

Cost Accountants' Role in Economic Growth of Pakistan

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The '**Cost and Management Accountants**' can play an instrumental role in supplementing the efforts of the new government in achieving economic growth of Pakistan. They can be helpful to the government in multi-dimensional tasks such as bringing cost efficiency in industries, better utilization of public funds and resources, reviving inefficient public sector organizations, tackling acute energy crisis, checking rising inflation and unfair business practices etc. Unfortunately, the Management Accountants have so far never been given the opportunity at the government level to show their mettle in delivering the above specified tasks.

It is now expected from the new Government that it would give due importance and a possible role to the Management Accountants in associating them not only in the policy-making process, but also in the overall economic revival process. Their professional skills and expertise can be utilized to tackle a host of economic ills and malpractices that are prevailing in our society.

Now, let's see how the 'Management Accountants' can help the government in different areas.

Reviving the Inefficient Public Sector Organizations (PSEs)

The Management Accountants can be associated by the government to develop rescue plans for the revival of inefficient Public Sector Entities (PSEs) like Pakistan Railways, PIA, Pakistan Steel, etc. They can help such units in overcoming their management-related problems and achieving efficiencies and maximum production capacity.

Similarly, the Management Accountants can also offer their professional expertise to the private sector in reviving the sick and low-operating industries, especially textile mills and fertilizer plants. Irrespective of few textile units, which can be considered healthy, others are giving minimal production or are presently inoperative. The textile sector can utilize the services of ICMA Pakistan professionals as Consultants, in diagnosing the reasons of sickness or idleness of sick textile units and putting such units in operating condition with their consultation.

Performing Cost Audits of PSDP Projects for Performance Evaluation

The Planning Commission of Pakistan has observed in its Report titled 'Analysis/Review of the PSDP (Public Sector Development Programme)' released in August 2011, that poor planning, unclear scope definition, unclear goals, procurement leakages, deficient planning and poor governance are some of the key reasons for the failure of PSDP projects. The Report further pointed out that over Rs 50 billion, equivalent to 21% of original Federal PSDP for 2010-11, was allocated for political programs which, considering the tight fiscal space needed to be curtailed. The Planning Commission

recommended that qualitative and social audits be carried out to evaluate the project success, especially for those projects that create a broad social impact.

The above observations and recommendation of Planning Committees greatly necessitates the importance and urgent need for carrying out '**cost audits**' of PSDP Projects. The Management Accountants, qualified from ICMA, should be associated for effective 'cost management and control' of the Public Sector Development Programs (PSDPs) implemented in all the provinces. The new government should associate the Management Accountants, nominated by ICMA Pakistan for conducting cost audit of development projects in all the Provinces.



Setting up a 'Cost and Efficiency Department' to keep check on Inflation

The government should establish a new Department by the name and title of 'Cost and Efficiency Department' to reduce the spiraling inflation in the country. Cost and Management Accountants may be hired for this department to conduct cost audits of companies and monitor their profit margins and control price increases made by manufacturers / wholesalers/retailers in essential commodities without any valid reason. This department should supervise that any increase in price should be allowed only with relevance to taxes and duties imposed by the regulator, e.g. 1% increase in GST should not result in a price increase of 15%. Likewise, an increase of Rs 5 per kilometer should not go unchecked against an increase of Rs2 per liter in gasoline price, this, being the behavior of transporter community.

The proposed 'Cost and Efficiency Department', by utilizing the expertise of Management Accountants can help the government in putting a check on rising inflation, especially of essential commodities and materials of national importance such as steel, cement etc. The cost audit to be performed by Management Accountants would determine the actual cost of production of these products, thereby bringing into limelight the cost price margin. On the basis of correct costing data, the government would be in a position to fix reasonable selling prices of products and thus undue profiteering will be checked, and consumers/general public would

be saved from exploitation and unreasonable price hike. A healthy competition would be generated among the various units in an industry.

The above role of Management Accountants could only be possible if the government decides in principle to make a mandatory requirement for all the manufacturing units to obtain a cost audit report / certificate from a Cost Accountant, qualified from ICMAP, verifying therein the actual cost of product (s). This requirement needs legal cover through an act of the Parliament. Cost audit will enable the government to ascertain the actual cost of production and the profit margin being earned by the producers and business community, and thus the inflation will be controlled. It is proven in cost calculation of CNG Prices previously and the public is able to have CNG at cheap rates. Same could be done if costs of production/services of others are calculated

Introducing Cost Accounting Sub-Systems in Local Bodies

It is a fact that the public delivery system in Pakistan is not to the satisfactory standards and is declining with the passage of time. Moreover, there is also no control mechanism in place in local government for effective utilization of public funds and resources, which leads to wastage or misuse of public money. There is, therefore, need to strengthen local administration and delivery of basic services.

It should be made pre-requisite for the Local bodies to develop a 'Cost Accounting Sub-system', in addition to existing financial management system, as an instrument to support local government management. This would lead to better efficiency, effectiveness and economy in resource application, thereby allowing a more suitable mechanism for better use of tax payers' money. The professional expertise of Management accountants could be utilized in developing and administering the 'cost accounting sub-systems' at the provincial and local bodies levels.



Assisting government in implementing budgets based on cost strategic plans

In the budget making process in Pakistan, there is a tendency to use simple "Incremental Budgeting" approach, based on previous year's budget without any careful attention to the costing side. There are two major shortcomings of incremental budgeting i.e. each budgeted item is started at last year's level, and next period's level is planned as an increment to that level. Secondly, the Government Ministries / Departments resort to unnecessary spending of left-over funds available with them at the end of budget period with the intention that if they do not finish all the funds, they would receive lesser funds next year.

There is need to introduce "Zero based budgeting" approach, which requires justification for every expenditure incurred. In this approach, each budget item starts with an assumed value of 'zero', with all changes above that having to be justified. It leads to more efficient allocation and utilization of resources and helps in detection and elimination of inflated budgets, or budgets that reflect wasteful operations. It puts the burden of proof on the manager (whether he is in government or private sector), and demands that each manager justify the entire budget in detail and prove why the organization's money be spent in the manner proposed.

The Management Accountants have the required expertise in 'Zero-based budgeting' and can assist the government in preparing and implementing budgets based on costed strategic plans.

Assisting the CCP in identifying Predatory and Transfer Pricing Cases

The multinational companies have a prominent presence in Pakistan and they frequently transfer resources among associate concerns / units operating in different parts of globe. Such transactions have a great impact on their profitability vis-à-vis tax liability. Unfortunately, there is not any regulation or legislation that can check such transfer pricing transactions. **The Cost Auditors can play a role in providing a system of check on such transfer pricing mechanisms.**

In this context, the 'Management Accountants' can extend their professional expertise to the Competition Commission of Pakistan (CCP) in identifying and filing cases against 'Predatory Pricing' and 'Transfer Pricing' transactions, thereby ensuring competitive environment for all market players. **Predatory pricing** is the practice of selling a product or service at a very low price, intending to drive competitors out of the market, or create barriers to entry for potential new competitors. **Transfer pricing** refers to the pricing of contributions (assets, tangible and intangible, services, and funds) transferred within an organization. The choice of the transfer price will affect the allocation of the total profit among the parts of the company. This is a major concern for fiscal authorities who worry that multi-national entities may set transfer prices on cross-border transactions to reduce taxable profits in their jurisdiction. This has led to the rise of transfer pricing regulations and enforcement, making transfer pricing a major tax compliance issue for multi-national companies.

Assisting the NTC to help Industry in Anti-dumping Cases based on Cost information

The provisions relating to anti dumping laws are of special significance in the context of cost accounting. The determination of normal value, domestic price, quantum of injury etc. all requires cost information. Manufacturers in the developed world are so well equipped with data that they obtain speedy relief under WTO while benefiting from the lack of data available in developing countries. In Anti-Dumping cases, the International Dispute Resolution Authority accepts the authenticated cost data from the Cost Audit records, maintained by the companies. Unfortunately, when a Pakistani company is facing such an anti-dumping duty from a foreign country, it does not make available cost data to pursue their cases and finally they fail to convince the concerned authority.

The Management Accountants can work jointly with the National Tariff Commission (NTC) to assist the industry to make them aware of the anti-dumping / counter vailing duties and convince them to put their cost data in order to face such a challenge in future in the international market.

An in-built cost accounting system could be a great support to the industry itself in order to check dumping as well as to provide inputs in cases of alleged dumping in legitimate exports. If our industries maintain cost accounting system, they can file and fight a large number of Anti Dumping cases against the foreign importers.