

## IV. Accounting and Auditing Standards

This chapter describes the accounting and auditing standards that govern the preparation of external financial reports and the audit of those reports. The chapter is structured as follows:

- 1 – Introduction
- 2 – Deviations from International Accounting Standards
- 3 – Public Sector Accounting Standards Board
- 4 – Pakistan Standards on Auditing

### 1. Introduction

The Institute of Chartered Accountants of Pakistan (ICAP) plays the major role in setting accounting standards in Pakistan. On the receipt of an Exposure Draft from the International Accounting Standards Committee (IASC), ICAP advises its members of the contents of the Draft either through a publication in “The Pakistan Accountant” (the official journal of ICAP) or by newsletter. Comments are invited from members on the Draft. If considered important enough, the draft Standard is debated at a conference or seminar before a decision is made as to its acceptance. Most International Accounting Standards (IAS) are accepted in full and some are accepted with slight amendments to suit the needs of Pakistan. When the draft is finalized, an order is issued by the Securities and Exchange Commission (SEC) directing that the International Accounting Standards will be followed in regard to the accounts and preparation of Balance Sheet and Profit and Loss Accounts of listed companies and subsidiaries of listed companies. The authority for the issue of this Order is conferred by subsection (3) of section 234 of the Companies Ordinance, 1984 (XLVII of 1984), read with clauses (a) and (c) of section 43 of the Securities and Exchange Commission of Pakistan Act, 1997 (XLVII of 1997).

### 2. Deviations from International Accounting Standards (IAS)

The following IASs have all been adopted by the national accounting bodies and have also been adopted by SEC for mandatory application to listed companies and subsidiaries of listed companies.

The following Standards have been adopted:

- IAS 1 Presentation of Financial Statements
- IAS 2 Inventories
- IAS 7 Cash Flow Statements
- IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.
- IAS 10 Contingencies and Events Occurring After the Balance Sheet Date
- IAS 11 Construction Contracts
- IAS 12 Income Taxes (effective in Pakistan after 1-1-2001)
- IAS 14 Segment Reporting
- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IAS 18 Revenue
- IAS 19 Employee Benefits
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 23 Borrowing Costs
- IAS 24 Related Party Disclosures
- IAS 25 Accounting for Investments
- IAS 26 Accounting and Reporting by Retirement Benefit Plans
- IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries
- IAS 28 Accounting for Investments in Associates
- IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions
- IAS 31 Financial Reporting of Interests in Joint Ventures
- IAS 32 Financial Instruments: Disclosure and Presentation
- IAS 33 Earnings Per Share
- IAS 34 Interim Financial Reporting
- IAS 35 Discontinuing Operations
- IAS 36 Impairment of Assets
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement

The following standards have not been adopted:

- IAS 15 Information Reflecting the Effects of Changing Prices – Has been classified as non-mandatory by IAS Committee and has not been adopted by Pakistan
- IAS 22 Business Combination – is being considered for adoption.
- IAS 29 Financial Reporting in Hyperinflationary Economies – Not relevant in the Pakistan context and has not been considered for adoption.
- IAS 40 Investment Property – Is being considered for adoption.
- IAS 22 and IAS 35 to IAS 39 have been adopted by ICAP but not yet notified by the Securities and Exchange Commission.

Most IASs have been adopted in full; however, some minor deviations occur in the following:

- (i) IAS 1 – Not mandatory for banks and insurance companies. The accounting requirements for banks are covered in the Banking Companies Ordinance 1962 and insurance companies are required to have separate classes of insurance accounts under the Insurance Ordinance 2000. Only minor deviations occur from IASs.
- (ii) IAS 12 – Becomes effective on 1 Jan 2001, until then the original IAS is applicable and not the 1996 revision.
- (iii) IAS 16 – Allows for a revaluation of an asset to be offset against the devaluation of another asset, i.e., the offset is not restricted to the same asset in accordance with IAS.

### **3. Public Sector Accounting Standards Board Establishment**

Pakistan Consortium on Governmental Financial Management

The Pakistan Consortium on Governmental Financial Management (the Society) was established on 28 August 1999. It is now an incorporated body with the registered office situated in Islamabad. The sponsors of the Society are ICAP, ICMA and the Auditor-General of Pakistan and the governing body consists of 12 members, four from each sponsoring organization.

Any person who is a member of ICAP, ICMA or any officer of the Auditor-General's Department holding a post of B-17 or above may be admitted by the governing body as a member of the Society. The main objectives of the Society are as follows:

- To promote and establish the Pakistan chapter of the International Consortium of the Governmental Financial Management to promote a better understanding of the professional financial management among public officials, at all levels of budgeting, data processing, debt administration, social safety net administration, tax administration and treasury management.
- To improve public financial management system by encouraging participation and affiliation of individuals and groups concerned with various specialized areas of activity of interest within a broad field of public financial management.
- To promote exchange of programs, information, documents and ideas relating to public financial management of systems nationally and internationally and develop and disseminate guidelines for professional public financial management.
- To provide a permanent organizational structure and mechanisms with national and international organizations, institutions and other bodies.
- To encourage sponsors, conduct or collaborate in appropriate research and publish results thereof, provide a clearing house of information relevant to financial management; undertake consultancy work both nationally and internationally and establish liaison with those organizations which are capable of promoting the objectives of the society.
- To promote understanding of public financial management as a basic responsibility of all public officials at all levels and providing a forum for discussion of common public financial management problems.
- To collaborate in the development of programs nationally and internationally involving sophisticated technologies, ensure professional quality and uniform criteria and provide quality control.
- To accept grants of money, sponsorships, donations, fees, securities or property of any kind, on such terms as deemed fit by the governing body.
- To provide help and assistance to Standing Committees of Senate, National Assembly and other committees whenever required.
- To organize training courses, seminars, workshops, technical meetings and other professional development events directed towards improving public financial management.

- To develop uniform, financial reporting formats, which ensure greater transparency, permit comparability and increase utilization of financial management information.
- To develop a code of ethics for establishing and maintaining high standards of integrity, honesty, morality, ethics and character among financial managers and staff members.
- To emphasize importance of professional management of scarce public financial resources and increase economy, efficiency and effectiveness of public sector activities, projects and programs.
- To send experts and representatives to other countries and invite representatives and experts of foreign countries, bodies, societies, institutions etc., having the same aims as the Society to attend conferences (local or international), meetings and functions to deliver lectures, etc.
- To make arrangements and take all necessary steps including entering into agreements with the governmental, national, provincial, local or municipal, or foreign institutions or individuals or other authorities at any place in which the Society may have interests and to carry on any negotiations or operations for the purpose of directly or indirectly promoting the purposes of the Society.
- The Society is in the establishment stage and Pakistan Audit Department is currently being used as the Registered Office and Secretariat. Arrangements are currently being made to hold an international seminar on one of the following topics:
  - Asset management and asset accounting in the Public Sector.
  - Towards a more efficient regulatory mechanism for the industrial sector.
  - Managing the transition towards a market economy.

It is recommended that the Society be used as the vehicle to create the Public Sector Accounting Standards Board.

#### **4. Pakistan Standards on Auditing**

Pakistan has adopted the International Standards on Auditing (ISA), issued by the International Federation of Accountants (IFAC), for use as a base in developing their own Standards. The Institute of Chartered Accountants of Pakistan (ICAP) coordinates the procedures in connection with the issue of Pakistan Standards on Auditing. ICAP receives the initial Exposure Draft and sends to all members and other

interested parties for comment. The Draft is debated at a seminar if considered necessary. Comments are returned to IFAC and when the final Standard is issued, the Institute then considers if any changes are necessary before it is adopted.