THE PAKISTAN ACCOUNTANT

Magazine of The Institute of Chartered Accountants of Pakistan

JULY - SEP 2010

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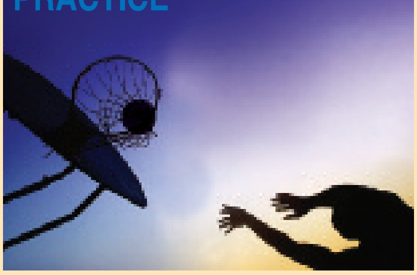

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Editor's Letter

WHAT ARE YOU PRACTICING?

Evolution and transformation are perhaps the most remarkable processes that create simultaneously excitement as well as apprehension. In today's rapidly changing environment stagnancy is the first step towards decline, anyone who does not move with the change gets left behind.

Diversifying and expanding the area of expertise is the new mantra for the decade, the complete amalgamation of technology in even mundane practices has increased consumer's awareness, with their needs changing and demanding more, smart providers who are able to anticipate and match their needs move ahead.

Historically, the SMP-SME relationship is regarded as being underpinned with the need for SMEs to have statutory audit and this necessary relationship provided a foundation for subsequent advice and support. From the SME relationship, the factors underpinning a strong SMP-SME relationship include competency, trust and proximity.

However now the equation is changing, with the incessant changing environment, the role of Accountants has also drastically undergone transformations, no more are accountants just confined to auditing. With the needs of the SMEs expanding they expect more from SMPs. SMPs need to match the growing demand and in order to do so they need to develop capacity and overcome the challenges lying ahead. There is a changing regulatory environment; growing competition from new entrants to the advice marketplace; and the capability of SMPs themselves to provide specialist advice. Opportunities and challenges come hand in hand; while the diversification of role of accountants presents a great opportunity for the SMPs it also brings forth the challenges of capacity building and threats of competitiveness.

I feel that SMPs need a platform where they can collaborate and learn together to overcome the competitive challenges ahead. I feel the time is now when we have to nurture our practice, realizing that the beauty of a garden lies in the different varieties of flowers and like flowers no two practices offer the exact same, they each bring a unique and distinctive color to the canvas of accounting. I feel that the new way forward for the SMPs particularly for building capacity lies in capitalizing on their uniqueness while being open to adaption and change.

I feel Wayne Dyer's "Transformation literally means going beyond your form." appropriately shows the way to strive for continuous improvement, meet the increasing expectations and paves the way to the road leading to a brighter future.

Adnan Zaman

President's Page

WHAT ARE YOU PRACTICING?

Experts and economists unanimously hail the development of small and medium enterprises as a crucial factor in strengthening Pakistan economy. According to the Small and Medium Enterprises Development Authority (SMEDA), "SMEs constitute nearly 90% of all the enterprises in Pakistan; employ 80% of the non-agricultural labor force; and their share in the annual GDP is 40%, approximately."

The recent times have witnessed a gradual change in the mindset with the role of the Accountants widening considerably, According to a research conducted by the International Federation of Accountants (IFAC) a shift is seen in the needs and the expectations of Small and Medium Enterprises (SMEs) from Small and Medium (accountancy) Practices (SMPs) from being focused primarily for audits to a much wider continuum of business advisory services.

I feel this expansion in role presents an opportunity for SMPs; they must evolve to match the expectations and meet the growing needs. The opportunity presented is huge but so are the challenges. Information Technology has drastically changed the environment; I classify Information Technology as possibly the greatest tool as well as a challenge for the SMPs. It is imperative that its impact is analyzed and assessed. In order to match to the growing expectations SMPs need to be updated with the emerging Information Technology techniques and adoption in the conduct of their professional practice.

The definition of Small and Medium Practices varies from one jurisdiction to another. There is no precise globally recognized definition of Small and Medium Practices, because what is considered small or medium-sized in one jurisdiction may be quite larger in another. However, certain general parameters are used to help determine what constitutes an SMP; they provide accounting and assurance services principally but not exclusively to clients who are small and medium entities (SMEs) and other accountants to the extent that they support SMEs.

The SMP committee formed as a part of ICAP's initiative to provide a platform for SMPs to come together and jointly work towards identifying problems and issues faced by the SMPs. The committee reviews international and regional best practices for consideration of adoption by the SMPs after affecting suitable changes in the context of the business requirements and local environment as well as the relevance and proportionality of professional standards and provides recommendations on the extent of their applicability to SMPs/SMEs.

A critical factor is effective networking. I feel the solution lies in collaborations and sharing of resources, SMPs should collaborate while not compromising their individuality and uniqueness. In order to match to the growing needs of SMEs, SMPs have to specialize as well as work on the capacity building to be able to cater to the increasing competitive environment. I must acknowledge the role of SMP committee which coordinates with ICAP for issuance of consultation papers, initiating debates or discussion on issues affecting the SMPs in bridging the gap between the SMPs as well as with other entities.

In order to strengthen the understanding and application of International Standards, the Institute has embarked upon an awareness program, focusing on the SMPs. The Institute is mindful of the problems that might arise in understanding the implementation of ISCQ1 and is imparting the required training to educate and support the practicing members.

Shaikh Saqib Masood

JOIN THE DISCOURSE

This issue's topic is:

Ready to manage the Generation Y?

The Generation Y has arrived and is here to stay. Is your organization ready to manage the new generation?

"Children and young adults born during the 1980s and 1990s are known as Generation Y. Generation Y professionals are in their 20s and are just entering the workforce. With numbers estimated as high as 70 million, Generation Y is the fastest growing segment of today's workforce."

COMMENTS

I feel in the corporate world Generation X,Y, Z does not really count, what matters is how well the person appointed is able to observe, learn, plan, execute, rectify and re-execute. Anyone capable of doing that will surely survive in corporate culture.

Ahmad Sana, ACA (R # 3180)
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No question not to welcome Generation Y. They are already in mainstream. While being more educated, intelligent and joining practical life in an advanced technological era as compared to two decades back's generation, it is sad that a peaceful, high growth oriented atmosphere essential for opportunities could not be provided to them. Good luck Generation Y.

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I am the only one in my organization falling into this generation, therefore having none to manage. I think my high ups know better how to manage me:)-

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'Generation Y has created a need for a cultural overhaul for which most organizations, including mine, are yet not ready. One reason could be Generation Y being a high-maintenance generation which requires their managers to set clear expectations from them, offer flexibility, respect and communicate with them in their language. However this generation, can prove to be most high-performing one if organizations are able to leverage on the information, creativity and technological skills which they bring to the workplace with them'.

Zeeshan Khurram, ACA (R # 6056)
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I feel before being able to effectively manage it is important to understand the people.

The main difference in Generation Y and previous generations is their confidence and ambitions. These Generation Y qualities along with their familiarity with information technology have resulted in Generation Y having high expectations of the employers, seeking out new challenges and not being afraid of questioning authority.

A recent study conducted in UK showed the priorities of Generation Y regarding employment, being completely different from their predecessors. Career development and learning opportunities topping the list followed by compensation package, the nature of job and job security.

Career development is the top most priority of Generation Y, organizations should ensure that all the available career paths are understood and are clearly communicated to prospective employees. Further, for learning aspirations of Generation Y to be met the organization should employ job rotation and formal and informal training techniques.

Shah Rukh Memon, ACA (R # 5913)
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Before Organizations get ready to manage the Generation Y, they need to understand what they want. Studies show that the millennials crave International experience, prefer development opportunities to cash bonuses, Experience, sustainability and career planning is a major factor for them. According to Peter Sheahan, Generation Y is not just about demographics- it's about mindset!

Some tips to manage millennials could be:

- Know what they want: Use market research in order to understand what millennials want and how these desires might differ from older workers.
- Motivation: Think creatively when rewarding millennials, is it time to shift focus from cash bonuses and company cars to other things?
- Grow Globally: The Generations Y rates international exposure highly and is more technologically inclined, border and boundaries are no limitations. Consider global working opportunities-how might this enthusiastic generation support your global mobility needs?
- Development and mentoring: Continue to invest in personal development and training-explore expanding coaching/mentoring programs to younger workers. Provide variety and fresh challenges - consider promoting cycles of experience in mentoring programs to younger workers.
- Brand your Organization: The Generation Y expects more from their employer and is not afraid to ask for more!! Articulate your employer brand—communicates internally and externally what it means to work for your organization. Have clear goals, statements and be committed to deliver the promise.

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A key to managing people is realizing that every generation brings its unique set of values and expectations to workforce. Organizations need to understand the expectations of the Generation Y and meet them accordingly.

I feel that following tips can be useful to manage the generation Y effectively.

- They need to be treated respectfully.
- They are goals driven; they need clear goals and objectives.
- They expect and should be awarded with challenging jobs for better performance.
- Involvement in decision making enhances their morale leading to better output.
- Allowing a little fun at the job significantly enhances their productivity.

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YES……because we have to!

Since we are the people who stand ahead of Generation Y in the row of managers, we are responsible to manage not only them but also ourselves. I feel it does not surmount to be an uphill task for us as Generation Y has already adopted most of our thoughts, knowledge and styles, as major psychological theories suggest by now hence there is no major chance of difficulties, clashes or hurdles emanating from the process of management of Generation Y.

What we need to do is to keep an open mind to their positive thoughts and be ready to understand their psyche towards development and humanity.

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The most important issue facing the profession in 2009 is addressing the needs of SMEs and SMPs

(Source: IFAC Global Leadership Survey 2008)

Usman Akbar Manda, ACA

Small and medium sized enterprises and practices must be considered as a main driver for innovation, employment as well as social and local integration around the globe. They are playing a vital role in the economic activities around the globe and can never be ignored in the worldwide conferences and agendas. SMEs are now crucial to most developed and developing economies. For instance, in the European Union, SMEs contribute to over 99% of all enterprises and 100 million jobs. This represents almost 67.1% of private sector employment. For the survival of SME's, SMP's run as a blood. A unique definition for the SMPs had not been prescribed. However IFAC has chosen to define SMPs as "accounting practices whose clients are mostly SMEs, external sources are used to supplement limited in-house technical resources, and contain a limited number of professional staff. What constitutes an SME differs depending on the country." (IFAC 2010)

SMPs are uniquely meant for helping the SME's. They help SME's to perform in a more efficient and effective way, assisting in compliance with the rules and regulations and business support services. They also act as an integral component in SME's financing need. The SME – SMP relationship can be regarded as a necessary relationship. SMPs perform a large number of important tasks of SMEs. Most important among them is the financial reports or annual reports. So they always turn to SMPs to produce these statements. Also SME-SMP relationship is also prominent because of the compliance work being provided to SMEs by SMPs in common business world.

In the credit crunched world, SME's are playing a very important role as world big giants are in doldrums and cannot employ more labor force. Instead big corporations are in the move towards firing and layoff. In this scenario, SME's provide a platform for the provision of job facility and hence put some healing effect on the injured worldwide economy. In my opinion, roles and work of SMP's and SME's have a direct co-relation between them. In financial terms, we can say that there is a perfect positive co-relation co-efficient of 1 between the two arms of the economy. So SMP's should focus on improving the quality of work and concentrate on more areas for the advisory to SME's. This is quite evident from a survey conducted in different continents.

According to a survey conducted in UK, Australia and Canada, SME's think that SMP's provide them the in the following ways:

- practitioners **most popular** source of business advice for SMEs;
- practitioners **most trusted** source of business advice for SMEs; and
- practitioners **most highly rated** source of business advice for SMEs

In this perspective, SMP's have to act as a very responsible segment of the economy and in helping the medium sized enterprises. They have to improve and broaden the extent of their services for their own safety and for protecting the SME's which rely heavily on them. They are a key business advisors to the SME's.

Bringing improvement and strength in the work and structure of SMP's shall bring the same effect in SME's. SMP's in today's world offer a wide range of services to SME's. They range from payroll processing, forecasts and projections, litigation support, personal financial planning, business valuation, mergers and acquisitions, financial management, assurance and related services, reporting, strategic planning, tax planning, a few of them to be mentioned. In the recent trends of the business world, range and quality of advice to be provided to SMEs by SMPs has been growing at an exponential rate. This is due to the information needs of owner-managers of SMEs who are in a need to fulfill their regulatory obligations and day-to-day and strategic challenges.

Before discussing on how SMEs redefine themselves in this credit crunched world, let's have a look on what is the main Motivation and Reason for SMEs' Use of Accountants or SMPs as Business Advisers. Broadly there are three main issues because of which SMES rely on SMPs as business advisors;

- Competency
- Trust
- Proximity and responsiveness

SMPs should consider them and keep them as a focal point before taking any change or redefining themselves.

There are some very important roles which SMEs are required to play in this credit crunched world economy and in future business world. They need to develop more effective communication networks with clients, coworkers, government instrumentalities, legal and other professionals. In taking initiative towards advisory role, they need to involve themselves in strategic decision making including proficiency in forward thinking and enhancing the ability to weigh alternatives. They also need to focus on sharpening the analytical skills for analyzing the potential opportunities and projects and continually striving for the devises to bring improvement in both methods and effectiveness. This can be very effective for the SMPs are this shall strengthen to absorb the shocks of economic downfalls. At the sametime managing, motivating and inspiring their own professional personnel so that quality and competent workforce is available all the time. SMPs also need to develop strength to acknowledging and recognizing people for their contributions and performance within their working environment without considering the personal interests. This factor is often lacked very much in most of the corporate world and especially in Pakistan.

Now referring to some specific issues for the initiatives for SMPs, for ensuring the quality of work in the SME's and SMP's sector, there is a dire need for the improvement in financial reporting. The framework for reporting on financial statements of SME's need improvement so that the interests of the stakeholders can be protected and present

information in a way that is useful to the decision makers. Now SME's need a lot of attention by the regulatory bodies for the reporting standards setting bodies. In this regards, SMP's can take an initiative to identify the loopholes and defects in the current prevailing framework. They can take all the stakeholders in this ambit and identify the problematic area and share them with the standard setting bodies. One of the problems due to ineffective financial reporting is the SME's also face problem in getting financing activity due to this which is discussed in detail in the following paragraphs. Improvements to financial reporting can increase the confidence of investors and users of these reports can give an impetus to the economy which is badly hurt by the blow of global economic crisis and credit crunch.

Reliance on the financial statements can be improved by applying ISA's on audits of SME's. Till now, no auditing standards for the small and medium sized enterprises have been developed. This is a big vacuum for the SMP's to step forward and perform their role. SMP's should endeavour to develop auditing standards for SME's. In addition to this, audit quality control standards also need to be implemented in the SME's. Again this objective can be achieved if SMP's step forward and take the initiatives. They can also use accounting information to achieve sound financial management.

Till now, no auditing standards for the small and medium sized enterprises have been developed. This is a big vacuum for the SMP's to step forward and perform their role. SMP's should endeavour to develop auditing standards for SME's. In addition to this, audit quality control standards also need to be implemented in the SME's. Again this objective can be achieved if SMP's step forward and take the initiatives.

Another important role, the accountants are supposed to play is the assistance of SME's in obtaining bank finance and other financing facilities. As discussed earlier, SME's face problems while obtaining loan or other financing from the financial institutions. Lending organizations are more inclined for lending facilities towards large corporations, SME's face difficulties in obtaining them. This bridge can be best covered with the help of SME's. The main problem that is faced in this respect is the non availability of information to the lender or in the required format. SMP's can help SME's to develop a framework in consultation with the lenders and SME's for provision of information and subsequent help in decision making for extending financing facility to the SME's by financial institutions. According to a study conducted, financial institutions face the following problems in lending activity to the SME's.

- Obtaining financial statements of the small clients,
- Time taken in gathering information to make the decision for lending
- Timeliness of the information provided

Source: Micro-Entity Financial Reporting: Some Empirical Evidence on the Perspective of Preparers and Users (IFAC SMP Committee Information Paper, Oct. 2007, draft)

For obtaining financial statements and consistency in the presentation, this can be best overcome by using computerized packages. Today, IT has become integral component in financial reporting and consistency cannot be brought without using the clutches of IT and its related facilities. Computerized packages can be helpful in order to ensure that the consistency is achieved in the presentation of information.

In order to counter the problem of time lag in obtaining information for the financial institutions, facilities need to be developed for the sharing of knowledge. Again to achieve this objective, reliance is on the IT facilities and internet. For accurate and reliable provision of information, Internet centers for SMP's and SME's should be developed. Centers for information sharing can be developed and membership facility created in order to get the funds for the maintenance of the center. Any information which is to be shared in the center should be accurate. A checklist for the reliable information should be fulfilled by the data before it can be entered in the internet center for sharing. As a more proactive approach, a dedicated search engines can be developed for SME's and SMP's. This shall bring in the quality of work not only for SMP's but in the work of SME's and other stakeholders as well.

In the era of globalization, the sharing of knowledge and experience across the world is very important for the improvement in quality of work and provision of good service in every nook and corner of the continents. The improvement in the quality of work by SMP's can be brought about by sharing of knowledge and experience on a platform. This can be a very effective quality initiative by the SME's. It is imperative to get in touch with the fellow accountants around the world. Seminars should be conducted for SMP's for achieving this. The geographical scope of service can be extended beyond the boundries of the home country to other countries as well. Accounting, auditing and consulting services can be provided through networking at far furlong distances. This shall help SME's as well for the growing globalization needs in the upcoming future business world.

One fact to be worth mentioned here is that SME market is very dynamic. The market conditions and regulatory environment within which SMEs operates is constantly changing. With this background, it is imperative for the advisors of SMEs to respond to the market demands and requirements. Among them the most important is the requirement of statutory audit which is increasing and also bringing changes within it in almost every country. But other factors are also affecting the demand for advice. This in turn brings new challenges for SMPs. The major challenges are:

- **consolidation within the accountancy industry:** Big giant firms are always ready and in a stronger position to acquire small practitioners. They often present golden offer to the SMPs, especially when entering in the foreign market to get local representative and market as well. So with a growth merger and acquisition there is a decline in sole practitioners.

- **rise in the provision of services by larger practitioners:** Large practitioners are in a better position to capture market. Although their rates are comparatively high but with the recent financial crises and reduction in the clientage, large corporations have reduced their fees and hence grabbing the market of SMEs.

- **shift in the regulatory environment:** As discussed earlier, regulatory environment has been constantly changing. Now there is some relaxation in some corporations for the statutory financial audits but a rise in compliance linked to environment, health and safety and employment. This reduces the market for the SMEs.

- **reluctance of some SMPs:** Some customers are not able to the pay the required fee as desired by the SME. So there is market but still no service is provided. Also with some SMEs, their heterogeneity of need makes SMPs reluctant to provide the services.

Such changes for the demand of services by SMPs and their clients' environment have significant implications for SMPs. If SMPs do not cope with the changes and devise strategies for them, it can pose a serious threat to their position as key providers of advice and support to SMEs.

Neverthless, national and international institutions also have to play a very important part to achieve all the above aims. They shall have to provide practical support to SMP's to provide high quality work and at the same time be profitable. This can be done by introducing tax incentives. Along with that on the recommendations of SMP's, develop national and international standards that are easy for application and tailored according to the requirements of SME's and stakeholders. SMPs also cannot work in an effective manner and provide quality work until and unless quality labor force is available in the market. For the supply of quality advisors and accountants, institutes and professional body too shall have to play their very sensitive role. Ensuring that the professional and members of their respective bodies remain competitive and more supply is entered in the market after ensuring that they are competitive and able to provide good quality work.

The market conditions and regulatory environment within which SMEs operates is constantly changing. With this background, it is imperative for the advisors of SMEs to respond to the market demands and requirements. If SMPs do not cope with the changes and devise strategies for them, it can pose a serious threat to their position as key providers of advice and support to SMEs.

The author is Senior Business Consultant in IBM Italia S.p.a Global Business Services Department.

THE LAW OF THE CORPORATE JUNGLE – SURVIVAL OF THE FITTEST

Saira Shamsie, ACA

As the socio economic dynamics are changing with shrinking boundaries, ever changing technology, uncertainty, survival is only for the fittest.

As the world stage is set for change this gives empowerment to the middle tier the Small and Medium Practices (SMPs) and Small and Medium Entities (SMEs). The game is of making the right choices, to make efficient use of resources, be tech savvy, use net working and last but not least be open to change.

To evolve and to gain market share the importance of a proactive human resource equipped to face the challenge cannot be over emphasized. The SMPs need to build on their cash generating asset - their staff by providing career growth, training, mentoring and the spirit and environment for tackling challenges. Providing an enabling environment with ample training opportunities and the human element helps in reducing turnover and ensures stability. In fact this is an attraction for people joining any organisation in the current scenario of instability.

The million dollar question is how do SMPs with limited resources and financial constraints manage to provide the enabling environment needed to sharpen the softer skills of their staff to have the cutting edge.

The only answer is to build an environment of trust and mutual sharing. It is essential to use net working and pooling of resources. SMPs need to foster change by treating the other SMPs as a support group rather than a business rival. This change in attitude can help in broadening resources and harnessing opportunities. With the internet age sharing intellectual data latest professional developments and guidelines is possible more than ever before. A strong intellectual data base of case studies, guides, illustrative and presentations can help in training the SMP staff to bring them at par to the big four professional standards.

Further, round tables and experience sharing sessions can be invaluable in sustaining development. The Institute of Chartered Accountants of Pakistan (ICAP) has been playing a key role in this front by arranging workshops on varied subjects and also inviting seasoned members from the profession to share their rich experience in practice.

There is need for networking among firms as more firms globally are becoming

Experience Sharing Session with Ebrahim Yacoob Sidat was held on June 30, 2009

Mr. Sidat shared his vast experience and knowledge of the accounting issues with his audience. He said the top challenges SMPs faced were growing their business and productivity and keeping current technology.

He emphasised that firms need to consider the expectations of their clients who want the best the firm has to offer. Firms must also recognize that the need for client specialization and value added services is growing.

members of professional networks to serve the specialized needs of clients.

To give the competitive edge the International Federation of Accountants (IFAC) has been providing full support to the SMPs by developing material especially for their needs. Some of the latest aids are Practice Management Guide, QC Guide, ISA Guide to name a few. Further, for informal interaction SMP Committee twitter has also been launched.

The SMP Committee is piloting Twitter as a vehicle for communicating and engaging with SMPs, member bodies and others. The SMP Committee Twitter will keep users up-to-date with global developments in the SMP/SME sector. Please visit http://twitter.com/IFAC_SMP

IFAC BOARD APPROVES RECOMMENDATIONS TO ASSIST SMPS

The IFAC has approved a set of recommendations designed to expand support to member bodies in their work to assist SMPs. The recommendations are intended to give SMPs the additional practical support needed to provide high-quality professional services to their main clients: small- and medium-sized entities (SMEs). IFAC considers the health of the SME sector, which accounts for the majority of private sector employment and gross domestic product (GDP) worldwide, to be crucial to global economic growth and financial stability, as well as the public interest. Through these recommendations, IFAC also seeks to enhance SMP participation in international standard-setting and regulatory and policy development. IFAC's independent standard-setting boards and other groups will be encouraged to further embed SMP and SME considerations into their work programs - for example, through increased involvement of SMPs in projects and by adopting a "Think Small First" approach to tackling complexity.

The recommendations can be categorized into the following areas:

- Increase the visibility, voice, and profile of SMPs - for example, by communicating and advocating the importance of the SME sector and the role of SMPs in supporting this sector;
- Expand the monitoring of global regulatory reform to ensure its suitability for SMEs and SMPs;
- Develop guidance, resources, and tools-in collaboration with member bodies - that help promote and build the capacity of SMPs to deliver high-quality accounting, assurance, and business advisory services; and,
- Enhance the extent and effectiveness of participation of SMPs in the development of IFAC's standards through increased SMP representation on certain independent standard-setting boards and other activities where SMP contributions are essential.

SMALL AND MEDIUM SIZED ENTITIES (SMES)

In Pakistan the SMEs make up a major portion of the documented economy representing the private sector. It was generally felt that in the case of small and medium-sized entities, the cost of compliance with complete set of IAS as notified by the Securities and Exchange Commission of Pakistan (SECP) was considerably more than the benefits accruing from the use of such standards. In order to address this issue, the Institute (ICAP) developed the accounting framework that could be used for the preparation of the general purpose financial statements by the Small and Medium-Sized entities.

Although, the International Accounting Standards Board (IASB) was working on a project to develop IFRS for Small and Medium-sized Entities, it was expected that it may take a few years for finalizing this standard. To fill the gap during the transitory period the Institute had taken the initiative to formulate the Standards for Accounting and Financial Reporting for Small and Medium-sized Entities. On the recommendation of the ICAP the SECP vide SRO No. 860(I)/2007 dated August 21, 2007 had notified the Accounting and Financial Reporting Standards for MSEs and SSEs issued by ICAP under Section 234(3) of the Companies Ordinance, 1984.

IFRS FOR SMES

The IASB issued on July 9, 2009 an IFRS designed for use by SMEs, which are estimated to represent more than 95 per cent of all companies. The standard was a result of a five-year development process with extensive consultation of SMEs worldwide.

The *IFRS for SMEs* is a self-contained standard of about 230 pages tailored for the needs and capabilities of smaller businesses. Many of the principles in full IFRSs for recognising and measuring assets, liabilities, income and expenses have been simplified, topics not relevant to SMEs have been omitted, and the number of required disclosures has been significantly reduced. To further reduce the reporting burden for SMEs revisions to the IFRS will be limited to once every three years.

In particular, the *IFRS for SMEs*:

- provide improved comparability for users of accounts
- enhance the overall confidence in the accounts of SMEs, and
- reduce the significant costs involved of maintaining standards on a national basis.

The IFRS for SMEs has to date been adopted by over 60 jurisdictions worldwide.

The decision of which entities these standards may apply to has, however, been left to the individual jurisdictions discretion.

Currently the Institute is in the process of adoption of IFRS for SMEs for Medium Sized entities (excluding small size entities for which compliance to these standards is considered not practicable).

With the IFRS for SMEs the SMEs have a tool for greater transparency and comparability of financial statements in the global market. Hence giving an opportunity to expand and reach out to markets beyond the geographical borders.

The author is Manager Technical Services at ICAP, Karachi.

Comparison to full IFRS:

It covers most of the full IFRS requirements, but includes relaxations for SMEs:

The following topics have been excluded:

- earnings per share
- interim financial reporting
- segment reporting
- special accounting for assets held for sale

The following options have been disallowed:

- financial instrument options, including available for sale, held to maturity and fair value options
- the revaluation model for property, plant and equipment, and for intangible assets
- proportionate consolidation for investments in jointly controlled entities
- for investment property, measurement is driven by circumstances rather than allowing an accounting policy choice
- between the cost and fair value models
- Various options for government grants.

The following areas have been simplified:

- Financial instruments measurement
- Goodwill amortization
- Borrowing cost expensed
- Investments in associates and Jvs can be measured at cost
- PPE useful life review
- Defined benefit plans measurement
- Simplified tax approach
- No separate held for sale assets
- Biological assets FV not necessary
- Equity settled share based payment measurement

By Way of Public Accounting Practice

Prelude:

The coming year 2011 will mark the Golden Jubilee of this august Institute. On a humble note, it will also mark completion of my first decade in public accounting practice. Here is what this journey has been like……..

How it started?

It must be a proverbial sunny day of my life when I took the idea of being a fish in a tiny pound of my own, and applied for a practicing certificate. The idea flourished when a dear friend in practice encouraged me to get rolling and I seized the moment.

Verily, the first sacrifice my new venture required was the prospect of giving up whatever pittance I was assured towards the end of the month, as a salaried employee throughout my professional career.

Altaf Noor Ali, ACA

The ideal way to end up as somebody notable in a public practice goes through audit training in a relatively larger audit firm, and ultimately gaining partnership, after qualifying and serving in managerial capacity for some time. My case was different. Yes, my audit training was from one such firm, but I was tempted by the glamour of the 'industry', and eight years later the conventional route was not there for me.

With practicing certificate in my hand a month later, I felt privileged and happy. That day a new firm bearing my name came into being.

The Silent Vow:

I remember holding the practicing certificate with reverence. When my father (a physician) saw it, he asked when I will be taking the oath. He shared my faint disappointment when conveyed that the chartered accountants do not take a ceremonial oath like physicians, though both professions hold the element of public interest supreme.

My first reading was the bulky code of ethics for the practitioners. I reflected on its application and silently vowed never to let my commercial interests come above the professional ones. I felt a worthy burden of trust and a collective responsibility placed on my shoulders in this new role, something I never felt all the while I was serving as an employee.

Energising the firm:

My first step towards my practice was to secure suitable rented premises. Fortunately, the search came to a fruitful end. I got a fine office at reasonable terms from an acquaintance. I wish I had the financial prudence of saving enough in my earlier career to have bought the premises and save the rent.

The process of setting up an office invariably involves higher funds than one would estimate; items required to make the office functional keep on adding up, so does the cost. From office fittings, furniture and computer to electric kettle all is necessary. I had to draw upon my savings to get it done but imagine what it must be like for a fresh qualified person to set up an office without any seed money on his own and ofcourse without any option of external finance?

A related step was to set aside enough to get the practice going to settle financial commitments in time, whether of paying monthly rent or other expenses for maintaining the office. It looked as if I complete the full cycle from being a month end payee to the payer. From now onwards, on every first of the month instead of myself receiving a salary, I would be paying rent and the rest of the stuff.

Paraphernalia and financing:

As the firm started rolling, I appreciated how important it is to have some kind of financial arrangement available to achieve the expansion but who's there to finance it? This is true for a green field office like my own or an established firm. I have not heard of any bank providing finance, possibly because a practitioner like myself would not have a collateral to offer. That may be one reason why the growth of most professional firms is so retarded. The fact is any start-up firms goes through a painful period during the initial years. Guess too much to expect our Institute to have some arrangements in place to ease the process?

Not to be deterred, my first act in office was to place a small portrait of a young and handsome Mr. Mohammad Ali Jinnah, with brilliance and inspiration radiating from it, on my desk. I have been a great admirer of his character and ability…wishing to emulate it in my own humble way.

In action:

I remember my first audit job well. It came as an audit of an employee provident fund scheme of a non-banking financial institution. The next one was something similar from a software company. These kinds of audits became my principal expertise in years ahead. The issue was that these audits are annual events lasting for less than a month. What should I be doing in the meanwhile?

I started actively looking for more opportunities as external auditor. I was aware that without quality ratings I would find it difficult to have a go.

On the way there was some comic relief as well. It was in the form of my interaction with symbolic cool and colourful professional clowns, two of which I describe below. I believe every practitioner gets to meet them. How they are responded depends on the individual.

One day, a gentleman walked in my office and asked me if I would be interested in doing an audit of his small business. He wanted it done to obtain visa for the U.S. As the discussion progressed, I came to know that he was in import export business of which he had not maintained any books. He went on to add what he wanted me to 'show' in his financial statements.

The next one was a semi-qualified accountant who walked into my office. His purpose of meeting me was to find out if I would be interested in 'thapafy' (certify without verification) statements prepared by him for applicants of consumer loans from commercial banks. Easy money for one signature but guess not my type of work!

In the times ahead, some good opportunities also came by going through press advertisements. Good to see that reading newspaper became more interesting. It became a source for searching organizations searching for auditors. For example, I was keen about developing audit expertise in educational institutions from schools to university, compatible with my appointment in a panel of monitoring consultants by the Institute for inspecting and reporting on selected academic and financial aspects of private education institutions registered for tutoring students of first four modules.

Even today, the newspapers continue to be a valuable source. However, as a practitioner I found negotiating a fair audit fee to be a major hurdle in most such cases. This may be so because most clients do not see an audit as a value adding business activity, and in my opinion rightly so because an audit is primarily a compliance activity. Our only contribution as auditors to the financial statements appears to be a one-page standard audit report, which in principle is also correct. The behind-the-scene endless hours of the auditor that goes into bringing the rag-tag financial statements handed over initially to bring it to the point where that to him and one-page-standard-report appears respectable largely remains unacknowledged.

The issue of audit fee and of its not being paid:

With only one in five chartered accountants in public practice and they being only ones providing audit service, the context is right for booming public practices. In addition there is ATR-14 that prescribes the minimum hourly rate for computing audit fee for accepting audits of companies only. However, the way the profession has evolved over last fifty less one year, its caretakers clearly failed to capitalize on its strengths. Many questions have remained unattended. For example, what about the audit fee of the entities other than companies? These concerns affect small and medium size and it practices most and have only cumulated over a period of time, resulting in unbelievably low audit fee.

The severity of how low the audit fees are can be gained from studying the giants of the profession - from those who are in the best position to command a fair audit fee. Let us do so by comparing the emoluments of an external auditor and a chief executive officer of a listed company and see who's getting a better deal.

Essentially we are profiling a professional firm, maintaining international affiliation and technical human resource base, giving an independent opinion about the financial statements of a listed company and an individual who is the highest executive officer of a listed company. As to responsibilities, the auditor is bound by a code of conduct and follows certain technical standards in giving his audit opinion. On the other hand, ever heard about a code of conduct applying to the ceos in general or any ceo ever being held responsible for professional negligence? Given this, the sad fact is that the emoluments paid to the audit firm do not even match those paid to an individual. The emoluments of a ceo exceed those of an auditor, without any exception, in all cases I studied. The board of directors appear to be more generous than the shareholders who appoint auditors in the general meetings.

Graceful reputable firms, with global affiliations, who are in best position to command audit fee of their liking, if they find themselves often in such a position, what would be the level of audit fee for the rest of us? In short, the minimum hourly rates, provided in ATR-14, apply to the listed companies only and even there it is not applied in majority of cases. I am yet to hear any professional firm ever being reprimanded on this count to convince me that the Institute while awarding quality ratings considers if the audit fee is commensurate with the number of hours on-the-job. Undercutting audit fee has become a favourite pass time in which the professional firms appear to be contributing or is it an indication that they are finding it increasingly difficult to reach a break-even point.

Add to the issue of low level of fee the issue of not being paid for the services rendered in a reasonable time. Clients somehow tend to go short on memory and priority about whether the audit fee is paid, once the audit report is signed. Infact, one colleague shared that his clients are so spoilt that they pay the fee for the last audit when you start the audit for the current year. Similar sob stories from my network and one wonders if payment of audit fee is a priority at all for the client.

With time as the most precious irreplaceable commodity a professional has, there is no time to waste on following up clients to pay their dues. I decided to get paid in advance. Some of my colleagues argued with me on charging fee in advance, even going on to suggest that it is not permitted, but failed to show me where it says so. Instead, as a counter-attack they would ask me to show them where it is permitted to charge audit fee in advance, or even half of it. The fact is that our technical literature is completely silent on the issue.

Beyond audits:

Apart from audit, I did interesting due diligence assignments for acquirers. One such assignment was on behalf of a freight forwarding company for equity injection in a trucking venture with another company. It turned out that major recasting and reformatting of the key financial information was required and about 50% more resources, for validating agreed-upon parameters. The Hobson's choice was in doing a mediocre job and attaining the standard I had in mind when accepting it. I concluded the assignment with a financial loss but with a professional consolation.

At this point my clients included businesses where owners appointed me to act as a consultant and internal auditors. Sometimes, I was applying my knowledge to present the most pressing business issues to the owner independently, or analyzing area sales receivables, or documenting year-end closing of the accounts.

Meanwhile, extra effort in developing good rapport with fellow professionals started paying off. I collaborated with other firm of chartered accountants on management consultancy assignments, which kept my precious financial analysis and reporting skills crisp and relevant.

One such assignment was to monitor and report to a banking syndicate on the cashflows of corporate entity on monthly basis that had defaulted on a huge facility. The challenging part was to wade our way through a plethora of information, validating and presenting it in a manner that quickly informs the syndicate about the story behind the numbers. Within six months of this assignment the debt was renegotiated and the syndicate was able to claim most of the struck amount.

Sometime during this exciting period, I started exploring the area of investment book-keeping and research for individual clients. My first break through came from a discussion with a former colleague who virtually became a victim of financial scam involving placing an amount with an individual for a high return. He was lucky to escape it and made it a point never to trust individuals and was looking for some assistance in setting up an investment account with a broker, advice on acquiring investments, and doing the keeping book-keeping.

We got the ball rolling by setting up an account with a stock broker of stellar repute. Meanwhile, we defined his risk profile, expected returns and investment strategy. We agreed upon certain fundamentals, the foremost being that we will not be trading securities in short-term. We will build his investment portfolio on a long-term basis, buying pre-determined equities at a reasonable cost with the objective of enjoying a steady return with protection of capital as objective.

Another avenue that somehow shaped during these years was imparting training. It started with a session on 'international auditing framework' for junior joint directors at the State Bank of Pakistan at the National Institute of Banking and Finance (NIBAF). I found myself designing courses for NIBAF in corporate governance, internal auditing, international accounting, consolidation, corporate valuation etc. This stream further developed when I did a two day work shop for internal auditors of commercial banks as an open-enrollment course. It is hard work but much fun conducting an activity as a facilitator than a participant and gaining CPD hours. Since then the training has been a favourite activity.

Professional Development:

The practice of auditing has become sophisticated over last many years. Regulators have started believing that most sole practitioners find it increasingly difficult to be updated with latest technical developments in accounting and auditing, specially as the practitioner ages. That the number of listed companies being audited by sole practitioners has gone down is cited as evidence. There is a limited amount of truth in it as well but you cannot ignore the character of auditor out of this picture. Enron was not audited by a sole practitioner.

As a practicing member, it is also important to take charge of your own professional development. There is a noticeable improvement in the technical literature coming out from the international standard-setters. However, the Continuing Professional Development program of the Institute has not shown much improvement in terms of relevance, contents, delivery and evaluation of participants. A clear exception to this general trend was a CPD program in which Mr. Ibrahim Sidat, FCA was invited to share his experiences as a practitioner. I wish such "tea sessions" can be a regular monthly feature to groom practitioners.

The web offers most fantastic of opportunities to learn in your own time. In my case, I find myself frequently visiting and commenting on the exposure drafts of the International Accounting Standards Boards (www.ifrs.org) and International Auditing and Assurance Standards Board (www.iaasb.org).

Meanwhile, my quest for fresh learning took me to a post-graduated diploma in Islamic Banking and Insurance, clear the exams of Licensed International Financial Analyst, US and go for a law graduation. I served uninterrupted as a humble worker in some committees of the Institute and also contributed a few articles for this magazine as well.

Conclusion:

Looking back the past decade, being in practice gave me a new dimension to look at life. Most experiences bought me immense satisfaction as a practitioner and an individual. Looking forward, I see a realistic potential for the public practices all over Pakistan to grow well in the coming decade.

The practice of auditing has become sophisticated over last many years. Regulators have started believing that most sole practitioners find it increasingly difficult to be updated with latest technical developments in accounting and auditing, specially as the practitioner ages. That the number of listed companies being audited by sole practitioners has gone down is cited as evidence. There is a limited amount of truth in it as well but you cannot ignore the character of auditor out of this picture. Enron was not audited by a sole practitioner.

The Evoltion of SMPs

International Federation of Accountant's President **Robert L Bunting** says

"SMPs Should Evolve to Satisfy SMEs' Growing Needs."

Small- and medium-sized practices (SMPs) today can no longer rely strictly on compliance work to pay the bills. The reason why is simple: SMEs (small- and medium-sized enterprises) – the traditional client of the SMP – increasingly need a broad range of competencies beyond the core skill set of the small practice. At the same time, the threshold for mandatory statutory audits has risen in some countries and increases are under consideration in many others. A fast-changing and complex regulatory environment means that SMEs want their SMP to provide proactive business advisory services. SMEs need advice that will help them generate business plans and financial forecasts, identify and manage risk, define and implement IT systems, and value the business. SMPs must evolve to meet these growing needs or face dwindling clients and revenues. A new study by the International Federation of Accountants (IFAC) makes clear that smaller accountancy practices need to address their skills base, their working methods and their referral models if they are to meet the evolving needs of the SMEs that are their lifeblood. The study – The Role of Small and Medium Practices in Providing Business Support to Small- and Medium-sized Enterprises, written by professors Robert Blackburn and Robin Jarvis – points out that accountants are still SMEs' most frequently used source of advice. According to a study last year by the UK's Open University, trade connections, the media, family and friends are all important, but none ranks as highly as the accountant. SMPs are usually highly experienced in dealing with SMEs and, as small enterprises themselves, can empathise with their clients' resource constraints. This contrasts with very large practices where the focus is on large companies and SME clients may have to deal with several departments.

Building Trust

But the assumption that SMEs nearly always choose an SMP is not correct. A significant proportion of the clients of large accounting practices – the Big Four and second-tier practices in most countries – are SMEs. These are more likely to have the resources and the benefits of economies of scale to offer services and products to meet their clients' accounting and other specialised support needs; in fact, they often position themselves as 'professional services supermarkets'. Many SMPs actually use larger firms to provide limited speciality services to their SME clients or as a technical backstop for their own client service work. While compliance work will remain hugely important for SMPs – accounting services and tax are core services at all levels in public practice – technical competency and timely delivery in compliance work build trust and usually lead to requests for non-compliance advice and support. This is a time-proven formula driven in part by the nature of most small business owner-managers, many of whom are determined to make all their own decisions and avoid advertising any managerial weakness. In this kind of 'fortress enterprise' culture, many SMEs do not request advisory services until the expert has already provided a specific demonstration of their competency.

Becoming Knowledge Professionals

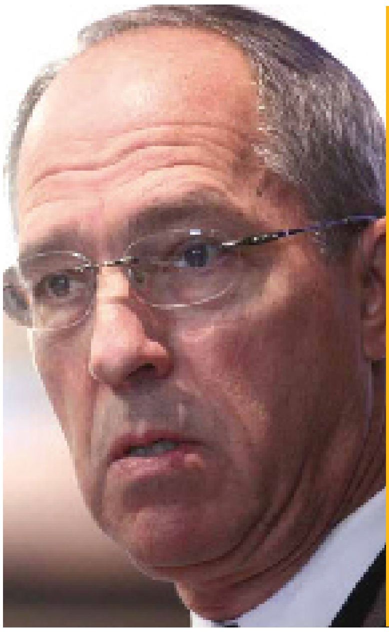
Business consulting services represent a crucial growth area for SMPs. As mentioned at the start, the raising of the statutory audit threshold has diminished a key revenue stream for many SMPs and the market is increasingly competitive. As a result, if they are to thrive rather than merely survive, SMPs must diversify and focus on other advice requirements for SMEs (or provide audit services to larger companies). They must develop their skills base beyond bookkeeping, tax preparation and audit. In short, they must move from being accounting technicians to knowledge professionals. So how can SMPs overcome the unavoidable resource constraints in-house and provide a range of services to their clients? The most common model is to expand the technical and soft skills of existing personnel. Some accountants can make the transition from 'accounting expert' to management adviser through experience and self development. Others may need training or coaching to grasp the necessary flexibility and an understanding of the context and cultural environment of the SME. For example, accountants might need to hone their interpersonal skills or make time to discuss a client's succession planning (or other business advisory needs). Another common model is to focus on a specific industry sector or speciality linked, for example, to the music industry or environmental legislation. This model usually works best in large cities or where a particular industry is highly concentrated. But there have been successful cases where SMPs are willing to travel further to serve their clients. A third model, which can be a standalone strategy or one that complements the first two, involves the SMP participating in a high-quality referral network. Before using one, SMP owners should analyse the different types of networks and carefully consider how they will monitor service quality and timelines for the clients they refer. But referral networks offer SMPs many potential advantages: they are an effective way to satisfy the increasing breadth of demands from SME clients. They also offer the opportunity to gain clients through referrals from other network members or to win new ones due to their more extensive service capabilities.

Why SMEs Use SMPs

Competency: SMEs often lack the full range of managerial expertise. Most outsource their financial management to SMPs with their required technical competencies and expertise in statutory audit and taxation.

Trust: As members of a regulated profession with codes of conduct, accountants enjoy 'institutional' trust. Their provision of compliance services wins them 'competence' trust.

Responsiveness/ proximity: SMEs rate SMPs' responsiveness to their demands so highly that it can be regarded as more important than a qualification or competency. The geographical proximity of SMPs to their SME clients is also important. Many owner-managers prefer face-to-face meetings with their advisers, and value ease of access.



Robert L Bunting became president of the International Federation of Accountants (IFAC) in November 2008. He is a partner at Moss Adams where he served as chairman and chief executive officer from 1982 to 2004. Moss Adams is a member of Praxity (formerly Moores Rowland International) where Bunting served as chairman from 1998 to 2004. From 2004 to 2005, Bunting was chairman of the Board of Directors of the American Institute of Certified Public Accountants (AICPA). Go to http://ifac.org/SMP for more about the SMP Committee.

The Role of Small and Medium Practices in Providing Business Support to Small and Medium-sized Enterprises – by ACCA's head of small business Professor Robin Jarvis and Professor Robert Blackburn of Kingston University and published by IFAC –is available for download at http://web.ifac.org/publications/small-and-medium-practices-committee/information-papers-3.

This article originally appeared in the ACCA's Accountancy Futures.

An Interview with

Sylvie Voghel

Chair, Small and Medium Practices Committee International Federation of Accountants

Q How does IFAC support Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs)?

A thriving SME sector is a vital part of job creation, social cohesion, innovation and economic growth. In many – if not most – countries around the world, SMEs represent the vast majority of entities as well as the majority of private sector employment and Gross Domestic Product. According to the Organisation for Economic Co-operation and Development (OECD), SMEs account for over 95% of enterprises and 60–70% of employment in OECD countries.

While IFAC can do little to help SMEs directly - IFAC is not, after all, an association of SMEs - IFAC recognizes their importance and provides invaluable *indirect* support to them. First, IFAC supports SMPs (primarily through their member bodies) so that they can provide better services to their SME clients – services that meet the SMEs' needs and are of high quality; this in turn helps SMEs prosper. And second, IFAC supports professional accountants in business (again primarily through their member bodies), many of who work in SMEs. Much of the support that IFAC provides for SMPs and SMEs comes from the work of the SMP Committee that I chair.

Q How does the IFAC SMP Committee operate and how is it resourced?

The IFAC SMP Committee was formed in 2004, and is now a committee of 18 members from all across the globe, with a wealth of experience in the SMP and SME sectors. We have formal working procedures, project teams, a strategic and operational plan, a communications plan, and a full-time senior technical manager. Our strategy is two-fold. Firstly, we help shape international standards – primarily auditing and assurance, ethics and accounting – by providing input into the standard-setting process. We do this to ensure that these standards are relevant to SMPs and SMEs and can be cost effectively applied.

Secondly, we provide practical support to SMPs, including guidance and Web-based tools. This practical support helps build the SMPs' ability to efficiently implement international standards so that they can deliver high-quality, cost-competitive services to their clients. Our support is also intended to help SMPs manage their practices better, to help them to remain relevant to their clients, and – ultimately – to maximize their profitability.

How can individual SMPs access that practical support?

Individual SMPs can access a wide range of practical support by visiting the SMP section of the IFAC website, at **www.ifac.org/SMP**, which is constantly added to and updated. In addition, the International Center for Small and Medium Practices (hosted by IFAC's SMP Committee) provides resources and facilitates the exchange of knowledge and best practices among SMPs and other accountants who serve SMEs. SMPs can also access and sign up to receive the free of charge SMP eNews – an electronic communication issued three to four times per year that discusses covers initiatives relevant to SMPs.

Other resources on the IFAC Web site include relevant publications in the Publications & Resources section (all of which can be downloaded free of charge), which address such topics as micro-entity financial reporting and IT management. SMPs will also find information on relevant conferences; links to sites of interest; and details about the clarified ISAs, including the complete set of ISAs, support and guidance, and frequently asked questions. In addition, the IFAC site has a section featuring resources to assist SMPs and SMEs in addressing issues related to the financial crisis, as well as a Discussion Board in which small practitioners and others are invited to share their views on topics relevant to SMPs and SMEs.

I would like to specifically point out some of the SMP guidance material that is available to download free of charge, including: the *Guide to Using International Standards on Auditing in the Audit of Small- and Medium-sized Entities* and the *Guide to Quality Control for Small- and Medium-sized Practices.* In addition, the *Guide to Practice Management for Small- and Medium-sized Practices*, slated for publication in June 2010, will encompass eight largely stand-alone modules on topics including planning, human resource management and client relationship management, and will be accompanied by forms and checklists as well as an office procedures manual.

What can we expect IFAC to do for SMPs in the future?

In early 2009, the IFAC Board initiated a fundamental review into how IFAC can best support SMPs. The outcome is a series of recommendations that include:

- Expanding monitoring of global regulatory reform to ensure its suitability for SMEs and SMPs;
- Increasing the visibility and voice of SMEs and SMPs;
- Developing guides and resources in collaboration with IFAC members to provide practical assistance to SMPs; and
- Considering strategies for increasing the participation of SMEs and SMPs in its standard-setting activities.

Inevitably the SMP Committee will be playing a lead role in the implementation of these recommendations.

How do you see the role of SMPs changing in the future?

The SMP Committee recently conducted a study of the role of SMPs in the provision of business support services to SMEs. The evidence suggests that accountants are seen as competent and trustworthy advisors, that accountants are the most popular source of external advice and support for SMEs, and that SMPs provide much of this advice and support. We need to help position and equip SMPs to satisfy the growing appetite of SMEs for business advice. Going forward this will be a major focus of the committee.

Sylvie Voghel

Sylvie Voghel became chair of the IFAC Small and Medium Practices Committee in January 2006. She was nominated by the Certified General Accountants Association of Canada (CGA-Canada). Ms. Voghel served as a member of the IFAC Board from 2003 to 2008 and was a technical advisor to the Board from 2000 to 2003. In addition, she was a member of the IFAC Governance Task Force in 2002 and chaired the IFAC SMP/SME and Developing Nations Consultative Conference in Prague in 2005.

Ms. Voghel is the co-owner of a privately held corporation in Québec, Canada. Previously, she was a member of the senior management team of Hydro-Québec, one of Canada's largest energy enterprises. Ms. Voghel is a former chair of CGA-Canada and CGA-Québec. She is involved in academic, professional and other volunteer board and committees.

Sales Tax General Order 34/2010

EXTRA JUDICIAL LEGISLATION

Adnan Ahmad Mufti, FCA

The sphere of indirect taxes specially the sales tax law has always been an orphanage both for our tax authorities and legislators. Due to this untoward attitude by the fiscal managers, the law could not be developed on the pattern of international or regional best practices. The recent catastrophe on this front was the ill timed Value Added Tax which, due to bad handling and confused approach of the Government, demised even before it could see the light of the day.

Having said that, one side of the picture has remained consistent for many years – the inherent desire of our tax machinery to illegitimately withhold taxpayers' money ! Rampant efforts are on the rise to curtail, restrict or atleast defer the repayment of refunds to the taxpayers on one pretext or the other. A latest classic is Sales Tax General Order (STGO) 34 which has been issued by Federal Board of Revenue (FBR) "for maintenance / updation of active taxpayers' list in the FBR's database".

A detailed analysis of the STGO transpires while drafting the STGO, no one at the helm of the indirect tax affairs even bothered to examine the legal backing of the measures proposed therein. As a result of serious legal loopholes, the STGO can safely be termed as an 'extra judicial legislation'.

While the basic intent of the STGO is to restrict and discourage non compliant taxpayers from doing business freely in the society and accordingly compel them to make due compliances with the tax laws, we are mindful of the obstinate principal that subordinate legislation derive its powers from the superior / primary statute and as such no law / procedure may contravene / override its basic framework. Unfortunately, the STGO not only overrides the enabling provisions of Sales Tax Act 1990 (the Act) but is also contradictory to Income Tax Ordinance 2001 (the Ordinance).

The STGO has introduced a wider definition of 'non active taxpayers'. Besides, various serious repercussions have been listed therein when either such non active taxpayers carry out businesses or when business transactions are made with them. However, when we look into the powers of FBR prescribed in Section 55 of the Act, we note they may only be exercised when any difficulty arises in giving effect to the provisions of this Act / rules. In such a case, the FBR may through a General Order issue instructions or directions to remove the difficulty subject to the mandatory condition that such directions cannot be inconsistent with the provisions of the Act. In other words, any General Order has to have a limited and specified role, i.e., to remove the difficulty arising out of the main statute.

The STGO suffers from fundamental legal infirmity since, on one hand, the Act does not contain any specific definition or criteria whereby a taxpayer may be classified as 'non active', on the other hand, the STGO does not only lists down a self contradictory definition of 'non active taxpayers' but also specifies the repercussions if business is conducted by / with such taxpayers. In short, the FBR has attempted to legislate an entirely new mechanism which obviously cannot be made under Section 55 through a General Order. Thus the STGO may be struck down on this single score alone.

Coming towards the point wise analysis of the STGO, every person who fails to file the return under section 26 of the Act within the prescribed period for two consecutive months has also be classified as a non active taxpayer. We are mindful that usually FBR Web Portal suffers from system problems near the filing date which delays timely filing by the taxpayer. Nonetheless, no such cushion has been made in the STGO where the delay in filing is beyond the control of businesses. Secondly, this requirement is in direct conflict with Rule 11(4) of Sales Tax Rules 2006 (the rules) whereby non filing of tax returns for consecutive 6 months may lead to de-registration of concerned taxpayer. A person who fails to file any missing return within 15 days of notice issued to him can also be classified as non active. However, it has not been specified whether this reference is made towards missing return in the departmental data base or otherwise.

Another glaring legal defect listed in the STGO relates to certain income tax non compliances on the part of taxpayer. The STGO stipulates that anyone who fails to file any due Income Tax return under section 114 or who fails to file the monthly withholding tax statement under section 165 of the Ordinance for two consecutive quarters will also stand disqualified as non active taxpayer. The term 'non active' has also not been defined in the Ordinance.

The author feels perhaps our draftsman erred in ignoring the cardinal principal that both income tax and sales tax are two different set of fiscal laws. Non compliance under one tax law cannot make the taxpayer suffer under another law. In the absence of any inter-tax / contra penal action prescribed in both Act and the Ordinance, the proposed action under STGO lacks due legal backing and hence, *ab inito* void. In this regard, we place our reliance at two identical judgments pronounced by the Sales Tax Appellate Tribunal whereby the Tribunal had held that the department is not authorized to use the data or information and figures, supplied by the businessmen in their Income Tax Returns, as basis for assessment of sales tax liability.

Whosoever fails to respond to the "discrepancy notice" or any other notice issued by tax authorities within 15 days of the issuance of such notice will also be treated as non active. The term "discrepancy" has been defined in STGO to mean mismatching of invoice summary statements between registered buyers and sellers, mismatching of import goods declaration in the sales tax return by the registered person vis.a.vis data furnished by the Customs or any other discrepancy intimated by the tax administration to the taxpayer.

Income tax and sales tax are two different set of fiscal laws. Non compliance under one tax law cannot make the taxpayer suffer under another law. In the absence of any inter-tax / contra penal action prescribed in both Act and the Ordinance, the proposed action under STGO lacks due legal backing and hence, *ab inito* void.

Despite best efforts, this scribe failed to find the condition of filing invoice summary statements in the statute since the same has been done away with 2 years back.

Moreover, the clause regarding mismatching of invoices in taxpayers' tax return is also legally defective since such mismatching is duly protected under section 7(1) of the Act which empowers the buyer to claim his input tax credit in any of the 6 succeeding tax periods to which the purchase relates. In view of such glaring legal protection to the buyer, mismatching is bound to happen and is not even probable let alone the penal action there against. Hence, this part of STGO is also in clear contravention to section 7(1) of the Act. Without prejudice above contentions, the author feels that the correct wordings of the clause ought to have been 'mismatching of invoice summary statements between registered buyers and sellers resulting in loss of tax'.

We reckon mismatching of Goods Declaration between taxpayer's records and that furnished by customs could be when a particular import was not recorded / uploaded by Customs' in their own database. On this account, penalizing the taxpayer would be highly in appropriate / unjustified.

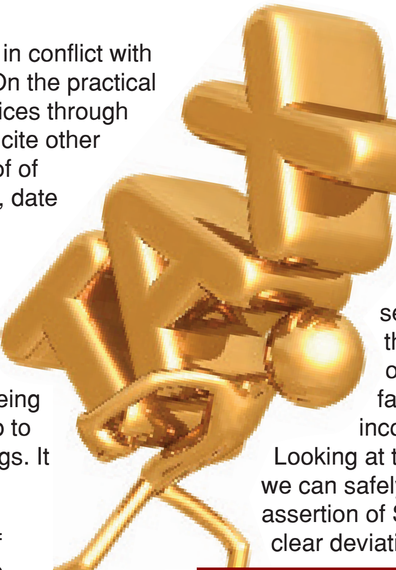
A mechanism has been proposed whereby the above discrepancy will be sent to taxpayer's email address or placed in his e-folder at efbr portal. The taxpayer will be required to get such discrepancy removed by getting himself 'audited' by tax authorities or explaining his position. It is pertinent to note that under Section 56, a notice shall only be treated as having served to the taxpayer if it is personally delivered to him or his representative, sent by registered post or courier or served as prescribed under Code of Civil Procedure 1908. In view of governing explicit provision, one would wonder the wisdom of bringing a change in manner of service of notice through email and that too by a secondary legislation via General Order. In other words, this measure is in conflict with section 56 of the Act. On the practical side, the service of notices through email is also likely to incite other questions such as proof of service to the taxpayer, date of email, etc.

Looking the other angle of the proposed 'resolution' of the said discrepancy, we find another back door is being created under this garb to initiate audit proceedings. It is common for tax authorities to initiate taxpayers' audit on self concocted grounds like 'abnormal tax profile', 'scrutiny of input tax', 'revision of returns', etc. At the judicial fora, quite a few times such proceedings have been suspended and declared to be of no legal effect since they are not prescribed under the law. It appears another attempt has been made to bypass Section 25 of the Act which is likely to be misused by tax officers besides causing undue harassment to the taxpayers.

Self contradiction is also apparent in clause 2(vi) wherein the taxpayer is required to furnish reply against discrepancy notice within 15 days of issuance. Interestingly, on other hand, clause 3(ii) requires him to furnish his reply within 15 days of the receipt of discrepancy notice.

The surmise of the foregoing situations would mean the taxpayer being declared as 'non active' without service of any formal show cause notice and associated appealable order being served upon him. The absence of such a mandatory procedure is against all norms of natural justice and fair play and negates the fundamental principle of equity which is the basis of every taxation system.

Another lamentable aspect of the STGO revolves around the person who procures taxable goods from such 'non active' seller. The STGO provides that the buyer would be deprived of related input tax credit in case he purchases goods from a non active supplier. In such a case, the FBR's web portal would blink such message whenever he tries to feed



his purchases over his tax return. Again, the STGO fails to mention the law under which the department seeks to disallow the sales tax credit of a person if he fails to file his income tax return ? Looking at this perspective, we can safely conclude such assertion of STGO to be in clear deviation and violation of

It is common for tax authorities to initiate taxpayers' audit on self concocted grounds like 'abnormal tax profile', 'scrutiny of input tax', 'revision of returns', etc. At the judicial fora, quite a few times such proceedings have been suspended and declared to be of no legal effect since they are not prescribed under the law. It appears another attempt has been made to bypass Section 25 of the Act which is likely to be misused by tax officers besides causing undue harassment to the taxpayers.

the Act as the STGO has travelled beyond the vires of Section 7 and Section 8. Numerous decisions pronounced by superior courts also fortify such viewpoint wherein the Courts have held that except amending the Act, no one can be deprived from his vested right of input tax. Hence, we are afraid this STGO may be struck down by the Courts on this ground as well as being discord with its mother law.

The ill-fated buyer will not only have his input tax credit debarred but he would also be placed in "high risk" category for the purpose of audit. Again, the FBR failed to highlight the legal reference which might facilitate such an audit exercise. This would virtually mean once a person is declared to be suspicious in the eyes of tax administration, it would be advisable for him to cease his business rather extending troubles to his clients / customers. All such illegitimate measures proposed in STGO clearly speak that the tax machinery has little or virtually no respect for fiscal laws and care for business progression particularly at a time when the economy is at the verge of collapse due to multiple internal and external factors.

As regards refunds, the STGO provides that the non active taxpayer will be denied expeditious refunds under Rule 26A of the rules. This condition ought to have been placed under the relevant rule instead of STGO to avoid confusion and misinterpretation of Refund Rules.

Lastly, the STGO has advised taxpayers not to have any transaction with non-active taxpayers unless they are restored on active taxpayers list on the recommendation of their respective tax office or appellate forum. The 'advice' has also placed upon another restriction of settlement of transaction with non active taxpayers through banking channels even if the value of goods is below the limit of Rs. 50,0000 prescribed in section 73 of the Act. Here again, the STGO has crossed the ambit of statute which categorically prescribes settlement of business transactions through banking channel only when the value of supply increases Rs. 50,000.

The upshot of the foregoing discussions may result in enhancement of disputes and consequent litigation, economic slow down and mistrust among the business community. It is advisable that our fiscal management must put their fingers crossed and take cognizance of the legal and practical lacunas before the legislation lands up in Court of Law for a final verdict.

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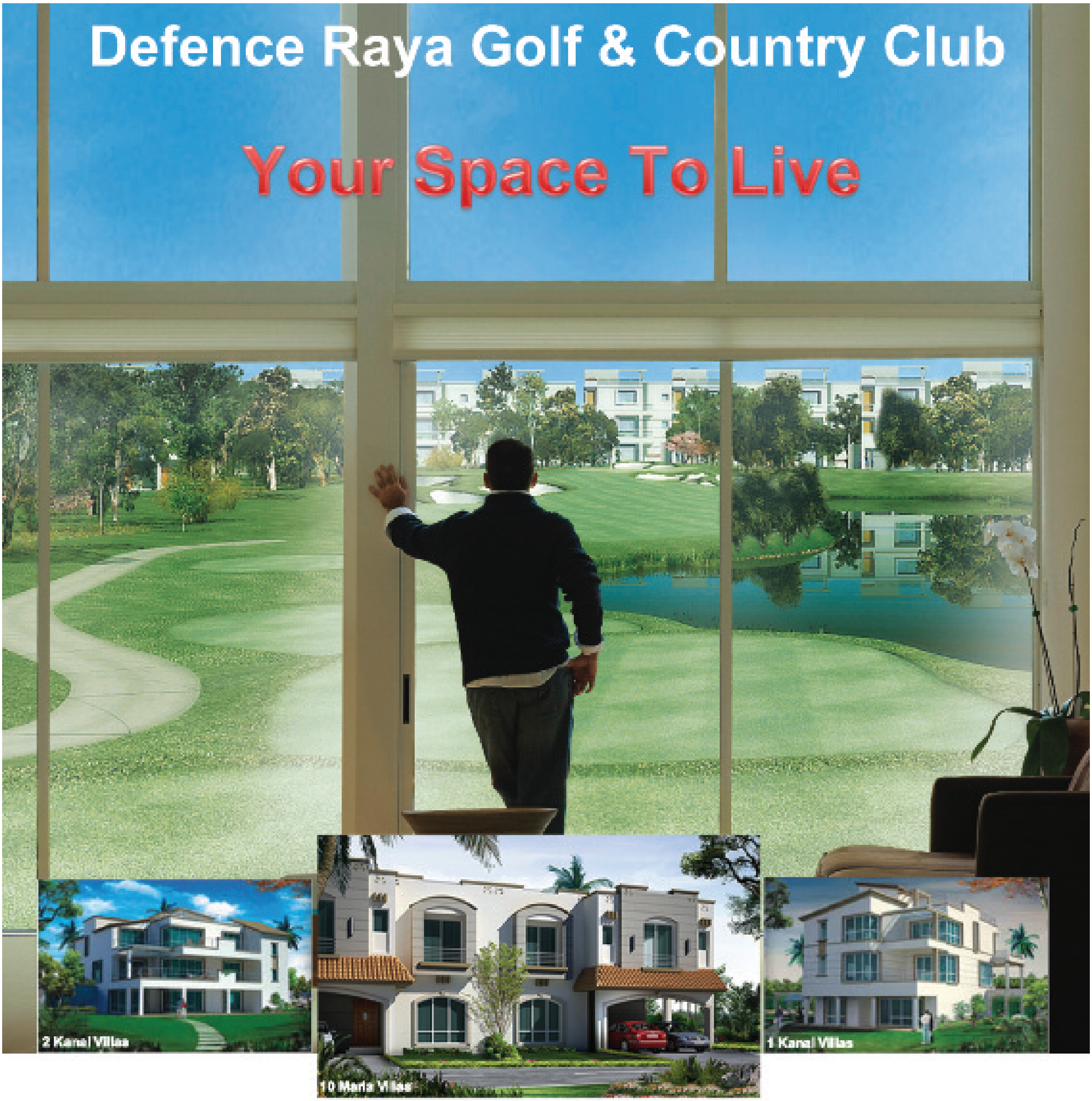

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STRATEGIC DECISIONS DURING RECESSION

M. Amir Afzal Rana, FCA

Most of the mature organizations, at some point of their life span, would have faced with economic recession or depression. A majority plans for the good times, not the bad. During normal days, management teams are pressed for continuous growth and healthy bottom lines. The possibility for recession or downturn is therefore rarely thought of and certainly not planned for.

So, when the difficult time gazes around, the pressure of strategic and tactical decision making picks up strength. Some of those decisions have overwhelming impact on the organizations' ability to rebound. The top management group has to make key decisions to reorganize the entity for taking into account the change in the business model (redesign the organizational structure, tighten up the internal controls and taking cost cutting measures etc). The decisive factor however for an organization to successfully come out of pressure time is whether the future was kept in mind while making key decisions?

The recession will ultimately end and key decisions need to be made in a manner to ensure that the company is positioned correctly to:

a) Timely recognize the turn round, and
b) To be amongst the first ones to take advantage of it

One of the most important aspects for long term sustainability and survival is the ability of people in top management to understand the corporate positioning of the organization in changed scenario. The strategic decision making should be directly in line with the said positioning.

For instance, a medium sized organization could create a shield by shifting from being a profit center to a cost center in support of bigger business units. This is not unusual during a downturn that medium sized organizations line up around a few bigger players. The large ones on the other hand start looking at horizontal and vertical integration with increased reliance on outsourcing in order to face the rough tide.

Another important dimension requiring strategic decisions is the balance between "Centralized" and "Decentralized" organizational structures. Normal course of action during years of growth and economic boom is maximum independence and delegated form of hierarchies. However, during difficult times, the focus naturally turns towards more controlled and centric environment. In the later case, it is very important to recognize that there would probably be a gap between the organization's current ability to collaborate cross-functionally, within and outside its management tiers. In such cases, a reasonable focus should be on organizational improvement efforts in order to enable cross-functional collaboration. The said efforts could include;

- Encourage team work by giving responsibilities to team players within different levels of organization,
- Improve the level of goal congruence with enhanced conflict resolution efforts
- Create interlocking processes to develop smart workflows and
- Establish flexible lines of accountability

Building on previous two points, most of the organizations would need a well planned and controlled process redesign program to help with the development of interlocking processes. A team comprising of members with good organizational understanding and future vision is the key for establishing clear lines of accountability in a cross-functional environment and to improve the collaborative leadership skills.

Areas within corporate structure which are mostly under focus in pressure situations generally include:

1. Human Resources – Staffing & Environment
2. Human Resources - Compensation & Incentives
3. Human Resources - Training & Development
4. Systems and IT Infrastructure
5. Marketing & Business Development
6. General Cost Cutting Measures

These areas are discussed briefly in following part of this paper:

1. HUMAN RESOURCES – STAFFING & ENVIRONMENT

During recession, one of the first steps organizations normally take is to start lay offs. It is common having inefficient work teams and redundant operations due to lesser focus on these areas during good times. If it is the case then this is the pay-off time for past actions. The aspect, however to be considered in this regard is, if the layoff is a short term, financial only, decision? If the headcount reduction means losing the people experienced enough to keep seeing the future, then the loss might be too hard for the future positioning. The organization may look lean after all the storming, but might not be limber enough to take advantage of emerging opportunities. Keeping on the people that have experience and empowering them to solve the short term financial problems could be a much smarter strategy.

Working environment, morale of workforce and corporate governance, which are mostly qualitative in nature, are in their own, difficult to be measured and presented in hard numbers but future numbers are definitely the direct results of these factors.

Investing in key staff, strategic systems upgrades, training and program development in pressure times will generally be a worthwhile investment for future growth. Since all this has to be done in line with current economic conditions, so making sure the organization's long term strategy and business model still holds true is essential.

To sum up this area, the key points are:

- During recession (or depression), decision making should not be done under such a duress that may lead to unintended negative consequences. It is a known fact that without preservation of the human and intellectual capital, an organization would not be able to sustain its financial capital. So, any action having potential to endanger the motivation level or morale of employees should be taken with utmost care.

- Working environment, morale of workforce and corporate governance, which are mostly qualitative in nature are, in their own, difficult to be measured and presented in hard numbers but future numbers are definitely the direct results of these factors.

- A famous HR quote is "Reduced muscle will result in losing the tone and balance while cutting the bone will damage the fundamental structure". So, down-sizing should not become dumb-sizing in the end.

- Organizations behave like organic entities, which need to be flexible and have the energy reserves that can anticipate and react to future challenges - not just the present short-term issues.

2. HUMAN RESOURCES – COMPENSATION & INCENTIVES

It is very easy for the decision makers to get carried away during downturn resulting in heavy layoffs followed by ruthless cost-cutting measures. The said cost-cutting measures generally include freezing the increments or even cutting the existing compensation packages.

A recent survey from Towers Perrin expanding over 450 companies showed the following results:

How companies are likely to respond to the economic crisis:

Planned Action	Very Likely %	Somewhat Likely %	Somewhat Unlikely %	Very Unlikely %	Too soon to tell %
Significant reduction in headcount (10% or more)	8	8	22	44	18
Targeted reduction in headcount (focus on less critical roles or lower performers)	22	24	17	22	15
Freeze or reduce hiring	36	24	15	15	10
Reduce training budgets	17	30	24	15	14
Reduce pay / merit increase budgets	26	23	22	18	11
Reduce annual benefits / bonuses	18	21	23	25	13
Reduce number entitled to receive long term benefits	5	13	26	41	15
Cut back on perquisites	12	17	23	32	16
Cut travel and entertainment expenses	41	33	12	6	8
Scale back holiday parties and/or other employee events	32	26	20	13	9

All such actions, if not designed and controlled carefully, could highly endanger the projects by sending the morale in a digging position. From a manager's perspective, getting the most out of employees in this kind of environment will seem like an uphill task. On the other hand, as rightly suggested by Lindsay Blakely, such situations also provide a good opportunity to fix what was broken in the past, if handled properly. Good leaders position themselves to do this part very effectively during recession periods. Some or all of the aforesaid cost-cutting measures might be necessary for an organization to float through rough waters. It would however be even more important to communicate effectively and to be candid with the employees.

Rewarding the employees in creative ways and enlisting them to help make hard decisions can not only keep the team remaining motivated but pull the organization out of slump. Traditionally, the top executives make strategic decisions (including those directly affecting employees) and let those trickle down. The problem with this approach is that it rarely touches the level of effectiveness with which the communication needs to be passed through various channels. Mature and successful leaders instead focus on harnessing employees to participate in the efforts to identify where to cut costs and how. Senior leadership would thus be focusing on areas like product lines, headcount, or moving operations off-shore, while employees, on the other hand, can use their collective wisdom to eliminate clumsy and costly procedures across functional hierarchies.

Following is a summary of various important aspects relating to this area:

- Expertise within the organization should be leveraged. Motivate and engage employees by including them in the problem-solving process thus creating a critical buy-in.

- The middle management tier should play a crucial role in communicating messages from senior leadership. Loyalty could only be maintained if the transparency of whatever is being done is maintained. Clear and honest explanations for what went wrong and how the company plans to move forward would also be vital.

- Employees should be provided with opportunities to openly discuss and ask questions about the business situation being faced by the organization. This would also result in improving the mood in the office so that everyone can get back to work.

3. HUMAN RESOURCES – TRAINING & DEVELOPMENT

In a pressure situation, corporate leaders find themselves under distress to stop investing in organizational improvements. It is a known fact however that acting rashly causes problems. Morale of staff is hampered and when the economy improves, the things would have to start over from scratch.

Generally during recession, even some of the most rational leaders just start looking at the training & development budget with more attention than they devote to other operational expenses which are higher many-fold. A balanced strategy during down time of economic cycle is very important in order to avoid the problems caused by indiscriminate budget cuts. Following are a few points that should be taken into consideration in this regard:

- Strategic management team should develop a clear understanding about the competencies their organization really needs in order to execute the overall business strategy.

- Roots and basis of areas under consideration should be identified before agreeing to a budget number.

- Strategies with rigid statements like, "Cut the training budget by 30%," which has no link and bearing on the business, should be avoided. Right way would be to figure out which training, if any, will help address critical organizational needs. Based upon findings, the T&D budget should be rebuild from the bottom up. In certain cases the whole budget could be wiped off and vice-versa.

- For sustaining and moving forward until better times, it is essential for the organizations to develop their high-potential leaders on an ongoing basis. However, foreign trips and costly high profile locations are not necessary at all in this regard. Focusing on in-house development programs and local rotational assignments could prove as good as bigger development "events" involving high operational cost.

- A relatively higher investment to coach a few senior leaders in mission-critical roles may create more return than a similarly priced generic training program for the masses.

- Group coaching can be quite cost effective besides providing the benefit of building relationships between up-coming leaders.

4. SYSTEMS AND IT INFRASTRUCTURE

Recession planning for this area should be just like a zero-base budgetary planning. Changing economic conditions require a change in thinking. The current operating budget should be re-evaluated during a recession. Following are some important factors which should be kept in consideration:

- Part of technology must be maintained or implemented that could provide competitive edge to the organization and is instrumental in helping to attract new customers besides retaining the current ones.

- Technology investments should be got balanced by looking at the comprehensive picture.

- Saving should be made on upgrades. No further upgrades should be made except for those which are of critical nature until after the recession is over

- Equipment life cycles could be stretched. Computer hardware usually has a three-year life cycle. During a recession it is OK to stretch this to four years. Minor upgrades such as increasing RAM etc might however be necessary.

- Licensing and support agreements should be re-visited for bringing the costs down where possible and to avoid any duplicate coverage.

- In a recession, good spending in IT would support an organization to protect itself in a downturn. For instance; protection of key data through firewalls, extension of hardware warranties, backup mechanism and disaster recovery systems.

5. MARKETING & BUSINESS DEVELOPMENT

Another very important area which comes into focus of strategic decision making right from the start of a downturn is marketing and business development. Besides a number of downward slides, an economic recession may also present positive opportunities to grow sales and marketing success. The best way to effectively manage these key areas would be to focus mainly on developing strategies to capitalize of various opportunities.

Overall marketing strategy might need major revisions. Following is a brief description of some circumscribing ideas propounded by John Quelch, a non-executive director of Pepsi Bottling Group and WPP Group plc, the world's second largest marketing services company:

- Price elasticity curves change drastically during recessions. Consumers take more time searching for durable goods and negotiate harder at the point of sale. They are more willing to postpone purchases, trade down, or buy less. Must-have features of yesterday are today's can-live-withouts. So, instead of cutting the market research budget, organizations need to know, more than ever, how consumers are redefining value and responding to the recession.

- When economic hard times loom, masses tend to retreat to their village. Look for cozy hearth-and-home family scenes in advertising to replace images of extreme sports, adventure and rugged individualism. Telephone usage and discretionary spending on home furnishings and home entertainment will hold up well in societies which are on a higher ladder of Maslow's hierarchy while items of basic necessities would pick strength in underprivileged demographics.

- This is not the time to cut advertising. Brands that increase advertising during a recession, when competitors are cutting back, can improve market share and return on investment at lower cost than during good economic times. Uncertain consumers need the reassurance of known brands and more consumers at home watching television can deliver higher than expected audiences at lower cost. Brands with deep pockets may be able to negotiate favorable advertising rates and lock them in for several years.

- Marketers must reforecast demand for each item in their product lines as consumer's trade down to models that stress good value. Tough times favor multi-purpose goods over specialized products and weaker items in product lines should be pruned. Industrial customers prefer to see products and services unbundled and priced separately. Gimmicks are out; reliability, durability, safety and performance are in.

- In uncertain times, no one wants to tie up working capital in excess inventories. Early-buy allowances, extended financing and generous return policies motivate distributors to stock the full product line. This is particularly true with unproven new products.

- Customers will be shopping around for the best deals. It is not necessary to cut the list prices. Instead, it would be better to offer more temporary price promotions.

- In all but a few technology categories where growth prospects are strong, companies are in a battle for market share and in some cases, for survival. Knowing the cost structure can ensure that any cuts or consolidation initiatives will save money with minimum customer impact.

- Although most companies are making employees redundant, chief executives can cement the loyalty of those who remain by assuring employees that the company has survived difficult times before, maintaining quality rather than cutting corners and servicing existing customers rather than trying to be all things to all people. Managing working capital can easily dominate managing customer relationships. Successful companies do not abandon their marketing strategies in a recession; they adapt them.

6. GENERAL COST CUTTING MEASURES

The primary objective of almost every business concern is to make profits. Most of the business owners believe that the best way to do that is by increasing sales. But that brings up another conundrum - in order to increase sales, there has to be a corresponding increase in costs because of the increased amount of work involved. But increased costs are just what need to be curtailed. Therefore, another way of going about lowering costs is by controlling them, and thus increasing profit margins.

There are two main types of costs in a business i.e, fixed costs and variable costs. Fixed costs are those that are not related to the amount of sales or production. They usually include rent, insurance, and the costs incurred by the utilities in use, or for running the business, such as salaries, advertising etc. Fixed costs can change over a period of time, although the increase or decrease is not connected to production. Variable costs, however, are directly related to business activity. Raw materials and inventory are perfect examples of the variable costs of a business enterprise.

There isn't one cut and dry answer as to how the cost control measures could be designed and adopted. Especially in days of difficulty, the situation gets even more complex. The whole business strategy needs to be reviewed carefully in order to determine how to achieve cost-reduction without impacting the business adversely. Paradoxically, sometimes in order to save money the organization would need to spend money, such as upgrading the equipment in use.

Some effective cost-cutting strategies:

Following are a few points that should be kept in mind while undergoing a generic cost cutting process:

- Organization should scrutinize its products and/or services to find out which of them are the most or the least cost-effective. A cut should then be drawn on those that give the least profits, while investing more on those products that are the most lucrative.
- Variable costs should be the first ones to be controlled. This is because cutting back on fixed costs can cause more financial and operational pain than when variable costs are cut.
- Those costs arising from unnecessary processes should not only be curbed but the related process should also be analyzed for total elimination.
- Every expense should be looked at from level zero and be analyzed at length regarding; how each one adds to the value of the business and is it material enough to make any difference to the bottom line? Too much focus on too small things could easily detract the whole cost-cutting process.
- Cost controlling is a function to be performed continually. It should not be shelved once short- term objectives are met. A track of finances should always be kept in this regard.

Cost Cutting during Recession – What should not be done:

In a sluggish economic sphere, getting leaner is important, but not every money-saving measure is a good one. Following are some moves which organizations should not make during tough times, even if they seem like easy ways to cut costs:

- Cost savings should never come at the expense of the ability to execute a long-term vision. Short-term solutions normally lead to regret when economic conditions improve.
- Cost cutting process should not be performed by a small management group in isolation. It is common to loose morale when cost cutting gets a high priority within management decision making process. Therefore, getting people involved becomes pivotal for this process to be successful. People can be on management's side or feel excluded and most people want to be part of the solution if given a chance.
- Performance evaluation process should not be put to halt even if it is got temporarily de-linked with increments and benefits. People should still be setting goals and working toward them. The employees will certainly want to know how they're doing and what's expected of them going forward.
- Businesses in service sector should especially be careful not to cut corners on things that relate to quality of service.
- Another common mistake made during pressure times is that the business owners start taking on marketing responsibilities themselves. For an entrepreneur, what s(he) contributes first and foremost is the "Vision & Leadership" and if s(he) gets mired in taking over someone else's job, it would normally be at the cost of effective leadership.
- A general approach towards cost-cutting process is that it should be done in a disciplined, firm, and hard manner. In contrast, more effective would be a motivating approach that starts off acknowledging that making cost reductions is not the most wanted experience but is the need of the time.
- The steering team for a cost-cutting process should not comprise of people who are rigid professionals within their own field. Representation should instead be of critical influencers or pride builders with good understanding of the business process. Those people should be identified from within the organization and nominated as leaders in the cost-cutting efforts.
- Notions such as "We have to improve the bottom line" are much less effective than "Lets' eliminate what annoys our customers". So the former should not be used as the frontline buzz.

In the end, the article is concluded with following words:

Business success stories are rarely made during boom periods. The economic recessions are the most opportune times to act for the long-term. It is the time when big players are changed. Market shares get shifted and gainers are those who position and poise themselves in a timely manner. The organizations which come out from downturn as winners are those lead by people with strong nerves, having skills to make decisions with a long-term vision and the courage to ignore what everyone else is doing.

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SOMETHING BEYOND FINANCIAL PERFORMANCE

Naveed Abdul Hameed, ACA

The world is experiencing a shift. The circumstances have changed. Now, the CEOs have concerns beyond the financial performance of an organization. Since the financial performance of an organization is directly linked to its activities and, each activity of an organization has an impact. Management of these impacts is necessary. These impacts have triggered a question. Will my business, my company, my operations will sustain in the long run?? How can a company have a goal broader than its financial performance and still be a winner?? Or can it be a winner in this changing business environment without changing its 'usual financial goal' approach?? How does one define and measure the non financial goals? How will they impact the ultimate financial results??

The issue has broadened the governance thinking from single bottom line financial performance to triple bottom line or the concept called **SUSTAINABILITY.**

What is Sustainability?

Sustainability represents those impacts which are mentioned in the aforementioned lines. These impacts are:

- Social
- Economic, and
- Environment

Financial success is no longer the sole measure by which corporations are judged by their stakeholders – primarily investors, consumers, employees and the communities in which they operate. Companies are now expected to perform well in non-financial areas, such as human rights, business ethics, environmental policies, corporate contributions, community development, corporate governance and workplace issues. There is an increasing expectation that traditional financial reporting boundaries should be extended to include information about environmental impact and corporate social responsibility.

The sustainability Idea

Meet the needs of the present without compromising the ability of future generations to meet their own needs.

Earth is not inherited from our forefathers rather it is borrowed from our future.

OTHER NAMES OF SUSTAINABILITY

"What's in a name? That which we call a rose by any other name would smell as sweet."

- Corporate Citizenship (CC)
- Corporate Responsibility (CR)
- Corporate Social Responsibility (CSR)
- Philanthropy
- Economics, Equity, Environment (EEE)
- People, Planet, Profit (PPP)
- Sustainable Development (SD)
- Sustainability
- Triple Bottom Line (TBL)

Some sustainable business practices?

- Energy saving
- Water saving
- Reduction in fertilizer use
- Reduce green house gas emissions
- Reduce wastes and effluents
- Concern for bio-diversity
- Water purification
- Compliance with product and waste disposal regulations
- Forestation
- Employee education and training
- Workforce passive diversity
- Workforce healthcare provision
- Community investment/local philanthropy
- Poverty alleviation programs
- Conformity with recognized environmental management standards, e.g. ISO 14001
- Public environmental / sustainability reporting
- Independent assurance of sustainability reports

Sustainability in Pakistan

The concept of sustainability is relatively new to the business community in Pakistan. It is, however, becoming an important business concern, mainly because of increasing pressure on the Pakistani business community (especially in the export sector) to comply with European Union environmental and social responsibility standards such as those relating to packaging waste and water treatment.

In accordance with the view point of a large number of business people, these environmental and social responsibility standards are regarded as barriers to trade and as a 'neo-colonial agenda to exploit the export sector of Pakistan'. The business community in Pakistan faces a number of micro and macro economic challenges. Their profits are already under pressure due to heavy taxation, inflation, fuel prices and utility bills. At the same time, European Union buyers are demanding lower prices; but exporters in Pakistan are increasingly finding it difficult to comply with this requirement.

Globalization has brought about increased pressure on companies in Pakistan to demonstrate commitment to sustainable business practices if they are to remain in the supply chain.

As in the rest of the world, businesses in Pakistan are concerned with profit maximization. An important obstacle in the adoption of sustainable business practices is that many of the companies, both larger and SMEs, cannot appreciate the link between sustainability initiatives and profits. This link needs to be illustrated to convince the business community to adopt sustainable business practices and to report them.

Sustainability is the requirement of foreign brands. As the requirements come, people will have to follow such practices. If you do not follow those practices you will be out of business.

The following lines will highlight about what is happening around us regarding sustainability.

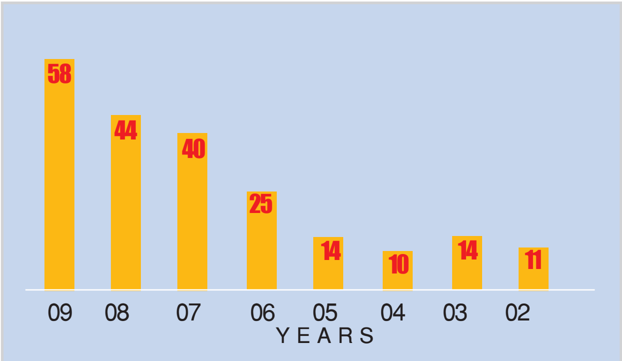
1. Sustainability Reporting

The concept of public sustainability reporting is still in its infancy. A handful of listed companies are reporting on sustainability-related matters in their annual reports. A few companies are also preparing stand-alone environmental reports. One of the major drivers of increased environmental and sustainability reporting is the ACCA–WWF Pakistan Environmental Reporting.

The ninth ACCA – WWF best sustainability report award was held on April 22, 2010 in Islamabad. Fifty eight (58) Pakistani companies registered their sustainability reports for the competition. Out of fifty eight (58), nineteen (19) companies were shortlisted for the award. Following companies were awarded for the sustainability reports:

- Attock Refinery Limited
- Engro Corporation Limited
- Engro Polymer Chemicals Limited
- AES Lal Pir (Pvt) Limited
- National Refinery Limited
- Qarshi Industries (Pvt) Limited

The following graph shows the total number of entries for the ACCA – WWF sustainability report award for last eight years:

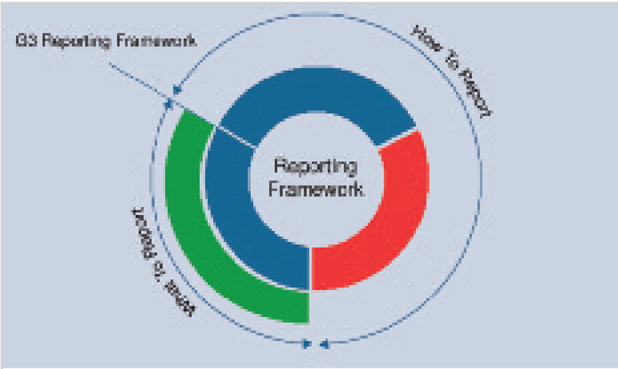


GRI's reporting framework

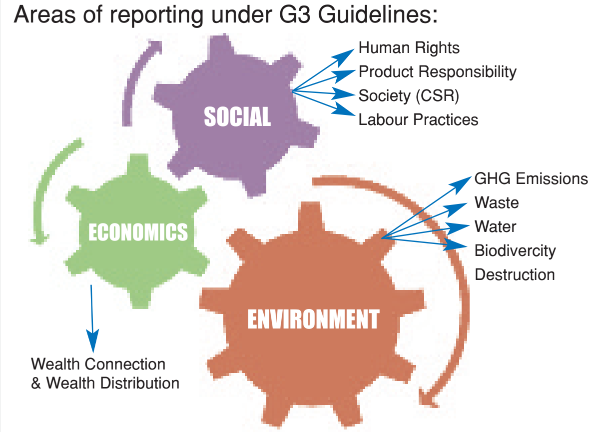
The GRI (Global Reporting Initiative) has promulgated a reporting framework, called G3 Guidelines. **"G3**

Guidelines" is intended to serve as a generally accepted framework for reporting on an organization's economic, environmental, and social performance. It is designed for use by organizations of any size, sector, or location.

The **"G3 Guidelines"** consist of Principles for defining report content and ensuring the quality of reported information. It also includes Standard Disclosures made up of Performance Indicators and other disclosure items, as well as guidance on specific technical topics in reporting.



Areas of reporting under G3 Guidelines:



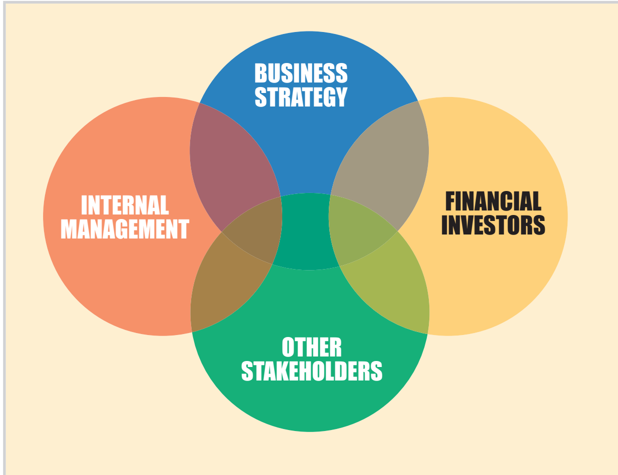
IFAC's Sustainability Framework

IFAC's Sustainability Framework can help professional accountants grasp all the important aspects of sustainability that they may encounter, directly or indirectly, and that will be important to their organizations. It consolidates all of the important aspects of sustainability for organizations wishing to deliver long-term sustainable value to their stakeholders.

The Framework addresses four perspectives in bringing together all the critical areas required to successfully manage a sustainable organization. These perspectives are: business strategy, internal management, financial investors, and other stakeholders. Organizations that have successfully embraced sustainable development to add value to the organization and its stakeholders have usually taken action on all four perspectives.

The Framework provides many examples of good practice, so that professional accountants can easily seek more detailed information on areas of particular interest.

The four perspectives are summarized below:



2. Code of Corporate Governance

The *Code of Corporate Governance,* implemented by the Securities and Exchange Commission of Pakistan in March 2002 has the following provision on the organization's environmental impact.

Under 'Responsibilities, Powers and Functions of Board of Directors', Section (viii) sub section (b):

The Board of Directors [should] adopt a vision/mission statement and overall corporate strategy for the listed company and also formulate ***significant policies*** *having regard to the materiality as may be determined.*

'Significant policies' for this purpose includes 'Health Safety and Environment (HSE)'. Indeed, many of the policies are interrelated and may have an impact on HSE.

Under 'Significant Issues to be Placed for Decision by the Board of Directors', Section (xiii):

In order to strengthen and formalize the corporate decision-making process, ***significant issues*** *shall be placed for the information, consideration and decision of the Boards of Directors of listed companies.*

Here, **'significant issues'** includes, among other things:

Any significant accidents, dangerous occurrences and incidents of pollution and environmental problems involving the listed company.

3. SECP's SRO on CSR / Environmental initiatives

SRO 983(1)/2009 dated Nov 16, 2009 requires every public company to provide descriptive as well as monetary disclosure of the CSR activities / environmental measures in the directors' report, annexed to the annual audited financial statements. The SRO is effective from financial year beginning on or after July 1, 2009. For areas of disclosure, please refer the SRO.

4. Ranking of Pakistan Companies in Asian Sustainability Rating

The Asian Sustainability Rating (ASR™) is a benchmarking tool for use by Asian companies, investors and other stakeholders. Launched in October 2009, the ASR™ initially covered the top 20 companies by market capitalization in 10 Asian markets. ASR™ 2010 will cover the top 500 companies in the 10 markets of the MSCI Asia ex-Japan index, based on their free-float weighted market cap. In order to promote sustainability disclosure, the final ranking and some features of the methodology will be made available in press releases, at conferences and to the media.

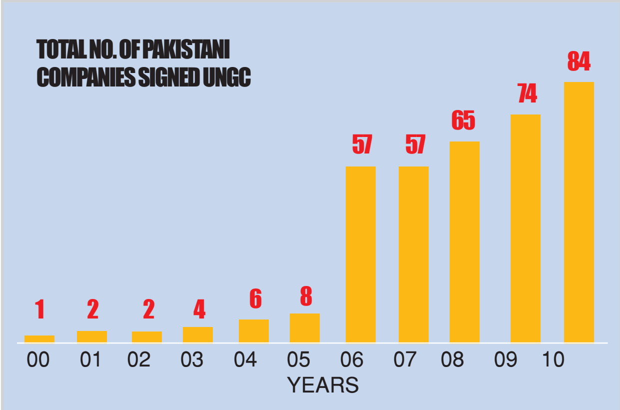
Rank in Pakistan	Rank in total ASR (among the Asian companies)	Company	Score 2009 (%)
1	46	Engro Chemicals Pakistan Limited	55.9
2	87	Unilever Pakistan	40.2
3	95	Pakistan State Oil	38.2
4	123	Nestlé Pakistan	29.4
5	150	Fauji Fertilizers Company Limited	22.5
6	159	Oil and Gas Company Limited	18.6
6	159	Pakistan Petroleum Limited	18.6
8	166	Standard Chartered Pakistan	16.7
8	166	Hub Power Company Limited	16.7
8	166	Lucky Cement Limited	16.7
11	181	GlaxoSmithKline Pakistan	13.7
12	183	Pakistan Oil Fields Limited	12.7
13	186	National Bank of Pakistan	10.8
13	186	Kot Addu Power Company Limited	10.8
13	186	Royal Bank of Scotland	10.8
16	189	Allied Bank of Pakistan	9.8
17	191	Pakistan Telecommunication Company Limited	7.8
18	193	United Bank Limited	6.9
19	197	Muslim Commercial Bank Limited	2.9
20	199	Habib Bank Limited	1.0

Disclosure by indicator area (%)	Pakistan
Governance, Codes, and Policies	35.2
CSR Strategy and Communication	10.2
Marketplace and Supply Chain	16.5
Workplace and People	7.3
Environment	19.1
Community and Development	15.5

Source: asiansr.com

5. United Nation Global Compact

The United Nations Global Compact (UNGC) is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption. All those companies who have signed the UNGC are required to produce "Communication on Progress". Many companies around the globe are producing CoP to disclose their sustainability aspects. The following chart shows the total number of Pakistani companies in each year who have become the signatory to UNGC.



6. Environmental Laws in Pakistan

The environmental laws exist in Pakistan under the authority of Ministry of Environment. Section 11 of Pakistan Environmental Protection Act, 1997 prohibits discharges and emissions (of wastes) in excess of the limits prescribed under the National Environmental Quality Standards, or NEQS (SRO 549(I)/2000 dated 8 August 2000).

7. Clean Development Mechanism (CDM)

Before me move on to discuss CDM, it is necessary to highlight that emission of Green House Gases (GHGs) into the atmosphere is the cause of Global Warming of earth. These emissions are causing increase in temperature, sea level rise and increased rate of extreme weather events. Reduction of GHG concentration in the environment, is becoming a burning question for sustainable business.

Following are the GHGs:

- Carbon Dioxide
- Methane
- Nitrous Oxide
- Hydroflourocarbons
- Perflourocarbons
- Sulphur Hexaflouride

CDM is one of the market mechanisms of Kyoto Protocol, an international binding for the global reduction of GHG emission by 5.2% from the level of 1990's. Kyoto Protocol (KP) was enforced in 2005 by United Nations Framework Convention on Climate Change (UNFCCC). 35 countries (western and eastern Europe, Canada and Japan etc) have ratified the protocol while a vast majority have accepted and approved the protocol. Pakistan is one of the countries approving the protocol. Those countries who have ratified the KP are the developed nations which are assigned the maximum cap for the emission of GHG into the atmosphere. Whereas, for the developing countries (like Pakistan) there is a flexibility by putting no Cap on the GHG emission level. Under the CDM methodology, a country that is emitting at its limit of carbon emission (developed country) can acquire permission for additional carbon emission by investing in emission reduction projects in developing countries (e.g Pakistan). This carbon trading takes place through the exchange of **Certified Emission Reduction (CER)** units. Developed countries help developing countries in carrying emission reduction / removal projects and in exchange, earn CERs from developing countries. Purchasing one **unit of CER** allows developed countries to emit **one tonne of carbon dioxide** in addition to its limit.

For CDM projects in Pakistan, Ministry of Environment (MoE), Government of Pakistan is the Designated National Authority (DNA) while its National Operational Strategy was approved in 2006. Presently, there are four projects registered with UNFCCC and 23 approved projects by the DNA, that is MoE. Many other projects are also in the pipeline. Following are the advantages of CDM for the corporate sector in Pakistan:

- Additional financial resources (Revenue through sale of CER units)
- Advanced technology transfer
- Achieve sustainable development (reduction of GHG)
- Increased rate of return
- Identify internal inefficiencies, cut waste and save money for the company
- It is hereby proposed that carbon trading should be actively and properly regulated by the Government.

Why Chartered Accountants

Accountants' professional background and orientation equip them with the necessary qualities to support their contribution - namely, wide business understanding, numeracy and knowledge of measurement, and objectivity and integrity. Applying these competencies to sustainability issues can help organizations to embrace sustainable development, and to incorporate it into strategic planning and execution. This will allow organizations to simultaneously deliver improved business performance and to contribute to a better world.

Professional accountants are in a good position to help organizations interpret sustainability issues in a relevant way for their organizations, and to integrate those issues into the way they do business.

Recommended readings:
Professional Accountants in business-At the Heart of Sustainability, published by IFAC

Financial success is no longer the sole measure by which corporations are judged by their stakeholders – primarily investors, consumers, employees and the communities in which they operate. Companies are now expected to perform well in non-financial areas, such as human rights, business ethics, environmental policies, corporate contributions, community development, corporate governance and workplace issues.

Why sustainability reports require assurance??

In order for companies to avoid their public disclosure being perceived as "greenwash" or an attempt to influence people with regard to their sustainability credentials, there is a greater benefit for companies to provide an independent assurance report supporting their claims on sustainability practices. Having an independent professional assure the reported information increases the confidence that can be placed on the information, for decision making purposes. We must recognize that there are incentives to produce biased reports of sustainability; this bias is significantly reduced by requiring assurance by an independent expert. Assurance by independent expert also aids in improving the quality of the information. Thus, an independent assurance of sustainability reports would ensure:

- More trust
- More transparency
- More confidence

The assurance standards are promulgated by "IAASB" and "AccountAbility".

Conslusion

So does your company practice responsible leadership?

Shareholders expect your company to generate profits but they also want you to assume your responsibility to contribute to society while minimizing the environmental impacts.

Globally, business leaders are striving to define the new role business will play in light of the financial crisis and in a world increasingly shaped by sustainable development issues. Business-as-usual in a resource-constrained world with an ever-increasing population and demand for goods and services, not be sustainable without new and innovative solutions.

Let's be united to spread the awareness of sustainability and bring this issue on the CEO's agenda. Remember! The cost of doing something will be cheaper in the long run than doing nothing.

The author is a Consultant at A.F. Ferguson & Co., Chartered Accountants

CORPORATE GOVERNANCE

Prof. Dr. Khawaja Amjad Saeed, FCA

ABSTRACT

Corporate Governance

The paper has been divided into four parts. The first part addresses ten (10) Central Concerns relating to Corporate Governance. These include; Role of Board of Directors, Basic Structure of Board of Directors and its Composition, Remuneration Pattern, Ownership of Directors, Availability of Freedom to an Enterprise – BOD Role, Role of Services of Institutional Directors, Accountability of Members of BOD, Financial Reporting, Institutionalization of Audit Functions, Linkages with Stakeholders. Operational aspect of implementation the spirit of the foregoing ten (10) Central Concerns have been reviewed with proper direction to meet the spirit of Good Governance. The second part shares experiential learning from four continents of the World namely; North America (United States of America), Europe (United Kingdom), Asia (Hong Kong, Malaysia and Pakistan) and Africa (South Africa). Guidelines provided in various legislations (Sarbanes – Oxlay Act, 2002), guidelines provided by various learned bodies / committees e.g. Cadbury Committee, Hempl Committee have been briefly included. The experience of Accountancy Profession of Hong Kong in terms of ten (10) Points Strategy has been shared. Two Codes of Ethics governing Board of Directors and Company Secretaries have been mentioned relating to Malaysia. Briefly, Pakistan's experience on Corporate Governance has been shared. Reference has been given to King's Report on Corporate Governance from South Africa.The third part shares the World Bank experience in terms of two indexes namely; World Governance Index which has been briefly reviewed but with greater details in respect of the second index namely; Corporate Governance Index.

The fourth and the last part outlines five (5) Points Strategy as a Way Forward. This is the concluding part of the paper which gives emphasis on seven (7) principles to Public Life, Role of stakeholders in Corporate Governance, a plea for strict implementation, continuous feedback on Corporate Governance Practices and with a suggestion that Business Schools and Professional Institutes of Accountants throughout the World must prepare a new breed of executives to identify and accept the challenges facing Corporate Governance on global basis in general and on each country's needs with specific emphasis on sound corporate management.

PRELUDE

The whole world is in economic and financial crisis. Struggle is going on to come out of it. Several solutions have been suggested and are being offered by scholars, economists, government functionaries and other stakeholders. This piece presents a lucid analysis on Corporate Governance for developing sound corporate management to add value and for enriching the results of corporate entitles for society in general and shareholders in particular to be the beneficiaries.

PART-I

CENTRAL CONCERNS OF CORPORATE GOVERNANCE

Based on the past experience, failure stories and experiential learning in the area of Corporate Governance, following Central Concerns are:

1) Role of Board of Directors

For managing the affairs of a corporate entity basically three functions are followed namely, Strategic Planning, Tactical Controls and Actual Operations. These three roles are reflected in the following figure:

Figure No. 1:

Pyramid of Management

BOD must understand that their basic role is at Serial No. 1. Therefore, for delivery system they need to be well-equipped. They should be professionally well qualified to deliver the goods. They must identify any weaknesses or gaps in their role and remove the deficiencies through continuous training and management development so that they can perform their duties in a befitting manner. Their leadership can open a golden chapter in the history of success of Corporate Enterprises failing which the fate of the Corporate Enterprise, will be heading towards disaster and bankruptcies. Searching question to be asked by each one of them is: Are they well equipped and bejeweled to perform their role?

2) Basic Structure of Board of Directors and Its Composition

The composition of the Board of Directors should be well balanced. For successfully operating the affairs of the Corporate Entities diversified expertise should be possessed by them in the following areas namely, Personnel Management: (HRM/HRD), Production Operations Management (POM), Supply Chain Management (SCM), Finance, Marketing and Innovation backed up by out of the box thinking. Accordingly, any director who either does not have a grip on account of foregoing six aspects or at least one out of six, failing which he / she will be a liability rather than a tangible asset for the organization.

3) Remuneration Pattern

The remuneration of BOD members will have several patterns. Ordinarily each BOD member is paid an honorarium for attending the meeting. Fair amount may be determined in this respect. Some of the Directors need to deliver services on full time basis including the Managing Director / CEO. Their remuneration may be fixed by the Board of Directors and approved in the Annual General Meeting as part of transparency. There is a common practice in Pakistan to determine the remuneration package of the Managing Director / CEO by the BOD as a part of open door policy. This is communicated to all shareholders for information so that they stand fully communicated about the remuneration aspects.

4) Ownership of Directors

Ordinarily the minimum qualification shares to be possessed by a director to hold his office as director is prescribed in the Articles of Association of a company. Over and above, the minimum qualification shares, a ceiling may also be laid down so that the spirit of broad basing the ownership continues to be practically implemented. In some countries e.g. Hong Kong, there is a rider clause of restricting the total number of shares to 50% relating to a Director and his family members. Corporate ownership ought to be broad based so that there is a wider application of participation in the Corporate Entity and consequently stakeholders across the board are beneficiaries.

5) Availability of Freedom of an Enterprise – Governing BOD Role

Members of BOD should enjoy full degree of freedom and must exercise their initiative in terms of new harbinger and explore new frontiers of expanding horizons of the business. They must provide enlightened leadership and inspire the whole organization to swing into active work to earn high profits achieve, greater productivity identify, new vistas of leadership, ensure growth and tap markets through various approaches including market penetration. A success in this dimension can take a corporate entity to greater heights.

6) Role of Services of Institionalized Directors

Directors of BOD have to be natural persons. However, if an institution is holding financial stake in a corporate entity it needs to be represented on the BOD through a nomination known as Institutionalized Director. One should be well equipped and well experienced person so that one can make an enriched contribution on the BOD to ensure its success. If the one is lacking any knowledge and expertise, he/she will be a liability to be carried as a baggage on the BOD rather than perform their role as an productive and efficient member of the BOD Team.

7) Accountability of Members of BOD

It is very interesting that the rise of Joint Stock Companies in the world presents a big problem namely, owners are many in number but their governance is with very small in number constituting BOD. The hope is that BOD will follow the objectives of serving the interest of the corporate entity rather than their own personal interest. In this respect, the role of their accountability becomes very meaningful. In the Western model the accountability is enforced through legislation and through the circulation of financial statements in the Annual General Meeting. This traditional approach unfortunately has not succeeded as clever management through BOD continue to show losses through manipulation rather than perform their duties in the very basic interest of the corporate entity. Several examples in the world can be cited including downfall of Enron in USA and Satyam Computer Services Limited, India to name a few. In this respect, Islamic model needs to be comprehended for moral reformation and its true implementation. The following two verses from the Holy Quran are quoted below:

*"So whoever does an atom's**
weight of good will see it,
*And whoever does an atom's**
weight of evil will see it".
*[* "The weight of a small ant"]*
(Al – Quran, 99 : 7 & 8)

Divine message contained in Al-Quran is stressing an obvious. It lays sound foundation for strengthening moral frontiers of self-accountability and therefore suggests a firm grip against manipulations in financial and non-financial matters which ought to be uprooted, failing which adverse impact will continue to be reflected in the financial statements through malpractices of all types.

The message of feed forward emanates from the following divine message contained in the Al-Quran to be used as feed back to be provided on the Day of Judgment. This message from Al-Quran is quoted below:

"That Day, we will seal over their mouths, and their hands will speak to Us, and their feet will testify about what they used to earn".
(Al – Quran, 36 : 65)

The above message should provide a feed forward to every member of BOD to be self-accountable as God will provide feed back on the Day of Judgment.

8) Financial Reporting

Legislative aspects make it mandatory for a corporate entity to give adequate disclosure through the following reporting systems:

a) Quarterly Reports including Quarterly Highlights of all operational results and financial position of a company. This is mandatory for listed companies in some countries including Pakistan for circulation to shareholders.

b) Half Yearly Financial Reports: Through various legislative aspects it is mandatory in many countries including Pakistan to release Half Yearly Financial Reports to shareholder for listed companies.

c) Annual Financial Report: Several practices exist in the world including prescribing the formats of annual financial reports. However, the current trend is to prescribe minimum disclosure requirements in respect of the following:

   i) Balance Sheet
   ii) Income Statement
   iii) Funds Flow Statement

In Pakistan, we follow sunshine legislation of prescribing disclosures of information governing the above financial reports through Fourth Schedule of the Companies Ordinance, 1984 for listed companies and through Fifth Schedule governing non-listed companies. Continuous efforts are going on, with leadership provided by International Federation of Accountants, New York and International Accounting Standards Board, London for adequate disclosure of information for the benefit of the stakeholders in general and shareholders in particular. Enlightened Management led by good role of BOD continue to publish several other types of information voluntarily through pictoral displays, statistical charts, figures, ratios and computer graphics. The rise of IT has been of great interest and instrumental in display and dissemination of voluntary and non-mandatory disclosure of information for the benefit of users. In this respect the role of Government, Regulatory Bodies, Stock Exchanges, World of Academics, Financial Analysts, Financial Institutions etc. is laudable. This ought to continue for strengthening the logistics to sound Corporate Management Practices as foundation for accountability and high performance.

9) Institutionalization of Audit Functions

External audit is governed by legislation in several countries. It is mandatory to be conducted by professionally qualified persons, generally by Chartered Accountants and in the case of private companies falling below a specified paid up capital of share capital by non-qualified accountants also. Efforts are in the offing to strengthen this role for sound legislation and through productive role of other stakeholders namely, Professional Institutes of Accountants, Stock Exchanges, Securities and Exchange Commissions and other Regulatory Bodies etc.

Internal Audit needs to be organized on sound footing. Internal Auditors will, in future serve as the 5th Pillar of the State for sound Corporate Management. Every country must address to enact the statutory support in terms of institutionalization and make sure that on the pattern of USA and UK institute of Internal Auditors get mandatory support and internal auditors are afforded an opportunity to play their productive role. Management Audit is yet another area which needs to be properly addressed for laying sound foundation for excellent Corporate Management. Several models exist in this respect and there is a need for each corporate entity to voluntarily respond to these challenges with a sense of urgency. In this respect, while several models exist in the world, the one followed by General Electric Corporation (GEC) needs to be given proper attention by Corporate Management. For ready reference this is reproduced below:

a) Profitability
b) Market Position
c) Productivity
d) Product Leadership
e) Personnel Development
f) Employees Attitude
g) Public Responsibility
h) Balance between Short and Long Terms Goals.

- GEC has highlighted the above eight areas for evaluation as part of overall performance appraisal.
- To achieve productive results due to foregoing efforts, system of sound internal controls needs to be developed and operationalized.

10) Linkages with Stakeholders

The Corporate Management ought to realize that they are not only accountable to shareholders but to various other stakeholders e.g. Government for fiscal aspects, lending institutions for debt servicing, social awareness for Corporate Social Responsibility (CSR), Regulatory Bodies for compliance for its prescribed regulations etc. Therefore, the expectations of internal and external stakeholders need to be properly visualized and addressed.

PART-II

EXPERIENTIAL LEARNING - GLOBAL EXPERIENCES

Selected countries experiences are summed up below:

1) USA (United States of America)

Sound Corporate Governance models were developed in USA. However, unfortunately in some corporate entities these were not properly implemented. Consequently, the financial collapse of some giant Corporations were seen in the world. Enron is one of the examples. Yet another example from USA is World Com. Consequently, the legislators in USA take a lesson and legislated – Sarbanes Oxlay Act, 2002. The world is struggling to focus on implementation aspects where good models exist. However, the crying need is to implement the spirit of sound Corporate Governance.

2) UK (United Kingdom)

Cadbury Committee in the early part of 1990's was set up and addressed four issues on the frontier of Corporate Governance namely, Board of Directors, Non-Executive Directors, Executive Directors and Reporting & Controls. Dominating emphasis was given on holding regular BOD meetings, effective and full control of the company by BOD, monitoring of executives development and maintaining a balance between authority and power.

The guidance provided was that Directors must keep the control formally in their hands. An independent professional advice is to be obtained from Non-Executive Directors who should have caliber for inclusion in BOD. The secretary of the Board should stay independent and his removal should be by the Board as whole. The Non-Executive Directors should focus their contribution on strategy, performance, key appointments and developing standards of conduct. The Executive Directors should have contract of three years with formal approval from BOD and their emoluments should be transparently disclosed and Audit Committee should be set up with clear terms of reference in black and white and deal with the matters with clarity, authority and clear-cut duties. Effective internal controls should be in operation to ensure business as a going concern. Later in 1995 Hempel Committee was set in UK. This Committee was given two years to complete their assignment with six aspects as their scope of work namely, Principles of Corporate Governance, Application of the Principles, The Future Directors. Remuneration and Shareholders and Annual General Meeting. They gave recommendations in January 1998 to lay sound basis for Corporate Governance.

3) HONG KONG

Accounting profession in Hong Kong has great impact from UK. Some Working Groups were set up. The report of the first Working Group on Corporate Governance was released in 1995 and the report of the Second Working Group was released in January 1998. The following ten (10) points Code was issued for compliance:

Ten Points Code of Corporate Governance in Hong Kong

1. Compliance	Matters to be identified.
2. Board	Same family members not to have more than 50%.
3. CFO	Mandatory for appointment.
4. AGM	Attendance record was made mandatory.
5. Board Meeting	Frequency of four Compulsory every year. Six preferred.
6. Auditors Other Fees	Separate disclosure.
7. Annual Report	Separate Disclosure on: Corporate Governance.
8. Audit Committee	Be established with Defined Functions.
9. Interim Report	Be released. Scope: Balance Sheet, Income statement and Cash Flow statement.
10. Auditors	To review No. 9 above.

4) MALAYSIA

Two separate Codes of Ethics for Directors and Company secretaries were issued. The five point Code of Ethics for Board of Directors emphasized on introductory Aspects, Principles, Objectives, Definition, Code of Conduct for Corporate Governance. Four parts constituted Code of Ethics for Company Secretaries namely, Introductory Aspects, Principles, Objectives and five point Code of Conduct.

5) PAKISTAN

The first Code of Corporate Governance was released by Securities & Exchange Commission of Pakistan with the assistance from the Institute of Chartered Accountants of Pakistan and other stakeholders with the mission that sound Corporate Practices will be developed and implemented. Currently it is applicable to listed companies, banking companies, DFIs, NBFIs, Insurance Companies, Mutual Funds, Unit Trust, and Company Corporations held or controlled by the Government. Constituents of the Code of

Corporate Governance include Director, CFO and Secretary, Corporate and Financial Reporting Framework and Audit Committee. The crying need is to legislate through amendments to be incorporated in the Companies Ordinance, 1984 so that its application can be made across the board in a full-fledged manner for the benefit of stakeholders.

6) SOUTH AFRICA

The King's Report on Corporate Governance was published by the Institute of Directors in South Africa on November 19, 1994 and detailed recommendations were released for implementation. This produced productive results.

PART-III

WORLD BANK INDICES

While globally efforts have been on to prescribe procedures governing sound Corporate Management Practices, The World Bank has been developing certain indices. Two successful efforts were made by them in respect of developing CGI (Corporate Governance Index) and WGI (World Governance Index).

The focus of this article is on Corporate Governance. However, it may be of interest to the readers to see the productive work undertaken by the World Bank for developing World Governance Index. In this respect, the World Bank used three elements to evaluate for developing the above index namely, Regulations, Corruption and Rule of Law. Based on our research on the regulatory front, the best rated country was Hong Kong (99%) and the worst was Myanamar (1.5%). On the corruption front the best rated country with least corruption was Singapore (96.1%) and the worst was again Myanamar (1.4%). In respect of rule of law, the best rated country was Singapore (95.2%) and the worst was again Myanamar (5.2%).

Regarding overall Corporate Governance Index, the best performer was Germany (90.8%) and the lowest performer at the bottom was Bangladesh (24.3 %). In this respect, the following table shows the ranking of fourteen (14) countries.

OVERALL CORPORATE GOVERNANCE INDEX

Country	CGI (out of 100)
Germany	90.8
United States	89.8
Singapore	80.9
Hong Kong	69.2
Malaysia	66.7
India	55.4
South Korea	55.4
Thailand	49.7
Philippines	48.9
Indonesia	44.7
Vietnam	38.1
China	35.3
Pakistan	31.3
Bangladesh	24.3

Source: Extracted from Dawn, Lahore, January 10, 2009.

PART-IV

FIVE (5) POINT STRATEGY AS WAY FORWARD

There is an outcry for developing and later enforcing sound Code of Corporate Governance. In this respect, the following suggestions are offered for implementation.

1) Public Life Focus

There is a need to first reform individuals or participants in the process of Corporate Governance. In this respect, guidance can be sought from the containing seven (7) principles of Public Life as suggested in the first report of Committee of Standards in Public Life, published in UK in May 1995.

2) Role of Governance

In several countries various models exist relating to Corporate Governance. In some countries corporate sector entities are voluntarily following Code of Corporate Governance. In other countries, these have been developed by Professional Accounting Institutes and supported by Regulatory Framework, generally through Securities & Exchange Commissions, Central Banks, Stock Markets etc. These have been developed and released for implementation. There is crying need for incorporating all the Codes of Corporate Governance in the laws governing Corporate Sector so that these constitute a mandatory requirements for compliance.

The Seven Principles of Public Life

1. **Selflessness:**	Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.
2. **Integrity:**	In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
3. **Objectivity:**	Holders of public office should not place themselves under any financial or other obligation to outside individuals or organizations that might influence them in the performance of their official duties.
4. **Accountability:**	Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
5. **Openness:**	Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
6. **Honesty:**	Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
7. **Leadership:**	Holders of public office should promote and support these principles by leadership and example.

3) Implementation

To reap real benefits emanating from the implementation of Codes of Corporate Governance, implementation aspects should be strengthened through institutional approach which must also include monitoring and total compliance. In this respect, in some countries external auditors are playing a useful role and a separate report on compliance of Corporate Governance Code is issued by them for release to the shareholders. These aspects need to be fully supported and strengthened.

4) Feedback

Feedback technique of management should be used on continuous basis so that basic Code of Corporate Governance together with its compliance is properly addressed. It is interesting to know that Satyam Computer Services Limited, Hyderabad Deccan, India which claimed to have implemented Corporate Governance in good spirit earned Golden Pea-Cock Award for Corporate Governance in 2006 from the World Council of Corporate Governance. However, on January 07, 2009, its Chairman himself, in his letter addressed to the Board of Directors, admitted various frauds and manipulations aggregating to over one billion dollars. His confession came for inflating the past several years with fictitious assets and non-existing cash. Therefore, the message is to constantly review the criteria of the procedure adopted for checking the compliance and revisit periodically with some reconnaissance over the affairs of the Company.

5) Curriculum Review

The Business Schools and Professional Institutes of Accountants throughout the world must include some courses on Corporate Governance so that a new breed is developed to pave the way for implementation of sound Code of Corporate Governance and its total compliance. A bold beginning should be made in this respect to ensure that logistics are available for delivery system to achieve the foregoing objectives.

KEY TERMS

AGM:	Annual General Meeting
ANLP:	Accounting & the New Labor Process
BoD:	Board of Directors
CEO:	Chief Executive Officer
CFO:	Chief Financial Officer
CGI:	Corporate Governance Index
CSR:	Corporate Social Responsibility
DFIs:	Development Financial Institutions
GEC:	General Electric Corporation
ND:	No Date
NBFIs:	Non-Banking Financial Institutions
OECD	Organization for Economic Cooperation & Development
POM:	Production Operation Management
SCM:	Supply Chain Management
UK:	United Kingdom
USA:	United State of America
WGI:	World Governance Index

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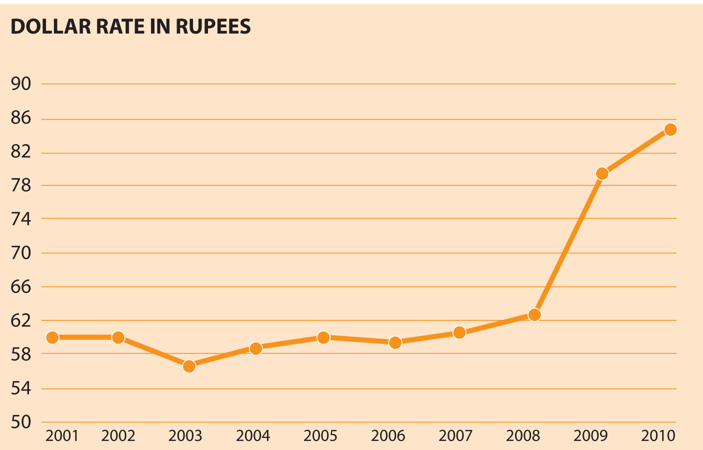
BETTER OPTION – KEEPING DOLLARS OR INVESTMENT?

Mubeshir Ali Kazmi, ACA

Memories are valuable in life. I still remember that day when my uncle gave me a ten US dollar note on my tenth birth day. I could not buy an ice cream from general store against the currency but it did create interest and I started collecting and saving foreign currency notes and coins. I have extended family living broad hence my collection started growing steadily. At that time the rupee was trading about 29.40 to dollar (imagine now when Pak currency has fallen to the lowest level verses dollar on the inter-bank market for buying and selling at almost 86.00.) Graphical representation of Pak rupee value to dollar is as shown in the diagram.



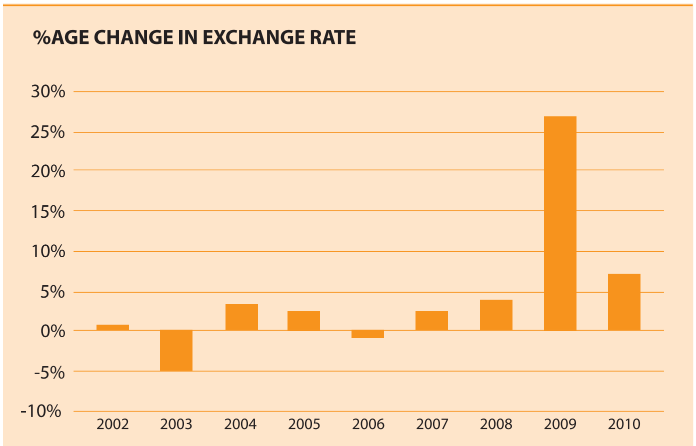
Why is rupee falling so fast? Most economists are of the opinion that the main reasons behind the fall of the rupee are an increased demand for dollars due to a spurt in crude oil prices and the flight of foreign funds from the local markets. Demand for rupees, simultaneously, has dipped because capital inflows are down.

Our currency is staggering in a see-saw fashion and declining trend in the value of Pak rupee is increasing day by day. As a result people have started having foreign currencies at their homes and in bank lockers after purchasing it from the local market. This is another reason of escalating the value of dollar. They believe that keeping dollars and other demanding currencies in their pocket is good option rather than investing it some where else. I have asked number of my friends who are in the know of the matter as to why they are doing this? They simply reply that they do not see a better alternative to invest their money.

Sadly, this perception is wrong. There are number of options available in the market at this time even when liquidity crunch has caught our economy in vice-like grip. There are alternative that would not only secure for our savings at very competitive rate but can also contribute to our national economy. I remember what Quaid-e-Azam

had rightly said, *"Thrift as a national asset is going to play an important part in the building up of the state". So save and invest in Pakistan saving certificates.*

Government of Pakistan has issued number of certificates including Defense Saving Certificates, Special Saving Certificates, Regular Income Certificates and Bahbood Saving Certificates. Among all Bahbood Saving Certificates for senior citizens and widows are more lucrative than others in terms of rate of return that is 14.16% p.a. This return is exempted from deduction of withholding taxes and Zakat and is far better than the annualized rate of increase in dollar historically that is clearly shown in the diagram



except for the year 2009. Further, volatility of exchange rate in favorable direction is quite uncertain, however profit against saving certificates would remain definite as finalized at the time of purchase.

Most of the people are not very much aware of the pros and cons of these saving schemes. Normally retired people are interested to place their retirement funds in any one of the schemes offered by saving centers to make ensure their monthly returns. Some people including businessmen who have ability to judge the main risk, that is the cost of opportunity would reluctant to invest in these schemes. Since this kind of securities offer a very low risk, the interest rate is also lower than the ones offered by private entities. However, still there is a margin of arbitrage gain that an investor can obtain through replacing their investment in dollars with Behbood scheme. In coming future current offering rates of return against these schemes would be decreased as market correction.

Where is the best place for our investment in today's scenario considering all risk factors? I posed this question to my colleagues, peers and market experts. Most of them who continuously watch market dimensions like Mr. Tahir Hussain Raza (Director Finance of Acro Group of Companies), working in financial market for many years agree with this analysis and have suggested the same. This understanding can help anyone to make an informed saving decision and not "putting all eggs in one basket." On the other hand, this would be a good step to reduce a little portion of the undocumented economy worth Rs.100-200 billion of our country.

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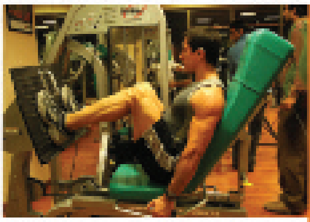
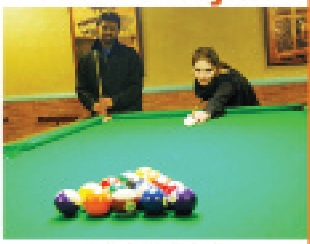


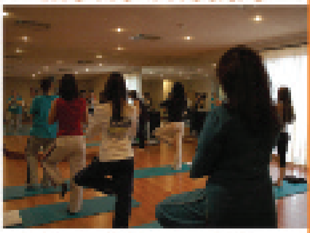
Executive Gym

Ladies Gym



Billiard

Movie Theatre



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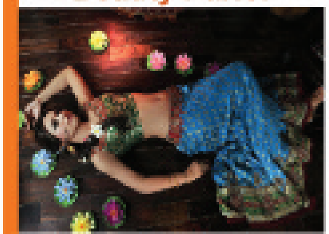
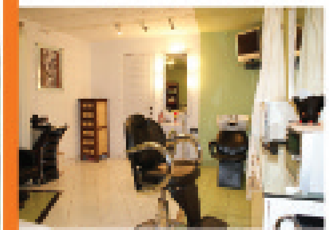
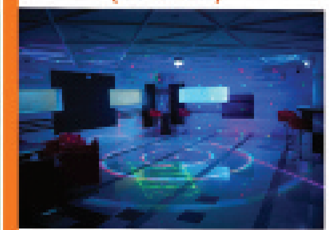


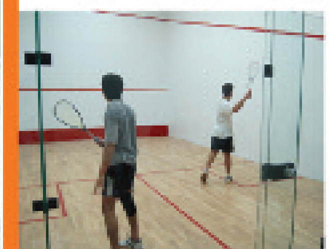
Champakali
Thai Spa



Royal Salon
(For Men)



Tango (Party Lounge)



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