

# Status & Road map compliance with IFRS in Pakistan

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## Agenda

- *Why IFRS*
- *Regulatory Framework*
- *Current State of IFRS in Pakistan*
- *Status of Compliance*
- *Enforcement mechanisms / Quality Control System*
- *Working closely with Regulators*
- *Results of ROSC by world bank*
- *Pakistan Roadmap*

## Why International Accounting Standards?

- Low Cost of Capital
- Cross-border mergers, globalization, FDI
- Single set of reliably, high quality standards, issued by an independent body (IASB).
- Countries like Pakistan do not have the resources to develop their own standards.
- Why re-invent the wheel when IASB is doing it?
- Focus on enforcement rather than development.
- Required by IFAC SMOs / ICAP committed to SMOs

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## *Why Global Accounting Standards?*

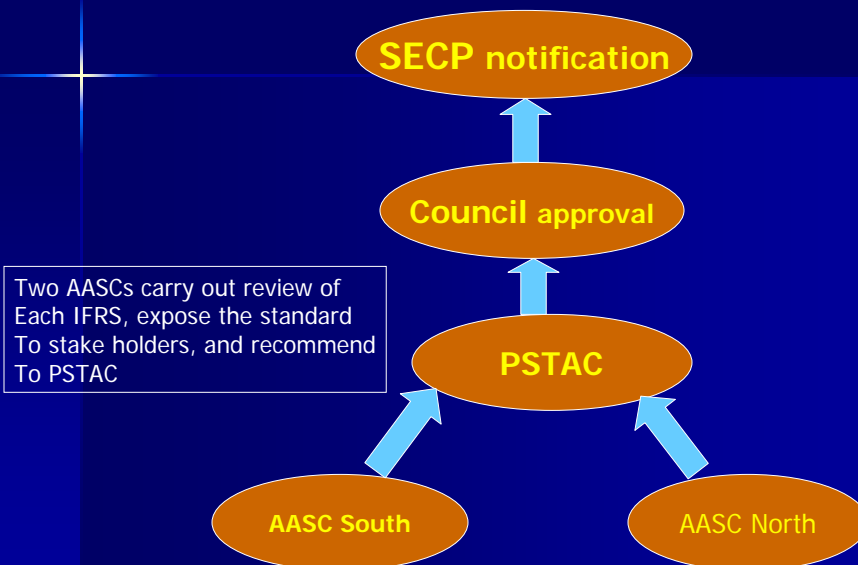
- **Karachi Stock Exchange**
  - Major privatizations / foreign investment of US \$ 4 billion expected in 05-06 (recent privatization of 26% of PTCL worth \$ 2.6 B)
  - Has been the best performing market consistently for the last three years.
  - KSE index risen nearly 300% in the last two years.
- **With high economic growth, the country can attract large amount of FDI. The enabling environment requires high quality accounting standards (IFRS)**
- **Despite various impediments, IFRS remains the best option for enhancing reliability of financial reports / investment in publicly accountable entities**

## Regulatory Framework

- S. 234 of Companies Ordinance requires mandatory compliance with the accounting standards that are notified by SECP.
- SECP notifies standards on the recommendation of ICAP Council.
- ICAP Council approves the adoption of each standard on the recommendations of Prof Standards Committee.
- Each IAS / IFRS is reviewed by two regional Accounting Standards Committees and a due process of exposure to the members and other stakeholders is carried out prior to recommending adoption.

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## IFRS Adoption process



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## Pakistan : Regulatory Framework

- Two categories of Companies : Listed & non-listed companies
- Accounting Framework for listed companies: Approved Accounting Standards plus fourth schedule of CO.
- Non-listed : Generally IASs are applied by all companies audited by major firms plus fifth schedule of CO.
- New Framework for Non-listed / SMEs being developed.

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## Current status of IFRS

- All IASs, except IAS 29 & 41, and new IFRSs are adopted.
- IAS-41 approved by the council- in process of notification by SECP. IFRSs are under study and in process of adoption.
- IAS 29 not considered relevant in Pakistan at present.
- IAS 39 – exempt for banks- to be adopted by 07.
- Effectively, Pakistan is fully IFRS compliant, as approved accounting standards are the same as applicable IFRS (except for minor inconsistencies with laws & for banks).
- The cost of conversion to IFRS would be insignificant.

## Pakistan's approach to IAS / IFRS

- Pakistan has been adopting IASs, without modification since 1970s when IASC started issuing IASs.
- IFRSs part of the ICAP syllabus.
- Pakistani Accountants are well versed with IFRSs.
- Exporting IFRS experts through out the world.
- Pakistani qualified Accountants being recruited by big 4 in US, UK and other regions / getting same salary as UK qualified CAs.

## Key issues / Challenges / problems

- IAS 19: Employee Benefits
  - Frequent actuarial valuations by qualified actuaries is difficult due to shortage of actuaries.
  - Companies find it difficult to apply actuarial valuation method and make actuarial valuations owing to lack of in-house expertise.
- IAS 39 :
  - Banks exempted / allowed time owing to prudential regulations
  - Embedded Derivatives
- IFRI-4 : Determining whether an arrangement contains a lease
- Lack of Grand Fathering provisions in IFRS compared to FASB

## Key Challenges Faced in Adoption of IAS/IFRS

- Few inconsistencies with laws & directives still remain:
  - Companies Ordinance, 1984
  - Prudential Regulations of the State Bank of Pakistan.

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## Compliance Statement

- "The financial statements are prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984. Approved accounting standards comprise of such IASs as are notified under the provisions of the Companies Ordinance, 1984.
- Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence."

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## Enforcement mechanisms

- **SECP Monitoring of listed company Fin Stats**
  - Over 22 auditors of listed companies fined.
- **ICAP initiated investigations: 16 members found guilty with varying penalties including removal from membership in a few cases.**

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## Quality Assurance Program

- **Mandatory Quality control Program**
- **All firms required to undergo review of their working papers.**
- **Listed companies can only appoint audit firms that have satisfactory ratings from ICAP's QCR committee.**
- **Full time reviewers used**
- **Reviews carried out under a framework of Quality Control to ensure whether or not work was conducted in accordance with ISAs (see website of icap)**
- **Two unsatisfactory reviews or indication of gross negligence results in referral to the investigation committee.**
- **Current QCR program largely based on review of selected audit engagements.**
- **General quality controls i.e., ISQC 1 is planned to be adopted in phases.**

## Quality Assurance Program

- Financial Statements Review:
  - Program approved by the Council.
  - Being implemented effective from July 1,05.
  - Will be in addition to the QCR and cover all listed companies.

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## Working with the Regulators

- Chairman SECP, Chairman CBR and two federal secretary level persons-members of ICAP council
- Coordination committees with SECP & SBP meet on quarterly basis.
- ICAP advice is sought on all issues relating to accounting & auditing standards

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## **World Bank -Report on Observance of Standards & Codes (ROSC)**

- Many stakeholders commended regulators role during recent years for improving quality of financial reporting.
- A majority of the interviewed stakeholders praised the initiatives undertaken by SECP, SBP and ICAP geared towards improving the quality of financial reporting in Pakistan.
- Stakeholders viewed that mandatory application of IFRS, monitoring and enforcement of standards, and introduction of QCR were important steps towards establishing sound corporate financial reporting regime.

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## **Road Map for complete IFRS compliance**

- IFRS to be adopted fully by December 31, 07 by all publicly accountable entities.
- Work closely with Regulators to achieve these objectives
- All laws that may be inconsistent with IFRS are to be modified to enable full implementation.
- SME framework : to be developed by June, 06.
- Unreserved compliance for Fin-stats for Dec 31,07.

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**Deloitte.**

**Thank You.**

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