: What is Ministry's role in skill development and entrepreneurship?

GMKJ: The Ministry of Industries has a pivotal role in skill development and entrepreneurship for which it has established the Pakistan Industrial Development Corporation (PIDC), National Productivity Organization (NPO) and Small and Medium Enterprises Development Authority (SMEDA). Skill development is one of our highest priorities for which these organizations are being used to help reduce unemployment and give opportunities and vocational training to the people. SMEDA plays its role by supplementing the small and medium entrepreneurs through financial and administrative support and empowering them to grow and prosper.

ICMAP: What are the main hurdles to sustainable industrialization in Pakistan?

GMKJ: The major hurdles towards achieving sustainable industrialization are power and gas shortages which would Insha Allah be resolved by the next year. The slow industrial growth is only due to gas and power shortages which have also led to industry slump.

ICMAP: The different industrial estates in the country have not been so successful. Do you agree?

GMKJ: The government is offering different kinds of incentives like duty free imports etc. and the Ministry is facilitating the government in this whole process. Due to Ministry's efforts, the industrial growth has increased upto almost 6.8 percent.

In my view, small economic zones are of vital importance to increase job opportunities. For this purpose almost 80 acres of land has been allocated to Small and Medium Enterprises (SME's) which will increase industrialization as well as job opportunities. The Federal Government is also planning to set up an Industrial Zone on 1200 to 1500 acres of land. We have proposed to set up nine economic zones in all the provinces in connection with CPEC.

The Karachi Industrial Zone is being extended and 3rd phase of extension is covers upto 80 acres of land. The investors must now come forward to invest in these Zones as it is very easy and free to setup industry in Pakistan. Just an NOC is required from the provincial government.

ICMAP: Which priority industry sectors your Ministry is focusing to attract foreign investment?

GMKJ: It is duty of the Board of Investment (BOI) to attract foreign investment. After the 18th amendment, more powers have been delegated to provinces so the Ministry is only playing a role of policy maker, facilitator and coordinator to resolve the issues like SRO's etc.

ICMAP: What would be the impact of CPEC on the growth of industrial sector of Pakistan?

GMKJ: It is being feared that China will relocate its industry to Pakistan along with their labour. We have proposed to the government to allow relocation of Chinese industry only through joint ventures in order to protect the interest of local industrialists. Moreover, if our local semi-skilled and skilled labour is used in China in case of labor shortage, this would be an advantage for Pakistan.

ICMAP: How management accountants can assist in improving industrial production and efficiency?

GMKJ: The management accountants are specialized in costing aspect and therefore I think they have a pivotal role to play in improving the industrial efficiency and advising the manufacturing sector to adopt cost-efficient measures for enhancing production capacity. The Ministry of Industries would fully support any proposal from ICMA Pakistan that aims at capacity building and training of the industry in areas of cost management and control.

ICMAP: In what specific areas do you think ICMA Pakistan and Ministry of industries can work together for sustainable industrialization of Pakistan and enhancing Pakistan's international competitiveness?

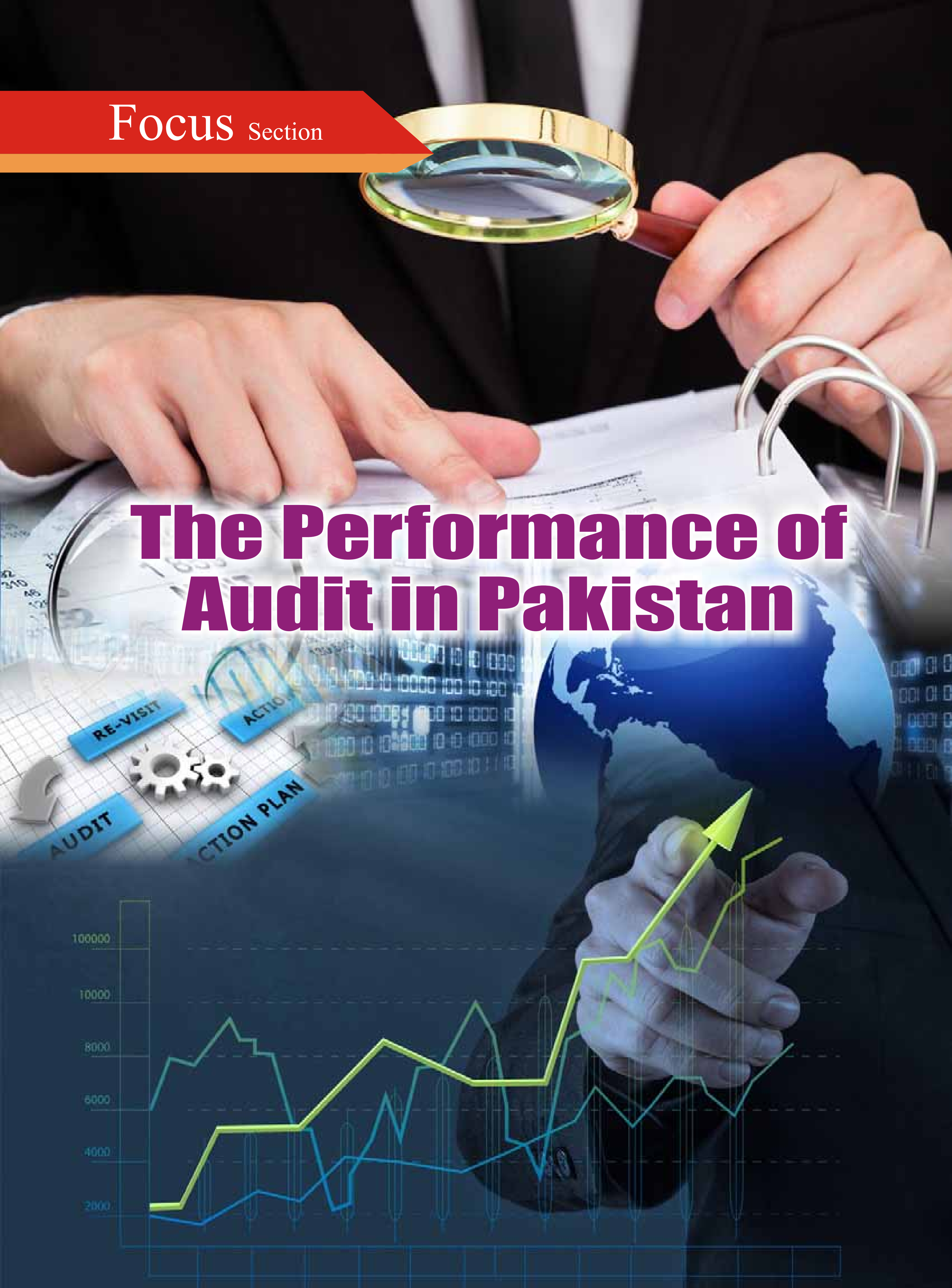
GMKJ: In my view, ICMA Pakistan and Ministry of Industries can collaborate in conducting industry-specific research to identify the bottlenecks that are impeding industrial growth and to suggest pragmatic measures to tackle such issues. We can also join hands to organize workshops on improving cost efficiency that would greatly help the industry to gain technical knowledge and skills from the management accountants on how to address cost-related issues in production.

The interview ended with a vote of thanks to Ghulam Murtaza Khan Jatoi, Federal Minister for Industries & Production who spared his valuable time and gave his candid views exclusively for this Journal - Editor

Mr. Waqar Ali Khan, member, National Council is presenting a memento to Mr. Ghulam Murtaza Khan Jatoi, Federal Minister for Industries & Production. Mr. Zakir Hussain Satti, FCMA, Director North Region, ICMA Pakistan and Mr. Javed Iqbal Shehzad, Principal Staff Officer to Minister are also seen in the photograph.

Focus Section

The Performance of Audit in Pakistan



Auditing:

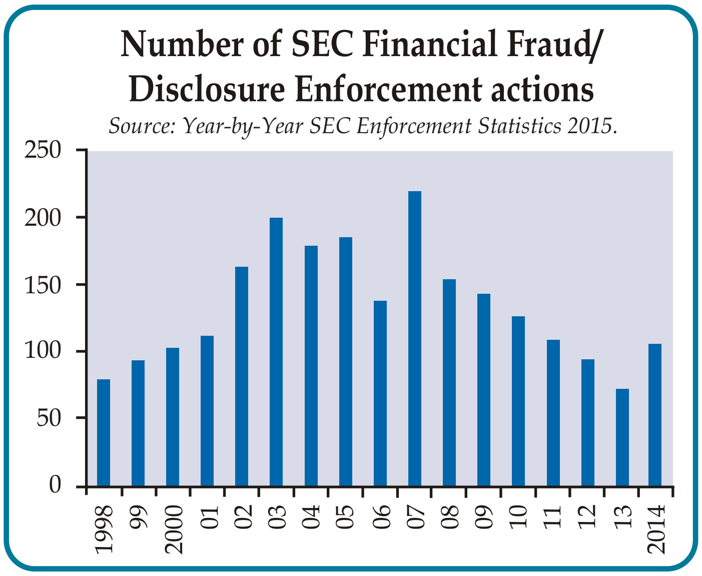
Reactive not Proactive

Rauf Ali Jan, ACMA

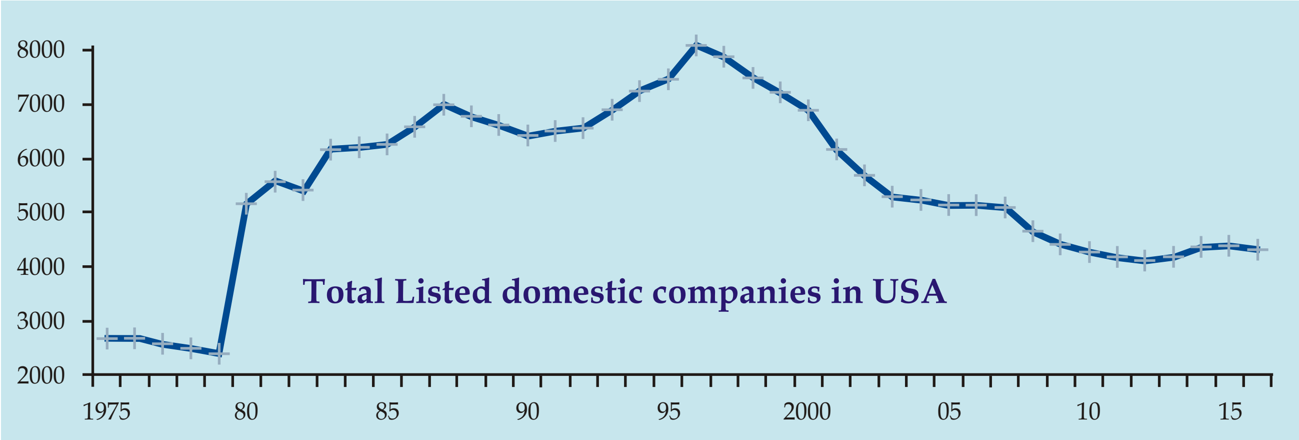
The preparation of the financial statements started centuries ago with the emergence of formalized taxation system and audit of financial statements followed when the regulators wanted an independent opinion on company's financial condition and performance, however, the importance of financial audit increased every time a stock market collapsed or a big scam made the headlines. This started during 1929's great depression, when the requirement of independent audit of a company's financial statement before being listed on stock exchange was made mandatory. Same happened after 1987 crash and the biggest change of all was seen after 2001 Enron and WorldCom scams, which continued with 2008 economic recession.

Enron, WorldCom and others such as Tyco and Xerox affected the confidence in the integrity and trustworthiness of financial audits, which made the way for Sarbanes-Oxley Act of 2002 (SOX) in United States of America. SOX changed the way financial audits were being done, under SOX the registered independent public accountants have to issue the opinion on not only the financial statements of the company but also on the Internal Controls over Financial Reporting (ICFR). There were other consequential changes as well such as launch of Public Company Oversight Accounting Board (PCAOB), however, the focus on internal controls and certifications by CFO and CEO of the companies on ICFR definitely improved few indicators.

Although these facts are very promising and portray a bright picture that enactment of SOX and launch of PCAOB has helped reduce accounting scandals and restatement of financial statements considerably, it can also be argued that it has affected the number of companies listed on the stock exchange. The fact is there is an inverse relationship between the regulations and number of listed companies, which is visible in the chart below



Economist.com



Source: World Bank

that since the implementation of SOX the listed companies have gone down from over eight thousand in 1997 to less than 4,500 in 2016.

Most of the regulatory changes happened in big economies such as US, Euro, etc. and the rest of the world followed. However, it took the similar approach in other countries, which waited for a big accounting scandal to shatter the economy to wake up the regulator and consequently they implemented the local regulation to avoid similar incidents in the future. We witnessed it in the case of Satyam in India, where new Companies Act was enacted subsequently by intensifying the requirements for Audit Committee, auditor's rotation and corporate governance structure overall. Similar things are expected in Toshiba's case.

Audit Profession is Trailing:

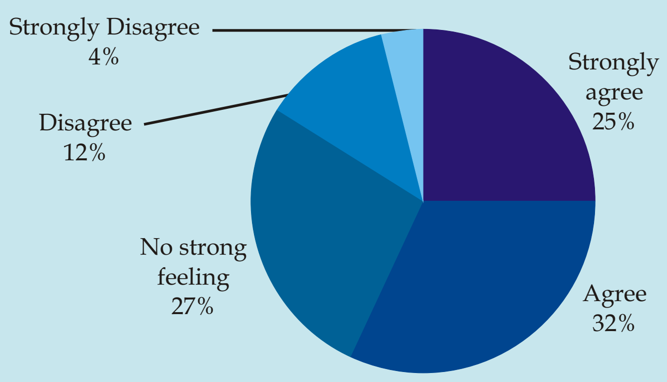
The audit profession is in danger of becoming increasingly less relevant. Source: Institute of Chartered Accountants of Scotland's Auditor Skills in a Changing Business World

From the analysis above, one could easily conclude that audit profession has been catching up since 1920s. There are no two opinions that independent auditor's report enhances the level of comfort of the users of the financial statements and with the increase in regulations for management, corporate governance and auditors, the reliability and integrity of the audit profession can be boosted. However, this will require substantial work by auditors, regulators, management, investors, boards and overall auditing profession. Some of these are analyzed below.

Technological advancement:

There has been a massive change in the accounting profession and the stock markets especially in the operations and communication with the users of the financial statements. There was a time when annual audited financial statements were the main source of information for the stock markets, which changed to quarterly and semi-annual financial statements along with other documents such as press releases, Management Discussion and Analysis (MD&A), etc. however, these quarterly financial information is now supplemented by investors calls, significant change disclosures, etc. Most of the decisions in the market today are taken in a fraction of a second using the latest technology such as smart phones, however, the auditing profession has not kept pace these changes. Auditors, on bigger engagements, have focused on transferring the tedious tasks to either internal audit or outsourced routine tasks to their low cost offices such as to India, where the routine audit tasks are done by staff economically such as sending thousands of confirmations or tie-out of the financial statements. Computer Assisted Audit Techniques (CAATs) are used by auditors to test completeness of certain FSLI or journal entries; however, there are a lot of investment, innovation and skills needed in order for audit profession to go hand in hand with the

Technology will replace many entry level roles



Source: ACCA's Accountancy Futures Edition 13, 2016 progression of markets. Auditors should invest in technology to get comfort over routine, repetitive and transactional areas by automation in addition to relying on internal audit and using the services of off-shore offices. in a survey conducted by Association of Chartered Certified Accountants (ACCA), over half of the accounting professional agreed that technology will replace the entry level roles.

Communication with stakeholders:

The auditor's communicate with public through the audit opinion, which does not give any information other than vetting or disagreeing with the financial statements. The auditor's communication with audit committee has enhanced recently but the external users of the financial statements still see the standard one page audit opinion, which has never been significantly updated.

Users don't see the significant risks considered by auditors or how the complex and judgmental areas were audited. Without the knowledge into the auditing process and how the auditor's assess the company and the significant risks, users don't get a lot of value from the audit opinion.

There needs to be a significant refinement in the audit opinion, which should include similar disclosures as currently provided to the audit committee. Users of the financial statement will be able to analyze the company in a better manner by looking at opinions by two different auditors in the same industry where different risks are identified by the auditors, which will also hold auditor's accountable. Additional disclosures in the opinion will also help users to understand where auditor spent most of their time and effort and what the testing strategy was? It will also provide insights into the operations of how auditor performs the risk assessment and executes the audit.

Data analytics:

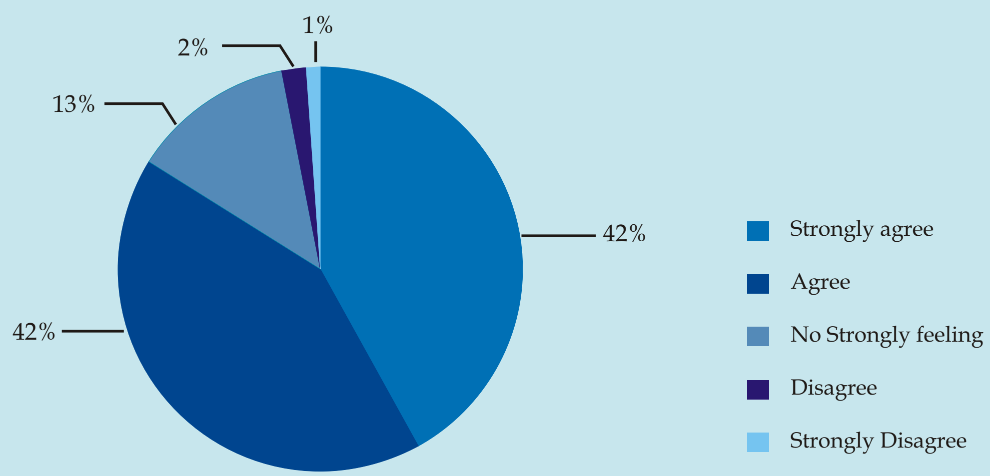
Auditors, in some jurisdictions such as Pakistan, can still issue an audit opinion by, performing substantive procedures only by, checking less than 1% transactions of a Financial Statements Line Item (FSLI) where there are millions of transactions occurred during the year. Even in countries, where ICFR is required it is not mandatory to perform analytical procedures at execution stage to get comfort over full balance of FSLI. Use of technology has two fold impacts, on one hand it is more effective in identifying the frauds or error and on the other hand, it is more efficient as it offers an opportunity to reduce the time spent by staff on routine audit tasks, enabling them to spend more time analyzing evidence, following up anomalies, and exercising professional judgement. In survey conducted by ACCA, four out of five professional corresponded that technology will facilitate them to focus on high value added activities.

Auditors can identify issues efficiently by benchmarking the companies against industry data, which gives them better information about potential audit risks. Future audits should also use advanced data and analytical capabilities to look beyond organization's boundaries and understand the impact of broader forces on the organization and the industry. With the significant change in data attributes, there are thousands of financial and non-financial metrics available, which can be used to analyze data against any specific FSLI. While the auditors already get assistance from valuation, actuaries, forensic and IT professionals, the auditor of tomorrow will need to increase their understanding of these non-traditional disciplines and work more closely than ever before with data and analytical specialists. Auditors should understand that successful use of data will require extensive elevation of skills from auditors as well to understand, challenge, evaluate and accept/ reject the results from the specialists.

Historical financial statements:

Till today auditors' scope has been limited i.e. to audit the financial statements and provide review level assurance on quarterly financial statements and provide comfort over documents filed along with the financial statements (generally it is called other information), however, there are several other filings, which go untested by auditors. In addition, auditors focus has always been auditing the historical information and limited to no assurance is provided on forward looking financial information. Most of the start-ups such as Uber and tech companies' such as Amazon, Twitter, etc. still have to report

Technology will enable finance professionals to focus on higher value added activity



Source: ACCA's Accountancy Futures Edition 13, 2016 profits but their valuation are in billions of dollars, which is not based on their historical profit but forecasted financial information. In order for auditors to be relevant in the future, they need to provide assurance on forward looking information as outlined in European Commission paper. It is also expected that the use of technology and data analytics will facilitate the audits of forward looking statements.

The focus of audits so far to a large extent has been based on historical information. It is important to consider the extent to which auditors should be assessing forward looking information provided by the company, and given their privileged access to key information, the extent to which auditors should themselves provide an economic and financial outlook of the company. Forward looking analysis, at least for large listed companies, has so far been covered by equity analysts and credit rating agencies. (Source: European Commission, Green Paper, Audit Policy: Lessons from the Crises, 2010)

Big 4 Oligopoly

It is reported that the Big Four audit 99% of the companies in the FTSE 100, and 96% of the companies in the FTSE 250 Index. Big 4 firms include: PwC, EY, Deloitte and KPMG. Till 1988 there were big 8 accounting firms which has now shrunk into big 4. In some countries where the auditor rotation requirement is lenient, the auditors remain the same for prolonged period of time such as Deloitte is auditing Procter and Gamble for over 100 years.

The oligopoly of Big4 is hurting the auditing profession by limiting the option to only four firms. Strict independence requirements are effective during the years of auditing relationship by these firms, however, they provide non-audit services outside of audit period. Practically, a supplier does not want to have a conflict with the management if the same management will approve the advisory services couple of years later. Therefore, there is a need to make independence rules, which apply to the auditors during the non-audit periods as well or at least have some cool-off period.

Another area of focus should be to boost growth of smaller firms to bring them in the same league so that they provide audit services to FTSE 250. There are several barriers for smaller firms such as some banks may not lend to companies not audited by big 4, smaller firms may not have international resources to audit a subsidiary/ affiliate of a big company, etc. These issues can be avoided by providing helping hand to smaller firm and avoiding the boundaries which hurt the smaller firms.

Conclusion:

Audit profession has evolved over time, however, this is high time for the profession to molt itself and adapt to the changes and align itself with the rapidly changing economic and technological environment. Change is always difficult, especially considering so many variables and unknowns, however, audit profession has always been reactive than proactive. If the profession will not look forward and embrace the change, it is not long that the value of the profession will perish and the users of financial statements will rely on other assurances more than that from the auditors.

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About the Author: ***Mr Rauf Ali Jan*** *is a member of ICMAP (Gold Medalist), CPA Canada, ICAP, and ACCA and was involved in auditing for over 12 years. He worked for A.F.Ferguson & Co., PwC, Collins Barrow and Ernst & Young. He has international exposure of working in Pakistan, Oman, Bahamas and Canada and served clients in over dozen countries. He is actively engaged in helping Internationally Educated Professionals to settle in Canada.*

Towards A Supreme Audit Institution

The office of Auditor General of Pakistan (OAGP) and the Public Accounts Committee are constitutional entities charged with the responsibility of ensuring that public funds are being used properly and effectively. The experience with the AGP and PAC over the last several years and the development of auditing standards and institutions in other emerging countries call for a major transformation of the OAGP. The Supreme Audit Institution of Pakistan (SAIP) which should replace the OAGP must be the apex body for financial accountability mechanism and an integral part of the Institution of Accountability in the country for promoting accountability and good governance. SAIP must be concerned not only with proper and effective use of public funds but also oversee a sound public financial management system consisting of budgeting, revenue collection, Accounting, Internal Controls, Audit and Legislative oversight. As part of the overall framework of Institutions of Accountability the SAIP should assist NAB, FIA, Anti-Corruption agencies in the detection and investigation of misuse and leakage of public funds. The SAIP will place objective reports to the Public Accounts Committee to support Parliamentary oversight of the management and use of public resources.

Dr. Ishrat Husain

The OGAP suffers from several major weaknesses that cannot be removed by simple tinkering or moving the boxes around on the organization chart or introducing some process changes. It requires a fundamental restructuring and transformation. Why should the OAGP be replaced by SAIP?

First, it lacks professional competence. Out of 5400 personnel majority (3350) consists of poorly educated ill-trained, uncertified individuals with little knowledge of the business of the public sector organizations or department and lacking grasp on the modern auditing techniques.

During my last visit to the OAGP in connection with the National Commission for Government Reforms (NCGR) out of a total 464 audit teams, only twenty five percent were headed by Grade 16 officers and sixty three percent members of audit teams belonged to Grade 14 with the remaining below that grade. This low level of composition undoubtedly, resulted in poor quality reports which could not be recast to desirable standards despite guidelines and standards prescribed by the OAGP.

The supervisory officers, mainly recruited from general Pakistan Audit and Account Services, with few exceptions do not have the background, aptitude or skills to exert effective control over the lower cadre of the OAGP. The lop sided organizational structure where the clerks enjoy tremendous influence, power and nuisance value has done more harm than good to the image of the OAGP notwithstanding some of the finest officers who have headed the organization from time to time. This congenital defect is so deep rooted that it cannot be removed without a surgical operation.

Second, the Auditor General is not appointed in a transparent and open manner raising serious questions about the motives of the reports prepared and placed before the PAC. The expertise, qualifications, experience, integrity and overall reputation of the appointee are neither explicitly laid out nor are they reflected in the decision making process.

Third, the integrity of those who prepare the reports and their objectivity have been challenged off and on. Newspaper reports and anecdotal evidence show that funds are not released to government departments and agencies, superfluous objections are raised and delaying tactics are adopted unless money is paid or favors are bestowed to the Audit Staff. The credibility of the Audit organization being so low, cannot add any value to its findings and report. To add injury to the insult there is no recourse for grievance redressal or complaints against the officials of the OAGP and the Accountant Generals.

Fourth, the OAGP's financial audits are not based on risk categorization or assessment. Most of the time and resources are devoted to low risk activities while high risk operations go escot free causing enormous losses to the exchequer. 'Value for money' concept has not yet entered the vocabulary or practices of OAGP. Claims that OAGP had made recoveries of Rs. 20 billion over a four year period show how insignificant this amount is in relation to the Federal Government spending of Rs. 3.5 trillion annually.

Fifth, despite the reforms of separation of audit and accounts function, introduction of the use of technology through PIFRA and implementation of Integrated Financial Information

System the efficiency gains, the quality of reports, reduction in discretionary powers of the lower cadre officials or the speed in the disposal of business have proved to be elusive. The pendency before the Federal and Provincial PACs is large at last count there were 56 years of audit report that had not been reviewed. In absence of prioritization and risk based audit reports the clogging of the process would remain a major issue.

The newly formed SAIP would remain a constitutional entity supporting the Parliamentary oversight of the use of public funds and its reports placed before the Public Accounts Committee of the Federal and Provincial Governments. But it has to be set up on a completely different footing than the present OAGP. The main distinguishing features of this new organization would be:

1. **Autonomy:** SAIP would enjoy administrative, functional and financial autonomy but work in close collaboration with the Ministry of Finance for exercising oversight of the Public Financial Management system. The appointment of Chairman heading the SAIP would be made on the recommendation of the Public Accounts Committee through an open and transparent process. The chairman and members cannot be removed before the completion of their tenure except for mental incapacitation or moral turpitude.
2. **Staffing and Competence:** The staff and officers of the SAIP would be selected on the basis of their qualifications, expertise, experience and integrity. Only qualified high level auditors would be recruited to SAIP. The Audit and Accounts Training Institute should play a critical role in developing technical skills of the staff. It should be transformed into a National Institute of Public Finance (NIPF) with a wing devoted exclusively for training research, case studies on Audit and Accounts. The Audit Officers would be imparted training continuously and promotion to the next level would depend solely on their performance. For performance audit, a new group of sectoral and technical and trained experts should be inducted. The present incumbents of the OAGP should be carefully screened and tested before they are inducted into the SAIP. In 2008, the then Auditor General had prepared plans for strengthening audit party structure by bringing in Grade 18 and 17 officers and trained Assistant Audit officers and eliminating the lower clerical staff. It was estimated that the strength of the department would be reduced by 33 percent.
3. **Mandate and Conduct:** The SAIP would have the mandate to carry out financial audit, performance audit and compliance audit. Financial Audit must be driven by the consideration of Value for money. Allocation of staff and time for audit should be made on the basis of Risk classification and Risk-based categories. The outdated and archaic Financial Rules, Fundamental Rules, Supplementary Rules and other rules must be weeded out, purged, simplified, updated, codified, digitalized and placed on the website for ready references. Audit manual should therefore be recast in the light of these rules. Systemic issues should be given priority attention. New Audit methodology comprising Financial Audit Manual and Computer Assisted Audit Techniques and Tools (CAATs) should be adopted and put into practice. Information System Audit should also be included in the mandate of SAIP and trained staff recruited to carry out this function. The Audit Management Information System (AMIS) which has been under implementation should be brought to bear upon the decision making process.

4. **Ethical Standards:** The salary package and compensation of the officers and staff should be delinked from the Basic Pay Scales. The increased use of Information Technology should result in a lean organization of 1000 qualified and well paid professional staff. The elimination of clerical and lower cadre staff would result in substantial savings which could be deployed to raise the salary structure of the professional staff. This will not only improve the objectivity of the reports but also enhance the credibility of the Audit process. As salaries are made more attractive those indulging in malfeasance or malpractices should be punished in an exemplary manner so that the core values of Integrity and professionalism become embedded in the organizational culture of SAIP. Government Servants Efficiency and Disciplines Rules should not be adopted or applied in case of the employees of SAIP.
5. **Enforcement and Follow-up actions on the Reports:** As the core competencies are upgraded, ICT Tools are routinely used, large data bases are built up, the reports and findings become more objective, the credibility of audit process would be enhanced. The PAC proceedings will no longer be guided by the media coverage or point scoring but a realistic assessment of those who had indulged in wrong doing. The enforcement powers of the PAC in getting its decisions executed would have to be strengthened. Both criminal and civil actions should be in remit of PAC. The deterrent effect of these actions would have a salutary impact on the governance in the public sector. Timeliness in the production of reports of SAIP and careful choices in the selection of the reports by consideration of the PAC would reinforce the enforcement capacity.
6. **Governance Structure:** The SAIP should be headed by a Chairman and two members. An Advisory Board consisting of in independent public finance experts should assist the SAIP in aligning its work with international auditing standards, benchmarks and conforming to best practices. The SAIP should have an ombudsman to whom all the complaints against the excesses and infractions committed by the officials are addressed. His/ her decision after due investigation should prevail and action, if recommended, should be taken automatically. The SAIP should have an effective monitoring system with agreed plans with the Field Audit offices, specify quality control mechanisms, Key Performance Indicators (KPIs) and ensure that audit work is conducted in line with the plans and the KPIs are being achieved. Guidelines, policies and procedures for conducting certification, compliance and regulatory of audits would be issued by the SAIP along with a quality assurance program. The SAIP should also oversee the internal controls in each Ministry, large autonomous bodies and determine if a strong internal audit function exists.

To sum up, let me reiterate that the task ahead for transforming the OAGP into a SAIP would involve regularity, independence, integrity, objectivity and competence to establish its credibility and usefulness.

This Paper was presented by Dr. Ishrat Hussain at the Public Financial Management Conference 2014 at Islamabad.

International Best Audit Practices: Some Global Evidences

A Reference study co-authored by Mohammad Iqbal Ghori, President, ICMA Pakistan, Khawaja Ehrar ul Hassan, Honorary Secretary and Research and Publications Directorate, ICMA Pakistan

The Research and Publications Directorate, in the perspective of the theme of **'The Performance of Audit in Pakistan'** thought it prudent to undertake a brief research on the international best practices in auditing vis-à-vis Pakistan. In this paper, we will present the global practices in the context of four specific issues viz. appointment of independent auditors; mandatory rotation of audit firms; provision of non-audit services by audit firms to their clients and audit oversight framework.

Appointment of Auditors

Independence of auditors is an important cornerstone of corporate governance. The process for appointment of an independent auditor forms the basis for auditor's independence. As per international best practices, the auditor is expected to be appointed by the shareholders or an independent board of directors of the company for a fixed term with possibility of re-electing or re-appointing the auditor s to ensure independence. However, the fact of the matter is that it is the management which selects the auditor after negotiating fees and other arrangements. It is also a reality that contractual arrangement of auditor is also with management and not with the individual shareholders. The procedure for auditor appointment and removal in different jurisdictions of the world are highlighted in **Table-1.**

Table 1: Appointment of Auditors

No.	Country	Description
1.	Pakistan	The first auditor or audit firm is appointed by Board of Directors within 90 days of date of incorporation. The auditor so appointed hold office for one year i.e. conclusion of the first annual general meeting. The subsequent auditors are appointed in AGM on Board's recommendation and remain in office till the next AGM. A member or members having 10% or more shareholding of company is also entitled to propose any auditor for appointment.
2.	UK	The first auditors of a private company are appointed by Board of Directors. The appointment of new auditors or re-appointment of existing auditors can be made annually at a meeting of members of company or by written resolution within 28 days of sending accounts to members by the directors. In case this is not done, the same auditor continues in office until such time the resolution is passed to reappoint him or to remove him as director.
3.	USA	The audit committee of a public company is responsible to hire an independent registered public accounting firm as its auditor. The auditor is then pre-approved by the entire board and retention of firm is ratified by the shareholders. Auditors are appointed by the shareholders resolution or at constitution of the entity for six years.
4.	Germany	Auditors are elected by the shareholders and appointed by management (audit committee) or by the supervisory board (if present) of an entity for only one year.
5.	France	There is requirement for appointment of least two statutory auditors of company registered in France. The auditors are appointed for a six-year term. In addition, companies must appoint alternate statutory auditors who may become the regular auditor in case of death, early retirement, dismissal or resignation of one of the regular auditors. When alternate auditor becomes a regular auditor, shareholders must appoint a new alternate auditor.
6.	China	The auditor of a listed company is appointed by the board of directors or through a resolution made by shareholders' meeting or shareholders assembly for a period of one year which is extendable. The auditor cannot be appointed for more than five consecutive years and must not be re-appointed for two years.
7.	Japan	Statutory audit is not required for all corporations in Japan but with certain conditions. The statutory auditors of a company are selected by shareholders for one year and considered re-elected in case of no resolution for their dismissal. The statutory auditors of large listed companies are required to form a 'Board of Corporate Statutory Auditors'. Under the audit/supervisory committee governance structure, there is no requirement for statutory auditors, instead directors appointed as members of audit/supervisory committee is required to perform audit. The audit/supervisory committee consist of three or more directors, majority of which must be outside directors. Directors who become members of audit/supervisory committee are appointed at shareholders' meetings separately from other directors for two years whereas other directors are appointed for one year term.
8.	India	The first auditor or audit firm is appointed by Board of Directors within 30 days of date of registration in a general meeting or within 90 days, in an emergent meeting of General Body. The auditor so appointed hold office for five years i.e. until conclusion of sixth annual general meeting. The auditor's appointment is reviewed every sixth year.
9.	Bangladesh	The first auditor or audit firm is appointed by the Board of Directors within one month of date of registration and hold office for one year i.e. until the conclusion of the first annual general meeting.
10.	Sri Lanka	The first auditor or audit firm is appointed by Board of Directors or by shareholders at a general meeting. The Auditor so appointed hold office for one year i.e. until conclusion of the first annual general meeting.

Rotation of Audit Firms

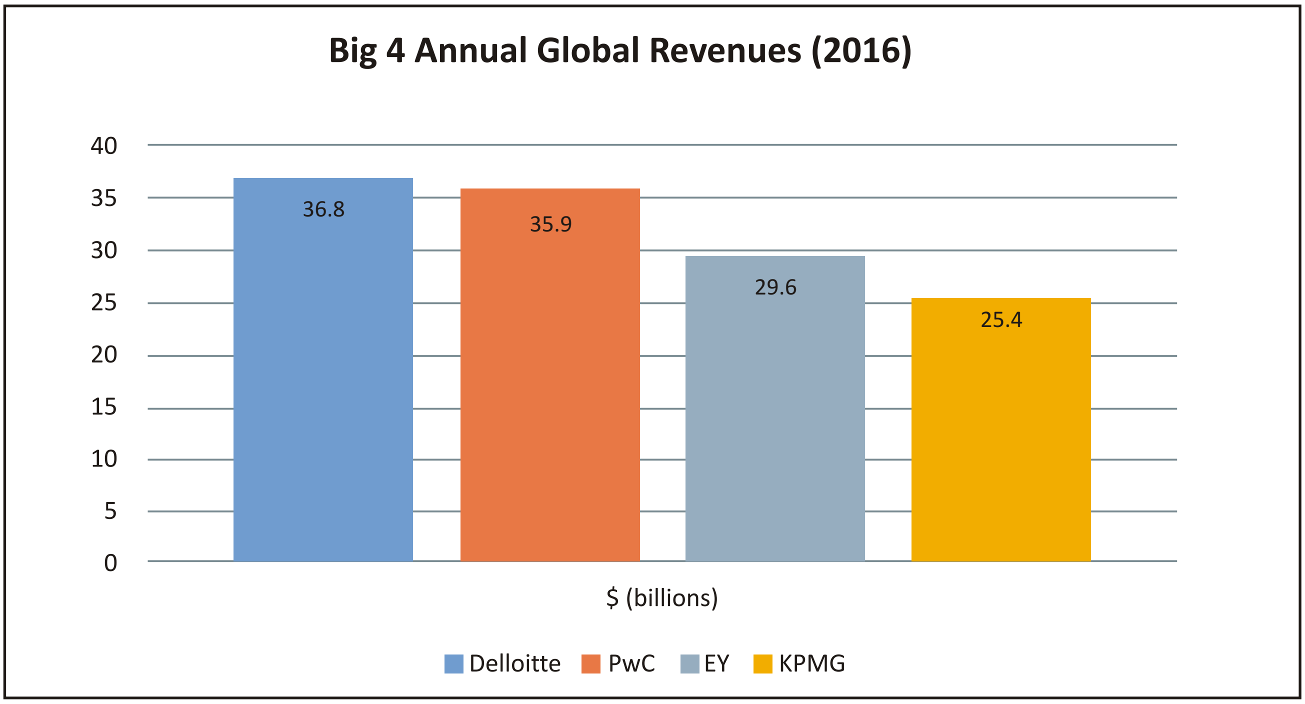
Mandatory rotation of auditors or audit firms is another important aspect which strengthens auditors' independence. This issue has become a hot topic now-a-days in global accounting community as well as among audit experts, academics, policy makers and management boards. The proponents of mandatory auditor rotation argue that long term relationships between auditors and their clients impede auditor independence and hence they should only have limited mandates. On the other hand, the critics of mandatory rotation of auditors are of the viewpoint that rotation would not benefit the company as new auditor need time to acquire the relevant information and know-how to effectively audit a firm. They argue that audit failures typically occur in the first few years of a mandate.

In most developed countries, including Australia, Canada, most of Europe and the USA, audit firm rotation is not required. In such countries that do not impose mandatory audit firm rotation, mostly require rotation of audit partners. In countries where it is mandatory, the maximum permissible length of audit firm tenure is five years. The rules for mandatory auditor rotation rules have been in place in Italy since 1974 (rotation every nine years); in Brazil since 1999 (every five years); in Korea since 2003 (every six years) and in India since 2013 (after two five-year terms). Austria, Canada, Singapore and Spain had also introduced mandatory auditor rotation, but did not continue the policy for reasons including cost and having achieved increasing competition in the large audit market.

In **Table-2** below, the rules for rotation of audit firms in different countries is provided in brief.

Table 2 : Rotation of Auditors

No.	Country	Description
1.	Pakistan	Under Clause (xli) of Code of Corporate Governance, 2002, it was required for all listed companies to change their external auditors every five years and if for any reason, it seems impractical, they were required to rotate the audit partner after obtaining consent of the SECP. In revised Code of Corporate Governance, 2012 (Clause xxxvii) all listed companies in financial sector [i.e. banks, NBFCs, modarabas and insurance/takaful companies] are required to change their external auditors every five years. Further, all listed companies other than those in financial sector are also required to rotate the engagement partner after every five years. The draft Listed Companies [Code of Corporate Governance] Regulations, 2017 have also retained this specific clause for rotation of auditors.
2.	UK	As per amendments made in UK Companies Act, 2006 with reference to EU Regulations [Articles 16 and 17] on mandatory audit firm rotation, a maximum audit engagement period of ten years has been introduced for Public Interest Entities (PIEs) which can be extended to twenty years, provided that there is a selection procedure at least every ten years. There are transitional arrangements as well in relation to the application of the maximum engagement period. In Ireland, the maximum period for which a statutory audit firm can be appointed as an auditor of a PIE is 10 years.
3.	USA	The Federal Securities Laws provide that the accounting firm rotate the lead accounting firm partner, responsible for co-coordinating and reviewing the audit of public company, after every five years. The retention of firm is often put before the shareholders for ratification. The U.S. House of Representatives has also passed the Audit Integrity and Job Protection Act, H.R. 1564, on July 8, 2013, which prohibits the Public Company Accounting Oversight Board (PCAOB) from requiring mandatory audit firm rotation.
4.	Germany	Germany does not have any rules relating to mandatory rotation of audit firms but there are guidelines within the ethical standards regarding partner rotation. The Public Interest Entities (PIEs) are required to rotate their auditor regularly (external rotation obligation). Article 17 of EU Regulation No 537/2014 stipulates maximum audit engagement duration of ten years when a public tender procedure has been conducted or by a maximum of 14 years for joint audits by two or more auditors (Sec. 318 (1a) HGB).
5.	France	In 2014, the European Commission decided to implement mandatory rotation of audit firms despite the opposition of French accounting profession and regulators. EU audit legislation in France was adopted on 18 March 2016 and became effective from 17 June 2016. As per the new rules, mandatory audit firm rotation must take place after every 10 years. The audit mandate can be extended for another 6 years after an open and competitive tender has been carried out. In the case of joint audit, the rotation period can be extended to 24 years without the need to tender. Key audit partners must rotate after 6 years.
6.	China	China adopted mandatory auditor rotation rules in 2010 under which financial institutions and state-owned enterprises must undertake an audit tender process every three years and an auditor cannot serve the same client for more than five consecutive years. However, in March 2016, the compulsory rotation period was changed for some auditors of financial institutions as well as related tendering requirements. Under the new regulations, the 5 year rotation period (3 year initial term plus 2 further years on the basis of a tender) introduced in 2010 will still apply to most audit firms, whereas financial institutions can now engage an auditor who ranked within the top 15 Certified Public Accountants firms in Mainland China for up to 8 consecutive years (5 years initial term and a 3 year extension without the need for a tender but involving an internal process overseen by the audit committee). Additionally the compulsory tendering for all other audit firms is extended from 3 years to 5 years to align with the mandatory rotation period. In respect of an audit of a listed company or public interest entity, an individual shall not be a key audit partner for more than five years. After such time, the individual shall not be a member of the engagement team or be a key audit partner for the client for two years.
7.	Japan	There is no requirement for rotation of audit firms, but according to the Certified Public Accountants Act ("CPA Act") and the Ordinance for Enforcement of the Certified Public Accountants Act, listed companies and certain large corporations must rotate the engagement partners and other partners involved in the engagements every 7 years s with cooling-off periods of two years. For those large audit firms with 100 listed audit clients or over, the CPA Act regulates that the lead engagement partner and lead quality control partner shall rotate every 5 years and ceases their roles for the following 5 years.
8.	India	Section 139(2) of Indian Companies Act, 2013 has required all listed companies and certain categories of unlisted public companies and private companies to mandatorily rotate their auditors or audit firms in case they have served as auditors of the companies for a period of 10 or more consecutive years. A moratorium period has also been provided in Section 139(2) wherein companies incorporated prior to 1st April 2014, have been given a time period of 3 years from such date to comply with the requirement to rotate their auditors. This means that all companies, from 1st April 2017 are required to to rotate their existing auditors), in case if the existing audit firm has held office for a period of 10 years or more.
9.	Bangladesh	There is a mandatory requirement for rotation of audit firms for listed companies in every three years.
10.	Sri Lanka	There is a mandatory requirement for rotation of audit firms in every five years.



Rotation is not applicable to Cost Auditors

Wherever financial audit and cost audit regimes are applicable, the rotation of auditor, as per the law, means only the rotation of statutory financial auditor and not the Cost Auditor. In Pakistan, Section 250 of Companies Act, 2017 relates to 'Audit of Cost Accounts' but there is no provision under this Section about rotation of Cost Auditor. Similarly in India, Section 148 of Companies Act 2013, clearly states that no person appointed under Section 139 {Appointment of Auditors] as an auditor of the company shall be appointed for conducting audit of cost records of the company. Section 139(3) of the Act, applicable to appointment of auditors (financial), and Rule 6 of Companies (Audit and Auditors) Rules, 2014 deals with the provision of rotation of auditors and these provisions are applicable only to appointment of auditors (financial). The Act does not provide for rotation in case of appointment of cost auditors and the same is not applicable to a cost auditor.

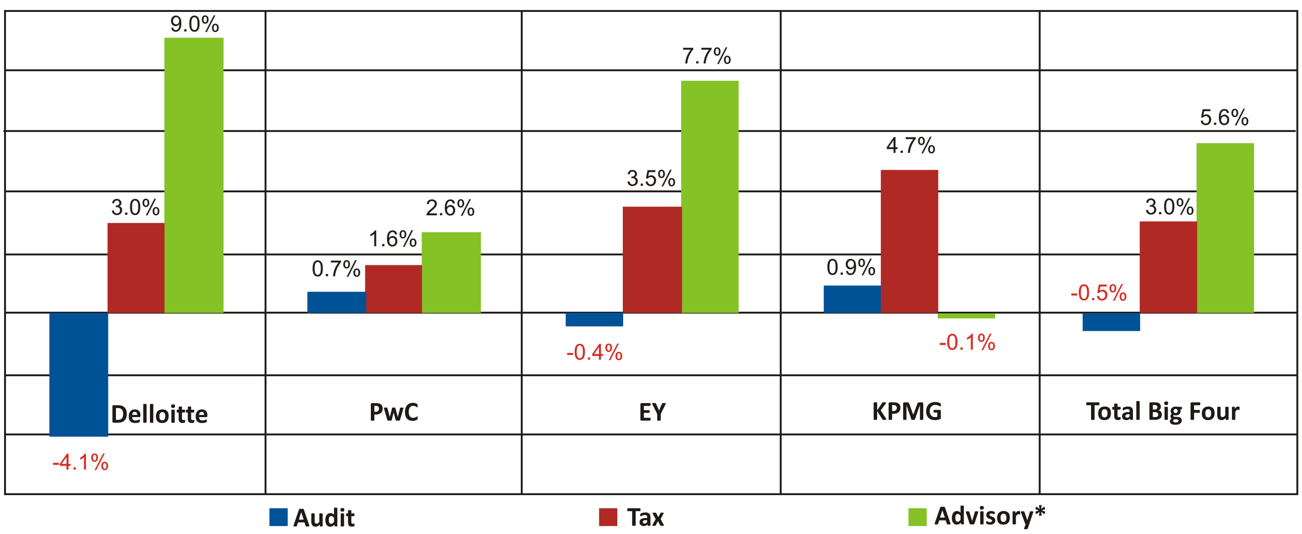
Provision of Non-Audit / Advisory Services

Provision of various non-audit services by the audit engagement firms to their client companies is also one of the factors that have an impact on the auditors' independence. The non-audit services may include assurance related services such as due diligence and compliance-related service e.g. tax consultancy etc. The share of revenue earned by audit firms, especially in USA, from non-audit services is much higher than the audit services. This is the reason that the U.S. Sarbanes-Oxley Act and other regulations have specific provisions that prohibit auditors from providing certain non-audit services to clients so as to secure auditor independence.

In China, Japan and Mexico there is permission for provision of non-audit services subject to a black list of prohibited services. The list of services in the blacklist is broadly similar to the services prohibited under the U.S. rules. In other countries, there is a list of specifically prohibited services, thereby ensuring limited instead of blanket prohibition in line with the IFAC Code of Ethics for professional Accountants which provides guidance on auditor independence. The IFAC Code, rather than banning the provision of non-audit services by audit firm, has specified certain non-audit services that auditors of public companies should decided to refrain from providing to their audit clients e.g. accounting and bookkeeping services; valuation services etc.

In the European Union (EU), the EU Parliament has amended the Directive on Statutory Audit and the Regulation on specific requirements regarding audit of public interest entities (PIEs). The new legal framework allows for the provision of non-audit services with two main safeguards. Firstly, there would be a prohibition on the provision of certain non-audit services to PIEs. Secondly, fees that can be earned from provision of non-audit services to PIEs in a fiscal year would be capped at 70 percent of annual average audit fee during the last three years.. Let's have a look at the rules with regard to non-audit services in different countries **(Table-3):**

Table 3 : Provision of Non-Audit / Advisory Services		
No.	**Country**	**Description**
1.	**Pakistan**	The Code of Corporate Governance, 2012 clearly mentions that in accordance with applicable IFAC guidelines, the listed companies shall not appoint auditors to provide non-audit services which may also include management functions or decisions which are the responsibility of Board or management. The Public Sector Companies (Corporate Governance) Rules, 2013 and the draft Listed Companies [Code of Corporate Governance] Regulations, 2017 also mentions that same condition that external auditors are restricted to engage in non-audit services.
2.	**UK**	The EU audit legislation, that is effective from 17 June 2016, introduces restrictions on a range of non-audit services that public interest entities (PIEs) can acquire from the statutory audit firm and its network. These non-audit services include certain tax services; internal audit function; legal services and human resources. A monetary cap or limit has been set on level of fees for non-audit services which cannot exceed 70% of the total audit fee received by the auditor of a PIE.
3.	**USA**	Section 201 of Sarbanes-Oxley Act of 2002 prohibits registered public accounting firms to provide certain non-audit services which include bookkeeping or other services; design and implementation of financial information systems; appraisal or valuation services; fairness opinions, or contribution-in-kind reports; actuarial services; internal audit outsourcing services; management functions or human resources; broker or dealer, investment adviser, or investment banking services; legal services and expert services unrelated to the audit; and any other service which is impermissible. An audit firm may engage in any non-audit service, including tax services that are not described in the prohibited activities section of the SO Act, provided the audit committee of client approves such activity in advance. Subject to certain limited exceptions, the audit committee must pre-approve all permitted services provided by the independent
4.	**Germany**	The EU restricts the performance of non-audit services. Article 5 of Regulation No 537/2014 lists the prohibited non-audit services. Permitted non-audit services are subject to a fee cap of 70 % of the average audit fees for the last three consecutive years. The audit committee has to pre-approve all permitted non-audit services in advance as per Article 5 (4) of Regulation No 537/2014).
5.	**France**	The European audit legislation in France was adopted on 18 March 2016 and became effective from 17 June 2016. No additional items have been added to the EU list of prohibited non-audit services. Services that are not on the list of prohibited services may be provided after approval by the Audit Committee. The fee cap for non-audit services is maintained at 70 %, as established in EU legislation.
6.	**China**	Chinese CPA firms do not provide substantial non-audit services to their clients. There are only few CPA firms which are providing non-audit services. As such, there are fewer incentives for audit firms in China to give up their independence comparing with the practices in the US, Europe and elsewhere
7.	**Japan**	As per CPA Act, 2004 and later amended in 2007; there are limited restrictions on providing certain non-audit services to audit clients. These services include services related to bookkeeping, preparing financial documents, and accounting books and records; design and management of financial or accounting information systems; services related to verification or appraisal of properties; actuarial services; Internal audit outsourcing services; and other services. These non-audit services are prohibited to any clients that are required to be audited in accordance with the Financial Instruments and Exchange Act (FIEA) and certain large companies that are required audits by the Companies Act (Article 34-11-2). Individual CPAs are required to follow the similar rule (Article 24-2).
8.	**India**	Section 144 of companies Act, 2013 provides a list of prohibited services of statutory auditor (External Auditor). Some of these services are non-audit services which include services related to investment banking; investment advisory; accounting and book keeping; design and implementation of financial information system; actuarial services and management services. Section 144 further mentions that an auditor or audit firm who or which has been performing any non-audit services on or before the commencement of this Act shall comply with the provisions of this before the closure of the first financial year after the date of such commencement.
9.	**Bangladesh**	In 2006, the Securities and Exchange Commission (SEC) of Bangladesh issued a corporate governance order that prohibited auditors to provide non-audit services such as appraisal or valuation services, financial information systems design, book keeping services, actuarial services, internal audit services etc.
10.	**Sri Lanka**	The Guidelines for Appointment of Auditors of Listed Companies, 2008 of Sri Lanka also mentions the list of restricted non-audit services which an auditor of a listed company may not perform for the client company which includes bookkeeping or other services; financial information systems design and implementation; appraisal or valuation services; fairness options or contribution-in-kind reports; actuarial services; internal audit outsourcing services; management functions, human resources and payroll services; broker or dealer, investment adviser or banking services; and legal services and expert services related to the audit.



Audit Oversight Framework

Regulatory oversight often is a means for securing auditor independence. In the aftermath of accounting scandals, we are now witnessing a continuing advancement of independent audit oversight bodies around the world. These oversight bodies are emerging from the slow demise of self-regulation of audit practice and in view of increased demand from public and especially investors for a more accountable and independent audit function.

The U.S. Congress was the pioneer to have passed the Sarbanes-Oxley Act of 2002, which created the Public Company Accounting Oversight Board as an independent body to oversee the audits of U.S. public companies. Thereafter, many other countries also adopted independent audit supervisory regimes or strengthened the existing regulatory entities. Today, almost all advanced or emerging market countries have an independent audit regulator. These regimes differ in scope and operational structure. Some, like the PCAOB, are independent agencies; others, like Brazil's CVM, are housed in the government securities regulator and in Germany, audit regulation is through legal means, rather than within the framework of professional self-regulation. It is however a fact that all of them share certain common attributes i.e. they are either government agencies or bodies that are independent of audit profession; they conduct regular inspections of audit firms; and they can take action against audit defaults. Table-4 depicts the auditor regulators in different countries of the world:

Table 4 : Audit Oversight Bodies

No.	Country	Description
1.	**Pakistan**	Audit Oversight Board (AOB) has been formed in 2016 through an amendment made in the Securities and Exchange Commission of Pakistan (SECP) Act, 1997. However, the AOB is not independent and its composition is dominated by one professional accounting body and housed in the SECP. ICMA Pakistan has been advocating for dissolving the AOB and forming an independent Financial Reporting Council (FRC) as practiced in other countries of the world, having representation of all the stakeholders including all professional accounting bodies, Chambers of Commerce, academia, lawyer etc.
2.	**UK**	Financial Reporting Council of UK
3.	**USA**	Public Company Accounting Oversight Board (PCAOB)
4.	**Albania**	Public Oversight Board of Albania
5.	**Austria**	Audit Oversight Body of Austria (AOBA)
6.	**Botswana**	Botswana Accountancy Oversight Authority (BAOA)
7.	**Bulgaria**	Commission for Public Oversight of Statutory Auditors (CPOSA)
8.	**Canada**	Canadian Public Accountability Board (CPAB)
9.	**Cayman Islands**	Auditors Oversight Authority (AOA)
10.	**Croatia**	Croatian Audit Public Oversight Committee (APOC)
11.	**Cyprus**	Cyprus Public Audit Oversight Board (CyPAOB)
12.	**Czech Republic**	Public Audit Oversight Board (RVDA)
13.	**Greece**	Hellenic Accounting and Auditing Standards Oversight Board (HAASOB)
14.	**Hungary**	Auditors' Public Oversight Authority
15.	**Japan**	Certified Public Accountants & Auditing Oversight Board (CPAAOB)
16.	**Malaysia**	Audit Oversight Board
17.	**Mauritius**	Financial Reporting Council
18.	**Poland**	Audit Oversight Commission (AOC)
19.	**Singapore**	Accounting and Corporate Regulatory Authority (ACRA)
20.	**Slovak Republic**	Auditing Oversight Authority
21.	**South Africa**	Independent Regulatory Board for Auditors (IRBA)
22.	**Sri Lanka**	Sri Lanka Accounting and Auditing Standards Monitoring Board
23.	**Sweden**	Swedish Inspectorate of Auditors
24.	**Switzerland**	Federal Audit Oversight Authority (FAOA)
25.	**Turkey**	Public Oversight, Accounting and Auditing Standards Authority (POA)

Distinction between Cost Audit and Financial Audit

	Cost Audit	Financial Audit
1	It serves the interest of the management, government and the consumers	It serves the interest of the shareholders and investors
2	It helps both the company and government in fixing prices of products	It does not possess this scope
3	It is industry-oriented, basically product oriented	It is organization-oriented
4	It is conducted under Section 250 of the Companies Act, 2017	It is conducted under Sections 223 (5) of the Companies Act, 2017
5	Its application is limited to only those industries notified by the SECP	It is applicable on all listed and non-listed companies irrespective of size and nature of operations
6	It ensures thorough and complete checking and examination of cost records.	Its checks and examinations are limited to 'test' or on 'sample'
7	Its emphasis is on micro-aspects. The aggregates are considered for checks.	Its emphasis is on macro-aspect. Individual transactions are scrutinized for check of aggregates
8	It is an examination of day-to-day operations in terms of design of cost records as per mandatory cost accounting rules	It is an examination of books of account at close of the year.
9	It includes efficiency audit and propriety audit and thus extends its coverage to the examination of other operating factors	It is concerned with the examination of transactions recorded in the books of account
10	It depends on critical review and checking of production process, control systems and analysis of cost components of materials, labour and overheads for compilation of cost statements	It reviews the procedures and internal checks and scrutinizes individual transactions for the purpose of verification of Profit & Loss Account and Balance Sheet
11	It acts as a control device for the avoidance of profiteering motive	It is not concerned with the avoidance of profiteering motive
12	The statutory cost statements are examined fully so as to ascertain the cost of each process, operation and each product quality wise.	It does not do so. It indicates the financial position and overall performance of business, regardless of its performance in various segments
13	It may lead to the performance/productivity/ efficiency audit of systems and sub-systems of an industry	It does not possess these characteristics.

Cost Audit Practice: The Case of India

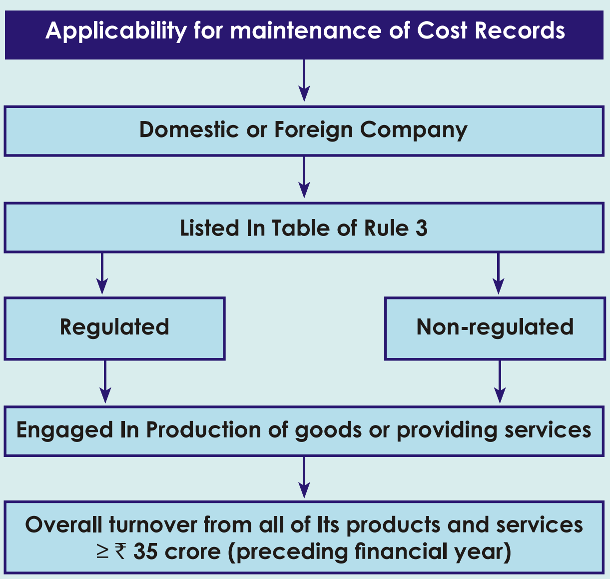
The Companies Act, 2013 of India empowers the Central Government (CG) to make rules in the areas of maintenance of cost records by the companies engaged in specified industries, manufacturing of goods or providing services; and for getting such records audited under section 148 of Companies Act, 2013.

This paper presents a brief diagrammatical analysis of provisions of Cost records and Cost Audit under Section 148 of Indian Companies Act, 2013 read with Companies (Audit and Auditors) Rules, 2014 and Companies (Cost Records and Audit) Rules, 2014.

Cost Records [Section 148(1)]: The CG may direct to include the particulars of costs in books of accounts by the class of companies. **(Rule 5 of Companies (Cost Records and Audit)** Rules, 2014: Cost records shall be maintained in Form CRA-1).

Rule - 3: Application of Cost Records:

Two categories (regulated sectors and non-regulated sectors) have been retained and a general threshold of turnover of ` 35 crore or more has been prescribed for companies covered. Micro enterprise or a small enterprise as per MSMED Act, 2006 have been taken out of the purview.



Rule-4: Applicability for Cost Audit

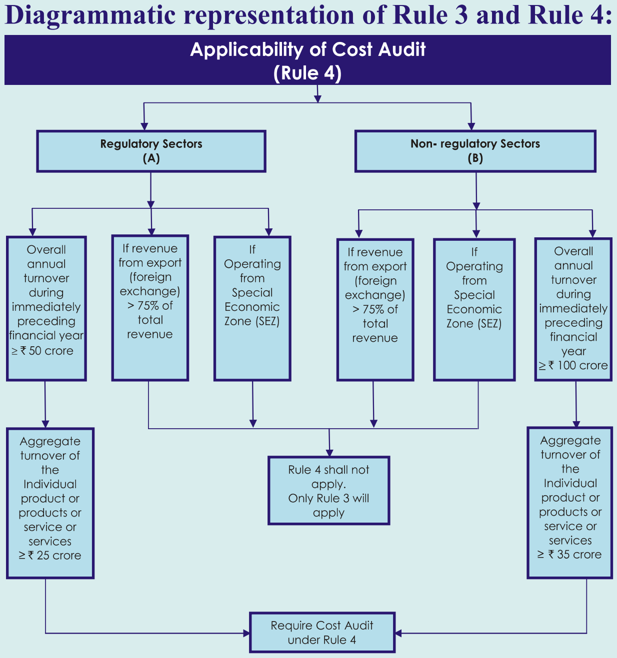
Even for regulated sectors like Telecommunication, Electricity, Petroleum and Gas, Drugs and Pharma, Fertilizers and Sugar, the cost audit requirement has been made subject to a turnover based threshold of INR 50 crore for all product and services and INR 25 crore for individual product or services. For the non-**regulated sector** the threshold is `INR 100 crore and `INR 35 crore, respectively.

Cost Audits [Sec.148(2)]: CG may direct to conduct audit of cost records of such class of companies having turnover or net worth as may be prescribed.

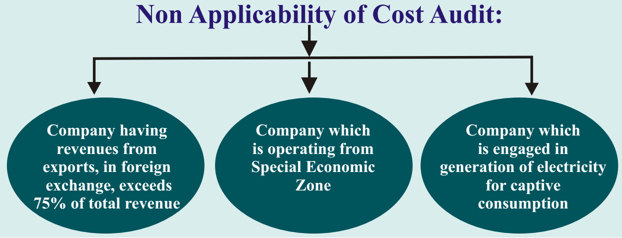
Rule-4 of Companies (Cost Records and Audit) Rules, 2014: APPLICABILITY OF COST AUDIT

		Every Company Specified under Rule 3A in Regulated Sector	Every Company Specified under Rule 3B in Regulated Sector
TURNOVER	From all products and services, or	Rs. 50 crore or more	Rs. 100 crore or more
	From Individual products or services specified for cost records under Rule 3	Rs. 25 crore or more	Rs. 35 crore or more

Diagrammatic representation of Rule 3 and Rule 4:



Non Applicability of Cost Audit:



Rule-5: Maintenance of Cost Records

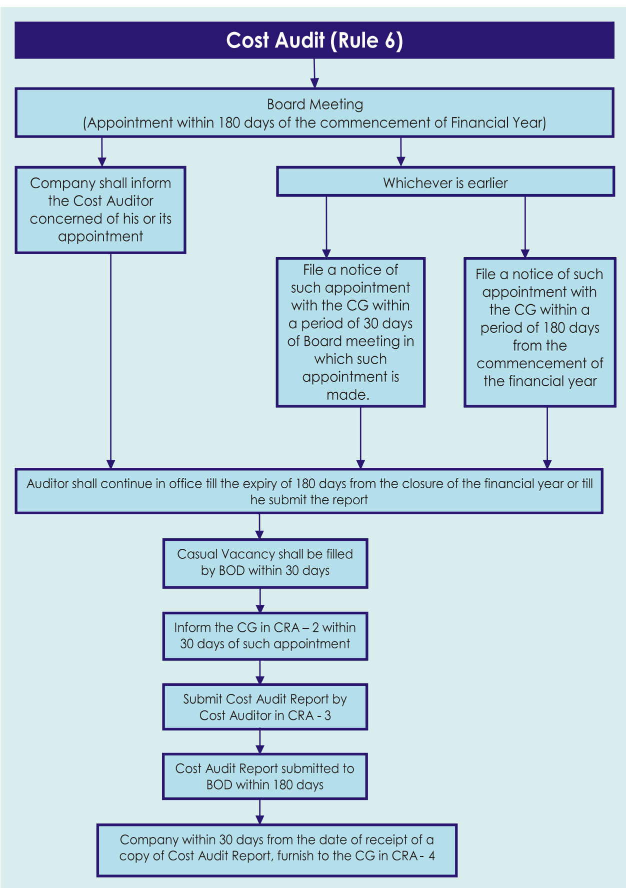
The requirement to maintain cost records in Form CRA-1 have been postponed to Financial Year 2015-16 for the some companies in non-regulated sectors viz. coffee and tea, milk powder and electrical and electronic machinery

Rule-6: Cost Audit

Cost Auditor [Section 148(3)]: Cost Audit shall be conducted by a Cost Accountant in practice who shall be appointed by the Board. Auditor appointed under Sec.139 shall not be appointed for conducting cost audit.

Rule 6 of the Companies (Cost Records and Audit) Rules, 2014:

- Cost Auditor shall submit a certificate as per Rule 6(1A).
- The company shall within 180 days of the commencement of every financial year, appoint cost auditor.
- The auditor shall be informed about his appointment and notice of his appointment shall be filed within 30 days of his appointment in Form CRA-2.
- **Tenure of cost auditor:** Every auditor shall continue his office till the expiry of 180 days from the closure of the financial year or till he submits his cost audit report.
- **Removal of Cost Auditor:** Cost Auditor may be removed before expiry of his term, through a board resolution after giving him reasonable opportunity of being heard.



- **Casual Vacancy:** Any casual vacancy of cost auditor whether due to resignation, death or removal, shall be filled by board of directors within 30 days of such occurrence and company shall inform CG in E-Form CRA-2 within 30 days of appointment of cost auditor.
- **Signing of Cost Statements:** Cost Statements to be annexed to the cost audit report, shall be approved by the Board of directors before signing on behalf of the board by any director, for submission to the cost auditor to report thereon.
- **Cost Audit Report:** Cost Audit Report shall be made in form CRA-3 and shall be forwarded to Board of Directors within a period of 180 days from the closure of the financial year.
- **Filing with ROC:** Cost Audit Report shall be filed in XBRL format within 30 days of receipt of report in E-Form CRA-4.
- **Applicability of Section 148(12):** The provisions regarding disclosure of fraud by auditor in its Audit report under Section 148(12) shall be applicable to Cost Auditor.

Section 148(4): Audit conducted under this section shall be in addition to the audit conducted under sec.143.

Qualification of Auditor [Section 148(5)]: Qualification, disqualification, rights and duties of applicable to auditor under this chapter shall be applicable to Cost auditor.

Cost Auditor shall submit its report to the board of directors of the company

ROC filing [Section 148(6)]: Company shall within 30 days of receipt of Cost Audit Report, shall furnish report with Central Government in E-form CRA-4.

Additional explanation [Section 148(7)]: After considering the cost audit report under this section, the CG may ask for further information and explanation from the company.

Penalty [Section 148(8)]: Penalty under this section shall be same as prescribed under Sec. 147.

Relevant Forms

1.	Form CRA-1	Form in which Cost Records shall be maintained.
2.	Form CRA-2	E-Form for intimation of appointment of Cost Auditor by Company
3.	Form CRA-3	Form of Cost Audit Report
4.	Form CRA-4	E-From for filling Cost Audit Report with Central Government.

Survey Report

AUDIT Profession in Pakistan

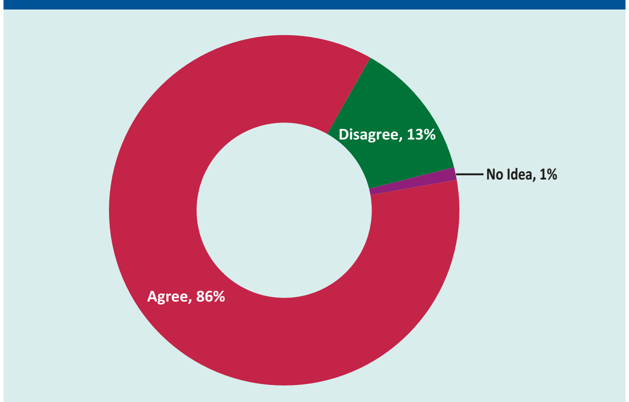
By Research and Publications Directorate, ICMA Pakistan

Majority of Survey participants agree that monopolistic audit rights prevail in Pakistan

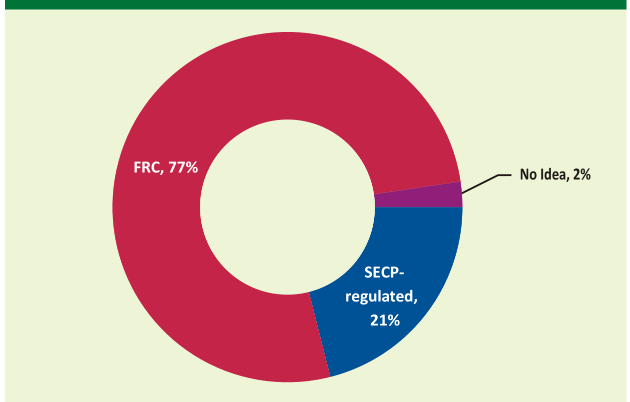
86%
says CMAs be also allowed audit rights

77%
supports forming an Independent 'Financial Reporting Council'

Do you agree ICMAP should also be allowed audit rights in Pakistan?



Audit profession should be regulated by SECP or an Independent Financial Reporting Council?



Rationale of Survey

The rationale or underlying objective of this feedback survey was to assess the present status, performance and quality of statutory audit in Pakistan vis-à-vis international auditing standards. Audit quality is an important concept in both public and private sector and is a key to consumer and investors trust and confidence in our market. The feedback was invited from not only the members of the professional accounting bodies in Pakistan but also other relevant stakeholders such as accountants, audit practitioners, business and corporate sector, financial experts etc. This Survey Report is based on the feedback received from all these stakeholders.

Survey Methodology

The feedback survey questionnaire was uploaded on Institute's website on 23rd August 2017 with connecting link to Google Drive to provide an opportunity to members to submit their responses online. The deadline for filling-up the online survey was 5th September 2017.

Survey Statistics

By the deadline, total 179 participants filled-up the online survey, out of which 8 responses were excluded being redundant for several reasons such as fill-up of survey form twice by one participant.

As far as representative sectors of survey participants is concerned, majority of responses have been received from 'professional accountants' i.e. 93 out of 171 which come to 54.39%; followed by 'audit practitioners' (21.05%); corporate sector (11.11%) and financial experts (1.75%). Around 11.70% responses have been received from others which include regulators, government, internal auditors, consultants, academia etc.

With regard to geographical representation, top survey respondents are from Karachi (38%); followed by Lahore and Islamabad (18.7% each) and other cities and foreign countries (24.6%). The outstation responses have been received from London, Saudi Arabia, Canada, Dubai and Australia.

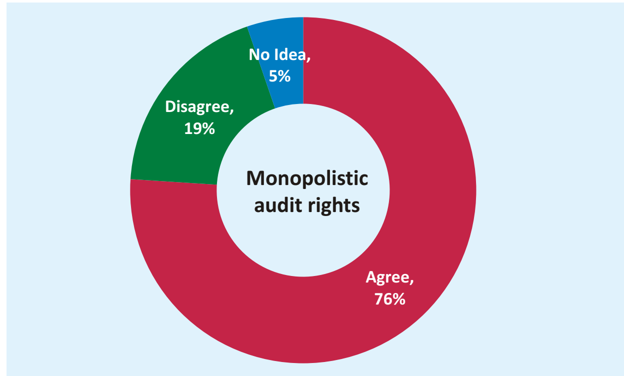
Survey Findings & Analysis

76% agrees monopolistic audit rights prevail in Pakistan

The survey participants were questioned whether they agree or otherwise that monopolistic audit rights prevail in Pakistan. Majority of them i.e. 76% agreed that monopolistic rights exist which is tantamount to compromising the scope of audit and accounting practice in the country. Only 19 percent differed with this view point and denied any sort of monopolistic rights of audit by any profession. 5% had no idea.

77% supports idea to form a Financial Reporting Council

The respondents were asked to share their opinion as to whether the audit profession should continue to be regulated by the Securities and Exchange Commission of Pakistan (SECP) or else an independent financial regulatory body may be formed for this purpose. Almost 77 percent of participants endorsed that an independent Financial Reporting Council (FRC) may be established to ensure good corporate governance and quality of auditing. However, 21 percent respondents favored SECP- regulated audit profession in Pakistan.



The representative sector-wise survey statistics of this question (see below) indicates that almost all the stakeholders have supported the idea for establishing an independent Financial Reporting Council (FRC):

Segment	Favour SECP-Regulated Model	Support Independent FRC
Professional Accountants	18%	82%
Audit Practitioners	29%	71%
Industry/corporate sector	33%	67%
Financial Experts	33%	67%
Other Stakeholders	16%	84%

AUDIT RIGHTS

The survey outcomes reveal that there is a general consensus among all the stakeholders that only Chartered Accountant (CAs) and Cost and Management Accountant (CMAs) should have financial audit rights in Pakistan, whereas other qualifications such as CIMA, ACCA, and CPA etc should not be allowed these rights. Let's have a look at the statistics that emerge as a result of this survey with regard to audit rights for other qualifications.

86% endorses financial audit rights for CMA's

The survey participants were asked to share their opinion as to whether financial audit rights be allowed to the cost and management accountants (CMAs). Majority of respondents (86%) agreed that CMAs qualified from ICMA Pakistan be allowed statutory audit rights along with Chartered Accountants. Only 13 percent disagreed.

67% disfavours audit rights to CIMA

Survey outcomes reveal that almost 67 percent of respondents are not in favour of allowing CIMA to carry out financial audits of companies in Pakistan. However, 28 percent suggest CIMA should also have audit rights.

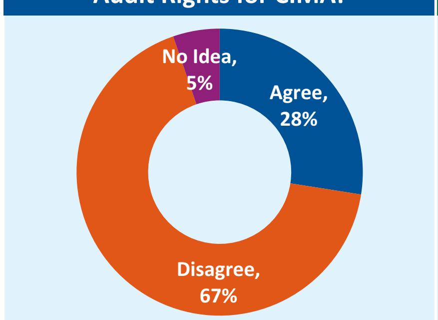
63% disagrees on giving audit rights to ACCA

Almost 63 percent of respondents do not agree on allowing financial audit rights in Pakistan to ACCAs. However, 33 percent are in favor of providing audit rights to ACCAs.

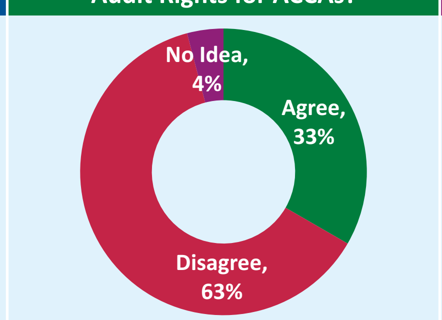
68% do not endorse audit rights to CPA

Around 68 percent survey participants do not endorse allowing financial audit rights in Pakistan to CPA, whereas 27 percent voted in favor of providing audit rights to CPAs.

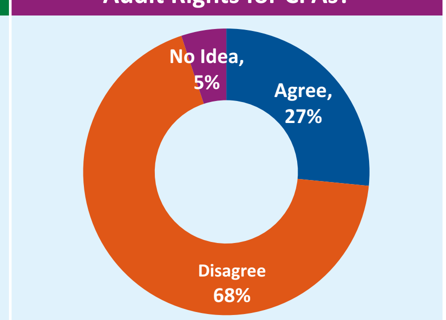
Audit Rights for CIMA?



Audit Rights for ACCAs?



Audit Rights for CPAs?



From the above statistics, it can be observed that respondents who are inclined towards giving audit rights to other qualifications in Pakistan, have ranked ACCAs with 33% as the first preference; followed by CPAs (27%) and CIMA (28%). However, as already indicated before, the general consensus is that only CAs and CMAs qualified from ICMA Pakistan should have statutory audit rights in Pakistan.

The detailed analysis of survey responses received from different stakeholders to this question as **to whether they agree or disagree on giving audit rights to ICMA Pakistan,** reveals the following outcomes:

- Professional Accountants - 89% agree and 11% disagree
- Audit Practitioners - 77% agree and 23% disagree
- Industry/corporate sector - 84% agree and 16% disagree
- Financial expert - 67% agree and 33% disagree
- Other stakeholders - 96% agree and 4% disagree

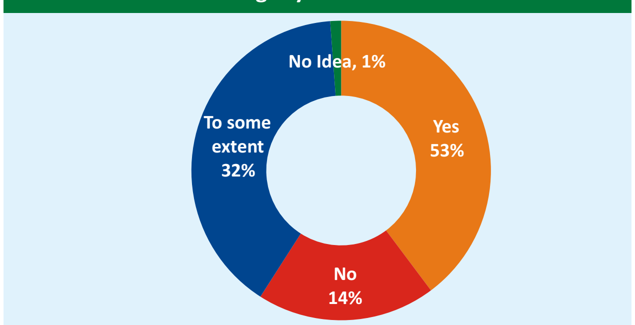
The above responses clearly indicate that almost all the stakeholders, including the audit practitioners and the business and corporate sector are in favour of allowing financial audit rights to management accountants.

AUDIT SERVICES

85% says audit firms providing advisory services to their clients signifies a 'conflict of interest'

A major segment of survey participants has agreed that audit firms providing advisory services to their clients is a 'conflict of interest'. Around 53 participants view it wholly a matter of conflict of interest, whereas 32 percent thinks there is partial conflict of interest. Only 14 percent respondents did not agree and forwarded their opinion that provision of advisory services by audit firms does not signify a conflict of Interest.

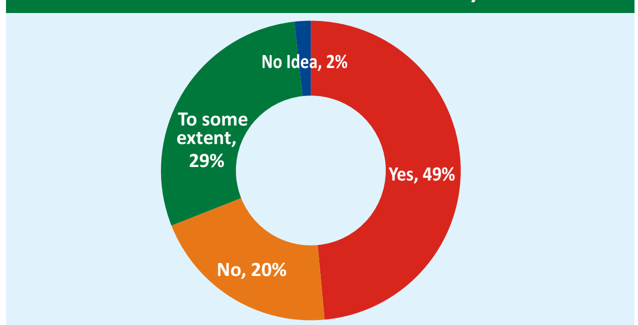
Does providing advisory services to clienets by audit firms signify 'conflict of Interest?



78% recognizes value-added services by auditors

Around 78 percent of the survey respondents have indicated that statutory auditors are rendering value added services to the national economy. Out of 78%, about 29% thinks the value-added contributed to some extent. Twenty percent of participants, however, are of the opinion that auditors are not contributing towards economic value-addition.

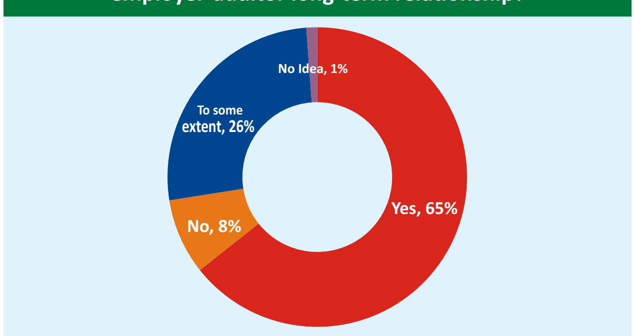
Are auditors providing any value-added services to the national economy?



91% says long-term relationship with client influence auditors' judgment

More than 90 percent of survey participants have endorsed that long term relationship between the auditor and his client i.e. employer influences the judgment of auditor, either wholly or to some extent. Only eight percent respondents think that auditors' judgment is not influenced by long-term relationship.

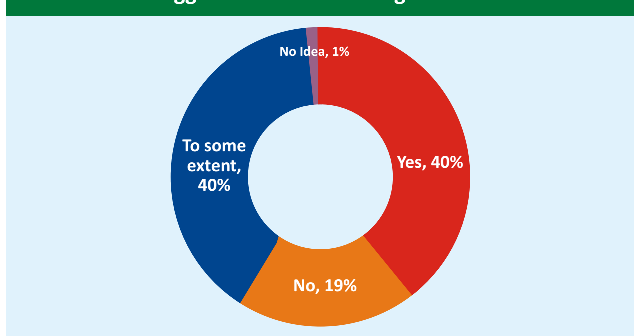
Does auditors' judgment influenced by employer-auditor long-term relationship?



80% says audit firms providing useful insights to managements of companies

Around 80 percent respondents have agreed that the auditing firms are providing useful insights and suggestions to their clients which are benefiting the managements of companies. Around 19 percent respondents do not agree with this view.

Are the auditors providing useful insights and suggestions to the managements?

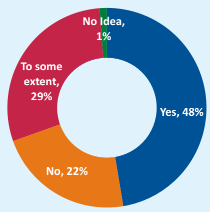


AUDIT PERFORMANCE

77% says audit profession has improved corporate governance

Around 48 percent respondents have pointed out that audit profession has improved corporate governance in Pakistan; whereas 29 percent thinks it has improved to some extent. This view point is differed by 22 percent of participants in whose opinion corporate governance has not enhanced.

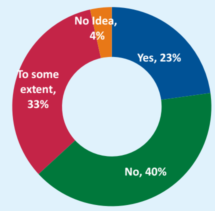
Has the audit profession improved corporate governance in Pakistan?



40% indicates audit quality in Pakistan not meeting international standards

Almost 40 percent of respondents have indicated that the audit quality in Pakistan is not meeting the international auditing standards, whereas 33 percent says that global standards are being met to some extent. Only 23 percent participants have completely agreed that audit quality is as per international standards.

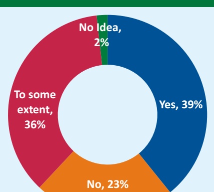
Do you think audit quality in Pakistan is as per the international standards?



75% says audit profession has improved business performance

The survey participants were questioned whether the audit profession has improved performance of businesses in Pakistan. A mixed response has been received with 39 percent in complete agreement whereas 36 percent saying that improvement is to some extent. Around 23 percent of participants have altogether rejected this viewpoint and said that audit profession has not improved business performance.

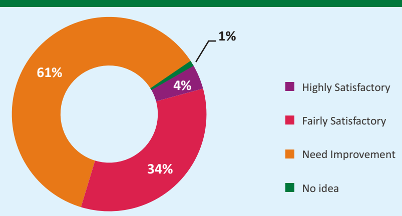
Has the audit profession improved performance of businesses in Pakistan?



61% thinks auditors' risk assessment need improvement

The participants of the survey were enquired about their level of satisfaction on auditors' focus, approach and risk assessment in auditing. Majority of respondents (61%) does not seem to be satisfied and say that this need improvement for better audit quality and process. Only 4 percent respondents have rated auditors focus, approach and risk assessment as highly satisfactory, whereas 34 percent have termed them as fairly satisfactory.

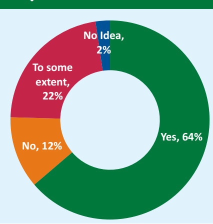
How do you rate auditors' focus, approach and risk assessment in auditing?



86% says audit quality has improved financial disclosures

A majority of survey participants have agreed that the audit quality has brought considerable improvement in the financial statements' disclosures i.e. 64 percent fully agreeing whereas 22 percent saying improvement is to some extent. Around 12 percent respondents do not agree with any improvement.

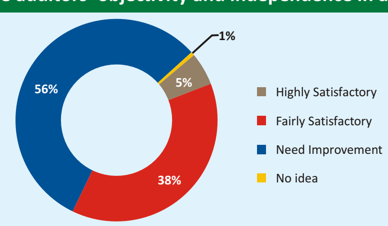
Has the audit quality improved disclosures in financial statements?



56% thinks auditors' objectivity and independence need improvement

The respondents were asked to rate auditors' objectivity and independence in audit work. Only 5 percent respondents have rated 'highly satisfactory' whereas 38 percent have rated 'fairly satisfactory'. Almost 56 percent of the survey participants have indicated that there is need to bring improvement in the objectivity of auditors.

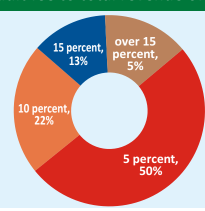
How do you rate auditors' objectivity and independence in audit work?



50% thinks audit fee ratio to total revenue of audit firm should be 5% maximum

The survey respondents were asked about their opinion as to what should be the ratio in percentage of audit fee to total revenue of audit firm from one sector. The responses received are quite mixed, with majority i.e. 50 percent saying 5 percent; followed by 22 percent respondents indicating 10 percent ratio.

What should be ratio of audit fee to total revenue of audit firm from one sector?



Opinions

by Survey Participants

The survey participants were also asked to provide additional comments on the audit profession in Pakistan. Some of these comments are reproduced below without mentioning the names of person in view of assurance provided to them for ensuring confidentiality. These comments represent the views of the survey respondents and should not, in any way, be construed as the policy or viewpoint of ICMA Pakistan:

“Role of Auditors is just like role of Oath Commissioners in Pakistan”

“Audit should be carried by a large group of professionals comprising of CAs and CMAs”

“Deregulation of audit profession from ICAP is a must to allow competition in the market”

“Audit rights must be given to ICMAP to improve standards; increase competition and bring down the cost of doing business in Pakistan”

“There is immense need for improvement and effective enforcement of ethical rules for audit profession”

“Audit practice worldwide compromises due to relationship with clients that's why we see news about Deloitte, PwC, KPMG and EY gets fines and penalties throughout the globe every year. If there are more players from other dimensions in the market, there will be a healthy competition for quality and service”

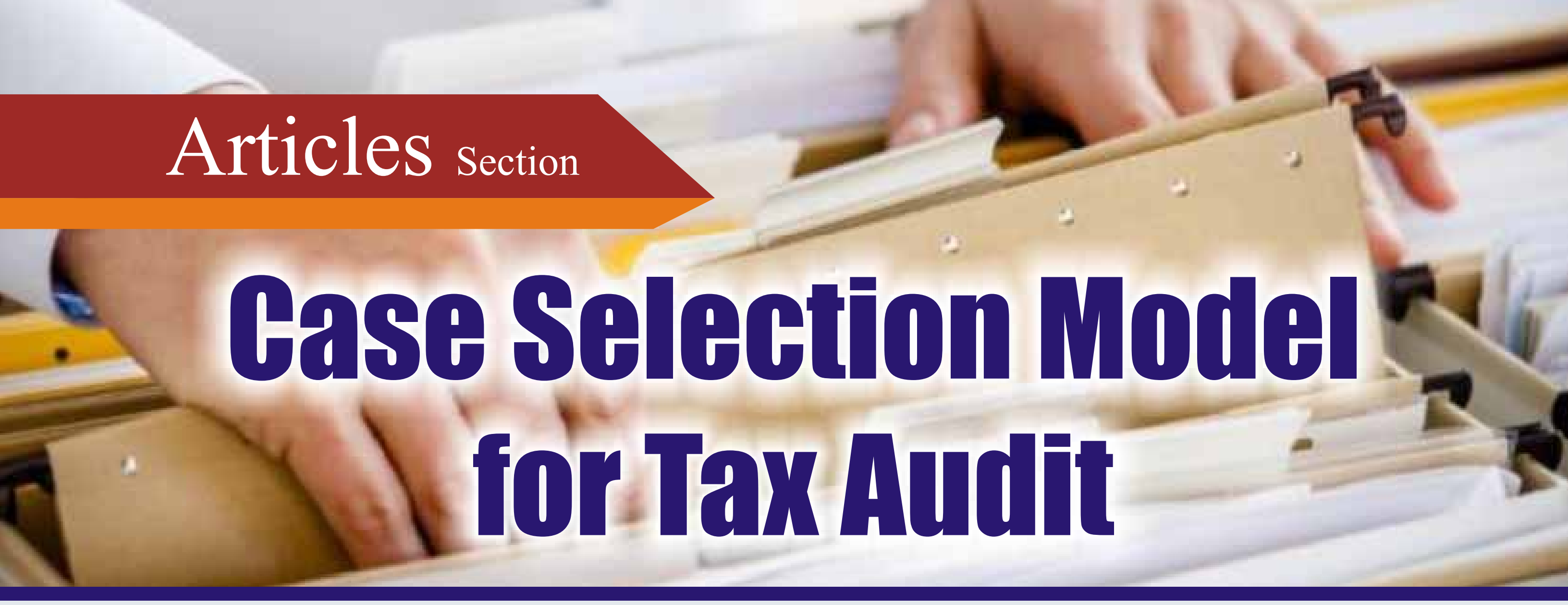
“Financial Reporting Council should be independent having fair representation from all stakeholders and powered with proper yardsticks”

“Improved focus on transparency, updated knowledge & techniques including Forensic Audit / Fraud detection & Risk Management are critical for improving the overall Quality of Audit practice in Pakistan”

“Audit (financial and accounting) may be linked to Information Technology audit as an integral part”

“Conflict of interest of audit firm due to provision of other services should be reduced and quality, independence, and job security of internal auditors should be enhanced through regulators or new independent body.”

“The wording of the opinion by the auditor needs revision. According to present format there is no responsibility of auditor, he simply state, in his opinion. The word opinion needs to be changed.”



Case Selection Model for Tax Audit

Revenue authorities across the world grapple with how to effectively apply their scarce resources to the task of maximizing voluntary tax compliance. The challenge is in knowing where and how to most effectively apply those resources whilst maintaining coverage and visibility in the community - **Selecting Cases for Audit - Getting It Right,** *Margaret E. Cot ton, Asia Pacific Tax Bulletin, International Bureau of Fiscal Documentation (IBFD)*

The Inland Revenue is here to ensure that everyone understands and receives what they are entitled to and understands and pays what they owe, so that everyone contributes to the UK's needs - **slogan on website of Inland Revenue Service of United Kingdom.**

Dr. Ikramul Haq

The role of a revenue authority is to collect, and in some cases redistribute, the government's revenue. To maximize the collection, the revenue authority is tasked with maintaining and improving voluntary compliance across the taxpaying populace. Rarely do revenue authorities have access to all the resources necessary to achieve this mandate and therefore they make selection and allocation decisions based on a compliance risk management approach. Typically this is achieved through a mix of assistance, education and enforcement activity.

Case selection for audit is about the effective and efficient use of the total resources the revenue authority has determined will be applied to audit or enforcement activity. There is little point auditing the same cases year after year if each year there is no, or a very minor, discrepancy. Similarly there is little point auditing tax returns on a "first in, first audited" basis as the second to last tax return filed might be the " big one".

Simply stated, good case selection leads to more effective audits which lead to more voluntary compliance and ultimately collection of more revenue. Good case selection also assists with maintaining the integrity of the revenue authority by overtly showing that the tax machinery is focusing on the right cases, thereby reducing allegations of corruption and bias. If the wider taxpaying populations consider the revenue authority is acting without fear or favour, voluntary compliance is enhanced. To achieve these aims audit activity should operate in a managed risk environment. This enables those tax payers who are thought to be high compliance risk to be identified and understood so audit responses can be directed at those risks and tailored in such a way as to address the risk identified. This requires the revenue authority to build and maintain a good understanding of the taxpaying community taking into account the changing local and international environments.

The revenue authorities in Australia and New Zealand have successfully adopted compliance-based models that rest on the premise the better the authority understands why taxpayers are not complying with their obligations the better the authority can develop appropriate and proportionate responses. The more that is known about the factors (business, industry, sociological, economic and psychological) that influence the behaviour of a taxpayer or group of taxpayers, the more accurately a revenue authority can apply appropriate

> "Case selection for audit is about the effective and efficient use of the total resources the revenue authority has determined will be applied to audit or enforcement activity"

resources to that taxpayer or group of taxpayers to influence their compliance behaviour.

Unfortunately, Federal Board of Revenue (FBR) has never bothered to study the models of various countries where the above state approach has been adopted. Thus, it has failed to devise executable tax audit model, efficient operational apparatus, pragmatic educational and enforcement policies, a tax intelligence system and operational framework capable of promoting voluntary compliance and optimizing revenue collection. Resultantly, the number of income tax return filers in Pakistan is not only pathetically low but have steadily declined during the last many years.

The FBR needs to understand that compliance strategy recognizes the benefits of economies of scale. The more taxpayers who are in the "willing to do the right thing" category, the less resources proportionately are needed to ensure their continuing voluntary compliance. Thus resource can be deployed at the top of the triangle where there is greater revenue risk and a more expensive one-on-one approach is required to drive voluntary compliance.

Whether there are 200, 2,000 or 2 million taxpayers in a country, the aim of case selection remains the same, i.e. to narrow down the possible non-compliers across the entire population that could be audited into a sample of the population most likely to exhibit the highest risk to voluntary compliance. This requires some sort of systematic filtering and prioritizing exercise. Using a systematic selection process provides transparency of process and shows selection of cases for audit is based on quantifiable evidence and not on an adhoc or prejudicial basis.

A systematic selection process also enables risks to be better understood thereby allowing more appropriate responses to be tailored to the risk presented. Where risks span fiscal years early identification allows planning opportunities around risk responses and staff development beyond the current financial year. Further, if risks are identified and quantified but current resources do not allow those risks to be addressed approaches can be made to stakeholders and donor agencies supported by this same information.

During the last many years, FBR has miserably failed to broaden the tax base, counter tax evasion and avoidance, increase the number of return-filers, use modern tax audit tools and tap the real tax potential. The failure of FBR is on two counts; firstly it has failed to collect taxes from where these are actually due thus paving the way for enormous black economy and secondly could not persuade the people for voluntary tax compliance. This has created a malevolent social malady i.e. social injustice where the rich and mighty are enjoying life whereas the overwhelming majority is being pushed below poverty line.

An effective tax audit system is essential to maximize voluntary tax compliance. All the developed tax administrations possess sophisticated tax intelligence systems in place enabling them to enforce voluntary tax compliance. Duplicating a similar system for developing administrations is not optimum due to the lack of basic systems and skilled staff. Countries like Pakistan need a model that combines the best of a developed administration's practices with the flexibility that allows it to be used regardless of the size of an administration and skill of staff.

In Pakistan, the tax reform process remains unrealized dream. In 2004, the World Bank and other international donors provided funding of over US$ 100 million for various reforms plans. Five-year Tax Administration Reforms Programme (TARP), however, proved to be a great failure despite its extension for one more years (till 31-12-2011). On the completion of TARP, the World Bank admitted that none of the targets set was completed.

The voluntary tax compliance has been at the core of reform agenda under TARP. But it was disliked by the tax officials from the very beginning. They wanted to retain existing discretionary powers for self-aggrandizement. They were not ready to accept the idea of voluntary compliance backed by strong deterrence audit and tax intelligence system. Therefore, instead of creating an effective tax intelligence system to enforce voluntary tax regime, they resorted to discretionary audits and frequent amendments. They tried to unsettle the declared versions of taxpayers without having any definite information. They amended the assessments on surmises and conjectures or by indulging in fishing inquiries. They lost a large number of cases in courts as taxpayers successfully challenged abuse of powers under sections 177, 122(5) and 122(5A) of the Income Tax Ordinance, 2001.

Global comparison of tax audit provisions, procedures and practices with those adopted in Pakistan shows that FBR has never bothered to provide a transparent selection process based on any intelligible differentia to provide benchmarks that are intrinsically linked with risk areas. From tax year 2003 onwards, FBR selected cases under section 177 (this section was amended numerously and substantially since its inception) of the Income Tax Ordinance, 2001 without any regard to law and established international principles relating to tax audit. FBR also tried to outsource the tax audit work to chartered accountant firms but the experiment failed miserably.

It is important to highlight that in USA, UK, Euro zone, Scandinavia, Japan, Singapore and many other developed tax administrations, the main emphasis is on selecting cases for audit on the following two bases:

1. Benchmarks are provided for each year on websites before the filing of returns. Any case falling in any of the benchmarks is automatically selected for audit. There is neither any discretion nor any discrimination involved in the audit selection process. It makes the selection process universally acceptable and transparent.
2. Special audit is done in cases where any definite information is generated by computerized tax intelligence system or obtained through an independent source.

In Pakistan, FBR did not provide any transparent method for selection of cases for audit. It created distrust and taxpayers

> "The FBR needs to adopt a rational audit strategy representing a new direction for its compliance effort. The FBR must conduct research and planning to work out a new approach that could focus on high-risk areas of non-compliance"

contested audit selection in High Courts invoking Article 199 of the Constitution of Pakistan. In these writ petitions, the vires of law as well as administrative arbitrariness were successfully challenged.

In its recent decision in Nestle Pakistan Limited etc. v Federal Board of Revenue [(2017) 115 TAX 84 (H.C. Lah.)], Lahore High Court held that **"FBR shall rectify the defects pointed out, hereinbefore, in the impugned Audit Policy 2015 and in the policies to be issued in future. Following directions shall be read and incorporated in the rules or policies:**

- o A taxpayer selected and audited in preceding tax year/ period shall not be selected and audited without giving reasons for such selection. FBR shall enhance its capacity to audit a selected taxpayer for last five years to give respite from consecutive selections.
- o Audit, being administrative proceedings, shall complete on issuance of Audit Report. If audit is not completed within the given time frame, the selection shall be deemed to have been dropped. After issuance of Audit Report; adjudication proceedings shall be carried out by some other taxation officer to satisfy command of the Constitution under Article 10A.
- o After selection for audit, any demand for increase in payable tax to drop audit proceedings is not only against the scope and spirit of audit but is in violation of the provisions relating to audit under the Federal Taxing Statutes as well.
- o The audit shall be conducted in accordance with "Income Tax Manual Part V" and "Sales Tax Audit Hand Book" and such procedure for conduct of audit shall be incorporated in the Rules for Selection and Conduct of Audit.
- o Remedy against any grievance, regarding selection or conduct of audit, under Section 7 of FBR Act, 2007 shall, henceforth, be read as part of every Audit Policy and its procedure is directed to be incorporated in the Rules for Selection and Conduct of Audit.
- o The decision, directions and observations made in this judgment shall be followed while implementing the impugned Audit Policy 2015 and future audit policies".

FBR besides providing a transparent audit policy as apparent from above judgment of Lahore High Court is also miserably failed to prioritize its audit resources to focus on key areas of tax non-compliance, tax fraud, high-risk, high income taxpayers and unreported income. On the contrary its audit selection criteria aimed at harassing the existing taxpayers without having any tenable evidence of tax fraud, underreporting or non-compliance against them. Their only fault is that they have claimed refunds, which FBR does not like to pay as it has negative impact on its so-called "record" revenue collection.

The purpose behind any tax audit is always to check potential cases of non-compliance or tax fraud rather than threatening the existing taxpayers or to penalize the persons claiming refunds. The FBR has yet not come out of conventional methodology of ignoring or protecting the tax evaders and punishing those who file returns though may not be reporting their correct incomes. The priority should have been to first nab the non-filers and then go after those who underreport their incomes. Audit, if not backed by a reliable 'Tax Information Integrated System', will never be effective.

The FBR needs to adopt a rational audit strategy representing a new direction for its compliance effort. The FBR must conduct research and planning to work out a new approach that could focus on high-risk areas of non-compliance. The audit policy of apex revenue authority must aim at new and enhanced efforts on several priority areas, including:

- o High-risk, high-income taxpayers.
- o Abusive schemes and promoter investigations.
- o High-income non-filers.
- o Unreported income.
- o The National Tax Research Programme.

Increased resources for audits also known as examinations should be devoted to these areas, which should be declared as a year of transition and training as new audit cases to be selected from returns accepted under section 120 of Income Tax Ordinance, 2001. The Regional Tax Offices (RTOs) and Large Taxpayers Units (LTUs) must be equipped to handle the new audit assignments in these key areas affecting individuals and businesses. Compliance and widening of tax base efforts should also be reconsidered with starting a national tax research programme at the Directorate General of Research & Training.

The FBR can learn a lot from recent initiative on the part of Internal Revenue Service (IRS) of United States in this direction that reflects part of a broader, agency-wide plan. This strategy places a top priority on pursuing promoters of abusive schemes, shelters and trusts and then identifying participants in these efforts to evade taxes. To address these problems, the IRS has revamped its compliance programs to refocus on problem areas. The IRS is using a full scope of tools and techniques ranging from summons enforcement, injunctions and criminal investigation of promoters to civil audits of participants.

The new audit strategy must reflect the new way of doing business at the FBR as well, but till today it is completely missing. Several of these efforts such as the National Research Programme and the credit card initiative need to reflect innovative approaches to tackle long-standing tax problems. And the FBR's reorganization must allow key parts of the organization to work together in ways they didn't previously. For example, the new audit initiative must include similar emphasis for the FBR's collection area. And new levels of cooperation and coordination should be underway on initiatives that involve both civil actions and criminal investigation.

For the five new areas mentioned above, the FBR may direct more examination resources to address these issues. However, the FBR may maintain a presence in other audit areas to maintain core tax administration responsibilities. Additional exam resources can help meet this requirement.

Key areas for the new initiative must include:

High-Risk, High-Income Taxpayers

High-income returns are often more complex and, generally, upper income taxpayers have resources to engage in pass-through entities such as partnerships, trusts and corporations. Even utilising FBR's various matching programmes, income and deductions from such activities are more difficult to verify.

FBR needs to match returns from pass-through entities, the technique does not provide any verification of income reported by the entity itself. Verifying the income on these returns requires an examination. The FBR must start utilising a combination of filters to identify high-risk, high-income returns. The returns selected for desk examination should be those most likely to have unreported income or structured transactions. The idea to examine all of them will be sheer wastage of resources. A structured transaction is one with limited economic benefit and whose primary purpose is to reduce or eliminate a tax liability. Structured transactions are generally done through one or more pass-through returns. The pass-through returns create paper losses that flow back to individual income tax returns offsetting income from other sources. FBR has not even bothered to conduct audit on these lines.

Abusive Schemes and Promoter Investigations

FBR must accelerate efforts to combat abusive schemes and scams on the rise that includes:

- **Schemes,** reducing a person's tax liability by claiming inflated expenses, false deductions, unallowable credits or excessive exemptions.
- **Frivolous return arguments,** telling taxpayers that compliance is voluntary or the Constitution does not provide for tax collection.
- **Abusive shelters and trusts,** investments established for the purpose of hiding income from taxation.
- **Employment tax schemes,** employee leasing, paying in cash and filing false payroll tax returns.

Abusive Scheme Groups are being established in each Area and the use of Fraud Specialists must increase. To identify and address promoter activity, a Promoter Lead Development Center needs to be created. The Center must systematically monitor the Internet to identify promoters of abusive activities and develops cases for injunctive investigations.

High-Income Non-Filers

The FBR's efforts to address non-filers must focus on the most egregious and high-risk segments of the population. The non-filer strategy should be pursued on many fronts:

- Re-engineered processes and work streams to improve efficiency and productivity.
- Identification and expedited assignment of the most egregious non-filers.
- Expanded and centralized automated enforcement.
- Outreach and education efforts.

Unreported Income

Unreported income represents the largest component of the tax gap. FBR must develop a new tool for identifying returns with a high probability of unreported income. The new tool can be known as Unreported Income Discriminant Index Formula (UI DIF). Its details can be seen at the website of Inland Revenue Service (IRS) of USA.

All individual returns in USA have traditionally been assigned a DIF score rating the probability of inaccurate information on the return. The new UI DIF score rates the probability of income being omitted from the return. The IRS has customarily used indirect examination methods to identify unreported income but until now has had no systemic method for selecting the returns at highest risk for unreported income. The same method can be used in Pakistan.

UI DIF will give the FBR the ability to systemically identify returns at high risk for unreported income and beginning this fall all returns will receive a UI DIF score in addition to the traditional DIF score.

National Research Programme

National Research Programme (NRP) examinations measures reporting compliance and identify compliance issues. NRP has enabled the IRS to improve the examination selection process. NRP is very different from its predecessor, the Taxpayer Compliance Measurement Program (TCMP) used by IRS earlier. NRP no longer relies heavily on time-intensive, "line-by-line" audits for establishing a baseline measure of reporting compliance. The FBR must learn from IRS experience in this regards.

The FBR has never conducted research on the distribution of errors on returns. Without the information that needs to be gathered through NRP, the FBR will have no ability to direct examinations and other compliance activities with accuracy and precision. With updated information, the NRP effort will prevent thousands of "no change" audits each year. The FBR has never thought of such techniques that are prevalent in other parts of the world.

The NRP process should have four main categories:

- **No FBR contact.** About 8,000 returns may be checked relying solely on information already available.
- **Correspondence.** These may be less intrusive correspondence exchanges with taxpayers rather than the old standard of sit-down audits. About 9,000 returns can be included in this process.
- **Less intrusive audits.** Instead of the old "line-by-line" examination approach, the FBR may gather more information beforehand and focus only on selected parts of approximately 20,000 returns.

Senator Saleem Mandviwalla in a statement **[Mandviwalla terms FBR's audit policy disaster for tax system,** *Business Recorder,* January 7, 2017] said that FBR had failed "to squeeze the neck of 0.7 million high net wealth individuals, despite having their complete records". While lambasting the audit policy of FBR, he said that it was unfortunate that out of 0.9 million taxpayers, only 0.1 million would be on FBR's radar through its audit exercise.

Scope and purpose of Audit

Under the Audit Policy 2016, for Tax year 2015, 93, 277 cases have been selected for audit in respect of six categories, namely, Income tax (Corporate) 2,173, Income Tax (Non-Corporate) 82,090, Sales Tax (Corporate) 987, Sales Tax (Non-Corporate) 7,976, Federal Excise Duty (Corporate) 30.

The Lahore High Court in its judgement dated 09.01.2017 in the case of **Nestle Pakistan Limited etc. Versus Federal Board of Revenue** [[(2017) 115 TAX 84 (H.C. Lah.)] for Audit Policy 2015 has held that "State has a right to audit; corresponding to taxpayer's duty to make correct declarations and comply with the statutory commands under three Federal Taxing Statutes. Selection for and conduct of audit is not ex facie detrimental to the interest of taxpayer, however to exercise such powers; the discretion needs to be structured by framing rules and issuance of policies for ensuring consistency and certainty of procedures; transparency and fairness".

Mr. Saleem Mandviwalla termed FBR's audit policy "a disaster for tax system of the country". This audit policy, he said, would prove a tool to harass honest taxpayers of the country, which would encourage more taxpayers to escape from the tax net. He alleged that FBR was busy in threatening and harassing taxpayers as they were raiding their offices and issuing notices to them almost every day. He further said: **"FBR has completely failed to increase the tax net of the country and through this inaction they are restraining unregistered persons to get enrolled in tax net. FBR has done nothing on the data of 0.7 million high net wealth individuals attained from NADRA in the tenure of PPP-led government rather it has put the said classified information in the dustbin"**.

Mr. Saleem Mandviwalla said that due to inefficiency of FBR, the rich and mighty "are enjoying every facility in the country, they are living in luxury villas, travelling abroad every month, their children are studying abroad and they have a bank balance of billions". He urged the FBR to revisit its audit policy in order to provide maximum relief to the registered persons, who were being neglected since long.

This year despite spending huge money on media campaign "threatening non-filers" instead of "public awareness campaigns" and extending the deadline for filing income tax returns up to December 15, 2016, the FBR received about 850,000 returns, half the number of returns it received in 2008. The latest figure is also below 1.25 million whereas ten year back total returns filed were 2.5 million. In a decade, there is decrease of 100% in filers of returns. One wonders if our policymakers have ever studied the approach of Inland Revenue, UK that involves community participation. The following methodology and brief review of their voluntary compliance programme can be an eye-opener for FBR high-ups:

Voluntary Compliance

A developing and important aspect of our relationship with the businesses for which we are responsible is the support we can provide to help them to comply with their responsibility to submit accurate returns. Where businesses or partners experience compliance problems, for instance the need for repeated, and maybe extensive, enquiries and amendments to their tax computations, we want to work with them to correct the problems. This sort of co-operative work can be extremely beneficial to businesses, partners and the Inland Revenue alike by limiting the number of enquiries raised, reducing the risk of unexpected and possibly significant extra tax liability and ensuring that attention is properly focussed on the most complex and significant issues. By working with groups in this way we aim to foster a more positive working relationship and reduce the areas of disagreement between business and the Inland Revenue. We wish to encourage businesses and partners to raise and discuss with us any area where they wish to develop their compliance performance. We aim for our part to let businesses know when we see compliance problems we think can be solved by working together.

Our Compliance Review Process

We build on the success of our pilot programme that promotes real-time working and is based on establishing open and co-operative working methods between groups and Large Business Office [LBO] case teams by agreeing timetables and protocols with over 50 more groups. We now work with around 75 groups in this way. We aim to continue to put in place this type of approach with appropriate groups as it is clear there are real benefits to both parties. If you would like to explore whether this approach is right for your business contact your case team who will be able to provide more details. In addition LBO case teams will be looking at how groups approach the various aspects of tax compliance and discussing their conclusions with the groups to see if it is possible to agree areas for improvement, by either the group, or the case team as appropriate. This may in some cases lead to working arrangements on a more real-time basis along the lines discussed above, but may also be the catalyst for both sides tackling a specific area of difficulty or dispute that has not been resolved by the normal exchanges.

While business community and tax bars have rejected FBR's Audit Policy for 2016, there are serious apprehensions about competence and capacity of tax officials to conduct scrutiny of 93,277 cases selected through parametric computer balloting on January 6, 2017. It is reported that these "audit cases will be handled by an officer cadre in the grade of 17 and 18, in addition to dealing with those pending of the previous years, according to officials in the FBR. At present, there are only 755 sanctioned posts in the grades 17 and 18 and out of them 651 are filled".

According to FBR, "The 'Audit Policy' 2016, has proposed a paradigm shift from the past. Its focus has been realigned from random to parametric selection and from general to risk based approach. This approach will minimize chances of selection of compliant tax payers resulting in increased confidence in the system. This new trend in taxpayers' audit will not only promote compliance with the existing tax laws but will also generate increased revenues through better declarations for better public spending by the Government. The right audit approach will help FBR in broadening the tax base and in focusing on high risk areas. This can be assured though equitable tax policies where a taxpayer knows that good citizens are appreciated".

Record of FBR speaks poor performance in the last fiscal year as officers could not increase collection through audit or creating demand otherwise. Collection on demand in 2015-16 was just Rs. 87.9 billion, which was Rs. 27.6 billion less than the immediately preceding year.

According to a report, "It is not surprising that an overwhelming number of tax audits are conducted in haste and are perfunctory," noted the Tax Reforms Commission (TRC). It said that there was a serious lack of capacity to perform any type of meaningful tax audit both at the Head Quarters and at field formations. The TRC has recommended that a specialised but an independent unit should be created to conduct the audit. The government did not implement this recommendation".

FBR has miserably failed to introduce any tax intelligent computerized system, despite the fact that it has a market-wage oriented company, Pakistan Revenue Automation Limited (PRAL), at its disposal, to monitor the economic activities of corporate/business sectors. Meaningful audit policy cannot be enforced without establishing automated **Tax Intelligence System**. The widest possible taxpayer base has to be identified for any tax to be equitably spread across the whole taxpayer population. Even a small tax at a lower rate spread over a wide taxpayer base will invariably yield more revenue than a higher tax on a narrow base. How can Pakistan succeed in raising the number of return filers and encouraging voluntary compliance when it has no information/intelligence system/unit to maintain the taxpayer roll?

Tax Intelligence System is the area that should be given the first priority in improving tax compliance and efficacy of audit. As far back as 1958, Professor Stanley S. Surrey of the Harvard Law School pointed out the advantages of building up a comprehensive taxpayer roll:

The beginning of tax administration lies in seeing that the taxpayers are on the tax rolls. Unless the tax authorities know who are the individuals or units subject to the tax, the whole machinery of administration must necessarily function with incomplete coverage of the taxable area… The important tasks are to select among the various sources only those which promise to be productive of names likely to be taxpayers under the tax in question (thus in some places telephone books may be very useful, while elsewhere these lists may contain only more non-taxpayers than taxpayers); to gather only so much information as can be efficiently processed; and to devise an efficient system for correlating the selected information in a continuously current form usable for enforcement purposes.

A concept of expenditure-income ("exincome") flows should be developed to create a system that can collect and process information needed by field formations rather than work with what they passively receive. The concept of flows of income, capital, goods, services, etc. within an economy is common in economic theory. It is the basis of the value added tax system, whereas in Pakistan we are implementing it without the support of reliable Tax Intelligence System. Goods and services are monitored as they flow from one person to another and one person's expenditure becomes another's income. This concept is at the core of building Tax Intelligence System.

For intelligence purposes whether the expenditure or income (exincome) of a revenue or capital nature is not significant. What is important is the ability to trace one person's income from another's expenditure or vice versa by identifying both sides of a financial transaction. These flows could be recorded by monitoring streams of activity like that which cascades from governmental capital expenditure down to private contractors, subcontractors, employees, wholesalers, importers and finally out of the country to foreign suppliers. Once the main flows of exincome in the economy are identified it is possible to select points at which the information relating to persons and their transactions in that flow could be gathered.

In Pakistan the major flows are relatively easy to map, as its main source of economic activity is "imports". The flow of "imports" can be monitored through the computerization of all points of customs where "imports" are handled. Once the exincome stream reaches the contractors, it is a little more difficult to trace. It spreads out through many channels in a wide delta of economic activity. Tax Intelligence system should be able to track some sections of this flow by examining the records of government departments and other large institutions, for which statutory amendments are required in various laws, especially the Banking Laws protecting even criminal financial transactions.

From the Department of Customs, it is possible to monitor the imports of goods that enter the country and travel up this delta to wholesalers and retailers that service the large pool of householders and others that are active in the economy. Intangible imports such as management or professional services by offshore companies can also be traced independently through bank records wherever necessary.

Income flowing into the hands of employees can be recorded through the Tax Withholding System. Other centres of information like that of the Registrar of Motor Vehicles, the Registrar of Deeds, and various agricultural authorities and revenue etc. boards set up by government, can provide information to track rental, transport or agricultural exincome that are not part of the major flows. Information in respect of offshore transactions and suppliers could be accessed using double tax agreements where possible and appropriate.

One important feature of the Tax Intelligence System should be its recognition of exincome flows. Under the existing system, each piece of information received is followed up without checking whether the data is significant. This is a reactive approach that leads to an enormous amount of unsolicited, uncontrollable and unmanageable work. Once the main sources of exincome are identified the scarce resources of FBR can be deployed fruitfully in areas that have the greatest chance of producing positive results. Voluntary compliance can only be ensured through ways and means discussed above. The reliability of tax machinery, stability of tax laws, low cost of compliance, timely dispensation of justice and respect of taxpayers' rights are prerequisites of this process.

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The Editorial Board thanks Dr. Ikramul Haq for share the writeup excluding for Management Accountant Journal. - Editor

Cost Audit

under Companies Act, 2017

Wasful Hassan Siddiqi, FCMA

Prelude

The Companies Act, 2017, after much fanfare, has now been enforced in Pakistan. The finance minister acknowledged and appreciated the good efforts of Securities and Exchange Commission of Pakistan (SECP) and its entire team of senior bureaucrats for bringing out such a valuable enactment which is a catalyst for progress and growth in trade, commerce and industry more particularly under corporate sector. The Companies Ordinance, 1984 has now been repealed and replaced by Companies Act, 2017.

It was claimed that the new law will reduce the cost of doing business and will be highly instrumental in profit maximization of the companies engaged in production, manufacturing, processing and mining. However the authors of Companies Act, 2017 lost sight of the effective use of cost audit by ignoring to give it proper importance in the new enactment.

Under the repealed Companies Ordinance, 1984, the role of cost audit was not only fully recognized but given due importance because cost audit is a good tool to identify areas of cost inefficiency including invisible losses which do exist but are not reflected in the books of account, hence such losses escape the attention of statutory financial auditors as well as management of the company.

Although the Companies Act, 2017, contains the provision of cost audit under its sub section 1 of section 250, but it is maligned and made difficult by the insertion of sub section 2 of section 250 of the same Act. It manifests that the role of cost audit is recognized and admitted by sub section 250(1) in the company law by one hand and by insertion of section 250(2) of the same Act it is simultaneously taken away by the other hand.

It may be noted that cost audit under section 250(2) of Companies Act, 2017 is no more mandatory unless directed by the commission subject to the recommendation of the regulatory authority supervising the business of relevant sector or any entity of the sector. There is also an element of ambiguity in the company law as the word "regulatory authority" is not defined as to who is the regulatory authority of the particular economic sector and when, why and for what terms of reference (TOR) will it recommend the SECP for cost audit.

After the commencement of Companies Act, 2017, the ongoing cost audit assignments of the existing companies have come to halt and terminated. The cost audit is now the first casualty of Companies Act, 2017.

In view of the declining exports, adverse current account position and rising cost of doing business and more particularly the economic effects of CPEC, the importance of cost audit can not be denied. The cost audit should be made fully applicable to each and every industry so that invisible losses, unusual wastages and industrial losses are adequately avoided.

In case of the neighboring country India, cost audit has been made mandatory for forty three (43) different types of industries and the scope to cover other industries is vast as these industries generally cater to essential commodities which are required by the public at large and play an important role in the economic development of that country.

We may now examine the role of cost audit as a means of cost control / cost reduction and its usefulness to every one and harm to none which is the core objective of the Companies Act, 2017.

> Cost Audit in fact is the Cost & Benefit Analysis or more appropriately Cost Performance Review of the companies engaged in manufacturing, processing and mining. Cost audit helps the management of the company to identify grey areas of cost inefficiency including invisible losses inherent in the industrial units. Cost audit gives advance signals for cost control to avoid industrial sickness

Cost Audit - Meaning, Objectives and Advantages

In an environment of increasing foreign trade competition, the Cost Audit Reports have assumed greater importance and significance being the important source of reliable and authentic feedback to the government and its various departments and agencies. The Cost Audit Reports do not only contain merely the cost details, but are full of information related to all aspects of business organization which, if harnessed properly can provide a comprehensive analysis about the company, the industry and the economy as a whole. The Cost Audit Report serves as an effective tool of information in the hands of directors on the Board ensuring good corporate governance.

Cost Audit in fact is the Cost & Benefit Analysis or more appropriately Cost Performance Review of the companies engaged in manufacturing, processing and mining. Cost audit helps the management of the company to identify grey areas of cost inefficiency including invisible losses inherent in the industrial units. Cost audit gives advance signals for cost control to avoid industrial sickness.

Cost Audit versus Financial Audit

Cost audit begins from where financial audit ends:

In financial terms:

2 + 2 = 4

In contrast to the above said financial equation, cost audit means that it should be either 5, 4 or 3.

Because

In case of 5, benefit of 1 is the reward of input cost and efforts made by the entrepreneur.

OR

In case of 3, loss of 1 is the cost of inefficiency in cost control, whereas in case the equation is 4, money is saved but efforts are lost.

The duty of the cost auditor is to analyze the reasons and probe the areas of cost performance in either case.

The financial auditor will be satisfied if 2 + 2 equate 4 (i.e. debits and credits are equal); but cost auditor will not be satisfied unless the equation ends up at 5; and even if it is 5 he will try to find out why it was not 6.

Financial audit rests on historical data whereas cost audit peeps into the future to assess opportunities and benefits to be availed by proper planning. By all means cost audit is forward looking which helps the management to evaluate the future opportunities for availing cost benefits.

Invisible / Hidden Losses

It is pertinent to point out that most of the invisible losses of financial implications are not reflected in the books of account or in the financial statements as such these losses escape the attention of the auditor in financial audit. Example of such losses are as follows:

i) Loss arising from non utilization of full plant capacity.

ii) Loss arising from over capitalization with borrowed funds resulting in high markup cost.

iii) Loss arising from liquidity problem due to:

  a) Blocking of funds in slow moving and debt inventories, trade debts and other held up assets.

  b) Slow recovery of receivables.

  c) Poor management of funds

  d) Uneconomical procurement planning.

iv) Loss arising from lack of budgetary controls and absence of costing procedures of products or services and variance analysis thereof.

v) Loss arising from unfavourable input/output ratios.

vi) Loss arising from unfavourable ratios of utility consumption of gas, electricity and power etc.

vii) Loss arising from low yield of inputs.

viii) Loss arising from hidden losses such as evaporation of gas, inefficiency of boilers, loss of steam and power.

ix) Loss arising from loss of output due to plant bottlenecks.

x) Loss arising from non existence of R & D and non switch over to alternate process/technology.

xi) Loss arising from inefficient use of human resources.

Cost accounting techniques when applied in audit, the invisible / hidden losses are identified and reported to the management for remedial action.

Cost audit is a process for verifying the cost of manufacture or production of any product or services on the basis of accounts as regards utilisation of material or labour or other items of costs, maintained by the company. In simple words the term cost audit means a systematic and accurate verification of the cost accounts and records and checking of adherence to the objectives of the cost accounting. It is clear that cost audit is a systematic examination of cost accounts to verify correctness of cost accounting records.

Objectives of Cost Audit

The following are some of the objectives for which cost audit is under taken:

1. To establish the accuracy of costing data. This is done by verifying the arithmetical accuracy of cost accounting entries in the books of accounts.
2. To ensure that cost accounting principles are governed by the management objectives and these are strictly adhered in preparing cost accounts.
3. To ensure that cost accounts are correct and also to detect errors, frauds and wrong practice in the existing system.
4. To check up the general working of the costing department of the organization and to make suggestions for improvement.
5. To help the management in taking correct decisions on certain important matters i.e. to determine the actual cost of production when the goods are ready.
6. To reduce the amount of detailed checking by the external auditor if effective internal cost audit system is in operation.

Advantages of Cost Audit to the Management

1. Cost audit provides reliable cost data for managerial decisions.
2. Cost audit helps management to regulate production.
3. Cost audit acts as an effective managerial tool for the detection of errors, frauds and irregularities so that reliable and smooth functioning of the system is continued.
4. Cost audit reduces the cost of production through plugging loopholes relating to wastage of material, labor and overheads.
5. Cost audit can fix the responsibility of an individual wherever irregularities or wastage are found.
6. Cost audit improves efficiency of the organization as a whole and costing system in particular by constant review, revision and checking or routine procedures and methods.
7. Cost audit helps in comparing actual results with budgeted results and points out the areas where management action is more needed.
8. Cost audit also enables comparison among different units of the factory in order to find out the profitability of the different units.
9. Cost audit exercises moral influence on employees which keeps them efficient and alert.
10. Cost audit ensures that the cost accounts have been maintained in accordance with the principles of costing employed in the industry concerned.

Advantages of Cost Audit to the Government

1. Cost audit assists the 'Tariff Board' in deciding whether tariff protection should be extended to a particular industry or not.
2. Cost audit helps to ascertain whether any particular industry should be given any subsidy in order to develop that industry.
3. Cost audit provides reliable data to the government for fixing up the setting prices of the various commodities.
4. Cost audit helps the government to take necessary measures to improve the efficiency of sick industrial units.
5. Cost audit can reveal the fraudulent intentions of the management.
6. Cost statements may be helpful to authorities in imposing tax or duty at the cost of finished products.
7. Cost audit facilitates settlement of trade disputes of the companies.

Advantages of Cost Audit to the Society

1. Cost audit tells the true cost of production. From this the consumer may know whether the market price of the article is fair or not. The consumer is saved from the exploitation.
2. Cost audit improves the efficiency of industrial units and thereby assists in economic progress of the nation.
3. Since price increase by the industry is not allowed without justification as to increase in cost of production, consumers can maintain their standard of living.

Advantages of Cost Audit to the Shareholders

1. Cost audit ensures that proper records are maintained as to purchases, utilization of materials and expenses incurred on various items i.e wages and overheads etc. It also makes sure that the industrial unit has been working efficiently and economically.
2. The cost audit enables shareholders to determine whether or not they are getting a fair return on their investments. It reflects managerial efficiency or inefficiency.
3. Cost audit ensures a true picture of company's state of affairs. It reveals whether the resources like plant and machinery are being properly utilized or not.

Conclusion

Avoidance of cost audit as a regular feature in the industry is against the spirit and core objectives of the Companies Act, 2017. Accounting fraternity all over Pakistan wonder as to how the cost control will be exercised in the absence of cost audit in the industry.

In view of the usefulness and effective role played by it in cost control, it is hoped that SECP may like to review the text of controversial legal provision of sub section 2 of section 250 of Companies Act, 2017 and make necessary amendments by deleting it from the company law so as to make cost audit compulsory in each and every industry without involving the so called 'regulatory authority' if any.

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Business Entrepreneurship

Mazhar Mahmood, FCMA

Entrepreneurship means willingness to organize and manage land, labour & capital for creating a business venture that enjoy the profits or to unlikely bear the risk of losses whenever they occur. Entrepreneurship is not limited to this definition but it goes beyond from conceiving a new idea, developing a new product, identifying new method, inventing new technology or searching a new market etc.

ICMA Pakistan has given the limited scope to ink an article that flare up the desire in members or readers to be encouraged for start-up of small scale business. Since failure of the start-up business in Pakistan is very high i.e, about 90%, which acts as repellent for new entry in business. Human being is basically risk averse and prefers less risky venture, that's why they prefer job over the entrepreneurship. Let us unearth the following questions to energise the potential readers to become entrepreneurs.

- o What are the Motivators / Drivers inducing to become an entrepreneur?
- o Whether entrepreneurship depends on NATURAL or LEARNED TRAITS?
- o What are the characteristics of successful entrepreneur?
- o What are precautionary measures to start-up business?
- o What is Entrepreneurial Environment in Pakistan?
- o What is successful entrepreneurial model in Pakistan?
- o Suggested Model to promote qualified person to become an entrepreneur.

To identify the Motivators / Drivers inducing to become an entrepreneur?

There are some major drivers or motivators, though not limited to the below mentioned list, that are causative to induce a person to become an entrepreneur;

Experience: A large number of people undertake entrepreneurship on the bases of past experience in past employment. Past experience is a major impel that induces 60% entrepreneurs for start-up as survey conduct by FORBES - a global business media company keeping eyes on business and investment. Look at the below mentioned examples that how a willing common man starts business on the basses of past experience

While searching for experienced based successful entrepreneurs in Pakistan, I came across the Indian survey about 955 such entrepreneurs who started the business on the bases of experience. This survey is also best fit for Pakistan as there is a narrow spread of corporate culture in between two countries. These successful entrepreneurs have different average experience from different industry. The range of learning curve highly depends upon the two variables such as the innate complexity of business and talent of learner. Average experience, shown in schedules / graphs, is depicted as

Past Profession	Excellent incentives to start
A retired teacher / Lecturer/ Professor	Education Academy/ School/ College/ Tuition centre etc.
Accounts / Finance related person	Consultancy Firm - Accounts, Finance, tax & Audit etc.
A doctor from house job.	Hospital / clinic.
A retired Army man	Security company.
Sales / Marketing	Distribution or marketing business.
A procurement Manager	Participating in public/private organization tenders.

Successful Founder		
Founded Year	**Founder Count**	**Work Experience (Yrs)**
2005	12	11.4
2006	51	10.8
2007	59	8.4
2008	60	9.7
2009	62	11.2
2010	92	10.6
2011	114	11.4
2012	115	9.5
2013	135	9.7
2014	138	8.5
2015	99	11.2
2016	18	12.9
Total	**955**	**10.44**

Sector Wise Successful Founder		
Sector	**Founder Count**	**Work Ave Experience (Yrs)**
Legal Tech	5	17.4
Health Care	41	13.4
Fintech	109	11.9
Software	147	11.8
Ad Tech	46	11.3
Logistics	59	10.7
AI & Big Data	29	10.5
IOT	9	10.2
e-Commerce	188	10.1
Ed Tech	46	9.9
HR Tech	28	9.5
Gaming	13	9.2
Content	34	8.6
Others	32	7.8
Real Estate	30	7.4
Services	42	7.3
Auto Tech	15	6.8
Travel & Transport	65	6.4
Food Tech	17	5.6
Total	**955**	**9.78**

year wise and sector wise to set standards for new entrant as a guideline.

Young & Ernest also conducted a survey in America on 685 successful entrepreneurs and found that 58% remained employees' in different organizations.

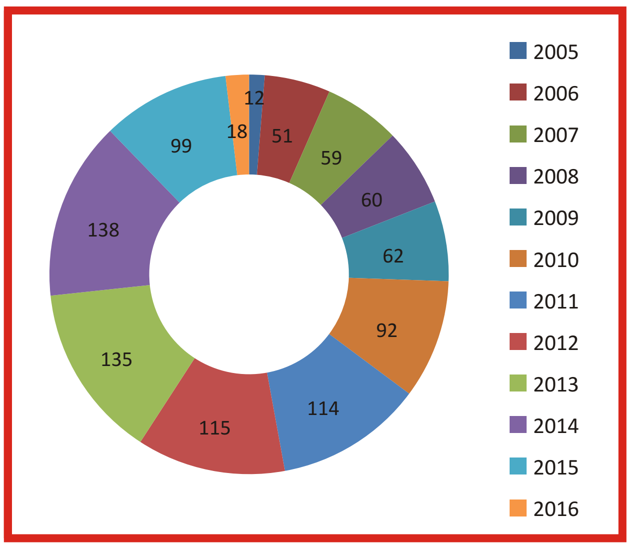
Innovation: This is a second largest source of incentives to become an entrepreneur. Innovations can be classified into three broad categories;

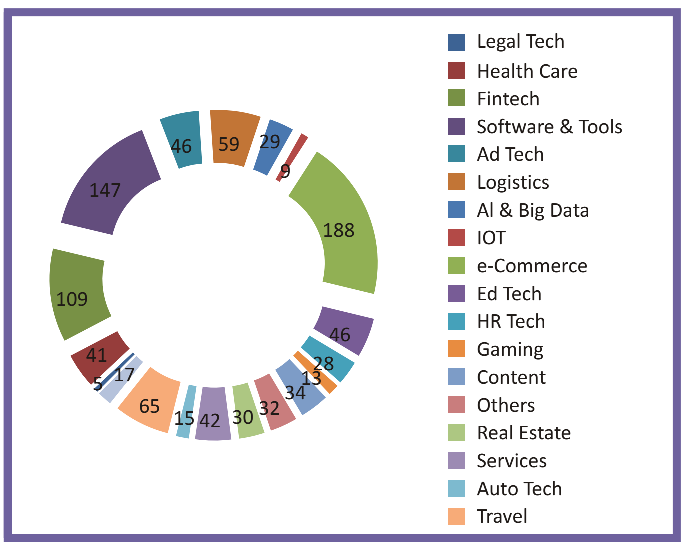
- o **Incremental:** Small scale improvement in existing machine, process or service to make it sustainable. Product remains the same in incremental innovation. For example, Intel computer Processor 286, 386, 486, Pentium, I- series and so on. Incremental innovation has little impact on firm's market and overall economic activities of both firm and country.
- o **Radical:** A significant improvement / change in technology, methods, product or service that has major impact of firm's market and overall economic activities. New product emerges but existing products remain in use. For example, aeroplane and cell phone are radical innovations but other modes of travelling & land line communication, respectively, are still in use. Both have major impacts on firms and overall economic activities of country, even at globe.
- o **Disruptive:** Such a significant change that completely eliminates the old product, service or method from the market/use. This type of innovation has great impact on firm's market and overall economy of country or globe. Computer, blub and tractor has completely eliminated type writer, oil lamp and bull ox driven plough, respectively. Disruptive innovation brings revolution both in firm's and world economic activities like cell phone, computer, Amazon, KFC, aeroplane, medicines, agriculture tools and other such radical and disruptive innovations.

Market Gap - Major Incentive in Pakistan: This is third stimulus that induces the willing businessman to think about the star-up. There is no need to invent a new product or have 10-years experience which is preferable but not mandatory. **Gaps in the existing market for existing product are sufficient incentive.** This model is more practical in Pakistan. Let us see some particle examples from Pakistan who grown their business from few thousand to multibillion by tapping the market gap.

We can conclude the following results:

(a) All entered into existing products like, catering, banking, township, education and food.





Innovation Dynamics

Globe Activities	Mild Change	Big Change	Revolution
Firm's Activities	Mild Change	Big Change	Gigantic Change
Innovation	**Incremental (II)**	**Radical (RI)**	**Disruptive (DI)**
Product Status	Change Within Product	New Product	New Product
Tyranny of new over old product	II cannot change old product	RI supersedes old product	DI eliminates the old product completely

(b) There was a big gap in demand of houses when Malik Riaz enters in township business in 80s. I do not think that there was any private school when Mrs. Kasuri established Beacon House School System in 1975.

(c) They all entered with penetration prices and later on shifted to skimming prices.

(d) All started with one or few products and increased with the passage of time.

(e) All expanded their business and also found new market. For example, Beacon expended it courses from art, science and commerce and then opened the branches outside Lahore. Similarly, Bahria town increased it products from simple Plots to banglow, safari villas, flats and Plazas etc. Then expend the township outside Rawalpindi.

(f) All These businesses unconsciously followed footsteps of Ansoff's Matrix for business Growth.

(g) Natural entrepreneurial spirit in all entrepreneurs was dormant that was activated through learned traits including education, experience, hard work, consistency in hard work, creativity, especially, from observation and literature study.

Whether entrepreneurship depends on NATURAL or LEARNED TRAITS?

Most of the people do not realize their potential due to lack of knowledge about the dynamics of entrepreneurship. The potential of entrepreneur can be bifurcated into two qualities / traits whether natural or contrived / learned. **In depth study shows that all traits can be learned / changed except Talent /IQ, level which is God gifted.** Following is the list of traits which are God gifted but can also be learned otherwise;

To be good entrepreneur, all traits are to be learned, improved and prioritized except IQ. Even, talent is not a substitute of hard work. **Hard work and consistency in hard work can beat the talent**. In other words learned traits can beat natural traits.

i. If all traits possessed by birth then go ahead or learn all these traits otherwise to become a successful entrepreneur. If you are passive, illiterate, ignorant, static, superficial or pessimistic etc. then turn yourself active, educated, be informed, dynamic, profound or optimistic through learning or hard work. But your productivity will be slow without talent / IQ like Martin Cooper invented cell phone at the age of 45 and Colonel Sanders sold his first franchise of KFC at the age of 62.

a. Examples of successful innovations and innovative entrepreneurs:

Name	Invention	Background	Motivators (on job research, environment & IQ)	Year of birth & achieve ment.	Age at the time of Achievem ent.
Bill Gates	Microsoft - world's largest PC software company (MS-DOS)	Harvard Graduate - crazy to do something new in computer word during his study.	He was National Merit Scholar. Got 1590 /1600 on Scholastic Aptitude Test (SAT).	1955 - 1975	20
Mark Zukerberg	Face Book.	Harvard Graduate - from an educated family and a crazy in developing social & messaging program.	Student & researcher on computer programming and excelled in classes.	1984 - 2004	20
Martin Cooper	Cell Phone.	Electrical Engineer and heading the department working to invent Handheld Police Radio in Motorola. Expert in wireless technology.	Engineer (No tangible IQ shown in education)	1928 - 1973	45
Edison	1093 inventions including Blub, Telegraphic technology.	Born in an educated family - Started selling news paper & magazine at early age and then, later on, he joined a company as a telegrapher.	Three months schooling. He was mother taught child & started books reading and created his own library for extensive literature study.	1847 - 1864 - 1878	Telegraph repeater =17 Blub=31
Colonel Harland David Sanders	Pressure Fryer Chicken recipe - under brand Name KFC.	A law graduate - Learned cooking from his mother and, later on, invented recipe and became an entrepreneur. Done too many jobs in diverse fields.	Law through correspondence course (No land mark in education)	1890 - 1952	62
Jeff Peterson Bezos	Amazon - (Online shopping retailer).	A graduate - worked in Wall Street in Computer Section, Network for Int Trade & other IT related jobs, including restaurants.	Valedictorian (High performer in education)	1964 - 1994	30
Larry Page & Sergey Brin	Google (Search Engine)	Both were students of Ph.D computer sciences and interested in computer based research.	Larry Page was bookish and intelligent while Sergey Brin was scholarship holder of National Science Foundation.	1973 - 1998 1973 - 1998	25 25

Past Experience				Successful Business
Entrepreneur	Past Experience	Position		Existing Product
Hanif Rajpute	Avari Hotel - Karachi	In Event Management Dept.		Event Management & Catering Business
Agha Hassan Abedi	HBL	Management Position		BCCI - 7th largest bank in world ranking
Malik Riaz	MES - Rawalpindi	Civil Contractor-		Bahria Town
Haji Mohammad Naeem	Selling Rice on Hand Cart in Rawalpindi	Owner		Savor Food (Cooked Rice)
Mrs. Nasreem Kasuri	No experience	N/A		Beacon House School System
Haji Mohammad Ali	Home cooked Beryani –Very little	Owner		Student Beryani

ii. IQ does not work in isolation. It plays an important role of stimulator to other traits as electricity does not become the part of product but helps machine to make the product at earliest than manual process. For example, Bill Gates, with high level of IQ, introduced MS-DOS at the age of 20 and Larry Page/ Sergey Brin also invented GOOGLE at 20.

iii. "Hard work beats IQ / talent when talent doesn't work hard." A hard worker can achieve a target, may be, in 3-4 years what an intelligent can within a year. Had work for entrepreneur is mandatory while talent is option.

What are the characteristics of successful entrepreneur?

Here are given seven prominent, though not limited, traits / characteristics of successful entrepreneur;

i. **Quest of doing more:** They never be contended what they have achieved. They always try to materialize their quest of doing more for further innovation. Thomas Edison invented above 1000 products and never stopped his efforts for next one. Mark Zukerberg is next to inventing 4 products before Facebook.

ii. **Objective to breaking Status Quo:** Entrepreneurs foresee radical or disruptive change to break the status quo with their innovations. Such disruptive innovation would destroy all the conventional methods and turn the world beyond the imagination. For example Mark Zuckerberg brought the revolution in social connection and messaging system and completely eliminated the traditional culture of posting a letter and sharing pictures. In Pakistan, introduction of tractor has completely replaced the conventional ploughing with bull oxen.

a. **Fearlessness:** A great quality of an entrepreneur that do not let them stop due to any know or unknown fear or any business risk. Blakely, started the undergarments for women under the name of Spanx and became the youngest female billionaire in history. She knew nothing about garment manufacturing, nothing about the patent process and nothing about retail. But went ahead without any fear of any business collapse.

Muller & Phipps Pakistan (Pvt) Ltd. is a largest distribution network in this sub-continent. The sales volume was few billions in single digit just before 10 years. Now soon its sales volume would be 10 times. Management of company started the expansion plan without any fear of strategic, financial, operational challenges. KFC of Colon Sander and iPhone is another examples of fearlessness.

b. **Risk Taking:** This is the prime quality of entrepreneur. Most of the exploration companies take risk of a great loss in case of failure. Innovative business, product or service, even, running business sometimes turns into most risky venture. Stve Job. Donald Trump, Warren Buffet, Bill Gates and Jeff Bezos were big risk takers. Mian Mansha, the wealthiest industrialist in Pakistan, took big risk while moving from Nishat Mill to new ventures like Adam Jee Insurance, MCB, Cement Plants and IPPs and so on.

c. **Hard work & Consistency in hard work:** It's a best tool to become a successful entrepreneur. Thomas Edison made 9,000 unsuccessful attempts at inventing the light bulb. Bill Gates, Walter Disney,

Qualities of Entrepreneur

Personal Traits	Natural	Can be Learned?
Activeness	√	√
Adaptability	√	√
Adventures	√	√
Calm	√	√
Challenging	√	√
Confident	√	√
Consistent	√	√
Creative	√	√
Dynamic	√	√
Educated	√	√
Hardworking	√	√
Intelligent Quotient(IQ)	√	X X X X
Optimistic	√	√
Profound	√	√
Studious	√	√

Sanders, Henry Ford and Soichiro Honda did not stop hard work after many failures. Our Great Quaid-e-Azam, could no catch a single client within three years of start-up but he did not drop the practice.

d. **Follow Your Intuition:** It's a great quality of businessman to understand intuition, the sixth sense. Major gainers are the entrepreneur who grasp when whistle blows. Steve Job introduced the iPad when Tablet market was stagnant. He stepped forwarded to introduce the iPad with inner voice encouraging him for bright future of product. Most of the small businesses in Pakistan are the products of intuition.

e. **Vision:** Visualizing the future of product or service may designate an entrepreneur a legend of industry. IBM could not visualize the future market of PC and stay manufacturing the super and mainframe computers. Japanese visualized the situation and captured the entire world market to sell the PCs. Similarly Khaddi, TCS, Savor Foods, Mobilink and Bahria Town are legends in their respective fields in Pakistan.

Precautionary measures for start-up business?

It is believed that successful start-up rate of small business in Pakistan is only 10% which is very low. Following precautionary measures are suggested for successful start-up;

a. **Ideology of business:** That should be clearly defined, as business for the sake of business, but should not be based upon the following trivial arguments;

- o I fed up from submissive behavior often shown to bosses during employment,
- o I want to be wealthy or billionaire.
- o I want to kill more time with family and more time for lasers.
- o I want that nobody would hold me answerable for any activity.
- o I want to run my family business and do it well.
- o I can do anything that I want without qualification and experience.
- o Since many businessmen are successfully running why not me?

b. **Prefeasibility:** Very important segment of start-up to conduct the comprehensive market survey to know the demand of product or service. It would help in understanding the business in term of market dynamics, information about machinery, raw material, labor availability, cost pattern, overheads involved, market analyses, financial and risk analyses.

c. **Bad Management:** About 89% business failure is due to bad planning. It means that there is no planning for the followings;

I. **Operational Budget:** sales, material, labor, overheads, marketing admin budgets etc.

II. **Financial Budget:** Cash forecast, debt service, financing and cash flow etc.

III. **Capital Budget:** Expansion, reduction, addition in production / service facilities.

IV. **Variance analyses:** To identify the reasons for any deviation from planning / budgeting so that start up killers may be avoided.

d. **Absenteeism:** Always be vigilant and monitor the business. Try to explore that how to increase customers / consumers / clients through increase of product / service and market.

e. **Location:** Location of business plays an important role to push the start-up. A bad location may dive even good and expert management out of business.

f. **Preliminary Overexpansion:** Such expenditure will push SME into marsh of crises. The continuity in cash shortage means that business is not flourishing. Therefore its commendable rational not to spend too much at very beginning. Warren Buffet very rightly said," When you start spending on thing you do not need, soon you start selling the things you need".

g. **Management Skills:** Very necessary for start-up to manage the business operations and, especially, the team building. Management is the leading factor of production that combines other three factors i,e land, labor and capital to make a business enterprise.

h. **Marketing Skills:** The crux of business to acquire the customers / clientage.

i. **Selection of Product:** In Pakistan, existing or old product is better for startup. The business growth strategy, afterward, should be designed according to Ansoff's Matrix. For example food items, education, grocery store, consultancy firm, software, auto industry etc.

j. **Advertisement:** Access to target market with new techniques like social media, website and messaging would ensure the broad customer base for business growth.

Entrepreneurial Environment in Pakistan?

It refers to the bases of overall economic, legal, social, cultural and political factors that influence people's willingness to undertake entrepreneurial activities. Business environment is less favourable for entrepreneurship due to the following adverse factors;

a. **Economic Factors:** Most of the economic factors need the government attention for improvement. Shortages of capital, infrastructure and topsy-turvy markets are leading heralds.

b. **Access to Loaning Facility:** Most of the experts, innovators, qualified, professionals and many other willing entrepreneurs do not have access to loaning facility. Funding facility is available to those who offer tangible collaterals in proof that they do not need loan. Capital shortage is one of the leading problems for start-up business.

c. **Social & Culture:** The social setup, in which the people grow, shapes their basic beliefs, values and norms. Family background, caste, attitude of society favours few families like Sheikhs, Boris, Chuniotis and Memons etc. Common people in Pakistan, especially in Phothowar, are more tilted towards jobs to earn risk free fixed income than risky income from business.

A comprehensive schedule is given for further clarification

Types	Entrepreneurships							
Initiator	TCS	KFC	Savor Foods	Bahria Town – RWP	Beacon House	Daewoo	Careem (2012)	CSD
Imitator	OCS	McDonald	Food Corners	DHA	City School	Bilal Daewoo	Uber 2015	USC
Fabian	Pakistan Post	Local competitors renovated the shops and recipes.	Local competitors renovated the shops and invented recipes like Bala Takkey Wala, Rahat Cafe and refreshment corner etc	Other dormant schemes updated with additional facilities to be at par with Bahria & DHA	School opened afterward are following footsteps of first two entrepreneurs	Many updated with additional investment like, Niazi, Skyways Faisal Movers & Pindi Coaches etc	No such history available for such Fabian because its new entry.	City, Metro, Cosmo and many other cash and carry changed or started.
Drown	No change in Pension system of Pak. Post.	Most of the small entrepreneurs are Still running without any change.	Hundreds of small hotels at different places are running with same style, recipes and presentation.	Still there are considerable numbers of townships schemes with conventional facilities.	Still there are numbers of schools with conventional facilities.	Millions of passenger busses and coaches are still plying on roads without change.	Still no change brought in marketing strategy, presentation or models of taxis.	Millions of grocery shops are continuing the conventional methods.

d. **Guidance:** Voluntary associations like chambers, business incubation, research centres and societies are not providing the sufficient support to encourage the entrepreneurship. Cost of doing the business is implicit.

e. **Legal Cushion:** There is no legal framework to help executing the contracts or helping the dispute resolution. Registration and brutal tax system accentuates the position more worsen.

f. **Cash Recovery or Guaranteed Payment System:** Pakistan lack serious problem in this area, where a new business is unable to get payments on time, slowing or shutting the economic cycle of the business. On one hand the supplier and landlord would ask advance to avoid the risk of recovery and, on other hand, customer or client would ask credit or delay the payment to ensure quality of product and validity of service of new business. Hence the spread between expenditure and revenue will push the new business into deep trench of financial crises ending at slay of business.

Despite of the above adverse sentiments to the entrepreneurship culture, too many star-ups are turning into successful ventures. Infrastructure regarding power, road transportation, communication and quality education are improving. Governments announces, from time to time, different loan and incentive schemes to promote the entrepreneurship, especially in cottage industry. CPEC is another positive indicator to improve socio-economic and socio-cultural environment. Ease of doing business is consistently improving in Pakistan. In presence of such tough entrepreneurial environment in Pakistan, still there are countless success stories of small business for existing products.

Successful entrepreneurial / entrepreneurship model in Pakistan?

Business or entrepreneurship model is a complex phenomenon if we cover it from all dynamics such as financial framework, operational framework, legal framework, macro and micro supporters and killers, traits of entrepreneur and socio-economic environment and so on. In Pakistan, the innovations are almost few and far between. Entrepreneurs already in business become lucky enough to introduce the product already existing in advanced countries or initiate the locally existing product at large scale, with new techniques or improved forms. There are FOUR successful entrepreneurship models in Pakistan.

- **Initiator:** Those entrepreneurs took lead to introduce the foreign products in Pakistan through franchises or otherwise. These types of entrepreneurs are highly risk taker and become legend after success. For example TCS, KFC, Careem, Daewoo and K&N etc. Similarly some locally exiting products are also introduced in market with new style, with new techniques and better presentation and become legends. For example, Savor Foods, Bahria Town, CSD and Beacon House etc.
- **Imitator:** This type of entrepreneur immediately develops the near akin product with different brand name knowing that they can also bag some share in the market. For example the OCS, AFC, K&N, Bilal Daewoo, Corner Foods, DHA, USC and City School chain after TCS, KFC, NU, Daewoo, Savor Foods, Bahira Town, CSD and Beacon House School System respectively.
- **Fabian:** This type of entrepreneur is not ready for change, rather continue with conventional product, method or presentation till he meets losses. This is the point, under great constraint, where he makes additional investment to

change the product, presentation, method or location etc. For example, an entrepreneur would change the traditional cultivation methods when reaches at the verge of collapse as compared to his competitor who took lead for change to ensure profit and continuity of business. Some new entrepreneurs enter into market but follow the footsteps of initiator or imitator.

o **Drown:** This type of entrepreneur continues conventional behaviours till death of business but never thinks about the change. A business may be continued at low profit, sells business or closed down due to loss. For example, traditional transport, conventional methods of cultivation, conventional grocery stores etc.

Suggested Model to promote qualified person to become an entrepreneur.

According to UNDP, 23% of Pakistan's youth want to start their own businesses but lack proper guidance. I think, shortage of capital is one of the major obstacles. There are 5,000 thousands Cost & Management Accountants, 7,500 Chartered Accountants along with multi-million PH.D, Master Degree holders, Engineers, Medical Doctors, IT professional and so on. Management Accounting Firms have tremendous capacity to monitor model suggested below. Study shows that qualified stratum of society, having great potential to become entrepreneur, shall be focused. Combination of talent, vision, expertise and skills can be epitome of success if their dormant entrepreneur is to be activated. Following measures are suggested to promote entrepreneurship in qualified stratum of society;

a. All qualified incumbents should be categorized into following classes;
   - o **Professionals:** Cost & Management Accountants, CAs, Lawyers, MBBS Doctors, Engineers etc.
   - o **Researchers:** Ph.D, M. Phill and other researchers,
   - o **Master Degree Holders:** MA, M.Sc, MBA, M.Com, MIT and graduates etc.

b. An interest free loan should be offered to interested qualified loan seeker against their **degrees as collaterals** instead of property.

c. Their tax should be collected in separate Account Head to see the government cost and benefit analysis in term of implicit interest & tax collected.

d. A monitoring cell should be established to take action or otherwise against entrepreneurs on report of consultants.

e. There are about 75 **Cost & Management Accountant** & the same number of **Charted Accountant** firms in Pakistan. Cost & Management Accountant and small sized Charted Accountant firms can play an important role as a front line, consultant, of monitoring cell.

f. All individuals should get registration with Management Accountant firms and move their cases through, with Prefeasibility, to government / monitoring cell for funds seeking.

g. An individual or company should have an option of doing up to three businesses - to avoid putting all the eggs into one basket. I am sure the success rate will be increased if proposed strategy is adopted.

h. The firm or company is restricted to invest at least 60% for which funds were sought and remaining 40% to any other business fit to support the core business.

i. There should be no mandatory requirement for such split up. The investment in core business should be encouraged but option, to have more than one business, should be remained open.

j. It should be mandatory for all individuals and companies to get NTN and GST, if applicable.

k. It should be mandatory for all individuals and companies to open the bank accounts.

l. All individuals or companies should appoint their own accountants or Management Firms as Consultant.

m. All individuals or companies should get **mandatory audit** after three months from these firms.

n. Its responsibility of Management Firms to send their comments for future viability of firm, other than audit report, to monitoring cells.

o. Monitoring cells should be established in Rawalpindi, Lahore, Faisalabad, Multan, Karachi, Quetta and Peshawar with HO office in Islamabad.

p. Monitoring cell should take corrective measures at earliest in case of ve report / comments.

q. A Management Firm, giving incorrect information / comments or vetting the tax evasion should be fined at least Rs. 300,000. It's better to form a separate policy regarding the role of consultants

r. These Management Firms will engage paid trainees to prepare accounts and conduct audits of all these clients firms / companies.

s. Trainees will start their own firms after sufficient experience. Hence a series of expertise will be generated spontaneously to cater the needs of business community.

t. Audit and different services fee will be fixed at minimum to support these new businesses.

u. All Management Firms, clients firms and client companies will be monitored through computerized data bank by the monitoring cell.

v. All these rules and regulations should be circulated to both the parties' from time to time to avoid the pretext of ignorance of law on the part of any of the parties.

w. Entrepreneurship / firm / company should be mandatory closed after third ve report of auditor.

x. Management Firm should be mandatory closed after three violation pointed out in (q).

y. Monitoring cell also be punished if not paying the heeds to the ve comments forwarded by the Management Firms.

This model should be shifted downward to low qualified to promote entrepreneurship after successful story.

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PRICING: Key to Efficiency

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Abstract: Pricing is primarily a domain of cost and management accountants' professional expertise. Right pricing strategies of an entity providing goods and services can ensure its sustainable growth. This paper has highlighted various aspects of pricing issues (pricing and strategies therefor, non-cost considerations for pricing decisions, price-based strategies, industrial pricing strategies and determinants) and then attempted to show how pricing contributes to efficiency. Few special contextual and empirical references have been mentioned in the paper from the perspective of Bangladesh. As professional cost and management accountants (CMA), if we can prove our efficiency in pricing of products, we can ultimately enhance the efficiency of the organization in or for which we are working.

Keywords: Pricing strategies, Efficiency and effectiveness, Efficiency by pricing.

Prof. Dr. Swapan Kumar Bala, Ph.D, FCMA

Introduction

Pricing is the cornerstone of long-run survival of any business entity as a supplier of goods or services. The price of the entity's product or service should cover all the costs plus a margin, which will satisfy the expectation of the suppliers of fund to run the entity. Hence the managerial efficiency in achieving this objective depends on a challenging ability of right pricing at which customers will be willing to pay. With the fast-changing pace of information technology and real-time people connectivity in social networks, customers have become the king to influence all traditional business models. This paper has attempted to portray the efficiency aspect of satisfying customers with their desired price and consequent fulfillment of shareholders' expectation on return on their investment. The paper has been divided into a number of sections. Next section of the paper has dealt with the basic issues on pricing and strategies therefor; third section has encompassed the non-cost considerations for pricing decisions in relation to market structures and laws and regulations; fourth section has portrayed the price-based strategies; fifth section has covered the industrial pricing strategies and determinants; sixth section has delineated the efficiency issues in general; seventh section has shown how pricing contributes to efficiency; and thereafter the conclusion has been drawn in the final section.

Pricing and Strategies

As everybody knows, the price of a product or service is finally dependent on the demand and supply for the product or service. Horngren, Datar and Rajan (2012) have related to the demand and supply to three Cs: customers, competitors, and costs; where customers and competitors affect demand, and costs affect supply. In terms of time horizons, companies make pricing decisions differently. When making short-run pricing decisions, companies only consider those (relevant) costs that will change in total as a result of the decision and pricing is done opportunistically based on demand and competition. At the time of making long-run pricing decisions, companies consider all future variable and fixed costs as relevant and use a market-based or a cost-based pricing approach to earn a target return on investment (Horngren, Datar and Rajan, 2012). However, as stated by Drucker (2001):

A powerful force driving companies toward economic chain costing will be the shift from cost-led pricing to price-led costing. Traditionally, Western companies have started with costs, put a desired profit margin on top, and arrived at a price. They practiced cost-led pricing. Sears and Marks & Spencer long ago switched to price-led costing, in which the price the customer is willing to pay determines allowable costs, beginning with the design stage. Until recently, those companies were the exceptions. Now price-led costing is becoming the rule (Drucker, 2001: 115).

In this regard, target pricing becomes the approach to long-run pricing for using the 'price-led costing', where target operating income per unit is subtracted from the target price to determine target cost per unit. Target cost per unit is the estimated long-run cost of a product or service that when sold enables the company to achieve target operating income per unit. The challenge for the company is to make the cost improvements necessary through value-engineering methods to achieve the target cost (Horngren, Datar and Rajan, 2012).

The cost-plus approach to pricing adds a markup component to a cost base as the starting point for pricing decisions. Many different costs, such as full cost of the product or full or variable manufacturing cost, can serve as the cost base in applying the cost-plus formula. Prices are then modified on the basis of customers' reactions and competitors' responses. Therefore, the size of the "plus" is determined by the marketplace. The selling prices computed under cost-plus pricing are prospective prices. The target-pricing approach reduces the need to go back and forth among prospective cost-plus prices, customer reactions, and design modifications. In contrast to cost-plus pricing, target pricing first determines product characteristics and target price on the basis of customer preferences and expected competitor responses, and then computes a target cost (Horngren, Datar and Rajan, 2012).

Service companies such as home repair services, automobile repair services, and architectural firms use a cost-plus pricing method called the time-and-materials pricing, in which two pricing rates are establishedone based on direct labour time and the other based on direct materials used. The price charged for each direct cost item includes its own markup. The markups are chosen to recover overhead costs and to earn a profit (Horngren, Datar and Rajan, 2012; Garrison and Noreen, 2003).

Sometimes some companies (e.g., automobile and pharmaceutical) need to consider target prices and target costs over a multiple-year product life cycle. Life-cycle budgeting estimates and life-cycle costing tracks and accumulates the costs (and revenues) attributable to a product from its initial research and development (R&D) to its final customer service and support. These life-cycle techniques are particularly important when (i) a high percentage of total life-cycle costs are incurred (cost incurrence) before production begins and revenues are earned over several years, and (ii) a high fraction of the life-cycle costs are locked in (locked-in costs) at the R&D and design stages. Customer life-cycle costs (which focus on the total costs incurred by a customer to acquire, use, maintain, and dispose of a product or service) is another notion that influences the prices a company can charge for its products (Horngren, Datar and Rajan, 2012).

Non-Cost Considerations for Pricing Decisions

Sometimes, non-cost factors may be more important than cost factors in setting prices. These non-cost factors regarding pricing have been delineated below:

Factors related to market structures: Price discrimination and peak-load pricing are two ways where market structures influence price setting outside of cost. Price discrimination is charging some customers a higher price for a given product or service than other customers (e.g., higher air-ticket price for business travelers whose demand for air travel is relatively insensitive to price, versus lower air-ticket price for pleasure travelers whose demand is price-elastic). Peak-load pricing (as is the case in the telephone, telecommunications, hotel, car rental, and electric-utility industries) is charging a higher price for the same product or service when demand approaches physical-capacity limits (since demand is high and production capacity is limited, customers are willing to pay more to get the product or service; and in contrast, slack or excess capacity leads companies to lower prices in order to stimulate demand and utilize capacity). Under price discrimination and peak-load pricing, prices differ among market segments and across time periods even though the cost of providing the product or service is approximately the same (Horngren, Datar and Rajan, 2012).

Factors related to laws and regulations: Usually every country has some laws and regulations in relation to antitrust (which means 'relating to legislation preventing or controlling trusts or other monopolies, with the intention of promoting competition in business'), which influence the pricing outside the cost factors. Companies are not always free to charge whatever price they like. Under antitrust laws, a manufacturer cannot price-discriminate between two customers if the intent is to lessen or prevent competition for customers. Two key features of price-discrimination laws are as follows: (i) Price discrimination is permissible if differences in prices can be justified by differences in costs; and (ii) Price discrimination is illegal only if the intent is to lessen or prevent competition. To comply with antitrust laws, a company must not engage in predatory pricing (when a company deliberately prices below its costs in an effort to drive competitors out of the market and restrict supply, and then raises prices rather than enlarge demand), dumping (when a foreign exporting company sells a product in the importing country at a price below the market value in the country where it is produced, and this lower price materially injures or threatens to materially injure an industry in the exporting country), or collusive pricing (when companies in an industry conspire in their pricing and production decisions to achieve a price above the competitive price and so restrain trade), which lessens competition; puts another company at an unfair competitive disadvantage; or harms consumers (Horngren, Datar and Rajan, 2012). In addition to antitrust laws, there might be price control or "regulated price" imposed by the government agencies to manage the affordability of certain goods, which are usually essential or life-saving in nature. In this case, government-mandated regulated maximum and/or minimum prices may be set or sometimes a guideline may be prescribed to specify the magnitude by which the price may be enhanced by using a regulated base such as costs, mark-up, return on investment, etc.

As antitrust laws, in Bangladesh, the Competition Act, 2012 (Act No. XXIII of 2012) was passed by the Parliament on 17 June 2012 and after getting Presidential accord on 21 June 2012, it was

Box 1: Pricing of coronary stents: Recent case in Bangladesh

On 18 April 2017, the Government of Bangladesh has directed hospitals to mention the price of coronary stents along with the date of expiry and registration number in each pack of the coronary stent. These stents are used for heart patients' treatment in need of angioplasty. Next day, due to the Government announcement of fixing and regulating the prices and quality of stents, the suppliers went on an undeclared strike. However, the Directorate General of Drug Administration (DGDA) of Bangladesh on 20 April 2017, following a series of negotiation, fixed the prices of 26 of the 47 brands of coronary stents manufactured by 11 stent companies and used in Bangladesh with a 155 per cent mark-up (against 189 percent mark-up demanded by the Bangladesh Medical Device Importers Association) and the suppliers withdrew suspension. DGDA director general said that the prices would be drastically fall soon, as four importers proposed to fix the prices between BDT (Bangladesh Taka) 25,000 and BDT 50,000, while such stents were selling for even BDT 2 lakh.

The import of stents is subject to enjoying duty free benefit and exemption of value added tax. Out of 47 brands of stents in Bangladesh imported by 21 companies from the United States, Europe and Japan, with 155 percent mark-up, prices of 11 stent companies' 26 brands of stents fell between BDT 20,000 and BDT 1.49 lakh (i.e., costs between BDT 12,900 and 96,100). The price list was sent to 27 hospitals, where stent implantations are carried out, to display it at open places at the hospitals. The stents are labelled with expiry date and price so that no unlabelled stents would be sold. The traders were asked to register their stents as soon as possible with labelling them with expiry date and prices. In India, the price of stents are regulated as an essential drug, which ranges between BDT 8,900 and BDT 36,400.

Cardiac patients are on the rise in Bangladesh. National Health Bulletin 2016 statistics showed that about 50 percent cardiac patients increased at National Institute of Cardiovascular Disease in the past six years and about 38 percent of death in Bangladesh was caused by cardiovascular diseases. Although some 18,000 stent implantations are needed in a year, the patients are to bear exorbitant prices in absence of government's regulation. Some traders in association with some cardiologists were cheating patients with the use and sale of coronary stents. Public hospitals usually do not keep stents in stock as they are expensive and hospitals are unable to preserve them. Stents are usually ordered and delivered on demand. Stents of Biotronik brand were being sold for BDT 50,000 to BDT1.8 lakh. Prices are fixed upon negotiation with the patients' relatives and stents are supplied upon orders by doctors involved in the implantation. Patients are usually not in position to bargain down the price when their dear ones are in critical condition.

*[**Sources:** The Financial Express, 06.03.2017; The Prothom Alo, 18.04.2017; The New Age, 21.04.2017]*

published in the official Gazette on the same date. Under the Act, the Bangladesh Competition Commission (BCC) has been established and its secretary was appointed on 15.09.2013 (The Dhaka Tribune, 16.09.2013) and its chairman was appointed on 19.04.2016 (http://bssnews.net). The Competition Act 2012 is to ensure and encourage healthy competition in business by busting syndicates involved in manipulating and controlling markets. Before passing this Act, the Monopolies and Restrictive Trade Practices (Control and Prevention) Ordinance, 1970 was to provide for measures against undue concentration of economic power, growth of unreasonable monopoly power and unreasonably restrictive trade practices. In Bangladesh, the provision of anti-dumping duty has been introduced in 1995 by inserting section 18B in the Customs Act 1969 (inserted by the Finance Act 1995, with effect from 1st July 1995). According to this provision, where any goods are exported from any country or territory to Bangladesh at less than the normal value, then, upon the importation of such goods into Bangladesh, the Government may, by notification in the official Gazette, impose an anti-dumping duty not exceeding the 'margin of dumping' in relation to such goods; where "margin of dumping", in relation to any goods, means the difference between its export price and its normal value (GOB, 2016). In Bangladesh, there is a recent case of "regulated pricing" of a health product based on imported costs with a mark-up percentage (see Box 1 for details).

Price-Based Strategies

Of the three levels of strategies (corporate-level, business-level and operating-level), price-based strategies are related to business-level strategies (sometimes called 'competitive strategy')

Table 1: Pricing Strategy Definitions

Strategy	Description	Related Strategies
New Product Pricing Situation		
Price Skimming	We set the initial price high and then systematically reduce it over time. Customers expect prices to eventually fall.	Premium Pricing, Value-in-Use Pricing
Penetration Pricing	We initially set the price low to accelerate product adoption.	
Experience Curve Pricing	We set the price low to build volume and reduce costs through accumulated experience.	Learning Curve Pricing
Competitive Pricing Situation		
Leader Pricing	We initiate a price change and expect the other firms to follow.	Umbrella Pricing, Cooperative Pricing, Signaling
Parity Pricing	We match the price set by the overall market or the price leader.	Neutral Pricing, Follower Pricing
Low-Price Supplier	We always strive to have the low price in the market.	Parallel Pricing, Adaptive Pricing, Opportunistic Pricing
Product Line Pricing Situation		
Complementary Product Pricing	We price the core product low when complementary items such as accessories, supplies, spare parts, services, etc. can be priced with a higher premium.	Razor-and-Blade Pricing
Price Bundling	We offer this product as part of a bundle of several products, usually at a total price that gives our customers an attractive savings over the sum of individual prices.	System Pricing
Customer Value Pricing	We price one version of our product at very competitive levels, offering fewer features than are available on other versions.	Economy Pricing
Cost-based Pricing Situation		
Cost-Plus Pricing	We establish the price of the product at a point that gives us a specified percentage profit margin over our costs.	Contribution Pricing, Rate-of-Return Pricing, Target Return Pricing, Contingency Pricing, Markup Pricing

Note: *A related strategy is either part of the strategy (e.g., markup pricing is a form of cost-plus pricing) or is similar to the strategy. Specifically, a related strategy is one, which can be expected to occur under similar conditions and result in a similar price level (e.g., opportunistic pricing and low-price supplier).*

Source: *Noble and Gruca (1999), p. 438.*

Based on a comprehensive survey on 270 responding managers (who are highly experienced with pricing as the majority are involved in such decisions for more than 20 products and the majority of respondents also report 10+ years of experience in the industry and with their current company), Noble and Gruca (1999) found 470 choices among the ten alternative pricing strategies. The summary of their findings on managerial pricing practice has been presented in Table 2.

following two routes: (a) Route 1 is the 'no frills' strategy, which combines a low price with low perceived product/service benefits and a focus on a price-sensitive market segment; and (b) Route 2, the low-price strategy, seeks to achieve a lower price than competitors whilst maintaining similar perceived product or service benefits to those offered by competitors (Johnson, Scholes and Whittington, 2009: 152-153). However, an organisation pursuing competitive advantage through low prices might be able to sustain this in a number of ways: (i) Operating with lower margins possibly by having much greater sales volume than competitors or cross-subsidising a business unit from elsewhere in its portfolio; (ii) A unique cost structure possibly by having unique access to low-cost distribution channels, ability to obtain raw materials at lower prices than competitors or location in a low labour cost area; and (iii) Organisationally specific capabilities possibly by having ability to drive down cost throughout its value chain due to cost leadership position. Of course, if either of these last two approaches is to be followed it matters that the operational areas of low cost do truly deliver cost advantages to support real price advantages over competition. It is also important that competitors find these advantages difficult to imitate. This requires a mindset where innovation in cost reduction is regarded as essential to survival (Johnson et al., 2009: 157).

Industrial Pricing Strategies and Determinants

Noble and Gruca (1999) identified a set of industrial pricing strategies and determinants by focusing on the under-researched area of industrial (capital goods) pricing and by excluding pricing strategies predominantly used with consumer products or commodities (i.e., defensive pricing, random discounts), strategies usually associated with export markets (i.e., second market discounting) or pricing tactics (e.g., basing point pricing) and by

Table 2: Managerial Pricing Practice

Pricing Situation	Determinants	Pricing Strategies Related Strategies	Significant Determinants	Relative Price
• New Product Pricing	• New model	Skimming - (Premium pricing, Value-in-use pricing)	• High product differentiation in the market • Cost disadvantage due to scale	• High
		Penetration Pricing	• Cost advantage due to scale • Elastic market demand • Inelastic brand demand	• Low
		Experience/Learning Curve Pricing	• High product differentiation in the market • Not a major product change • Low capacity utilization	
• Competitive Pricing	• Mature market	Leader Pricing (Umbrella pricing, Cooperative pricing, Signaling)		• High
		Parity Pricing (Neutral pricing, Follower pricing)	• High costs • Low market share • Low product differentiation • Elastic market and brand demand • High capacity utilization	• Equal
		Low-price Supplier (Parallel pricing, Adaptive pricing, Opportunistic pricing)	• Low factor utilization • Low costs • Cost advantages due to scale • No cost advantage due to learning • Elastic brand demand	• Low
• Product Line Pricing	• Firm sells substitute or complementary products	Bundling (System pricing)	• Per sale/contract pricing • Elastic brand demand	
		Complementary Product Pricing (Razor-and-blade pricing)	• High profit on supplementary sales	• Low
		Customer Value Pricing (Economy pricing)	• Hard to detect price changes • Narrow market appeal • High market growth	
• Cost-Based Pricing	• Difficult to determine demand	Cost-Plus Pricing (Contribution pricing, Target return pricing, Markup pricing)	• High product differentiation in the market • Cost disadvantage due to scale	

Source: Noble and Gruca (1999), p. 452.

adding cost-plus pricing and customer value pricing due to their prominence in previous studies of industrial pricing. The ten pricing strategies defined by Noble and Gruca (1999) are described in Table 1.

Efficiency Issues

"Efficiency" is one element of the four Es approach to the assessment of effectiveness and value for money. These four Es are: Economy (getting the best value inputs), Efficiency (maximizing the outputs for a given level of inputs), Effectiveness (ensuring that the outputs deliver the desired outcome) and Equity (ensuring that the benefits are distributed fairly) (ICAI, 2011: 4). Efficiency is the increasing output for a given input, or minimising input for a given output, with a regard for maintaining quality (Jackson, 2012).

With respect to revenue-producing organizations, Ho and Zhu (2004) converted financial performance indicators to their efficiency and effectiveness equivalents by disaggregating ROA (return on assets) using the DuPont model as follows:

(1) ROA (performance). Earnings before taxation/net sales × net sales/total assets = profit margin (effectiveness) × total assets turnover (efficiency).

(2) ROA (performance). It assesses the profitability of total assets before taxation, and can be treated as performance. It contains two elements, efficiency and effectiveness.

(3) Profit margin (effectiveness). It assesses the net profitability before taxation during the current accounting period. It can be treated as the element of effectiveness and is defined as the ability to achieve the expected goal (result or output).

(4) Total assets turnover (efficiency). It assesses the ability of the firm to use its assets and it can be treated as efficiency. It is defined as the output generated by given resources under the influence of the environmental factors (Ho and Zhu, 2004: 426).

One of the best-known and most widely influential thinkers and writers on the subject of management theory and practice Austrian-born American Professor Peter Ferdinand Drucker (1909-2005) distinguished efficiency and effectiveness by associating efficiency to "doing things right" and effectiveness to "doing the right things" (Drucker, 1977). In his terminology, a measure of efficiency assesses the ability of an organization to attain the output(s) with the minimum level of inputs. It is not a measure of a success in the marketplace but a measure of operational excellence in the resource utilization process (Kumar and Gulati, 2009: 55). With respect to budgetary planning, David Doyle (2001) has stated the management of effectiveness and efficiency by saying that "efficient spending (ie staying within the budget) is not necessarily compatible with the notion of the effective use of funds" (Doyle, 2001: 55) and this dichotomy is examined in Table 3 below.

Thus, the relationship between efficiency and effectiveness is that of a part to the whole, the effectiveness is a necessary condition to achieving efficiency (Mihaiu, Opreana and Cristescu, 2010: 136).

How Pricing Contributes to Efficiency

The 1976 Nobel Memorial Prize in Economics Professor Milton Friedman (1912-2006) have mentioned:

"Prices …. transmit information effectively and efficiently; they provide an incentive to users of resources to be guided by this information; and they provide an incentive to owners of resources to follow this information" (Friedman, 1962: 10).

Using the decomposition of performance (ROA) of for-profit entity by Ho and Zhu (2004), we can see the vivid relationship of pricing to efficiency aspect of an entity. As stated above:

ROA = Profit margin ratio × Total assets turnover ratio; where profit margin ratio is the measure of effectiveness and total assets turnover ratio is the measure of efficiency. By using some notations, we can write:

Profit margin ratio = {(p v).q F}/p.q ……… (1)

Total assets turnover ratio = p.q/TA ……… (2)

where, p = price per unit; v = variable cost per unit; q = quantity sold in units; F = fixed costs in total; EBT = Earnings before taxes = p.q p.v F = (p v).q F; NS = Net sales = p.q; and TA = Total assets.

Thus, ROA = EBT/TA = (EBT/NS) × (NS/TA) = [{(p v).q F}/p.q] × [p.q/TA].

Since, price per unit (p) is an important element to the performance indicator and the decomposed components of this performance, pricing is one of the crucial issue to both the efficiency and effectiveness. Since without effectiveness, efficiency is meaningless and without efficient use of resources, effectiveness becomes a threat to misuse and wastage, so pricing should be made on considering the time horizons, stage of the product life-cycle and other determinants of pricing strategies.

As stated by Doyle (2001), the winning formula of the "marketing concept' (first devised in the 1950s in conditions of consumer growth after World War II) was challenged by the early 1970s due to changes in consumer needs, rapid technological developments (resulting reduced set-up costs for many production lines, making shorter runs no more expensive than long runs, and competitors' efficient launching of 'me-too' products and promptly getting them

Table 3: Management of effectiveness and efficiency

Concept	Description	Characteristics	Measurement	Example: new financial planning system
• Efficiency	• Are we doing things right?	• Easy to monitor and measure against standards but not always linked or identifiable with ultimate goals	• Activity level • Costs • Key ratios and indicators	• May free up staff time by two hours per day
• Effectiveness	• Are we doing the right things?	• Indirect, subjective Appraisal • Frequently impacts on sales, profits or other measures of success	• Revenue • Market share • Competitive perception	• Real impact only valid if staff spend freed-up time in the pursuit of productive ends

Source: D. Doyle (2001), Cost control: A strategic guide, p. 56.

to the marketplace), shifting demographics, and worldwide shortening of product lifecycles. Poor appreciation of these factors by senior management leads to higher operating costs and tends to reduce the effectiveness of the business system in general. In broader terms, inefficient marketing arises from inattention to very basic concepts about handling the customer. One reason is the improper blending of the elements of the marketing mixthe infamous 4 Ps describing the key factors of tactical marketing (product, price, place and promotion). By over-emphasizing the ability of advertising to 'push' the product and allowing internal corporate issues to deflect managers' time, the customer has been left out of the process (Doyle, 2001: 154-155). But now a new pricing model is evolving considering the customer as the only price maker. Pay what you want (PWYW) is such type of pricing model. PWYW is a participative pricing model in which a buyer's control over the price setting is at a maximum level; the buyer can set any price above or equal to zero, and the seller cannot reject it (Kim, Natter and Spann, 2009: 44). Hence, efficient launching of a product with customer-chosen pricing and enhancing effectiveness of business system by proper blending of 4 Ps focusing on customers can be the impacting measures for sustainable growth and continuity.

Conclusion

As professional cost and management accountants, we deal with the costing and pricing issues as our domain of professional services. Since pricing is directly related to a company's profit and pricing strategies depend on many factors (cost and non-cost; domestic and international), we should be careful in devising those strategies to achieve both the efficiency and effectiveness of the use of resources. As professional accountant, the pricing issue is also linked with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) in fair value measurement. Before issuing IFRS 13, fair value means "(t)he amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction" (IASB, 2010: A36). In accordance with IFRS 13 Fair Value Measurement (issued on 12 May 2011 effective for annual periods beginning on or after 1 January 2013), fair value refers to "(t)he price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (www.iasplus.com). This fair value concept is also directly linked with pricing of assets and liabilities for financial reporting and disclosure. We have to prove our efficiency in pricing of products and in applying fair value measurement, which will ultimately lead to organizational efficiency where or for which we are working.

Ending Notes

1 "Economic chain costing" is the ascertainment of the costs of a company's entire economic chain by which the company shifts from costing only what goes on inside their own organizations to costing the entire economic process and thereby the legal entity, the company, is a reality for shareholders, for creditors, for employees, and for tax collectors, but economically, it is fiction (Drucker, 2001: 114).

2 Managers always have opportunities to reduce costs by improving operating efficiency and productivity. Kaizen, or continuous improvement, seeks to reduce the time it takes to do a task and to eliminate waste during production and delivery of products. The key steps in value-engineering are as follows: (i) Understanding customer requirements, value-added and nonvalue-added costs; (ii) Anticipating how costs are locked in before they are incurred; and (iii) Using cross-functional teams to redesign products and processes to reduce costs while meeting customer needs (Horngren, Datar and Rajan, 2012).

3 Cost incurrence describes when a resource is sacrificed. Locked-in costs are costs that have not yet been incurred but, based on decisions that have already been made, will be incurred in the future. To reduce costs, techniques such as value engineering are most effective before costs are locked in (Horngren, Datar and Rajan, 2012).

4 Four Es approach here has been taken from the report of UK's Independent Commission for Aid Impact (ICAI). Value for money (VFM) is the optimum combination of whole-life cost and quality (or fitness for purpose) to meet the user's requirement. It can be assessed using the criteria of four Es. VFM is about striking the best balance between the four Es−economy, efficiency, effectiveness and equity. It is not a tool or a method, but a way of thinking about using resources well (Jackson, 2012).

5 In late 2007, the British band Radiohead launched their new album In Rainbows with an unusual strategy: customers could download the album from a specially created website and pay any price they wanted. If they so desired, they could pay nothing. This "pay what you want" (PWYW) campaign ran from October 10 to December 10, 2007 (Mak, Zwick and Rao, 2010).

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Disclaimer: *The opinions expressed in the article are the writers' personal ones and do not necessarily reflect the views of the organizations where they are working.*

Audit Oversight System in Pakistan

The Audit Oversight Board (AOB) formed as a watchdog on auditing firms, carrying out audit of public interest companies, need to be dissolved forthwith as it altogether lacks independence and in its place an autonomous 'Financial Reporting Council (FRC) should be established in line with international practice and standards.

It seems a formidable task for AOB to recognize itself as an independent entity with its flawed structure and composition, dominated by members of only one professional accounting body i.e. ICAP, whereby altogether ignoring ICMA Pakistan, another statutory professional accounting body formed through an Act of Parliament.

The existing audit oversight board compromises autonomy which is the hallmark of any independent regulatory body. It would be in fitness of things and in consonance with global practice to replace AOB with an independent FRC having diversified representations from all segments of society viz. accounting, auditing, law, academia; trade bodies, corporate and public sector with authorization to nominate their representatives on its board so as to institutionalize the oversight body.

The very concept of appointing members of oversight board on recommendation of a 'Nominating Committee' is unfathomable as such kind of un-institutionalized nominating structure is unnoticeable in oversight models followed by other countries. The SECP (Amendment) Act, 2016 mentions the members of 'nominating committee' as Secretary Finance; Chairman SECP; Governor SBP; President ICAP and one member to be co-opted by ex-officio members. Almost all of them are government servants and most likely to follow public policy.

The oversight board seems to tilt towards the regulator as not only the selected head of AOB is former Chairman of SECP but two other members had also served at SECP as Commissioners. One member is a former Controller General of Accountants whereas other three members have experience in corporate and legal consultancy, audit practice and stock exchange. Obviously, with majority of members hailing from the government, this form of composition seems to be inclined towards bureaucratic-style of thinking and therefore accounting profession cannot expect any value addition in adoption of global standards and restoring investors' confidence.

By profession, most of the members of Audit Oversight Board are Chartered Accountants which in itself is a conflict of interest. Quite obviously, they would have an inclination and lenient approach towards a specific professional body which would influence their role of decision making. The pre-dominance of CAs on the Board also signify biasness and tantamount to giving monopolistic rights to one profession.

The CMAs qualified from ICMA Pakistan - a statutory professional body enacted through an Act of Parliament - has been altogether ignored in the composition of AOB. CMAs with their vast insight and exposure in areas of financial and cost audits can be a useful asset in the regulatory role. Under Section 247 of Companies Act, 2017 they are already doing audit of accounts of companies having paid up capital of less than Rupees three million.

The diversified composition of FRC model would bring on board the people having vision about the changing requirements in accounting profession unlike the present composition of AOB which consists of a select group of retired professionals and bureaucrats with discretionary powers which goes against the norms of justice. This would not, in any way, help in strengthening reliability and effectiveness of audits of public interest companies.

Mohammad Iqbal Ghori, FCMA
President, ICMA Pakistan

"The Audit Oversight Board (AOB) formed as a watchdog on auditing firms, carrying out audit of public interest companies, need to be dissolved forthwith as it altogether lacks independence and in its place an autonomous 'Financial Reporting Council (FRC) should be established in line with international practice and standards"

Who to regulate Public Interest Companies?

SECP being a regulator has been given discretionary powers to identify which company falls under the category of a 'Public Interest Company (PIC)' or otherwise. The SECP (Amendment) Act, 2016 says that a public interest company means 'a company or body corporate as may be notified by the Commission'.

The Third Schedule to the Companies Act, 2017 describes the criteria of Public Interest Companies (PIC) which include Listed Company and Non-Listed Company which may either be a public sector company; a public utility company; or a company holding assets in a fiduciary capacity for a broad group of outsiders such as a bank, insurance company, securities broker, pension fund, mutual fund or an investment banking entity etc. These PICs are required to comply with the disclosures and reporting requirements as framed by the SECP.

The fact of the matter is that the authority of classifying any company as a PIC should not rest with the SECP; rather it should be the mandate of the independent Financial Reporting body. It is worth mentioning that one of the functions of Financial Reporting Council of UK is to directly monitor the auditors of public interest entities (PIEs) and large AIM quoted companies. Similarly, the Financial Reporting Council of Mauritius is responsible for monitoring and developing the quality and integrity of financial reporting and disclosure of public interest entities (PIEs). In Sri Lanka the oversight board ensures quality audits especially on public interest companies. It reviews audits of large public and private companies dealing with public funds. Further, it protects the public from deviations in share price and ensures that company directors are putting in robust control mechanisms.

University. There are eight more part-time Commissioners of CPAAOB, out of which six members represent the academia, outside corporate auditors and directors, whereas only two members are Partners in Chartered Accountant firms *(KPMG and Deloitte).*

On the basis of writer's own research, it is suggested that the government must follow the USA model of PCAOB which is the most matured oversight body in the world. It was created by the US Congress in 2002 soon after the famous bankruptcy scandals of Enron, WorldCom etc. To prevent capture by accounting professionals and to ensure independence, the US Congress made it a legal binding that only two out of five members of the Board should be CPAs. At present, the Chairman and two other members of PCAOB are lawyers by training and profession. This audit oversight model of USA was followed by the European Union and other advanced and emerging countries with some modifications. However, all of them share certain common attributes, prominent among which is that they are all government agencies or bodies that are independent of the audit profession.

Insight on Global Audit Oversight Models

International Forum of Independent Audit Regulators (IFIAR) is a viable source of information on global audit oversight function. Majority of members on oversight boards are outside the auditing profession and include retired professionals such as lawyers; academics; professional bankers; former civil servants; Directors or former directors of leading companies; representatives of Central Bank; regulators and government departments.

“What is expected from the regulator i.e. SECP is that it must elicit input from all relevant stakeholders, including professional accounting bodies, financial experts, legal practitioners and corporate sector representative bodies like FPCCI, on the modus operandi of proposed Financial Reporting Council (FRC)”

What is expected from the regulator i.e. SECP is that it must elicit input from all relevant stakeholders, including professional accounting bodies, financial experts, legal practitioners and corporate sector representative bodies like FPCCI, on the modus operandi of proposed Financial Reporting Council (FRC). In case of AOB, the SECP role was quite isolated and it resorted to only forming a 6-member joint committee of SECP and ICAP, rather engaging all stakeholders including ICMA Pakistan. Quite obliviously, the vested interests within the regulator did not allow public debate on this issue so as to keep the discretion of twisting the proposed law in their hands.

A startling fact revealed from press reports is that the Joint Committee presumably studied the Japanese model of 'CPA Audit Oversight Board (CPAAOB)' ignoring altogether other global matured oversight models such as 'Public Company Accounting Oversight Board (PCAOB) of USA. What is important to note is that the Japanese model of CPAAOB do not have any concept of a 'Nominating Committee', as proposed in Pakistani oversight model, rather its' board members are appointed by the Prime Minister of Japan with the consent of Diet (both Houses). Unlike Pakistani oversight model, the full-time Chairperson of CPAAOB is, by profession, a Professor Emeritus of a renowned University in Japan. He is being assisted by a full-time Commissioner who is a former Professor of Graduate School of Professional Accountancy in a Japanese

In **France,** the members of audit oversight Board i.e. High Council for Statutory Audit (H3C) are appointed by the government and comprise of twelve members. Three members are Magistrates (civilian officers who administers the law); three members with qualification in finance and economics; three statutory auditors; one member from academia; a representative of Ministry of Finance and Chairman of Financial Markets Authority.

In **Romania,** there is a 'Council for the Public Interest Oversight of the Accounting Profession' which comprises of seven members, out of which only two represent the audit professional bodies (CECCAR and CAFR), whereas others are non-practitioners. Other members include President of Romanian Trading Chamber; representatives from the Ministry of Finance, Ministry of Justice; Romanian National Bank and Authority for Financial Services.

The **Canadian Public Accountability Board (CPAB)** consists often members, out of which five members are non-accountants. There are three professional accountants with professional accounting designation on the board who are not partners or directors in any audit firm. Two other members have oversight regulatory experience.

In **Germany,** the Audit Oversight Commission (AOC) has nine non-practitioner members including a Chairman who by profession is a Professor of Accounting and Auditing at a German University. The other members on the Commission represent the academia, business, judiciary and government organizations.

In **Finland,** there are two basic criteria for composition of public oversight body, known as Tilintarkastusvalvonta i.e. at least two members should be lawyers by profession, whereas other five to eight members must have a good understanding of audit. Other members are by default outside the audit profession.

In **Malaysia,** the Audit Oversight Board (Lembaga Pemantauan Audit) consists of seven members, including Executive Chairman and six non-executive members, all of them are independent from the audit profession.

In **Switzerland,** the Board members of Federal Audit Oversight Authority (FAOA) are independent from the audit profession with a term of four years and are appointed by the Swiss government (Federal Council). The Board consists of a maximum five members and must be persons of expert knowledge. There are no other criteria.

The **Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB**) is headed by Director of Central Bank of Sri Lanka and its governing board constitute 13 members out of which only three members are practicing accountants nominated by ICA Sri Lanka . Other members are nominated by government and private sector organization including the academia.

Financial Reporting body which could also regulate the auditing firms and make them accountable to the public.

The suggested FRC-model must operate in the public interest. It must have greater oversight powers to tackle corporate governance issues with financial autonomy. It must also ensure that audit firms are confined to audit only and they may not be allowed to market consultancy services to their clients. In Germany and UK, the auditors are prohibited from selling consultancy services to audit clients. Pakistan should, therefore, also adopt global audit standard practice as we are doing in adopting the International Financial Reporting Standards (IFRS).

The scope of proposed FRC model for Pakistan should cover monitoring auditors of all listed and non-listed companies instead of confining it merely to public interest companies. The TORs of existing Audit Oversight Board (AOB) mentions that its funds shall be utilized for AOB's own affairs as well as for affairs of Quality Assurance Board of ICAP. This use of funds for another body is questionable as it is not seen elsewhere.

As already discussed, the membership of FRC should be broad and come from wide constituency to ensure that public interest is adequately represented. The presence of a management accountant (FCMA/ACMA) on the proposed Finance Reporting body is highly recommended as per international practice. The Public Company Accounting Oversight Board (PCAOB) has five members on the board including the Chairman, out of which one member; Ms. Jeanette M. Franzel also holds the qualification of a 'Certified Management Accountant (CMA)'. She is on the board of PCAOB since 2012 and making efforts towards overseeing audits of public companies in order to protect the interests of investors in USA. Similarly, in Sri Lanka, three members of Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) viz. Mr. S. N. Jayasinghe, Mr. P.L.C, Peiris and Ms. N. Sivapragasam are 'Certified Management Accountants (FCMAs) by qualification. Furthermore, in the Botswana Accounting Oversight Authority, one member namely Mr. Ramasedi is an FCMA from CIMA UK. These examples are ample proof of the fact that management accountants have vital role of audit oversight boards. It also testifies that wherever recognized bodies of management accounting profession exists like in USA, UK, Canada, Australia, Sri Lanka etc, the nominated members of such bodies are a part of the Financial Reporting authorities.

“The ideal role of an independent oversight system is that it should be free from any influence; have adequate check and balances, independence and transparent dispensation. In this perspective, if we see the Pakistan model of Audit Oversight Board, we find that equal standards for all professions have not been maintained”

In **Turkey,** the Public Oversight, Accounting and Auditing Standards Board is composed of nine members and appointed by the Council of Minister. All members are independent from the auditing profession.

Botswana, a small South African state has also an Accounting Oversight Authority whose board members are independent from the audit profession. The nine ex-officio members of Botswana AOA include representatives from government and private sector. Two professional accountants are also appointed on board by the Minister for Finance on recommendation of ex-officio members.

Ideal Audit Oversight Model for Pakistan

The ideal role of an independent oversight system is that it should be free from any influence; have adequate check and balances, independence and transparent dispensation. Above all, it must safeguard the interests of all the stakeholders. In this perspective, if we see the Pakistan model of Audit Oversight Board, we find that equal standards for all professions have not been maintained. The professionals of one accounting body have been provided opportunity to continue their supremacy and enjoy monopolistic rights under the guise of the oversight board. This is contrary to the global practice as we see that in South Africa, India and some other countries, the external audit regulatory bodies have been set up outside of the profession and they are also setting limits on the number of chartered accountants sitting on the boards.

The self-regulation drawbacks, questionable standard of audit and ineffectiveness of existing regulatory mechanism have therefore rendered the creation of an independent and powerful

Lastly, it may be clarified that this article must not be construed as a vilification campaign against any profession or institution rather it is meant only to engage all the stakeholders for paving the way for developing a sound policy and autonomous regulatory framework in order to safeguard private sector and investments in the country.

It is concluded that the regulation of profession under the supervision of an independent public oversight system would definitely lead to strengthening public confidence in the accounting profession. This would also raise the performance, quality as well as independency and objectivity of auditing profession.

Economy Watch

Compiled by Research and Publications Directorate, ICMA Pakistan

SECP promoting ease of doing business

In order to promote the ease of doing business, the Securities and Exchange Commission of Pakistan (SECP) has introduced numerous reforms through the enactment of the Companies Act, 2017. In order to increase the number of new incorporations, a simplified incorporation process has been introduced. In this regard, the Companies (Incorporation) Regulations, 2017, have been amended. Now the companies are required to submit simple application form under regulation 5 of the Companies (Incorporation) Regulations, 2017, instead of different statutory forms, i.e. 1, 21, 27, 28, and 29 as were required to be filed under the repealed Companies Ordinance, 1984. All the necessary information regarding company registered address, telephone number and list of directors/chief executive is now available in the different annexures of application form. In view of the above, the SECP would like to inform banks/stakeholders that requirements for filing different statutory forms such as 1, 21, 27, 28 and 29 at the time of incorporation has been replaced with simple application form under regulation 5 of the Companies (Incorporation) Regulations, 2017.

SECP notifies companies' incorporation rules

The Securities and Exchange Commission of Pakistan (SECP) has issued a detailed list of prohibited names which cannot be incorporated by new companies, including names associated with any political personality, bureau/division, department, undertaking, court/judiciary/judge and names of international bodies and donor agencies. The SECP issued SRO 704(I)/2017 to notify Companies (Incorporation) Regulations, 2017 to be applicable from August 14, 2017.

Overseas Pakistanis remit US $3.5 billion in the first two months of FY18

Overseas Pakistani workers remitted US $3496.13 million in the first two months (July to August) of FY18, compared with US $3089.02 million received during the same period in the preceding year.

During August 2017, the inflow of worker's remittances amounted to US $ 1954.46 million, which is 26.78% higher than July 2017 and 11% higher than August 2016. The country wise details for the month of August 2017 show that inflows from Saudi Arabia, UAE, USA, UK, GCC countries (including Bahrain, Kuwait, Qatar and Oman) and EU countries amounted to US $511.28 million, US $440.38 million, US $260.34 million, US $249.14 million, US $230.22 million and US $62.75 million respectively compared with the inflow of US $507.26 million, US $401.18 million, US $223.7 million, US $192.64 million, US $222.57 million and US $43.5 million respectively in August 2016. Remittances received from Norway, Switzerland, Australia, Canada, Japan and other countries during August 2017 amounted to US $200.35 million together as against US $169.99 million received in August 2016.

China-Pakistan Economic Corridor (CPEC)

CPEC projects to address energy problem

With the formal commissioning of its second unit later this month, the Sahiwal power plant will become one of Pakis-tan's clean coal power plants with the largest installed capacity of generating 9 billion kWh of electricity per year. The electricity produced by the plant will meet energy needs of nearly 10 million people. The first unit of the coal-fired power plant with a capacity of 660 megawatts was inaugurated by Prime Minister of Pakistan last month and connected to the national grid. The second unit of the plant, with a capacity of 660MW, has been put on a trial run and is likely to be formally inaugurated by the end of this month. Sahiwal plant is an important energy project being built under the China-Pakistan Economic Corri-dor, said Chinese Ministry of Foreign Affairs spokesperson Hua Chunying in reply to a question.

CPEC 'fastest, most effective' among Chinese projects

The China-Pakistan Economic Corridor (CPEC) is among the best performing projects among China's One Belt and One Road Initiative (BRI). This was stated by Chines Embassy Deputy Chief of Mission Zhao Lijian at a conference on the 'Belt and Road Initiative and CPEC' organised by Islamabad-based think tank Strategic Vision Institute (SVI) on Tuesday. The event was held to mark the inauguration of SVI's China Studies Center. Lijian said CPEC was the "fastest and most effective" among the projects being undertaken in BRI. He further said the 19 early harvest projects worth $18.5 billion under the multi-billion dollar CPEC project were making smooth progress.

Management Accounting Terms

Activity analysis	The process of identifying, describing, and evaluating the activities an organization performs.
Before-tax income	An organization's income before its income-tax expense is subtracted.
Certified Internal Auditor (CIA)	A person who has passed a comprehensive examination designed to ensure technical competence and has two year's experience.
Direct tracing	The process of identifying costs that is specifically or physically associated with a cost object.
Engineering method	A cost-estimation method in which a detailed study is made of the process that results in cost incurrence.
Financial activities	Transactions involving a company's debt or equity capital.
Gainsharing	Providing cash incentives for a company's entire workforce that are keyed to quality and productivity gains.
Hurdle rate	The minimum desired rate of return used in a discounted-cash-flow analysis.
Improvement analysis	A life-cycle assessment step where efforts are made to reduce the environmental impacts revealed by the inventory and impact steps.
Just-In-Time (JIT) manufacturing	A demand-pull system whose objective is to eliminate waste by producing a product only when it is needed and only in the quantities demanded by customers.
Kanban system	An information system that controls production on a demand-pull basis through the use of cards or markers.
Loose constraints	Constraints whose limited resources are not fully used a product mix.
Manufacturing cycle efficiency (MCE)	The ratio of process time to the sum of processing time, inspection time waiting time, and move time.
Normal cost of goods sold	The cost of goods sold before adjustment for any overhead variance.
Operating budgets	Budgets associated with the income-producing activities of an organization.
Perish-ability	When services cannot be stored for future use by a consumer.
Quick assets	Cash marketable securities, accounts receivable and current notes receivable. Excludes inventories and prepaid expenses, which are current assets but not quick assets.
Required rate of return	The minimum rate of return that a project must earn in order to be acceptable. Usually corresponds to the cost of capital.
Sales-volume variance	The difference between actual sales volume and budgeted sales volume multiplied by the budgeted unit contribution margin.
Throughput costing	A product-costing system that assigns only the unit-level spending for direct costs as the cost of products or services.
Unavoidable expenses	Expenses that will continue to be incurred even if a subunit or activity is eliminated.
Variable budget	A budget that can specify costs for a range of activity.
Work measurement	The systematic analysis of a task for the purpose of determining the inputs needed to perform the task.
Zero defects	A quality performance standard that requires all products and services to be produced and delivered according to specifications.

Letter to the Editor

Dear Mr. Muhammad Iqbal Ghori,

I appreciate your efforts to make possible sharing the knowledge of professionals through "Management Accountant Journal". The entire Journal is very comprehensive, informative and enlightening as well.

The quality of the journal reflects an excellent job done by the editorial board under your able leadership. Congratulations and keep it up.

Mustafa Hussain Siddiqui, FCMA
Chief Executive
Mustafa H. Siddiqui & Company
Cost & Management Accountants

Reader's Comments

We believe that the readers are the best judge to highlight the areas where improvement in 'Management Accountant Journal' can be made. The Research and Publications Committee invites your valuable comments and suggestions on the editorial, articles and other contents of the Journal. These comments/suggestions will be published in the Journal on a regular basis.

The Committee reserves the right of editing the comments and suggestions.

The intellectual and research based inputs may be sent on email: rp@icmap.com.pk

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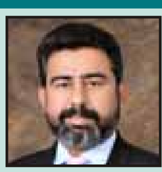

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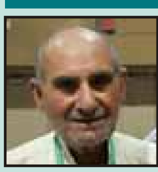

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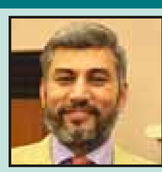

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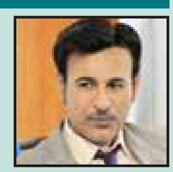

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Institute of Cost and Management Accountants of Pakistan

FBR PAKISTAN

Federal Board of Revenue
Government of Pakistan

ICMA Pakistan and Federal Board of Revenue's Joint Seminar on Promoting Tax Culture in Pakistan

The Federal Board of Revenue (FBR) has started an extensive drive to boost the filing of Income Tax Returns by reaching out to large public and private sector organizations and companies, facilitating their employees with taxable income to file their tax returns. ICMA Pakistan has also joined hands with FBR in organizing a series of Seminars at Karachi, Lahore, Islamabad, Multan and Faisalabad to supplement in this national duty to create awareness about advantages of filing tax returns and transfer its benefits to s ociety at large. It may be informed here that the tax revenue target set by the government for FY 2017-18 is Rs. 4 trillion which is 19 percent more than the collection of Rs. 3.362 trillion during FY 2016-17. The present drive of FBR is yielding result as according to figures released, the FBR's provisional collection at the national level amounted to Rs. 449 billion in July-August, which is higher by 23 percent as compared to around Rs. 365 billion collected in the similar period of the last fiscal year.

In this connection, ICMA Pakistan and FBR have planned a series of Seminars at Karachi, Lahore, Islamabad, Faisalabad and Multan to move forward with this initiative:

No participation fee will be charged from Members of ICMA Pakistan

Theme

Promoting Tax Culture in Pakistan

The seminars will be addressed by renowned tax and e-filling experts, representatives of FBR and National Council Members of ICMA Pakistan. Lets join for this national cause and promote tax culture in Pakistan.

Venue
Days & Dates

Karachi Gulshan-e-Iqbal Campus:	Friday, 13th of October, 2017
Lahore Campus:	Saturday, 14th of October, 2017
Multan Campus:	Tuesday, 17th of October, 2017
Faisalabad Campus:	Wednesday, 18th of October, 2017
Islamabad Campus:	Thursday, 19th of October, 2017

Timings
6.30 to 8.30 PM followed by Dinner
CPD Hours 2 Credits

For registration and information, please contact as follows:

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Prof. Lakshman R Watawala
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CFO
National Hospital

Investment

	UAE-based	Pakistan-based	Overseas
Members of ICMAP / CIMA ACCA / ICMASL / ICWAI / ICMAB	AED 200	PKR 6,000	USD 60
Other professionals	300	9,000	85
Students of ICMAP / CIMA ACCA / ICMASL / ICWAI / ICMAB	150	4,500	45

The investment includes lunch, teas, refreshments, conference kit, giveaways etc.

Registration deadline is Wednesday October 25, 2017

Note: Your participation will be confirmed subject to receipt of payment or nomination on Company letterhead. Refunds are not allowed. However, a substitute may attend subject to prior intimation at least 10 days prior to the event. Organizers reserve the right for any change in program, including postponement.

For registration and information, please contact as follows:

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