

ICAI Diamond Jubilee International Conference  
"Winds of Challenges – Global Strategies for Accounting Profession"

# Synergy Through Harmonization for moving Ahead in Knowledge Era

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# Presentation Outline

- **Current Environment of global crisis**
- **Accounting profession & the crisis**
- **Reforms to global financial architecture to minimize systemic risks**
- **ICAP approach to implementing and enforcing global standards for achieving transparency and good governance**
- **Way forward for harmonization at regional level to enhance professions relevant and contribution to the regional economy**

# Current Environment : Global Economic Crisis

- Severest Recession since Great Depression in 30s
- Massive destruction of wealth : Equity Prices & housing market
- As per world bank forecast, global GDP expected to contract by 3%
- Global trade expected to fall in 2009 for first time in 27 years.
- Investment growth will fall from 13% to 3.5%.
- GDP growth in developing countries will be only 2.1% in 2009 compared to 5.8%
- Net investment flows to the developing world will be \$ 700 billion less in 2009 compared to 2007
- Upto 245 million more people pushed into extreme poverty in 2008 and 2009.

# Accounting Profession & the Crisis

- Clear that Accounting is not the cause or the problem
- No major audit failure, except Satyam Fraud
- Root cause : optimism bred by a long period of high growth, low real interest rates.
- In terms of policy failures:
  - Financial Regulation, not equipped to address risk concentrations & flawed incentives to financial boom
  - Macro economic policies, which did not address systemic risks in the financial market, housing boom & asset price bubbles
  - Global financial architecture, where fragmented surveillance system compounded the inability to see & address the systemic risks.
- Accounting Profession, owing to reforms after East Asian Crisis & Enron, has significantly improved. Without such reforms, the collapse of the world economy would have far too deeper.
- Reforms implemented by the profession have saved trillions of dollars that would have been lost, if there were large number of audit failures

# Proposed solutions for restoring confidence & minimize systemic risks

- Reform the global financial architecture
  - G-20 recommendations
    - Enhanced role of IMF : including tripling IMF resources to \$ 750 billion & additional \$ 250 billion SDR
    - Enhanced Role of the IMF includes
      - Economic Surveillance
      - Policy Advice
      - Economic forecast
      - Global lender, including concessional lending to low income countries
      - Boosting world liquidity
  - Strengthen financial regulation and global & regional coordination between regulators

# Proposed solutions for restoring confidence & economic recovery

- Regional Approach for sustained recovery
  - Strengthen financial regulation and regional coordination between regulators
  - Minimize the cost of compliance under the concept of smart regulation & not over regulation
  - Promote regional trade
  - Cross border investment, especially in the region
  - Capitalize on synergies to make South Asia a manufacturing center of the world
  - Adopt best practices on corporate governance & transparency

# Making the Profession More Resilient and Robust

- G-20 recommendation on Accounting
  - Accounting Standard Setters to work urgently with supervisors and regulators to improve standards on valuation & provisioning, and achieve a “single set of high-quality accounting standards”
- Ultimately, we should have single “Global Standard Setter”, probably IASB to ensure a “single set of high quality accounting standards”
- True globalization is not possible without global transparency, which is not possible without a “Single set of high-quality:
  - Accounting standards (both for private & public sector)
  - Auditing standards and
  - Ethical standards

# Global Standards

- IFRS issued by IASB
- IFAC / Boards
  - ISAs and standards on Quality Control
  - Education standards
  - Ethics Standards
  - IPSAS

ICAP's role & approach for  
achieving transparency and  
best practices in corporate  
governance

# ICAP : unique model of governance for accounting regulator

- Management is vested in the Council
- 21 member council, includes 15 elected, 4 appointed by the Govt. of Pakistan and 2 independent members to be appointed through a nomination committee
- Government nominees include:
  - Chairman SECP, Federal Finance Secretary, and two other members of the same status
- Council acts in public interest : general body decisions not binding on the council.
- Formed a nomination committee with a mandate to recommend:
  - Independent members on the council
  - Nominations on international bodies, chairpersons on boards and committees and other key appointments
  - Will comprise of President, four council members and two independent members.

# Accounting Framework for listed companies

- Compliance with International Accounting Standards required by law, as notified by SECP.
- SECP notifies IFRS on the advice of ICAP
- All IFRS, except IFRS-1 already stand notified and implemented in Pakistan.
- ICAP and SECP have agreed that full compliance with IFRS will be ensured by December 2009 (to be effective for the periods beginning Jan 1, 2010)

# Three Tier Accounting Framework

- Three Tier Framework
- Accounting and Financial Reporting Standards for Medium-sized Entities (MSEs) and Small-Sized Entities (SSEs) introduced through Companies Ordinance
- Listed companies : full set of IFRS
- Very Small entities (turnover below \$ 3 million & paid up capital of less \$ 0.3 million) follow SSE standard
- Medium Sized entities follow MSE standard (prepared on the same concept as SME standard being developed by IASB)

# Regulatory framework

- ICAP's approach to regulation is:
  - Work closely with SECP & SBP
  - Acts as an advisor to both regulators on issues of accounting, financial reporting and auditing.
  - Formed Joint Co-ordination Committees with SECP & SBP that meet regularly.
  - Adoption of IFRS and ISAs
  - Monitoring & compliance through quality control framework

# Education & Ethics Standards

- Education Syllabus and Code of Ethics are in line with the IFAC standards.
- Action Plan for full compliance with SMO's has been prepared, and progress monitored on continuing basis

# Quality Control Review

# Quality Control Program of ICAP

- Unique in the world.
- Very few countries in developed world have Quality Assurance Programs that match or exceed ICAP program.
- Almost in compliance with SMO 1 of IFAC except a few areas for which action plans have been developed

# ICAP QCR Program

- Introduced in 1987 on a peer review basis.
- Mandatory in 1998.
- Written QCR framework monitored through QCR committee
- QCR Committee converted into a Quality Assurance Board in 2005
- Under Code of Corporate Governance issued in March 2002, a listed company can only appoint a firm of CAs that has satisfactory rating from QAB of ICAP. In other words, any firm which does not receive satisfactory rating loses all listed clients.
- As of now, approx 100 audit firms have obtained satisfactory QCR rating out of total 400 firms
- Therefore, only 100 firms can do the audit of listed companies

# Quality Assurance Board (QAB)

- Independent Board like IAASB, not answerable to the Council
- QAB, 13 member board, includes a combination of:
  - 4 independent members appointed by regulators
  - Only 2 council members
  - Remaining from industry, small and large firms
  - Chairman is a non-practicing member
  - 3 year tenure
- At least six meetings in a year

# Overall Conclusion of 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.”
- Owing to unique nature of ICAP and its governance model, Rosc report did not recommend an “independent oversight board”.

# Contribution to Corporate Governance

- In Pakistan, ICAP is the pioneer in initiating and implementing corporate governance:
  - Drafted the Code of Corporate governance, that was later enforced by SECP
  - Promoted the establishment of Corporate Governance Institute.

# Way forward for Harmonization

- SAFA bodies should adopt all IFRS, ISAs, Quality Control, Education and Ethics Standards issued by IASB and IFAC boards.
- Professional bodies should invest on developing implementation mechanisms.
  - Establish robust quality control systems to ensure compliance with IFRS, ISAs and quality control standards.
  - Enhance their focus on implementation of IPSAS to enhance transparency in the public sector : an opportunity for the profession.
  - Contribute more effectively on promoting good corporate governance

# Way forward for Harmonization

- Member bodies, especially ICAI & ICAP should form joint committees to identify the areas of cooperation to gain from each others experiences and successes so as to enhance the profession's contribution to the economies. The specific areas include:
  - Harmonization of syllabus
  - Monitoring mechanisms for enforcing global standards
  - Training programs, especially coordination and accreditation of CPD activities
  - Initiating Joint Research projects
  - Promoting Good Governance and Transparency through greater use of qualified accountants, both in private and public sectors
- SAFA, as an institution should be reformed to make it more robust as a regional leader of accounting profession through:
  - Strengthening its governance
  - Appointments on the board of the people through well laid down criteria, for a three year tenure, preferably those who are not on the council of the professional bodies to ensure their independence
  - The Assembly should approve the vision and strategy, while the board monitor the implementation and report to the Assembly on a yearly basis.

THANK YOU