

Role of Chief Cost Accounts Officer

By:

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The Chief Cost Accounts Officer has been an important component of the Ministry of Finance in the past. He was a senior member of the team and headed the costing function in the government as a whole. He held the rank of an Additional Secretary and had a full-fledged office with Cost Officers assigned to various important analysis.

He was also the trouble-shooter for the government and in time of crisis rendered invaluable services. The last such officer was S.M. Zafarullah, who retired in 2002, and thereafter the post was not filled on the plea that government has privatized most of its units and hence does not need a Cost Organization.

This excuse is not only short-sighted but ignores the realities of the past. The CCAO not only carried out cost studies of industrial units but also performed a number of other tasks as well as given below:

1. Petroleum pricing and costing. This was an important role and senior Cost and Management Accountants were even posted as Financial Advisors and earned a name for themselves and the Department. Two such outstanding persons were (Late) Rafique Asghar and Abdus Sattar. In addition special studies were carried out in the petroleum and gas price structure by the CCAO.
2. Co-ordination of cost analysis work done in other departments and providing guidance to them.
3. Controlling and administering the Institute of Cost and Management Accountant of Pakistan.
4. Preparation and implementation of Cost Rules.
5. Regulatory role. In USA IMA has been given a major regulatory role. The post-2002 period, as stated before, has ignored the role of the Chief Cost Accounts officer on the plea that most of units have been privatized and that special regulatory bodies have their own cost organization. We are afraid it is an erroneous assumption. Although a number of units have been privatized the role of CCAO as price controller still exists. Government can review the price vis-à-vis the input costs and determine a fair price to the consumer who has been left to the mercy of the private sector buccaneers. A very good example of this is the cement prices which are increasing rapidly to meet the entrepreneurs voracious demands. The cost accountants of the Monopoly Control have failed to provide solutions to this problem. Another sector is the sugar sector. Moreover quite a few sectors continue to be in the public sector and need studies. One of the prominent departments, besides petroleum is the Post Office which has failed to maintain proper accounts. Other departments are the Defence Production and Trading Corporation of Pakistan who make a lot of purchases.

6. Another point to be noted is that the Ministry of Finance needs the department to help the Chief Economist and the Budget wing in preparation of their Budgetary Estimates.

As it is the Ministry does not have any accounting expertise of its own except the CCAO and by reducing its role it is only hurting itself.

The Chief Cost Accounts Officer could be a major helping hand for the government in problem-solving, especially costing-related problems. Some other roles which can be performed are given below.

The government and elected officials tend to focus most of their efforts on Budget or "where to give the money to". An independent position, outside of the budget process, could provide objective information on the results of the spending. It could also provide an independent assessment of the cost of government programmes, the adequacy of funding, and the projections of revenue.

The position could also provide objective analysis of the nations business status, and provide opinions/information on economy building actions and the reason for business failures in important economic areas.

OTHER ROLES

- A. It may be a natural action to do national level supply chain analysis, International or national competitor analysis, and lend reality to revenue projections. Another function would be the advocacy of strategic cost management techniques like Cost index to improve productivity and support proper investments in capital and human resource development. The Chief Cost Accounts Officer is equipped with a thorough knowledge of costing financial management and is best suited in analyzing the problems and recommending solutions.
- B. The services of Chief Cost Accounts Officer through management accountants could be utilised with great advantage in several areas, including investigative management audit of non-performing listed companies, evaluation and revival of sick units, examination of records of defaulters and suspected transactions falling in the category of white-collar crime, sales-tax and income-tax audit, preparing industry-wise cost standards that will come in handy assessing reliability of tax returns and various assessment, valuation and survey jobs.

The key role for the Chief Cost Accounts Officer in government is the same as the role of the management accountant in industry. He provides decision support, planning, and control over the value creating (in government's case mission performing) operation of the

organization.

He goes beyond where the financial statements guided by accounting principles take financial accountants to the real economic and operation situation at hand, and facilitate correct decision-making and turn it into proper reporting.

PROBLEM SOLVING ROLE

The Government has neglected the role which Chief Cost Accounts Officer can play. The major issues in the industry and for Government are low resource consumption, no specific policies regarding transfer pricing, central excise duty valuation, inflation, and sick industrial units etc the Chief Cost Accounts Officer can help the government by conducting studies, research work on such important issues to highlight the problems and the solutions.

INFLATION

The Chief Cost Accounts Officer can conduct studies on inflation, which is a major problem at this time. One of the major segments in the problem is the rapidly increasing pricing of the utilities and importantly of transport.

The problem could be studied with the help of ICMAP by using Resource Consumption Accounting (RCA). Target Costing (TC) and various other analytical methods.

SICK INDUSTRIAL UNITS

One of the major problems for industry is huge number of sick industrial units. The Chief Cost Accounts officer can conduct research on the major issues and the rehabilitation of these units.

The ICMAP has conducted a study and recommended the ways to overcome the problems. The Chief Cost Account Officer could benefit from the study and by involving the ICMAP professionals the rehabilitation can be done by having appropriate inputs in the GDP by these sick units.

TRANSFER PRICING

One of the major problems for government is lack of specifically designed policies relating to transfer pricing, which have put a major impact on the government revenues. Transfer pricing is the price charged by one segment of an organization to another one for inter-segment transactions. However; nowadays the scope has enlarged in meaning of segment to include transactions with related parties, and inter-segment transactions to include financial transactions like leasing, lending and borrowing agency arrangement, license agreement, guarantees and transfer of research and development.

Transfer of products and/or services from one segment of the organization to another in which the later segment adds value is termed as inter-segment transfer for captive consumption. The value then becomes the basis for taxation.

Often a separate enterprise is formed only for the purpose of administrative convenience and to enjoy various Government concessions and grants.

Transfer pricing policy has important bearing on the Income Tax, Central Excise Tax, and Custom Act and for the purpose of international trade as regards the applicability of antidumping.

There is no specifically designed rule for transfer pricing which is placing a major impact on the Government revenues.

The Chief Cost Accounts officer with the help of ICMAP Professionals can conduct cost study to guide the Government for forming the transfer pricing policies. This will help a lot and will put a major impact on the revenue generation for government.

The Chief Cost Accounts officer can conduct the cost study of goods produced for the purpose of central excise duty valuation. In addition his role in anti-dumping measures can be very vital and the nation can benefit from it.

REGULATORY ROLE

When we come to the regulatory role of Chief Cost Accounts Officer he can play a major role in policy formation in consultation with ICMA. Like in USA the IMA has a regulatory role and gives a major input by having representations at different committees.

IMA committees are involved with National Financial Accounting Standards Boards (IMA also recommends board members) and the Securities and Exchange Commission as advisors. IMA is a member of the COSO organization which assists in developing Control and Risk Management the Frameworks.

Like this pattern the Government can call both professional bodies to play their role in assistance to policies. At the moment the Government (SECP) is getting input only from the ICAP and ignoring the ICMAP.

All this has happened because of the erroneous belief that economists and generalist officers can provide this expertise. Another reason has been the low standard of people available to it in the department who have no stature in the profession, but this cannot be an excuse for doing away with a vital department. Cost Accounts Department, manned by efficient and experienced officers and the CCAO, can be of great benefit to the government and the nation and it is strongly recommend that the department be revived and revitalized.

(The above article was prepared by Mian Mumtaz Abdullah FCMA and Saifullah Khan ACMA at the behest of National Council of ICMAP.)