

## Exclusive Interview



### Mr. Aamir Khan

Chairman, Securities & Exchange Commission of Pakistan (SECP)

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**ICMA Pakistan:** Please highlight the role of the Commission in protecting the rights of consumers in Pakistan?

**AK:** The Securities and Exchange Commission of Pakistan (SECP), as a front-line regulator, is mandated under its statute to safeguard the rights of investors and protection of public interest related to the sectors it regulates. Given its significant mandate, SECP is committed to foster economic development in Pakistan and is actively working towards creating an enabling environment designed to improve the business climate, reducing costs of doing business, and ensuring that investor protection measures are aligned with international benchmarks. Protection of the rights of

investors forms an integral part of SECP's mandate and is achieved through creating a sound regulatory environment, where investors and participants are made aware of their rights through proper disclosures, given relevant redressal mechanisms to timely resolve any complaints, and swift enforcement actions are taken to address any contravention of applicable laws. Over the years, SECP has brought numerous reforms in the legislation and supervisory framework to improve corporate governance, and refining accounting and auditing requirements to promote transparency and accountability in the corporate sector and its regulated entities.

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**ICMA Pakistan:** What steps the Commission has taken so far on the recommendation of the Competition Commission Pakistan (CCP) to reinstate the requirement of cost audit of consumer-sensitive sectors?

**AK:** The Commission received a policy note from the Competition Commission of Pakistan (CCP) endorsed by the Ministry of Industries and Production, recommending application of cost audit requirements at the very minimum, for companies in Cement, Sugar, Vegetable Ghee / Cooking Oil, Fertilizer, and Wheat Flour sectors. Considering the significance of the matter, the SECP, after consultation with ICMA Pakistan and ICAP, has notified the Companies (Maintenance and Audit of Cost Accounts) Regulations 2020 vide SRO.1336(I)/2020 dated 14 December 2020.

**ICMA Pakistan:** In the neighbouring countries, cost audit is obligatory for almost all sectors and it has brought overall benefits to the society and economy; however, in Pakistan, it is not. What are the key reasons?

**AK:** Presently, mandatory Cost Audit exists in India and Bangladesh. In Bangladesh, cost accounting record rules have been issued for sugar, chemical fertilizer, cotton, jute, pharmaceuticals, fuel and power, edible oil, and vegetable ghee industries. India was the first country to implement mandatory Cost audit, where cost audit requirement has been specified under two categories regulated and unregulated sectors, covering a large number of industries.

Previously, a similar cost audit regime was applied in six industries in Pakistan. However, the concept did not evolve in Pakistan due to concerns from the relevant industries, as the regulatory requirements were considered escalating the cost of doing business.

**ICMA Pakistan:** Do you agree that cost audit be obligatory for all companies like the financial audit to safeguard the interests of consumers?

**AK:** The dual role assigned to the SECP, to promote the development of the economic landscape and to

simultaneously regulate the business sector, requires a fine balance between regulation and facilitation. While considering that the Cost Audit regime has an emphasis on performance appraisal of a company due to evaluation of various key performance indicators, which highlight reasons for losses that may be visible or invisible, inefficiencies and wastages, it is advisable that applicability of Cost Audit regime should be made mandatory where it is viable and in the overall public interest.

Moreover, cost audit should not be mistaken as undermining financial audit, for it is basically an "efficiency or performance audit" relating to the measurement of the efficiency of utilization of inputs or items of cost. Cost accounting record orders require maintenance of the cost records and evaluation of the costing mechanism, which are outside the domain of the financial audit. The two have different targets, scopes, emphases, approaches, and functional areas.

Finally, it must also be kept in mind that every regulatory requirement adds to the cost of doing business, which eventually gets passed on to the consumer.

**ICMA Pakistan:** What steps need to be taken to expand the cost audit regime in Pakistan to reap greater benefits of cost efficiency?

**AK:** After the evolution of WTO and SAFTA, it has become inevitable that Pakistani companies should not only be quality conscious but also cost-competitive. And for that, cost audit, among other things can be helpful. However, a thorough strategy needs to be framed in consultation with all stakeholders i.e., companies, ICMA Pakistan, ICAP, and relevant ministries, for identification of sectors/industries, where a cost audit regime needs to be implemented, for reaping greater benefits of cost-efficiency and ultimately economic growth in Pakistan. The potential of digital solutions reducing the cost of business for companies is vital for promoting the cost audit regime. Furthermore, introspectively, developing cost accounting standards, and strengthening quality control review of cost auditors is essential to invigorate the confidence of all stakeholders.

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**ICMA Pakistan:** What are your views on the applicability of the cost management system and audit for the Public Sector Entities (PSEs) in Pakistan to improve their productivity and efficiency?

**AK:** Detailed costing information can facilitate meaningful analysis in the public sector, which in turn, can be used effectively in decision making and bringing operational efficiency. Furthermore, using costing information along-with non-financial information on program outputs and outcomes can assist the public sector to devise long-term strategies.

The Companies (Maintenance and Audit of Cost Accounts) Regulations, 2020 are applicable to all companies, including PSEs, working in Cement, Sugar, Vegetable Ghee / Cooking Oil, Fertilizer, and Wheat Flour sectors. Effective implementation of cost management framework and cost audit thereof in state-owned manufacturing and industrial undertakings can greatly facilitate the government in properly monitoring, measuring, and reporting on the support extended to PSEs.

**ICMA Pakistan:** Do you think all CPEC-related projects may be obligated to maintain cost records for remaining competitive?

**AK:** As stated earlier, the Cost Audit regime should be made mandatory only where it is viable and cost-effective, and that too after thorough and detailed deliberations with stakeholders. Accordingly, for CPEC-related projects, the cost audit regime should also be viewed in this backdrop. Cost accounting and cost auditing framework may be deployed only in those cases where there are clear advantages and benefits in taking such a step.

Both the SECP and ICMA Pakistan have the responsibility to promote the significance of the cost audit regime in the country. I suggest that ICMA Pakistan should take lead and conduct an awareness campaign for companies required to comply with the cost audit framework, highlighting the benefits they may reap through compliance with the cost audit regulations

A thorough strategy needs to be framed in consultation with all stakeholders i.e., companies, ICMA Pakistan, ICAP, and relevant ministries, for identification of sectors/industries, where a cost audit regime needs to be implemented, for reaping greater benefits of cost-efficiency and ultimately economic growth in Pakistan

**ICMA Pakistan:** How ICMA Pakistan and SECP can work together in making the industry realize the importance of cost audit?

**AK:** SECP believes in synergy with all stakeholders and pursues a consultative approach to strengthen its regulatory regime. Both the SECP and ICMA Pakistan have the responsibility to promote the significance of the cost audit regime in the country. I suggest that ICMA Pakistan should take lead and conduct an awareness campaign for companies required to comply with the cost audit framework, highlighting the benefits they may reap through compliance with the cost audit regulations. Awareness campaigns may include publishing advertisements, conducting awareness sessions, seminars, etc.

Furthermore, research studies highlighting the importance of cost audit giving impetus for cost efficiencies, suggesting changes in laws at par with international best practices, and tapping the potential of digitalization for groundbreaking ideas/products will be a mutually beneficial initiative. ICMA Pakistan can render its technical services to the SECP in developing policies for corporate and business sectors and to conduct research studies on various issues faced by these sectors. This is also an opportunity for ICMA Pakistan and ICAP to revive their joint project of developing a framework for cost accounting standards for benefit of all stakeholders and strengthen their quality control review framework for cost audits.

I would like to reiterate that any suggested regulatory change or direction must be supported, by a well thought out strategy, credible analysis, and underlying research that clearly demonstrates that the benefits outweigh the costs. ICMA Pakistan must continue to focus on this vital area.

*The Editorial Board thanks Mr. Aamir Khan, Chairman, Securities & Exchange Commission of Pakistan (SECP) for giving his exclusive interview for Management Accountant Journal.*