

VIII. Issues and Recommendations

This chapter presents the issues and recommendations that are associated with gaps or weaknesses in accounting and auditing arrangements. The issues and recommendations are divided into two parts as follows:

- Part One: Where the matter referred to may be considered and, if any action were to be taken, this would be better achieved with external assistance.
- Part Two: Where the matter referred to may be considered and, if any action is to be taken, this may be achieved without the need for external assistance.

Part One. Where Donor Assistance Might be Appropriate

1. Islamabad Accounts and Audit Academy

The accounting and auditing training conducted at the Accounts and Audit Training Institutes at Lahore and the regions appears to be well documented and adequate for internal courses within the Government. The Institutes' headquarters was established in 1973 and now there is a problem of accommodation and facilities. Land is available at Islamabad for the construction of a new audit and accounts academy. There is also a need to introduce an accountant category into the public service, which does not require the successful completion of the examinations of the Pakistan Institute of Public Finance Accountants. A lower-level category, such as an Accounting Technician, with qualifications to match, would be appropriate.

It is recommended that assistance be provided to the Government of Pakistan for the feasibility study of the construction of an Accounts and Audit Academy at Islamabad and further, that technical assistance be provided for the purchase of equipment and training aids necessary to establish the Academy.

It is also recommended that, if the Academy is established, assistance be sought to cover course material and expert review of course content.

It is also recommended that, if the Academy is established, consideration be given to the introduction of an Accounting

Technician category, with appropriate qualifications, in the Public Service.

2. Accounting Training

The professional courses of ICAP, ICMA and PIPFA are comprehensive and appear to be adequate for each organization. It may be that further attention needs to be directed to Information Technology courses and it may be appropriate to have an expert in this field to review the syllabi of each course. It is also understood that the training institutions require assistance with the acquisition of teaching aids and equipment, especially in the computerization field. The enhancement of trained teaching staff to deliver the lectures and tuition at various accounting training institutions by the introduction of “train- the-trainer” courses would be an advantage.

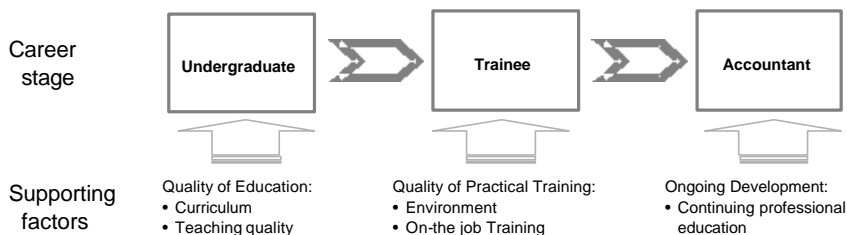
It is recommended that a Joint Committee of the three organizations be formed to review the following considerations:

- **The current and future needs in relation to training aids and equipment needed for the competent teaching of accountancy students at various training institutions;**
- **The current and future requirements for professional and competent trainers in the field of accounting teaching and tuition; and**
- **That an expert in the field of Information Technology be engaged to review the course content of ICAP, ICMA and PIPFA syllabi.**

3. Training for Accounting Lecturers and Professors

There is no specific advanced training provided for the continuing education of accounting lecturers and professors in Pakistan. Most accounting trainers in Pakistan rely on information provided by the member accounting bodies to keep them up to date. In order to develop competent accounting graduates, the trainers themselves must be thoroughly conversant with modern-day practises and trends. Figure 1 presents a simplified way of looking at the factors that support the development of competent accountants.

Figure 1: Developing Competent Accountants



The quality of undergraduate teachers is a key factor in developing competent accountants.

It is recommended that:

- **a specific training program for accounting professors and lecturers be developed and implemented. This training program should include present day best practices in accounting procedures and current information available on International Accounting Standards. Important matters such as information technology (including both hardware and software) should also be included; and**
- **a professional organization be established in order that accounting professors and lecturers may further their education and share their technical knowledge through a common forum.**

4. Security and Control of Non-current Assets

Security and control of Non-current Assets are lacking in the existing government accounting procedures. While a “Balance Sheet” is currently prepared, this document contains no figures or information relating to some major assets such as lands, buildings, communications systems, etc., brought forward from previous years. Apparently, when the Balance Sheet procedure was first introduced into the National Accounts no inventory of Non-current Assets was recorded and evaluated at the time. Although a Fixed Assets stock-take, including recording and evaluation would be a massive task (the total value of Fixed Assets could be at least PRe500 billion), the Government of Pakistan will never achieve proper security, monitoring, and control of its Non-current Assets until this exercise is done.

The PIFRA Project Accounting Guidelines has recommended that the physical assets will be recorded in a “Physical Assets Register” and it

is also recommended that the Modified Cash Basis will be applied to the acquisition of fixed assets. This will enable Non-current Assets to be recorded at purchase or construction cost when they are physically received or completed. There is no mention in PIFRA Guidelines of the necessity for the transfer of accurate account balances for Non-current Assets at the time of implementation of the World Bank-sponsored Project.

It has been recommended that PIFRA Accounting implementation should commence at the beginning of a financial year and this is likely to occur on the 1 July 2002 or later. It is not possible to undertake a complete Non-current Asset stock-take before that date. Consideration should be given to conducting a physical stock-take of Non-Current Assets on a geographical basis, i.e., one year for each Province, then one year for central government Non-Current Assets. The exercise would take five years and it is presumed that full accrual basis of accounting would be adopted by this time. The stock-take would be massive exercise however most of the labor associated with this task could be sourced from within Pakistan. If this exercise is left for future years the successful completion of the task becomes even more difficult.

The application of the full accrual basis of accounting and the valuation of all Non-current Assets in accordance with IAS 16 would assist in formalizing the adoption of International Accounting Standards by the Government of Pakistan in its National Accounts.

It is recommended that the Government of Pakistan consider the undertaking of a total stock-take of all Government Non-current Assets, over a period to be determined by the Government, in order to facilitate proper recording, monitoring, security and financial control of these assets. Should the Government decide to undertake this stock take it is recommended that technical assistance be provided for this purpose. It is also recommended that the Government should consider the application of full accrual basis of accounting before the end of the completion of this stock-take.

5. Review of Commercial Laws

The enactment of the Securities and Exchange Commission of Pakistan Act, 1997 has added some modern impetus to the financial management and governance laws of Pakistan. The Companies Ordinance, although promulgated in 1984, is also reasonably comprehensive and covers at least the accounting requirements satisfactorily. However it would

appear that there are many commercial Acts and Ordinances which, because of technical evolution and introduction of international best practices in many commercial fields, need to be reviewed and brought up to present day standards. An example is the Banking Companies Ordinance 1962, which needs to be updated with regard to accounting requirements.

The last time the laws of Pakistan were consolidated was in 1966 with the issuance of 16 volumes under the Pakistan Code. All Acts, Ordinances and Rules passed each year are published annually. The laws of Pakistan again need to be reviewed and consolidated for ease of reference by professionals and other users. In many cases, titles have changed and cross-references are either incorrect or out of date. It may be considered a massive task to update all the laws of Pakistan from an administrative and presentation point of view. However, it has been accomplished in other countries, including at least one DMC, and if it can be achieved in Pakistan, the benefits derived would be immeasurable.

It is recommended that the commercial laws of Pakistan be reviewed and amended to reflect best present day practices after taking account of local requirements and ideologies and that technical assistance be provided for this purpose.

It is further recommended that the laws of Pakistan be administratively reviewed and updated and consolidated for ease of reference.

Part Two. Where External Assistance Is Not Required

6. Separation of the Accounts and Audit Functions

In accordance with the *Pakistan (Audits and Accounts) Order 1973*, the Auditor-General is responsible for both accounts and audit functions of the Government. This situation gives rise to a serious conflict of interest which has been the subject of critical comment by ADB and other multilateral development agencies. In Gazette No. M302, issued on 20 April 2000, the Department of the Auditor-General established a committee to consider and make recommendations on the reform process leading to the functional separation of audits and accounts.

It is recommended that the Accounts and Audit functions of the Government of Pakistan be clearly separated and be established as two distinct departments. While this action would require amendments to the Constitution and the Laws of Pakistan, it would be in line with international best practices and would receive support from multilateral development agencies.

7. Amalgamation of Accounting Bodies

The three national accounting bodies appear to have a good working relationship and liaison with each other. This is evidenced by the fact that ICAP and ICMA jointly sponsored the establishment of PIPFA with the Auditor-General and the three organizations each have representatives on various committees, including the Pakistan Consortium on Governmental Financial Management, and the committee to review the separation of Audit and Accounts. The ICAP/ICMA Committee also has been established to cover matters of interest to both bodies.

The Council and members of these organizations should consider the amalgamation of these three bodies. Amalgamation has many advantages, for example,

- a) One principal secretariat and one registered office in each district would result in the sharing of resources and reduction of costs;
- b) One point of contact for external international organizations such as IFAC would facilitate communications and reduce costs; and
- c) One society of accountants in Pakistan would facilitate better communication with, and less confusion for, the public especially small businesses.

The amalgamation could be achieved while still maintaining individual designations. For example, the Pakistan Society of Accountants (PSA) could be established with three classes of members:

- Chartered Accountants PSA (CA)
- Cost and Management Accountants PSA (CM)
- Public Finance Accounting PSA (PA)

A fellow of the present ICAP would become FPSA (CA). The Society could be established in a format that contains committees and subcommittees to meet the needs of the different designations and classes of membership.

Many countries have one national body representing accountants and one national body representing auditors, which is usually affiliated with the Institute of Internal Auditors (Recommendation 16 refers). Individual members may belong to both bodies if appropriately qualified. This system has a simple structure that is easily understood by non-accountants and has very clear lines of demarcation.

It is recommended that amalgamation of ICAP, ICMA and PIPFA be considered by the governing councils of the three organizations and, if considered appropriate, a steering committee be formed consisting of an equal number of members from the three accounting bodies to study and report on the feasibility of amalgamation. At this stage, if the governing councils viewed amalgamation as a feasible option, the matter should then be put to the vote of all members concerned.

8. Public Relations – National Accounting Bodies

The national accounting bodies have maintained a satisfactory relationship with the Government of Pakistan and there is evidence of a good working liaison. The PIPFA was formed and sponsored by ICAP, ICMA and the Auditor-General, and the PIPFA was mainly established to upgrade the quality of staff in the Government. Accountants from the national bodies have been included on a number of important Government-initiated committees including the:

- Corporate Governance Committee
- Consortium on Government Financial Management, and
- Committee to Review the Separation of Audit and Accounts.

At the business level, the accounting profession is well established and respected. The profession, as a whole, is perhaps the strongest in Pakistan.

At the lower levels of business, i.e., the small trading firms and self-employed tradesmen, it is difficult to assess the recognition afforded the accounting profession.

The Government is attempting to broaden its tax net through the medium of a national survey and it is at the lower end of the business scale that most attention is being directed. The Chamber of Commerce has advised that there are many small traders and businesspeople that simply do not know where to begin in order to meet their tax liabilities.

The lack of simple tax knowledge by small businesspeople in Pakistan appears to be a major problem. The accounting profession should mount a public relations campaign, directed mainly at the small businessperson, and advise the public of the professional services available. The accounting profession would be assisting the Government in broadening its tax net and enhancing the image of the profession especially in the small business sector.

It is recommended that the accounting profession mount a public relations campaign, directed mainly at the small businessperson, and advise the public of the professional services available. If implemented this scheme would assist the Government to broaden its tax net and enhance the image of the profession at the lower end of the business scale.

9. Independent Pakistan Accounting Standards Board

When application is made by ICAP to SEC to issue an order for the implementation of an IAS, the SEC undertakes a review before issuing the order. The SEC has qualified accountants on its Board of Commissioners and it seems appropriate that the SEC should be considered as the vehicle to establish an independent Accounting Standards Board. It is understood that a form of Accounting Standards Board may have existed at the same time as the Corporate Law Authority, which was superceded by the SEC with the enactment of the Act in 1997.

It is recommended that a steering committee be formed consisting of members of the corporate sector, ICAP, and the Auditor-General of Pakistan to review and report on the establishment of an independent Pakistan Accounting Standards Board.

10. Public Sector Accounting Standards Board

The establishment of the Pakistan Consortium of Governmental Financial Management represents a serious attempt to upgrade the quality and standard of accounting and auditing practices in the Public Sector, including Government-owned enterprises.

At present, there are only 12 members of ICAP/ICMA working in the Public Sector and most Government accountants are qualified through PIPFA.

The Society needs to be encouraged in achieving its objectives and the assistance of international finance institutions is a means of achieving the results required.

The fact that this Society is incorporated and is established slightly outside the government umbrella makes it a convenient vehicle for use by international finance institutions as an executing agency.

To have an impact on achieving its objectives it is considered that the Society should move to establish its own office and Secretariat outside the Auditor-General's Department.

In the PIFRA project the Auditor-General has stated that the Public Sector Accounting Standards draft guidelines issued by the Public Sector Committee of the International Federation of Accountants (IFAC) have been taken into account when developing the accounting model for the World Bank-funded Project. The implementation of this Project will commence most likely in 2002 and it seems opportune to formally develop Public Sector Accounting Standards in accordance with international guidelines. It seems appropriate for the Society to play a major role in this development and the Society should strongly consider the establishment of a Public Sector Accounting Standards Board from within the Society initially then eventually as a separate entity.

It is recommended that the Pakistan Consortium on Governmental Financial Management should consider the:

- **legal establishment and promotion of a Public Sector Accounting Standards Board, and**
- **establishment of an independent Secretariat.**

11. Pakistan Public Sector Accounting Standards

The International Federation of Accountants has issued eight International Public Sector Accounting Standards (IPSAS) and seven Exposure Drafts for comment. The first eight IPSAS issued are based on accrual accounting and Exposure Draft No. 9 refers to Financial Reporting under the Cash Basis of Accounting.

It is recommended that the Pakistan Government establish the Pakistan Public Sector Accounting Standards and that these Standards be based on the International Public Sector Accounting Standards issued by IFAC.

12. Application of IAS for Unlisted Companies

Section 234 subsection (3) of the Companies Ordinance 1984 requires that listed companies must comply with International Accounting Standards (IAS) as directed by the SEC. Section 252 requires that every company must appoint an auditor at the annual general meeting who shall hold office until at least the expiry of the next annual general meeting. Section 254 requires that auditors must be members of ICAP or ICMA. Members of ICMA are authorized to conduct the audit of small private companies that have a paid-up capital of less than PRe 3 million.

In the course of their audit, the auditors encourage all companies to comply with IAS, including the unlisted organizations as well as the listed. If compliance is mandatory for the listed companies there appears to be justification in making it mandatory for unlisted companies especially if the companies have a large asset base or paid-up capital. This should apply especially in the case of large unlisted companies.

It is recommended that the procedures adopted for directing mandatory compliance with IAS for listed companies should also be applicable to unlisted companies, where the paid-up capital or the asset base is in excess of PRe 50 million.

13. Public Accounts Committees (PACs)

The PAC for the central government has recently been reactivated, however, it is understood that the PACs in the provinces have met on very few occasions in recent years and subsequently the examination of

the accounts is up to 15 years overdue. The PACs should be constituted under a higher authority than that which exists at present and the powers, functions, rules and procedures regularized in order that the PACs have the confidence of the public and that they are performing their main function as the nation's overseer of the use of public funds.

It is recommended that the duties and responsibilities of PACs be legally constituted and that the PACs in the provinces be reactivated and be required to meet on a more regular basis as prescribed by legislation.

14. Additional Recommendation by a senior staff member of Auditor-General's Department

Because of the lack of examination of audit reports by PACs, serious concern has been expressed regarding the lack of attention given to audit findings of a serious nature that may require immediate attention. To overcome this major problem it has been recommended that the "AGP's Audit Committee" be established. The membership would consist of the following:

- Auditor-General of Pakistan as Chairman
- Principal Accounting Officer of concerned ministry/department
- Member of ICAP
- Member of ICMA
- MBA/IT Specialist nominated in consultation with Cabinet Division
- Additional Finance Secretary, Ministry of Finance
- Attorney (Deputy Auditor-General, Legal)
- Deputy Auditor-General (Audit) concerned
- Technical Expert co-opted by Auditor-General as required

This Committee would meet regularly (up to twice monthly) and examine the major audit findings that require immediate action. The Committee would also encourage and oversee the functions of the Departmental Accounts Committees in order that they may operate more efficiently and effectively.

15. Establishment of Internal Audit Function

Government ministries/departments do not have an internal audit function within their organizations. Auditing is left to the Auditor-

General's Department, which is mainly involved in compliance with procedures, accuracy of calculations, audit investigations because of special requests, and performance audits. There appears to be no formal procedures to ensure that effective internal control and risk management are being considered at department level.

It is recommended that the establishment of an internal audit function be considered for implementation in certain Government departments/ministries. The audit function should include internal control and risk management functions.

16. Joining the Institute of Internal Auditors

The Auditor-General of Pakistan is the Supreme Audit Institution (SAI) in this country and is a member of the Asian Organization of Supreme Audit Institutions (ASOSAI), which is a Regional Working Group of the International Organization of Supreme Audit Institutions (INTOSAI). The Public Sector therefore has an affiliation with an international audit association.

The accounting bodies, i.e., ICAP, ICMA and PIPFA are informed through the International Federation of Accountants Committee of any auditing development, issues of standards, etc., by the International Auditing Practices Committee (IAPC). However their role is mainly directed towards the accounting function.

Established in 1941, the Institute of Internal Auditors (IIA) is an international professional association with world headquarters in Altamonte Springs, Florida. The IIA has more than 60,000 members in internal auditing, governance and internal control, Information Technology (IT) audit, education and security, with representation from more than 100 countries. The Institute is the acknowledged leader in research, education, technology and certification and risk management for the profession worldwide. At this stage of development, it is appropriate for Pakistan to consider joining the international professional auditing association and establishing the Institute of Internal Auditors Pakistan (IIAP). This could conveniently be done through a joint steering committee of the three national accounting bodies and the Auditor-General's Department or through a subcommittee of the Pakistan Consortium on Government Financial Management.

The IIA has a network of 230 affiliates and is represented in more than 100 countries worldwide. Chapters and national institutes are presently organized in 17 regions.

Chapters and national institutes hold regular meetings, seminars, and district and regional conferences and encourage members to network with peers, develop professional contacts, and be aware of current issues and practices in internal auditing.

The IIA issues standards by which the operations of an internal auditing department can be evaluated. The standards are the same for private business and governments.

It is recommended that Pakistan join the Institute of Internal Auditors by forming its own national institute and that a steering committee consisting of the three national accounting bodies and the Auditor-General's Department be formed to evaluate this recommendation and, if agreed, establish the Institute of Internal Auditors Pakistan.

17. ADB Anti-corruption Policy

The ADB's anti-corruption policy centers on three objectives: (i) Supporting competitive markets, and efficient, effective, accountable, and transparent public administration, as part of the Bank's broader work in governance and capacity building; (ii) Supporting promising anti-corruption efforts on a case-to-case basis and improving the quality of ADB's dialogue with its developing member countries on a range of governance issues, including corruption; and (iii) Ensuring that ADB's projects and staff adhere to the highest ethical standards.

In order to combat corruption in the public service the following procedures should be considered:

- **Adequate accountability measures should be in place within the public service. These measures should be transparent to the individuals concerned and should be covered in position descriptions or included in finance instructions.**
- **Procedures should be in place for the detection and investigation of corruption. This may be achieved by strengthening internal control procedures or broadening the scope of the internal audit.**

- **The employment and training of accountants should be enhanced within the public service. All accounting bodies have a stringent code of ethics and deviations from this code could lead to dismissal from the accounting society. The employment of people committed to these ethical codes of behavior will enhance the overall integrity of public servants. Employees should be encouraged to further their careers by taking up additional training, which will lead to obtaining professional qualifications. The Government should undertake retraining and training in government procedures.**
- **Effective internal controls with properly constructed transparent guidelines should be established and adherence to these guidelines should be monitored. This monitoring process could be achieved by inclusion in the mandate for internal audit.**