

ACCOUNTANT

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Corporate Reporting -
The New Age Revolution



Corporate Reporting - A Useful Tool for Business Decisions



Measurement and Analysis of Disclosure Level: Bangladesh Perspective



Incorporating CSR Culture into the Workplace using the Voluntary Guidelines for Corporate Social Responsibility



Time Management at Examination Tables

EDITOR'S LETTER

- 2 Adnan Zaman, FCA

PRESIDENT'S PAGE

- 3 Ahmad Saeed, FCA

JOIN THE DISCOURSE

COVER STORY

- 7 Corporate Reporting – A Useful Tool for Business Decisions
Abdul Rahim Suriya, FCA
- 15 Measurement and Analysis of Disclosure Level:
Bangladesh Perspective
Dr. Md. Shamimul Hasan &
Prof. Dr. Syed Zabid Hossain
- 20 Corporate Reporting –
Ethics Failure and
Corrective Measures
Kamran Muhammad, ACA

OTHER ARTICLES

- 23 Incorporating CSR Culture into the Workplace using the Voluntary Guidelines for Corporate Social Responsibility
Nazish Shekha
- 27 Behavioral Finance – Mental Accounting
Farhan Abdul Latif, ACA
- 29 Impact of Global Financial Crisis on Developing Economies
Prof. Dr. Badar Alam Iqbal
Prof. Dr. Munir Hassan &
Dr. Farha Naaz Ghauri
- 33 Hedge Fund Industry – An Overview
Azhar Abbas Awan, ACA
- 35 How to Make Your Small Practices a Big Success
Giancarlo Attolini & Paul Thompson

- 37 Changing Ways to See Clearly
Bilal Ahsan, FCA

- 39 That's Just Not Cricket
Sohail R. Bhojani, FCA

- 41 Prepare Any Presentation in 15 Minutes
Muhammad Badar Arshi, FCA

STUDENTS SECTION

- 44 Time Management at Examination Tables
Muhammad Adeel Sarfraz, ACA
- 46 In Conversation with the Gold Medalist and Merit Certificate Holders

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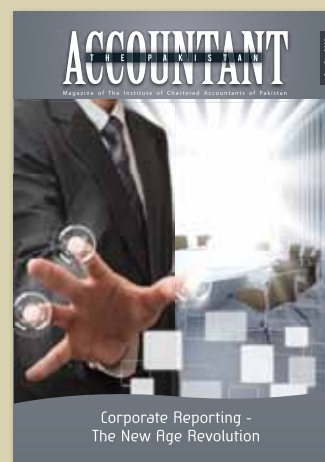
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Corporate Reporting - The New Age Revolution



Editor's Letter

Throughout the course of history, financial reporting has evolved continuously. Prompted by changes in the reporting environment and in business practices, many professional accountancy bodies, regulators and other interested organisations have re-examined, in whole or in part, aspects of the reporting package. Although this reexamination is occurring throughout the developed world, regulatory reform in this area will enable significant change in corporate reporting to take place in the near future.

It is difficult to separate corporate financial reporting from corporate governance because of the two reasons. First, shareholders have the right to receive information timely on the economic consequences of transactions entered into by the company and other events on the financial position and performance of the company. Therefore, timely presentation of financial information, which reflects the economic consequences of transactions and events, is a part of good corporate governance. Second, high quality financial information helps the market to value the shares and other securities appropriately and thus strengthens the passive monitoring of the executive management by those who do not have control rights (e.g. analysts and credit rating agencies). As a result, high quality financial reporting improves corporate governance. Therefore, it is not surprising that with increased focus on corporate governance, the focus on corporate financial reporting has also increased. Almost every country has initiated action to improve the quality of financial reporting in order to enhance the value relevance of the financial information provided in financial statements.

Prudence, reliability and relevance are the cornerstones of corporate reporting. Although accounting is moving away from the historical cost basis of accounting, standard setters have not yet given up this concept of prudence as this is a check against the opportunistic behaviour of the management and ensures timelier recognition of liabilities and losses.

Accountants and standard-setters often face a trade-off between the relevance of financial information to target users on the one hand and reliability of estimates in measuring the appropriate attribute on the other. For a very long time, the balance was tilted towards reliability, but recently there has been a greater emphasis towards relevance. One reflection of this is the attempt to bridge the gap between the economic and the accounting measures of income. This has required giving a greater scope to judgment and discretion in estimating values of assets and liabilities.

The accountant is perhaps not the first person to spring to mind when discussing issues of sustainability, social responsibility and social justice. The accounting profession however, is implicated more than ever when we consider the role of business in ensuring a better future for our society and our planet. The future of corporate reporting includes greater adherence to existing frameworks of businesses to measure performance that relate to economical, environmental, and social responsibility to name a few. And while no one has a crystal ball, one can easily see the positive impact corporate reporting will have for organizations, the global economy, and the environment.

The corporate scenario at present is moving towards the concept of shareholders education, transparency of Balance Sheets and fulfillment of social obligations. Current trends along with the appropriate guidance from regulatory authorities can result in substantial developments in the presentation of structured on line information to investors. This reduces the timing difference in the information used by investors and the management. But how far an investor is interested and takes benefit of these developments for himself is still a question-mark that needs to be answered in the days to come.

*In terms of power and influence you can forget about the church, forget politics.
There is no more powerful institution in society than business. . .
The business of business should not be about money, it should be about responsibility.
It should be about public good, not private greed.*

Anita Roddick, Business as Unusual (2000)

Adnan Zaman, FCA



President's Page

From the investors point of view financial information of companies that should be published can be summarized in two words: more and better. The future of corporate reporting is at a critical point – its ability to evolve and meet business and society's changing needs will be essential if the threat of future systemic risk is to be minimized. To be effective, reporting must not only provide an integrated account of what is material, drawing on financial and non-financial data that fully reflect the needs of the whole system and all the key players and stakeholders.

It is clear that corporate reporting objectives differ around the world and are in a constant state of flux. And because of the way reporting has evolved, it is rare for any one regulator to have oversight of the whole reporting system in a particular territory. People tend to see particular pieces of the reporting jigsaw, but rarely see it as a 'system' as a whole.

We need to create a reporting framework that is responsive to the changing business environment and which adequately accounts for long-term value creation. If not, the system may be left behind as the commercial world takes its next evolutionary turn. It is also critical that we have a system which is better positioned to spot the warning signs of another financial crisis.

The International Integrated Reporting Committee (IIRC) has initiated the process of creating a globally accepted integrating reporting framework (Integrated Reporting) which would show the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context in which it operates. It is believed that by strengthening these relationships, Integrated Reporting can assist businesses to take decisions that are more sustainable and enable investors and other stakeholders to understand how organizations are really performing.

The stark reality is that global agreement on a new corporate reporting framework is difficult. No new model will emerge overnight and rushing to a new framework will be counterproductive. For any new initiative to succeed there must be a global debate to assess the need for reforms in the reporting system and to agree to a platform for developing a reformed reporting framework.

With the emerging business dynamics, considerable challenges lie ahead for the accounting profession. The Institute, on its part, maintains the high standards expected of it and keep adjusting to the changing business scenario. For the past twelve years the Institute has encouraged and recognized the annual corporate reporting in the country through the Best Corporate Report (BCR) Awards. Furthermore, through seminars and workshops ICAP actively provides avenues and platforms to its members to focus on the emerging international trends in corporate reporting. In addition, ICAP plays a pivotal role in creating awareness about the new trends in corporate reporting in the SAFA region.

The responsibility cast upon all the accounting bodies is indeed a challenging one. We accountants need to accept and understand our role to provide a mechanism for holding corporations accountable for what they do. Corporate reporting rapidly leads to the realization that "you can't satisfy everybody". Ultimately, the resolution of such trade-offs requires corporations to think about their role in society. However, corporate reporting would instill the discipline to be much more specific about the relationships between financial and nonfinancial performance, and this will benefit all the stakeholders.

Ahmad Saeed, FCA



Join the Discourse

This issue's topic is

The Pandora box is finally open, the secret revealed; Most of the executives are unable to state their Company's scope and strategy in a single statement. If they can't neither can anyone else.

Can you say what your strategy is?

Muhammad Kamran, FCA

Membership # 3161 Manama, Bahrain.

The main challenge in executing a strategy is to ensure that everyone within the organization understands and puts the strategy in its true spirit. The organization's strategy statement communicates to everyone within the organization and if it is brief, it will help employees to have a clear understanding of the organization's strategy and, act as guiding light for making difficult decisions.

It is indeed a fact that those organizations where executives are able to state their strategy in few words are often the most successful in their industry, as in such organizations the strategy is implemented without any bewilderment. Conversely, those organizations that are unable to create a succinct strategy statement often fail to execute their strategy, as without complete understanding, the organization may be pulled in different directions and lose its focus.

Therefore, strategic planning should include development of a strategy statement that captures the strategy's essence in a way that makes sense to everyone at the organization. In order to achieve this, employees in all parts of the organization and at all levels should be involved in the process. The wording of the strategy statement should be worked out in as much detail as possible to keep it simple, clear and concise. The end result will be a brief statement that reflects the main elements of the strategy and makes sense to everyone in the organization.

Join the Discourse

Mudassar Ghulam Nabi, ACA

R-No. 6036, Islamabad

I think strategy is a combination of smart moves planned for achieving Company's mission. More focused and concentrated the mission is, more refined and Realistic the scope and strategy will be. If I give words to business strategy of my public service organization (NADRA), it would be;

By giving identity, link all citizens with potential E-Governance structure in Pakistan and use our growing expertise to exploit local and international relevant opportunities.

Faisal Anisuddin, ACA

R-No. 3991, Karachi

Practically the scope and strategy of the company does not work in letter and spirit. It makes difficult to translate scope into actions of oneself. One can describe his scope and strategy of actions based on his job description, responsibilities assigned and key performance indicators. Strategically speaking to have a trickle down effect, every department's core objectives (be it production, sales, planning, finance or admin department) and scope of actions be put together and evolve a course of action to be termed as strategy of the company and that should be reviewed annually.

Fawad Aftab, FCA

R-No. 3212, Karachi

Interesting and have to acknowledge that I cannot say word by word what my Company's strategy is. However, I am not disappointed in myself, as for me it is more important that whether I understand what my Company stands for and if I am able to translate that practically. My Company's strategy is to be the partner of choice, recognized as having great people with imagination committed to delivering the best ideas to the worlds we serve: agriculture, food and risk management. As a team we understand and that all of this is achieved through customer focus, innovation, talent management, collaboration and accountability. The Company allows me to translate this into action and also equips me with necessary tools. In short I believe that it is more important for executives to understand and live the values rather than memorize them.

Zeeshan Khurram, ACA

R-No. 6056 Dammam, Kingdom of Saudi Arabia,

Given the undeniable significance of having a strategy, the number of organizations and executive who cannot spell out a simple and clear statement of strategy that leaves no room for misinterpretation is astonishing. In absence of a well-crafted and well understood strategy even the sharpest and the shrewdest executives making what they think to be 'right decisions' create nothing but confusion. I would hate to put in a lot of hours and resources planning a project only to find out later from higher ups that it does not 'fit in to our strategy'. So the answer to the question whether I can say what my company's strategy is has to be 'Yes' otherwise I will be doomed to a lot of misadventure.

Shuja-ul-Mulk, ACA

R-No. 5352, Peshawar

In today's dynamic world where we are constantly reshaped by events happening around the world. We do not live in isolation now. The globalization, shift in neighbouring economies and free flow of information has made executives job on strategy statement very difficult. They are no more slaves to a single statement- or a chain of so called sequential steps to success. A company has to respond to the 'not-seen-before' changes and trends, technological obsolescence and cut-throat competition. Instead of spelling it out in a statement; the strategy has to be dynamic and may be changed, modified, altered and set on course many times during a year. My strategy would not be to reach the Mars. It would be: Cover your major risks and stay in business.

Corporate Reporting

A Useful Tool for Business Decisions



► Abdul Rahim Suriya, FCA

This article is the second of the series, the first of which was published in the Pakistan Accountant Issue July-September 2011.

Why Corporate Reporting?

The traditional task of the Professional accountants in business is evolving. The governance requirements are increasing, more regulations are being put in, and more emphasis is placed on documentation now, all of which is perceived by the business community as restrictions on the opportunity for expanding businesses.

The rising concerns of the stakeholders (particularly investors) on transparency and accountability has increased the focus, on both the role of the Board and its effectiveness in executing its responsibilities. Today Boards are under intense scrutiny from shareholders, regulators, politicians, media, employees and other stakeholders. When things go wrong, directors are in the line of fire, which is why directors have to focus on discharging their responsibilities thoughtfully and thoroughly.

The Organization for Economic Co-operation and Development (OECD) Principles of Corporate Governance (2004) stated:

"The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company"

In Deen e Islam, our life is all about deeds and performance in this world, resulting in rewards and punishments (JAZA and SAZA) in the after life. The day of resurrection (Qayamah) would be day of judgment, when our deeds would be evaluated based on a report of what we did in our life. The life of corporations can be taken with the same analogy; similar to people going through their individual struggles.

Modern corporations have to follow similar rules – its deeds in the form of performance will earn it kudos and if they are according to the Shariah Barakat will fall on them.

The term "Corporate Reporting" refers to the presentation and disclosure of business transactions in a financial statement. Corporate reporting has never been easy, especially these days, with endless stream of new regulations and requirements coming up on a regular basis.

Is it Legally Required to Make Annual Report?

It is interesting to note that there is no specific law requiring an entity to produce and publish annual report, however, there are various statutes, authorities and best practices that require the contents embodied in it.

According to the International Standard on Auditing (ISA) 720 the Annual Report is referred to as "An entity ordinarily issues on an annual basis a document which includes its audited financial statements together with the auditor's report thereon. This document is referred to as the "annual report".

Auditor's Duty for Other Information

The auditor has no specific responsibility for determining whether or not 'other information' in Annual Report is properly stated or not. However, the auditor has to go through 'other information' because credibility of the audited financial statements may be undermined by material inconsistencies between the audited financial statements and other information. Under the Code of Corporate governance the auditors carry out a review of "Statements of Compliance with Best Practices of Code of Corporate Governance" (CCG) which is in a way a type of assurance on Other Information.

As per ISA 720 the other information includes:

- ▶ Report by management or those charged with governance on operations;
- ▶ Financial summaries or highlights;
- ▶ Employment data;
- ▶ Planned capital expenditures;
- ▶ Financial ratios;
- ▶ Names of officers and directors and
- ▶ Selected quarterly data.

Is IFRSs a Good Tool for Decision Making by Operational Management?

IFRSs and Code of Corporate Governance are important tools for promoting transparency and accountability in the Corporate Reporting. Financial disclosures have increasingly improved through provisions of IFRSs, resulting in improved transparency for the stakeholders, despite the fact that operational management still prepares a different set of management accounts for the purposes of their decision making.



Annual Report is one of the important medium through which stakeholders obtain knowledge about a company for their economic decision making. Other information in the Annual Report helps external stakeholders to help make their economic decisions. Annual report tells how well the company did financially and operationally and explains the scope of its business mission and management philosophy. The Annual Report should be such that the reader can see inside-out of the company not only the positive aspects but also the negative performance.

What Code of Corporate Governance says for Annual Report?

Corporate and Financial Reporting Framework of the CCG requires directors to annex the following statements with the Directors' Report, prepared under Section 236 of the Ordinance:

- ▶ The financial statements, prepared by the management of the company, present its state of affairs fairly, the result of its operations, cash flows and changes in equity;
- ▶ Proper books of accounts of the company have been maintained;
- ▶ Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- ▶ International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements (any departures there from has been adequately disclosed and explained);
- ▶ The system of internal control is sound in design and has been effectively implemented and monitored; and
- ▶ There are no significant doubts upon the company's ability to continue as a going concern.

CCG requires that 2/3 directors should be non executive. In my view, it is not logical to bound Non Executive directors to certify and take so much exposure and liability. In few countries these confirmations are expected from CEO and CFO under a separate statement called Responsibility Statement.

The CCG also requires, wherever necessary the following information to be annexed to the Directors' Reports:

- a. If the company is not considered to be a going concern, the fact along with the reasons;
- b. Significant deviations from last year in operating results of the company and reasons thereof;
- c. Key operating and financial summarized data of last six years;
- d. If the company has neither declared dividend nor issued bonus shares for any year, the reasons thereof;

- e. Where any statutory payment on account of taxes, duties, levies and charges is outstanding, the amount together with a brief description and reasons for the same;
- f. Significant plans and decisions, such as corporate restructuring, business expansion and discontinuance of operations, shall be outlined along with future prospects, risks and uncertainties surrounding the company;
- g. A statement as to the value of investments of provident, gratuity and pension funds, based on their respective audited accounts;
- h. The number of board and committees' meetings held during the year and attendance by each director;
- i. The details of training programs attended by directors;
- j. The pattern of shareholding with the aggregate number of shares held by:
 - I- Associated companies, undertakings and related parties (name wise details);
 - II- Mutual funds (name wise details);
 - III- Directors and their spouse(s) and minor children (name wise details);
 - IV- Executives;
 - V- Public sector companies and corporations;
 - VI- Banks, development finance institutions, non-banking finance companies, insurance companies, takaful, modarabas and pension funds; and
 - VII- Shareholders holding five percent or more voting rights in the listed company (name wise details).

Above are not necessarily or compulsorily required because it says "wherever necessary", therefore I suggest SECP to make them as a part of annual report instead of making it as a part of Directors' Report so that the responsibility remains with the Operational Management, CFOs and & CEOs. In my view it is practically difficult to get approved these disclosures from BOD particularly when time is short in finalizing statutory accounts and preparation for BOD meeting.

Although above disclosures are recommended for



directors' report, but the CCG is silent about the term 'annual report' and its contents, however at some places it specifically requires to disclose in annual report. For example:

- ▶ Names of the Executive, non executive and independent director(s);
- ▶ Details of the aggregate remuneration separately of executive and non executive directors including salary/fee, benefits and performance linked incentives etc;
- ▶ Names of members of the committees of the board; and
- ▶ All trades in the shares carried out by its directors, executives and their spouses and minor children to be reported in Annual Report.

Investors' View

Stakeholders especially investors equate high quality annual reports with high quality management.

The financial statements prepared under IFRS are not, sufficient to meet the needs of investors to assess the quality and sustainability of corporate performance. The current reporting status quo is unsatisfactory. Investors are aware of this issue, so are the regulators. The corporate reporting debate is gathering pace worldwide that whether this information should be in the form of legal requirements, guidance or be provided through good practices.

Investors are becoming increasingly vocal about reporting that passes regulatory muster but fails to provide a fully transparent view of a company's health and prospects. The pressure is on for companies to report on a broad set of non-financial measures that can help investors to better judge the corporate performance.

Today companies are eager to put emphasis on balancing the conflicting interests of shareholders and defining the role of independent directors and management on how to avoid decision failure and ensuring effective outcome in boardroom negotiations.

I would like to share few extracts of the speech delivered by Secretary General OICCI Mr. M. Abdul Aleem FCA CEO & General Secretary of the Overseas Investors Chamber of Commerce and Industry (OICCI) at the ICAP - ICMAP BCR Award Ceremony held on October 8, 2012.

"The standard of corporate reporting is quite high in Pakistan and is improving further with the passage of time. Quality Corporate Reporting covering all aspects of corporate governance gives a good feel about the legislation in the country to a potential foreign investor. In a 2011 survey conducted among OICCI members, comprising of foreign corporate investors based in Pakistan, the feedback was positive on the quality of corporate governance

and positive support extended by regulators like SECP and SBP. However, good investment friendly policies and high level of corporate reporting in itself is insufficient in attracting and retaining foreign investment. What is needed is a consistent and transparent application of policies supported by sound security, energy and other necessary infrastructure."

Keeping the concerns of the investors in mind, the corporate reporting should focus on the investor's need which is why many companies have a separate section on their websites for investor relations.

Donors' View

Donors usually like to ensure that funds donated are utilized properly and for the purpose for which they were donated. I would like to quote here few highlights of the speech delivered by Mr. Nadeem Mustafa Khan FCA Regional CEO of Health Services, Asia Aga Khan University Hospital (AKUH) at the ICAP - ICMAP BCR Awards Ceremony.

"The annual report doesn't directly cater to the needs of donors. This is where corporations can consider opportunities for fund-raising using this document. No one is propagating that "Cases for Support" become a norm here but the report can touch on areas where donors and other funding agencies can be attracted. And definitely the report should touch on topics of interest for potential donors. After all the report is a statement of the company to the reader particularly the users, the disclosures should have a feel for inspiring "Trust". When trust comes, passions follow and the extraordinary occurs.

On trust, a famous story told in a book "Freedom at Midnight" about the Quaid-e-Azam speaking at the rally in pre-partition India in English to an audience who barely understood any English. When a reporter asked one of the persons at the rally the reason for his excitement although he could not understand anything

the Quaid said, his response was spontaneous "whatever he says, he tells the truth". It is an example of the ultimate trust.

Lender's View

The corporate report has a unique significance for lenders because they want to see the security of the financing amount sanctioned as well as the timely recovery of loans and markup. The lenders not merely look at cash flow statement & liquidity ratios, but are also interested to see the credibility of the data appearing in the Financial Statements. The perception and purpose of lenders is entirely different from the shareholder. The lender is also interested in futuristic information. Here I would like to quote extract the speech of Mr. Hassan Bilgrami, Past President ICMAP and CEO BankIslami Pakistan Limited delivered at BCR Award Ceremony on October 8, 2012:

"From the lenders perspective five areas are of great concern namely, the accounting standards, the accounting estimates used, the quality and applicability of the disclosures, business strategy and reliability of the forward looking statements and lastly the code of corporate governance application.

We know the accounting rule that where investment in a company exceeds 20 % the equity method is used, whereas practically the investee company has no control on the cash flows of the investee company and there is no bearing on the viability of the investee company but at the same time it distorts the financial ratios. For accounting estimates, if we look at depreciation, the reported useful life of assets are very high in some cases e.g. sugar and textile companies. Borrowing rates are not disclosed with regards to quantum of the borrowings. A good balance sheet can cover all sorts of disclosures but if the underline business strategy is not correct the financial statements are of no value. The competitive positions of the company within the industry and globally or regionally is not reported in annual report.

The corporate governance code does not tell us how to run the business, or what the correct succession planning of the business is, or what the segregation between the management and the ownership is.

The greatest damage due to the code is that it has diminished the line of ownership and management and needs to be looked upon in light of the local environment. It's very unusual that performance of CFO is evaluated by BOD whereas he/she reports to CEO."



Purpose of Disclosure

The principal aim and purpose of disclosing information in the annual report should be clearly defined at the outset of the preparation process. These may include:

- ▶ Explain the resources available to the company that help to attain the objectives and how are they managed;
- ▶ Describe the principal risks and uncertainties that may affect the company's long-term value or prospects;
- ▶ Disclose the significant relationships with stakeholders that are likely to influence the performance of the company and its value;
- ▶ Disclose quantified data relating to trends and factors likely to affect the company's future prospects;
- ▶ Spell out any uncertainties underpinning forward-looking information;
- ▶ Communicate targets relating to those key performance indicators (KPIs) used to manage the business;
- ▶ Demonstrate the linkage of other content areas within your reporting to your longer-term objectives and the strategies to achieve those objectives;
- ▶ Share the Management's ability to respond successfully to changes in the external business environment;
- ▶ Share the corporate values through effective Communication;

Best Corporate Report Awards In Pakistan

The aim of the Best Corporate Report (BCR) Awards is to encourage and give recognition to excellence in annual corporate reporting. Instituted and presented for the first time in 2000, BCR Awards seek to promote corporate accountability and transparency through the publication of timely, informative, factual and reader friendly annual reports. The details are available on ICAP website at:

<http://www.icap.org.pk/web/links/0/bestcorporatesustainabilityreportawards.php>

This type of competition was initiated by the South Asian Federation of Accountants (SAFA) in 1997. ICAP and ICMAP are members of SAFA Accounting bodies. For the last 12 years the Joint Committee of ICAP and ICMAP has been organizing the BCR award Competition. Significant improvements have been witnessed in Pakistan in presentation of annual reports since then. The disclosures made in annual reports in Pakistan are at par and in some areas better than disclosures made by companies of developed world.

The criteria for judging reports as devised by a subcommittee of the Joint Committee of ICAP and ICMAP

and reviewed by it on a regular basis in order to keep pace with the international best practices and the local reporting frameworks. The Criteria not only comprise of mandatory requirements of the Companies Ordinance, the Code of Corporate Governance and IFRS but also encourages to adopt best practice being followed all over the world.

The voluntary disclosures recommended are based on:

- ▶ International Auditing Standard on Other Information ISA 720;
- ▶ IFRS Practice Statement - Management Commentary prescribed by International Accounting Standard Board. (The Management Commentary is a narrative report accompanying, but not part of the financial statements. It is recommendatory but not mandatory. It is not IFRS);
- ▶ Best Practices around the world; and
- ▶ Experience and intellect of the BCR Committee Members which include representatives of capital market, audit professionals and operational managers.

Eligibility to Participate

Till 2011 Annual Reports containing Auditors' Report any qualification/ disclaimer of opinion /adverse opinion or emphasis of matter (EMP) paragraph were not considered for this competition. Exemptions were given to those reports where EMP was due to situations which were beyond management control. From 2012, all Annual Reports are now considered for this competition; however, annual reports not containing a clean audit report would be eligible subject to a deduction of maximum of 5 marks.

Forward Looking Information

From 2012 a new item has been added to the reporting requirement which is very significant from the point of view of all external stakeholders particularly capital market i.e. forward looking information. It requires that "Forward looking information in narrative or quantitative form including projections or forecasts about known trends, uncertainties or the other factors that could affect the entity's liquidity, capital resource, revenues and the results of its operations, and explanation as to how the performance of the entity meets/exceeds or why it fell short of forward-looking disclosures made in the prior period.

Companies worldwide are increasingly being encouraged to place an emphasis on providing a more forward-looking orientation in their reporting whether through regulatory requirements, guidance or evolving good practice.

Some argue about need of futuristic information and show concerns that the publication could compromise

competitive advantage as one may have to provide potentially competitively-sensitive information and that the quality of information provided could provoke legal and regulatory sanctions. Others ask question “does this mean that we have to publish profit forecasts?”

If we look at our capital market, it moves up and down based on future expectations. For example, let's see P/E ratio of Engro Food, it is about 25 to 30 whereas average P/E of our Capital Market is 8. The reason of its high P/E is that investors give too much weightage to forecasted revenues as the historic data is not useful for future investment decisions. The reporting of Risk Management is also a step in same direction of guessing futuristic scenario.

Seven Pillars of Effective Communication

PWC Guide issued in 2007 suggests that forward-looking information can be provided without specific reference to profits, looking instead to the broader picture of the company shown by contextual information. It also suggests following seven pillars for effective communication of the future which will be providing investors with the forward-looking orientation increasingly demanded worldwide:

1. Explain the resources available to your company that help to attain your objectives and how they are managed.
2. Describe the principal risks and uncertainties that may affect your company's long-term value or prospects.
3. Clarify the significant relationships with stakeholders that are likely to influence the performance of your company and its value.
4. Provide quantified data relating to trends and factors likely to affect your company's future prospects.
5. Spell out any uncertainties underpinning forward-looking information.
6. Communicate targets relating to those key performance indicators (KPIs) used to manage your business.
7. Demonstrate the linkage of other content areas within your reporting to your longer-term objectives and the strategies to achieve those objectives.

Voluntary Disclosures

Other important voluntary disclosures which are not specifically required by the law in Pakistan or by IFRS, but ICAP-ICMAP BCR Criteria require entities to include the following information:

1. Stakeholders' Information requires 6 years data for Cash flow statement, Vertical and Horizontal analysis and Ratios. (It is to be noted that while

CCG doesn't suggest any specific ratios, it only requires KEY OPERATING and FINANCIAL DATA). The Vertical and Horizontal analysis provided in our local reports is unique and not usually found in developed countries. These are very simple tools for analyzing financial statements.

2. Comments on 6 years results of the analysis carried out through ratios, vertical and horizontal analysis and summary of cash flow. In some countries it is often reported under the head of Business Performance.
3. Risks, including strategic, commercial operational and financial risks, Plans and strategies for mitigating these risks and potential opportunities; and the significant relationships that the entity has with stakeholders, how those relationships are likely to affect the performance and value of the entity, and how those relationship are managed properly.
4. Description of energy saving measures taken by the company during the year and how the company is planning to overcome the escalating energy crisis
5. Description of the entity's most significant resources, including an analysis of liquidity, cash flows, financing arrangements, human capital, capital structure including inadequacies in the capital structure and plans to address such inadequacies, significant changes in financial position, liquidity and performance compared with those of the previous period.
6. Investors' relation section on the website of the company.
7. Encouraging timely authorization of Financial Statements by Board of Directors within 30 days, whereas companies are required to hold AGM in 4 months.
8. Organization Chart with functional and administrative reporting.
9. Profile of Directors and their engagement in other companies/ entities as CEO, Director, CFO or Trustee
10. All members of Audit and HR Committees to be non-executive Directors, (whereas for HR committee, the code requires *majority* non executive Directors preferably one independent director)
11. CEO performance review

For the year 2013, following voluntary disclosures are included in the criteria:

1. Strategy to overcome liquidity problem and the company's plan to manage its repayment of debts and recover losses
2. Key sources of estimation uncertainty
3. Efforts made to mitigate the adverse impact

of industrial effluents by adapting techniques, creating awareness and providing training etc. to the surrounding communities.

4. Preparation of Cash Flow Statement based on Direct Method is encouraged.
5. Analysis of variation in results reported in quarterly accounts
6. Video presentation of CEO placed on company's website detailing financial position and performance of the company, major products launched, projects accomplished during the year and planned for next year including an overview of future prospects of the company
7. Policy and procedure for stakeholders' engagement and the frequency of such engagements during the year (both formal and informal). Dialogue may be with:
 - a. Institutional Investors
 - b. Customers & Suppliers
 - c. Banks and other lenders
 - d. Regulators
 - e. Media
8. SWOT Analysis
9. Share Price Sensitivity Analysis
10. Policy for safety of records of the company
11. Disclosure of Policy for actual and perceived *conflicts* of interest relating to members of the Board of directors and a disclosure that how such a conflict is managed and monitored
12. Disclosure of IT Governance Policy
13. Whistle blowing policy and procedures enabling staff to raise concerns about possible improprieties in financial and other matters, without fear of reprisal, in confidence, and a disclosure of the number of such incidences reported to the Audit Committee during the year
14. Report of the Audit Committee
15. Risk and Opportunity Report

Disclosures that later became part of the CCG

It will not be wrong to say that ICAP and ICMAP are ahead in Corporate Governance reforms: BCR criteria had already incorporated the following few reporting requirements into their criteria for Best Report Awards 2012 which later were also included in CCG 2012:

- Risk, plans and strategies for mitigating these risks and potential opportunities;
- Future prospects;
- Human resource management policies including preparation of a succession plan;
- Salient features of the Audit Committee's and other Board Committees' TOR and attendance in meetings held;



- All members of Audit and HR Committees to be non-executive Directors (for HR committee code requires majority non executive Directors); and
- Criteria to evaluate Board's performance and Formal orientation at induction and regular continuous professional development Programs of BOD.

Few Concerns

Despite moving rapidly towards transparency and disclosures there are still certain concerns which are discussed below:

a. Go Green and Sustainability

From the point of view of Go Green and Sustainability, there are apprehensions that use of paper; printing and other associated cost has significant environmental impacts. Paper usage contributes towards deforestation (cutting trees – trees are the main source of absorbing carbon dioxide), air pollution (Greenhouse gases are emitted during paper manufacturing), water usage in paper manufacturing and water pollution (discharge of waste water during paper manufacturing), paper waste and energy consumption in paper manufacturing and transporting. Printing industry uses excessive amount of energy from heating and lighting to powering equipment and final delivery, energy is used at all stages of the printing process.

b. Paper Less Environment

Growing awareness of paper less environment, many feel that although annual report is a means of disclosure, users should use web and the website should become the greater focus in the present and in near future.

c. Off Balance Sheets Items

The readers of Corporate Reporting need to appreciate the impact of Off Balance Sheet items. These items are assets, or liabilities or financing activities that are not reported in Financial Statements. Examples of off balance-sheet items include leases, separate subsidiary companies or

contingent liabilities (such as a letter of credit). They may also involve loan commitments, futures, forwards, and other derivatives.

d. Sustainability Reporting

CCG requires BOD to consider Report on CSR bringing a new era in the eve of corporate reporting in Pakistan. This initiative encourages the corporate world to focus beyond single bottom line financial performance to triple bottom line:

- ▶ economic;
- ▶ environmental; and
- ▶ social performance.

A separate award from 2010 is announced by the Evaluation Committee. The Criteria of this award is based on Global Reporting Initiative (GRI), an international standard on Sustainability Reporting which has also been adopted by the International Federation of Accountants (IFAC).

Sustainability Reporting in India has been made mandatory for all listed companies for year ending Dec 31, 2012. In Pakistan SECP has also issued draft guideline and sought comments on Sustainability Reporting from Stakeholders. It is expected that a round table would shortly be organized by SECP to take views of variety of stakeholders.

Way Forward

There is still a long way to go, for additional information. The BCR Committee is contemplated to consider following criteria for 2014:

- i. Summarized financial information of quarterly/half-yearly reports;
- ii. Product-wise data both for sales value and sales volume;
- iii. Directors' report also in Urdu language;
- iv. Availability of financial information in XBRL;
- v. Details of term loans;
- vi. Disclosure of date of meeting of Analyst briefing.
- vii. All members of the audit committee to be financially literate and at least one member to have expert knowledge of finance and accounting;
- viii. Head of internal audit to have direct access to Audit Committee; and
- ix. Audit Report should also cover the following:
 - a. Statement on Audit Committee's review to ensure that internal controls are well conceived properly administered and satisfactorily monitored;
 - b. Statement to indicate audit committees role in ensuring compliance with Laws, Regulations and timely settlements of Statutory dues;
 - c. Statement on Audit committee involvement in selection of appropriate accounting policies that are in line will applicable accounting standards and annual review;

- d. Statement of Audit Committee involvement in the review and recommend to the board of directors, annual and interim financial releases;
- x. Statement of Executive Director's responsibility to establish appropriate system of internal control and that the Director's have reviewed the adequacy of the system of internal controls;
- xi. Establishing effective anti-fraud programs and controls;
- xii. Disclosure of general description of the company's policies and practices relating to social and environmental responsibility of the entity; and
- xiii. Disclosure of company's policy on ensuring participation of shareholders in the Annual General Meeting and providing reasonable opportunity for the shareholder participation in the AGM.

The members are encouraged to send their recommendations.

Recommendations to SECP

In order to further strengthen transparency and accountability, SECP may include corporate reporting criteria of ICAP and ICMAP as a part of CCG.

Conclusion

ICAP and ICMAP have indeed taken a major step in the corporate reporting in Pakistan. The Capital Market should appreciate the importance of Corporate Reporting over the past decade. They should understand that it is an opportunity to inspire all stakeholders particularly potential investors, lenders and donors, and use of the corporate report as a weapon of good will and building trust-that will advance Pakistan's image.

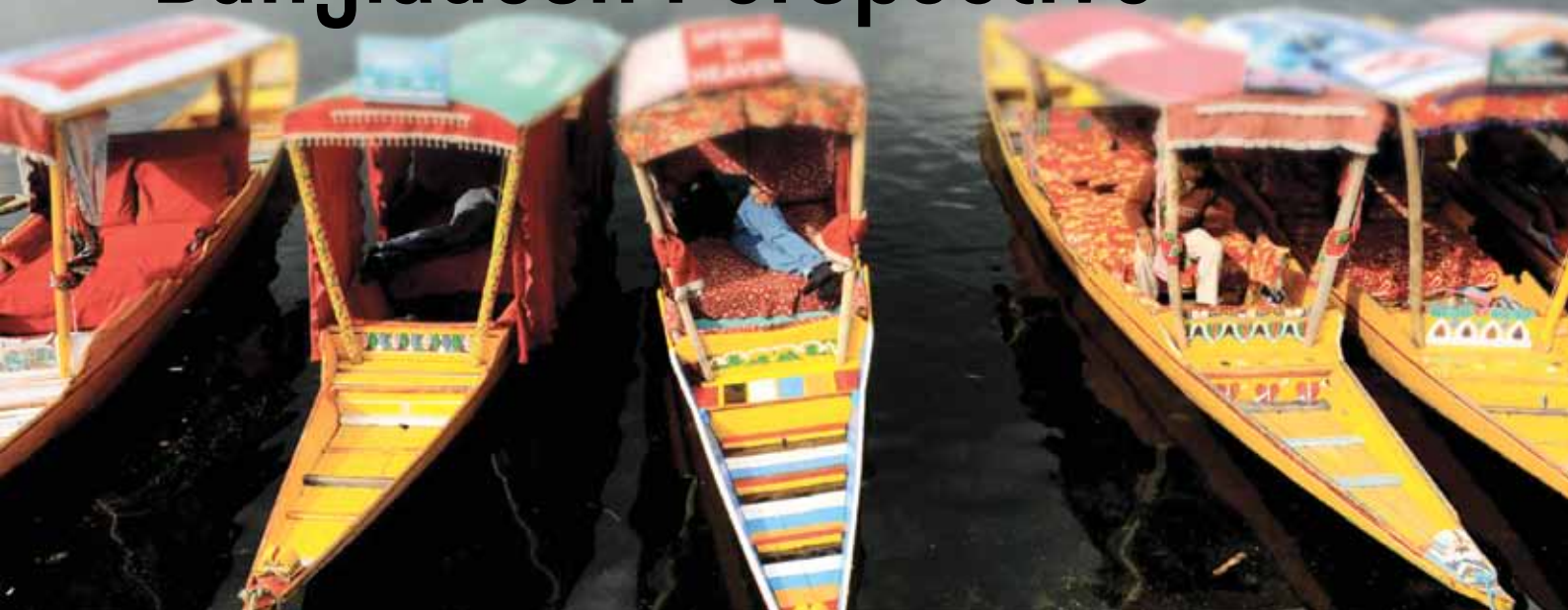
Note: The views expressed herein are those of the author's and do not necessarily reflect the views of the Institutes.

Profile of the Author

Abdul Rahim Suriya FCA, FCMA is the Past President of ICAP and an elected member of the Council for last 16 years.

He has over 27 years experience in Accounting, Auditing, Corporate Finance and Operational Management, is running his own audit firm A. R. Suriya & Co., Chartered Accountants for last 5 years, prior to which he served 18 years in Spencer Pharma including last 5 years as an Executive Director. He was a member of International Accounting Education Standard Board from 2002 to 2008. He is currently a SAFA Board Member. He is the Chairman of Best Corporate Report Award Evaluation Committee of ICAP and ICMAP and CPD Committee, ICAP. He has also authored a book on "A Guide to Business Decision Making" in 2008. He is also a visiting faculty at IBA, Karachi. Besides that he is a professional trainer on the subject of Finance for Non-Finance Executives. He has recently presented paper "Corporate Reporting – a means of Corporate Governance and Transparency" at CPD programmes in Lahore, Faisalabad, Islamabad and also presented the same paper in SAFA summit held in Lahore on November 10, 2012. The presentation may be downloaded at <http://arsuriya.com/file/code-corporate2012.pdf>

Measurement and Analysis of Disclosure Level: Bangladesh Perspective



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Abstract

The study focuses especially on the disclosure, distribution of disclosure, disclosure checklist, scoring the disclosure, developing of disclosure index, dichotomous procedure, partial compliance approach, and the results of an empirical investigation to the extent of disclosure in Bangladesh. The overall disclosure index is 67 percent, which is more than the previous studies. But, this is not a good score because relevant information should pass to the stakeholders for ensuring good governance and transparency.

Key words: Bangladesh, Disclosure Checklist, Dichotomous Procedure, PC Approach.

Introduction

Disclosure refers to revealing facts to others. The concept of disclosure has grown and expanded considerably in diverse ways in response to the evolution of corporate form of business. Financial reporting and disclosure are regulated by different authorities and statutes for making full, fair, and adequate disclosure in corporate annual reports. In Bangladesh, disclosure in corporate reports are mainly regulated by the Companies Act 1994, the SEC Rules 1987, DSE Listing Rules, 2006, Income Tax Ordinance 1984 and BAS and BFRS (IAS and IFRS that are adopted by ICAB).

Dictionary of Accounting defines disclosure as:

"The provision of financial and non-financial information, on a regular basis, to those interested in the economic activities of an organization. The

information is normally given in an annual reports and accounts, which includes financial statements and other financial and non-financial information. The annual report and accounts of a limited company is regulated by company legislation, accounting standards, and, in the case of quoted company, by stock exchange regulations" (Hussey, 1999).

Reporting of information in annual report is practiced in different ways. It may be due to the rules and regulation, may be due to the need of "user group" or it may be due to the willingness of the management of the company.

Methodology of the study

Step – 1

Disclosure Checklist is a list of items to be disclosed in the annual reports. Draft disclosure checklist is a disclosure

checklist which is prepared by the authors for the first time considering the research works done by others, relevant rules and regulations, and annual reports of different companies.

Step – 2

A questionnaire (containing all the items in the disclosure checklist) is prepared for conducting survey in order to make the research unbiased. Questionnaire can be prepared in two ways- Yes/No format or 5 point Likert type scale.

Yes / No format

Serial No.	Disclosure Items	Y for Yes	N for No	Comments
1	Company Profile	Y		

Here, one respondent typed Y; it means that the Company profile item should be disclosed in the annual report. If total number of Y is greater than total number of N then the item is included in the final disclosure checklist.

Five point Likert type scale Format

Serial No.	Disclosure items	5	4	3	2	1
1	Company Profile	√				

- | | | |
|-----|--------------------------------|--|
| 1 = | Not at all disclosed | i.e., Should not be important |
| 2 = | Not important | i.e., Should be disclosed but is of minor importance |
| 3 = | Less importance or importance. | i.e., intermediate Unimportant |
| 4 = | Important | i.e., Should be disclosed and item is very important |
| 5 = | Very important | i.e., it is essential to disclose this item |

Here, one respondent ticked in the 5 point box i.e., this item of disclosure is essential to disclose. Thus after completing the survey, researcher analyzes the result of survey by using mean score for each item of disclosure. If the mean score is three or more, the item is included in the final disclosure checklist.

Step – 3

Disclosure score of the sample companies is developed on the basis of final disclosure checklist. In this case, dichotomous procedure is followed. If an item appear in the annual reports score '1' and non appearance '0'.

Step-4

Dichotomous approach and PC approach are usually used to calculate the disclosure index. This index can

be weighted or unweighted. Under weighted approach, every item of disclosure carries some value or weight which is assigned by the researcher. On the other hand, all items of disclosure are considered equally important under unweighted approach.

Dichotomous Approach

$$ODI = \frac{\sum_{i=1}^m dmi}{\sum_{i=1}^n dmi}$$

Where, d = 1 if a disclosable item is disclosed, 0 if that item is not disclosed
 m = number of item disclosed
 n = maximum number of disclosure items possible

PC Approach

$$PCj = \frac{\sum Xi}{Rj}$$

Where PCj = Total compliance score for each company and $0 \leq PCj \leq 1$.
 Xi = the level of compliance with each section of disclosure requirements.
 i = 1
 Rj = total number of relevant / applicable disclosure section for each company j

This means that, initially, using the 'dichotomous' approach, the authors calculate the compliance with each section of disclosure separately. Subsequently, the sum of these compliance scores (Xi) is divided by the total number of relevant / applicable disclosure section for each company j i.e., Rj.

Step – 5

Statistical Techniques

Mean, SD, CV and, Rank are used for measuring, comparing and evaluating the performance of disclosure level of either each section of disclosure or as a whole of sample companies.

Results and Discussions

Draft and Final Disclosure Checklist:

The following table shows the survey items and their results. (See Table 1)

Table 1: Summary of Draft and Final Disclosure Checklist

Parts	Disclosure Key	Total Items (Draft)		Items accepted (Final)		Percentage of items accepted
		Number	%	Number	%	
General Disclosure Items	GDI	25	11	20	10	80
Company Profile Items	CPI	25	11	15	8	60
Directors Report Items	DRI	30	14	28	14	93
Financial Highlight Items	FHI	30	14	27	14	90
Accounting Polices Items	API	26	12	26	13	100
Income Statement Items	ISI	14	6	14	7	100
Balance Sheet Items	BSI	48	22	48	24	100
Cash Flow Statement Items	CFSI	22	10	22	11	100
Overall Disclosure		220	100%	200	100%	91%

The respondents cancelled 9 percent of the items from general, company profile, director's report and financial highlight section but no item were cancelled from accounting polices, income statement, balance sheet, cash flow statement disclosure section. Therefore, 91 percent items of draft disclosure check list have been finalized.

Annual Reports of Sample Companies

The annual reports of the following companies were collected from various sources:

Cement	
Heidelberg cement Bangladesh Ltd	HCBL
Meghna Cements Mills Ltd	MCML
Aramit Cement Ltd	ACL
Confidence Cement Ltd	CCL
Lafrage Surma Cement Ltd	LSCL

Table 2: List of Sample Companies

Food and Allied	Company Key
Apex Foods Ltd	AFL
Fu-Wang Foods Ltd	FWFL
Gulf Foods Ltd	GFL
Fine Foods Ltd	FFL
Rahima Foods Corporation Ltd	RFCL
Textile	
HR Textile Mills Ltd	HRML
BEXTEX Ltd	BXLTD
Apex Weaving and Finishing Ltd	AWFL
Saiham Textile Mills Ltd	STML
Alltex Industries Ltd	AIL
Pharmaceutical	
The Ibn Sina Pharmaceutical Industry Ltd	TISPIL
Libra Infusions Ltd	LIL
Square Pharmaceuticals Ltd	SPL
Beximco Pharmaceuticals Ltd	BPL
Orion Infusion Ltd	OIL

Scoring of the Sample Companies

Each annual report has been examined following dichotomous procedure. MS Excel has been used extensively.

Development of Disclosure Index

Disclosure Index has been developed by following Partial Compliance Unweighted Approach due to its superiority over the Dichotomous Approach. Example-

Suppose there are three sections of disclosure A, B and C. The required disclosure is 3 items in A, 5 items in B and 9 items in C.

If a Company discloses 1 item from A, 2 items from B and 7 items from C.

Under Dichotomous Approach,
 $ODI = 10/17 = 0.59$ or 59%

Under PC Approach,
 $ODI = (1/3 + 2/5 + 7/9) / 3 = 0.50$ or 50%

Conversely, if the Company discloses 3 items from A, 4 items from B and 3 items from C

Under Dichotomous Approach
 $ODI = 10 / 17 = 0.59$ or 59%

Under PC Approach
 $ODI = (3/3+4/5+3/9)/3 = 0.74$ or 74%

Thus PC Approach provides more accurate result than Dichotomous Approach. Hence, PC approach has been used.

Segment Wise Disclosure Level

The following table # 3 shows highest ODI 72 percent

in the pharmaceuticals segment and the lowest ODI 63 percent in the textile segment. The overall disclosure index among all the business segments is 67 percent. Again, the highest ODI 80 percent in the income statement section and the lowest is 55 percent in the cash flow statement disclosure section.

Table 3: Summary of Disclosure Index

Serial No.	Disclosure Key	Industry				ODI (Component wise)
		Textile	Pharmaceuticals	Food and Allied	Cement	
1	GDI	0.81	0.82	0.75	0.76	0.79
2	CPI	0.61	0.78	0.72	0.61	0.68
3	DRI	0.64	0.81	0.64	0.76	0.71
4	FHI	0.63	0.49	0.45	0.52	0.52
5	API	0.61	0.70	0.63	0.58	0.63
6	ISI	0.74	0.86	0.81	0.81	0.80
7	BSI	0.59	0.69	0.69	0.72	0.67
8	CFSI	0.45	0.59	0.61	0.57	0.55
ODI (Sector wise)		0.63	0.72	0.66	0.67	0.67

Pharmaceutical companies are disclosing more information in the general disclosure, company profile, director's report, accounting policies and income statement sections among sample companies. Textile companies are disclosing more information in the financial highlight section, cement companies in the balance sheet section and food companies in cash flow

statement section among the sample companies.

Disclosure Analysis

The maximum value of the selected disclosure components is considered the strongest component and the minimum value is considered the weakest component.

Table 4: Disclosure Analysis

Serial No.	Company Key	Disclosure								ODI
		General	Company Profile	Directors Report	Financial Highlight	Accounting Policies	Income Statement	Balance Sheet	Cash Flow Statement	
1	HRML	0.90	0.40	0.64	0.81	0.19	0.75	0.30	0.47	0.56
2	BXLTD	0.90	0.93	0.64	0.81	0.88	0.71	0.66	0.55	0.76
3	AWFL	0.75	0.73	0.75	0.48	0.73	0.79	0.69	0.40	0.66
4	STML	0.70	0.43	0.36	0.23	0.62	0.64	0.55	0.41	0.49
5	AIL	0.80	0.53	0.82	0.81	0.62	0.79	0.76	0.43	0.69
6	TISPIL	0.90	0.87	0.86	0.59	0.65	0.86	0.68	0.48	0.74
7	LIL	0.85	0.67	0.86	0.57	0.77	0.86	0.72	0.54	0.73
8	SPL	0.70	1.00	0.86	0.54	0.81	0.93	0.72	0.84	0.80
9	BPL	0.85	0.71	0.79	0.39	0.85	0.93	0.60	0.55	0.71
10	OIL	0.80	0.67	0.71	0.36	0.42	0.71	0.74	0.54	0.62
11	HCBL	0.80	0.73	1.00	0.81	0.81	0.92	0.74	0.71	0.81
12	MCML	0.75	0.33	0.68	0.36	0.62	0.93	0.76	0.52	0.62
13	ACL	0.75	0.53	0.68	0.38	0.46	0.79	0.75	0.58	0.62
14	CCL	0.75	0.64	0.75	0.60	0.58	0.64	0.61	0.49	0.63
15	LSCL	0.75	0.80	0.71	0.45	0.42	0.79	0.73	0.53	0.65
16	AFL	0.8	0.73	0.68	0.81	0.69	0.93	0.65	0.61	0.74
17	FWFL	0.8	0.73	0.68	0.33	0.73	0.71	0.73	0.59	0.66
18	GFL	0.7	0.73	0.68	0.42	0.69	0.79	0.72	0.47	0.65
19	FFL	0.7	0.71	0.39286	0.38810	0.69	0.79	0.62	0.57	0.61
20	RFCL	0.75	0.67	0.75	0.29	0.35	0.86	0.72	0.79	0.65
ODI		0.79	0.68	0.71	0.52	0.63	0.81	0.67	0.55	0.67

The last row of the table shows the highest ODI in ISI at 81 percent, followed by GDI at 79 percent, DRI at 71 percent, CPI at 68 percent, BSI at 67 percent, API at 63 percent, CFI at 55 percent and FHI at 52 percent.

Ranking of Sample Companies

The lowest CV means the company is more consistent in disclosing information and received upper rank.

Table 5: Descriptive Statistics

Company Key	Descriptive Statistics			Rank
	ODI	SD	CV	
HRML	0.56	0.26	0.46	12
BXLTD	0.76	0.14	0.19	5
AWFL	0.66	0.14	0.22	8
STML	0.49	0.16	0.33	11
AIL	0.69	0.15	0.22	8
TISPIL	0.74	0.16	0.21	7
LIL	0.73	0.13	0.17	3
SPL	0.80	0.14	0.18	4
BPL	0.71	0.18	0.26	10
OIL	0.62	0.16	0.26	10
HCBL	0.81	0.10	0.12	1
MCML	0.62	0.20	0.33	11
ACL	0.62	0.15	0.24	9
CCL	0.63	0.09	0.14	2
LSCL	0.65	0.15	0.24	9
AFL	0.74	0.10	0.14	2
FWFL	0.66	0.15	0.22	8
GFL	0.65	0.13	0.20	6
FFL	0.61	0.15	0.24	9
RFCL	0.65	0.21	0.33	11

HCBL receives the 1st position as its CV is the lowest at 12 percent among the surveyed companies. HRML receives the last position (12th) as its CV is 46 percent, which is the highest among the companies.

Attitude of the Sample Companies

The lowest CV means the company is more consistent in this component and received upper rank.

Table 6: Ranking of Disclosure Components

SN	Disclosure Key	CV	Rank	Comments
1	GDI	0.18	1	More Consistent Disclosure Section
2	BSI			
3	ISI	0.19	2	
4	CFSI	0.20	3	
5	CPI	0.22	4	Less Consistent Disclosure Section
6	API	0.23	5	
7	DRI	0.25	6	
8	FHI	0.37	7	

It is found that the sample companies are disclosing such information which is required by law. But voluntary disclosure is also important to assess the past performance and future trends of the organization. It can be concluded that, the attitude of management towards disclosing information is conservative.

Conclusion

Although the trend of overall disclosure index is increasing, yet there is still lacking of voluntary disclosure. It is a demand of the time that the companies should disclose more relevant, reliable, and timely information to their stakeholders so that they can take right economic decisions regarding the reporting entity at right time. Thus, the attitude of management towards corporate disclosure should be improved by developing financial reporting atmosphere in Bangladesh.

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Corporate Reporting

Ethics Failure and Corrective Measures

► Kamran Muhammad, ACA

Corporate reporting is one of the most important functions that an organization will take care of and it requires a higher code of ethical behavior; particularly in the public entities where corporate reports help to determine a shareholder's decision to buy or sell financial instruments of a company and make other financial decisions.

Financial Statements are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs. Such statements are used by the users to make rational investment and credit decisions and other judgments. Though, the users of financial statements are assumed to be reasonably judicious in business and financial reporting practices but still they don't have full insight of affairs of the organization and have to rely on the provided information while making all their judgments and decisions.

True and fair financial statements provide solid base for user to form their decision and promote their confidence on financial reporting. On the other hand the unethical reporting can cause major problems within an organization and the economy as a whole.

Financial Reporting Scandals

There have been several financial scandals in the past two decades. The accounting and financial reporting irregularities involving such scandals have eroded confidence and optimism of the century and have replaced them with skepticism and distrust.

There have already been much stated on how big

corporations like Enron, WorldCom, and Tyco etc followed unethical reporting practices to hide irregularities and corruption and managed to outsmart accounting and capital market regulators. Just to recall, Enron, Global Crossing and Quest, used energy swaps to artificially inflate their growth. WorldCom was capitalizing expenses that even introductory accounting students would know were inappropriate. The managers of Tyco and Adelphia were draining funds from organizations. These corporate reporting failures and many others like them have shaken the confidence of public on corporate reporting and put emphasis for the higher code of ethical behavior.

The Recent Global financial crisis has revealed the importance of ethics in business and financial reporting once again. Whether it was Lehman Brothers' cooking of their books by treating repo agreements as sales instead of loan or most recently, the Olympus's accounting scandal, these reporting failures are keeping corporate ethics in headlines.

Though, each individual scandal is different and has its own motive and method but the primary responsibility for failure rests with top and financial management of the organization. Secondary responsibility falls on independent auditors. The rule based framework and the interpretation gaps in principle based frameworks have also played their role to some extent.

Management's Role

As the management is primarily responsible for corporate financial reporting, financial reporting failures are basically failures by management [Board of Directors, CEO, CFO]. The Board of Directors decide overall corporate

strategy and are responsible for the stewardship of the company. They also approve the financial reporting; hence take responsibility for the information provided. The CEO acts as the captain of the ship and is authorized and responsible for overall management of the company including corporate reporting. The CFO participates in management activities and takes accounting decisions. Other executives participate in accounting decisions to the extent that they influence those decisions.

Whatever is the form of failure, i.e. outright fraud, managed performance or honest bias, the motivation for such reporting failures, in most of the cases, is to report on own performance. In many of the cases, especially large companies where the shareholders have no direct participation in management of the company, the management enjoys absolute power and therefore with exception of auditors there is no independent control over management reporting on its own performance. Further, in many of the cases, the management is incentivized on the basis of performance of the company which also provides motivation for engineered corporate reporting. Uncontrolled power of the management and reward on the basis of performance provide both OPPORTUNITY and INCENTIVE to breach ethics.

Fortunately, there has been substantial development in the areas of corporate governance during the past two decades such as the Sarbanes-Oxley Act 2002 in USA, OECD Principles of Corporate Governance in Europe, and UK Corporate Governance Code. Several other countries have also introduced their own codes of corporate governance and listing regulation to improve corporate governance especially in public interest entities. Though, both legislation and professional bodies are playing their part through issuing regulations and guidance but the importance of the integrity of the individual cannot be understated. The management professionals should adhere to ethics and accept it as a part of business. Therefore, it is very important for businessmen and company professionals to study and apply ethics in business.

Auditors' Role

Management is primarily responsible for the corporate reporting and the auditors are responsible to express their opinion whether the financial statements provide a true and fair view of financial position and performance of the company. This opinion adds credibility to the financial information disclosed and protects shareholders' interest. In order to enhance credibility of the financial statements auditors need both expertise and integrity. Expertise means ability of the auditors to discover financial reporting irregularities whereas integrity means that they will disclose irregularities they find. The ethical failure occurs when auditor fails to have or apply any or both of these qualities.

In an audit three parties are involved: shareholders who appoint auditors to protect their interest and to obtain information that is useful in making investment

decisions; management whose objectives are to meet the SEC requirements, to obtain and retain the confidence of investors, and to provide a favorable report on their own stewardship; and the auditors whose objective is to perform quality audit in a cost effective manner and express an opinion on the financial statements. In addition to this audit firms are also commercial organizations and hence their objective is also to earn good income which depends on pleasing and retaining the client and 'cross-selling' non-audit services.

It has been seen that in tri-party arrangements it is always difficult to balance among objectives and interest of all the parties when compared with two-party arrangements where it is easier for each party to compare its cost and benefit. In an audit arrangement investors appoint auditor, auditor is paid by management [the company], and auditor reports on the performance of management to the shareholders whereas it considers the company [management] as its client. Consequently, no one matches the value of the information service against its cost. In this whole arrangement the auditor is in an awkward position. The auditor makes his living by pleasing management, as in the case of any client relationship, but his fiduciary responsibility requires serving investors. The resulting strain should be expected to produce ethical lapses. This is why when companies try to avoid the limits of what are acceptable financial reporting practices, the auditors are often among those who, in the name of professional consultancy, help them in devising methods that may be technically acceptable but could be misleading and hence unethical.

As independence of the auditor is one of the main reasons behind ethical lapses, therefore, International Ethics Standard Board for Accountants (IESBA), a board of IFAC, issued a revised code of ethics in 2009. The revision has strengthened the independence requirements significantly particularly for public interest audited entities. In addition to IESBA codes there are professional codes of conduct issued by individual accounting bodies and institutions to provide guidance on what constitute ethical behavior and also provide assistance determining the right course of action where problems are encountered.



Financial Reporting Framework's Role

The financial reporting frameworks provide several guiding accounting principles to ensure that the

information provided in the financial statements depicts true financial position and performance of an organization. **Fair presentation** requires that the financial statements are complete, unbiased, error free and comparable. It is the most important principle that provides confidence to the users that the information used by them in making their economic and financial decisions will help in reaching to the right conclusions. **Going concern** gives an idea that organization will continue to operate in future. It is important for the users to know about the intended or indicated future of the organization they are making investment in or taking other decisions about it. **Prudence** is about making sure that income and assets are not overstated and expenses and liabilities are not understated. This provides assurance that there are no artificial uplifts in both the financial position and financial performance of the organization. **Substance over form** ensures that the items are accounted for according to their substance and not merely their legal form. It helps in accounting for and presenting complex transactions according to their economic reality. **Accrual basis** requires that the business transactions are recorded when they occur and not when the related payments are received or made. **Consistency** requires that the method and policies used in recognition and measurement of financial transactions are applied constantly throughout time to give an accurate and comparable picture of the history of an organization. **Full disclosure** ensures that all information is provided and that none of the statements will be able to mislead the reader. **Materiality** provides assurance that financial reports are free from material misstatements and hence are reasonably accurate. All these guiding principles are used in development of both display related and issues specific accounting standards.



Although these principles look simple and easy to understand but their application often involves complex issues, judgment and decisions specially in case of complex transactions. The existence of complexities and use of judgment provides opportunity to adopt different bases of measurement and recognition of items in financial statements that may creates some financial reporting issues.

The reporting issues themselves are not the reasons behind fraudulent or misstated financial statements. The main reason behind such practices is ethics failures that

represent breaches of fiduciary duties by individuals who accepted responsibilities but do not fulfill them.

Nevertheless, In order to cope up with reporting issues, the IASB is committed to harmonize regulations, accounting standards and procedures relating to the preparation and presentation of financial statements so that the financial reports serve the users with complete information that will provide support for well considered decisions and comparisons. The objective of all these efforts is to develop a single set of high quality, enforceable and globally acceptable financial reporting standards based on clearly expressed principles.



Conclusion

While ethical principles are incorporated into laws and can be strengthen further, as it has been the case during the past two decades, in many cases their application has to depend largely on the self-discipline of the individual. The main reason of failure of self-discipline in individuals is presence of both INCENTIVE and OPPORTUNITY together to breach ethics. Thus, until there are choices available within the regulatory framework to adopt a variety of practices and the executives are incentivized based on performance of the businesses, the reliance on voluntarily display of moral conduct in business and corporate reporting will remain high. Therefore, there is need to eliminate the opportunity by standardizing business practices and regulatory framework. Also, there is need to change mindset towards regulatory framework from conformance to performance so that the executive are not merely judged on whether they complied with the regulation or not but with how effectively the compliance has worked. The bonuses of the executives for entities in sectors with high social and economic impact should also be linked with overall sustainable impact of entity's performance on business, sector and economy as whole rather than short term profitability of the entity itself. As auditor's role is very important to prevent and timely expose reporting failures therefore, there should be more emphasis in inculcating higher code of ethical behavior in their professional conduct. Most importantly, the close relationships between auditors and management must be loosened in favor of closer relationships between auditors and investors.



Incorporating CSR Culture into the Workplace using the Voluntary Guidelines for Corporate Social Responsibility

▮ Nazish Shekha, CSR Consultant

The Securities and Exchange Commission Pakistan in its endeavor to “promote responsible business conduct and ensure corporate accountability has developed the Draft Voluntary Guidelines for Corporate Social Responsibility”. The voluntary guidelines are applicable on all public companies from the financial year beginning in or after July 2012. The SECP has currently invited stakeholders comment on the Guidelines.

The Guidelines present a methodology for companies to align with global best practices for all public companies. The guidelines place a lot of emphasis on the development of a clear CSR policy. This article focuses on how the company can use the Voluntary Guidelines to give direction in establishing a CSR policy.

Key Aspects of the Guidelines

Companies are expected to be socially responsible in their products and services, business practices, and as members of the communities in which they operate. In the absence of regulatory guidance, companies have tended to approach the concept of CSR at their own discretion. The guidelines have been proposed to standardize the methodology of incorporating CSR in business practice.

‘Converting values into policy and practice is perhaps the crucial milestone on the road to responsible business’ (Responsible Business Guide, 2010).

The guidelines, focus on promoting the CSR culture in the company by identifying key aspects of establishing CSR process in the company - placing emphasis on various stages of how CSR should be integrated in business practice mainly focusing identifying a CSR consultative committee; identifying key areas of interests; on developing the CSR Policy; identifying goals

and achievements, related disclosure and reporting and independent assurance of CSR activities.

In establishing CSR as a business practice the company needs to identify its CSR interests, personnel responsible for the project and identify a policy that enables CSR to be an ongoing process.

The Guidelines specify 3 key initial steps in establishing CSR as a business practice: *Establishment of CSR Consultative Committee, Identifying Key Areas of Interests and Developing CSR Policy.* This article focuses on the implementation of CSR policy as identified in the Guidelines. The article first identifies guidelines highlighted in blue, followed by discussion to develop CSR policy according to best practice.



A- Establishment of CSR Consultative Committee

The guidelines encourage the establishment of a CSR

committee which should be led by a CSR expert.

It is advisable that the company's CSR Committee begins the process of developing the CSR policy with an assessment of all aspects of business and its operations. The committee will then have the background information to identify a company's areas of interest and build a business case for them.

The CSR committee can:

- ▶ Review current business practices to identify CSR activities (e.g. recycling) as well as potential activities (e.g. improving energy efficiency).
- ▶ Identify key environmental issues that could influence the decisions and behavior of stakeholders or an organization itself.

B- Identifying Key Areas of Interests

The Guidelines stated that a company is required to disclose 'the areas of interest' which a company is working in. The topics which SECP has suggested that a company looks at in its CSR projects: Employees; Environment; Community (skill development, livelihood, health, education, social enterprise development, and environmental protection); Risk Management; Anti Corruption; Youth Development; Transparency.

The disclosure of 'areas of interest' will be the end product of research and the CSR Assessment conducted by the CSR committee. Ideally the areas of interest that a company identifies are from its spheres of influence both upstream and downstream: supply chain, distributors and end product consumers.

It is a good practice for a company to choose, to focus, to identify material issues as their key areas of interest. A good point to follow on after identifying material issues and stakeholder engagement is to identify key areas of CSR commitments. These are simply goals that the firm develops or signs on to indicate what the firm CSR commitments flow from the CSR assessment and strategy and are developed at the point when a firm moves from planning to doing intends to do to address its social and environmental impacts. A number of global guidelines are available to guide companies in this process.

C- Developing CSR Policy

The guidelines propose that the company develops a CSR policy which is a part of overall business policy of a company and endorsed by the Board of Directors.

A good CSR policy can give companies a competitive advantage by assuring its customers. It can also help a company to respond confidently to environmental and social governance questions in tenders. It can also help companies monitor its employees to ensure they are behaving in a responsible manner. By focusing on the CSR policy, the company can develop management

processes to identify, review and monitor commitments related to CSR.

Building a policy on the indicators identified above will benefit the company in covering the important aspects in the policy. This can benefit the company by giving it a competitive edge in its tendering process. It will also enable external stakeholders to compare policies of different companies. The indicators also give clear



guidance to a company on how to conduct its business.

Application of the Indicators in the CSR Policy

The CSR Policy must indicate Commitment by Top Management; Policy Development and Process Management System; Sensitization and Training of Managers and Employees; Stakeholder engagement; Monitoring and Evaluation; Analysis and Improvement; and Disclosure and Reporting.

Commitment by Top Management: In its press release accompanying the guidelines, the SECP has placed emphasis on expectation of the board of directors to play an active role in formulating CSR policy. The significance of making CSR a priority of the top management is that it places CSR in the roles and responsibilities of the top management. It also sends a message to all departments and employees that targets set for CSR will be reviewed in the same manner as other business targets.

Policy Deployment and Process Management System: It is a best practice today to align the company's CSR approach with the firm's core business objectives, methods and core competencies. This lays the foundation for steps towards running a more sustainable and ethical business in the long term. If proper structures and well defined objectives are in place, the company is in a better position to define measurable targets.

Sensitization and training of employees: Similarly, the training of employees is important as it conveys the seriousness of the company's commitment to CSR, while equipping them with the knowledge on how CSR can impact a company's governance, research and development, value chain, in Human resource management, in internal processes and the

wider community. Training also improves rates of CSR implementation in the workplace.

Stakeholder Engagement: Having a mechanism for stakeholder engagement - identifies the companies impacts on key stakeholders - employees, suppliers, clients, and communities. This will enable the company to understand and manage potential risks of any key impacts – also opportunities. It is important to identify all the relationships in which the firm affects people or they affect the firm. Creating a stakeholder map that



represents how the company impacts the stakeholder is a good way of visualizing the impact.

All global guidelines promote stakeholder engagement as a key aspect of CSR. Further and more detailed methods and strategies for stakeholder engagement are described in Accountability International's AA1000SES.

Monitoring and Evaluation and Analysis and Improvement: The mechanism for monitoring and evaluation in the policy underlines the company's commitment to CSR. This is an essential component for analyzing the bottom line of CSR initiatives. By addressing the company's purpose and mode of monitoring in the CSR Policy, the company's CSR strategy and activities become accountable like all business processes.

If a company chooses to analyse its CSR Strategy by measuring its progress on its commitments, its impacts on stakeholders and in terms of comparison with its peer companies - it can enable continuous improvement.

Disclosure and Reporting: The disclosure and reporting aspect of the policy will give a reflection of company's strategy for the relationship it wants to keep with its stakeholders. Disclosure is a method by which a company communicates with its stakeholders, addressing how it gives importance to their needs. The policy should identify the type of disclosure the company wants to proceed for and the time span of the reporting period.

Creating an explicit strategy to ensure adherence
The guidelines stipulate that a 'company shall ensure adherence to an explicit strategy of focusing its CSR projects in areas where it operates'.

The Guidelines place an emphasis on having a clearly developed policy focusing on the geographical location in which it is located. This can be the company's use of water, disposal of environmental wastes produced, contribution to the local community's economy.

Identifying an Implementation Strategy in the CSR Policy

The guidelines specify the company should have a structure for implementation of its CSR policy. This includes identifying a level of involvement of both its internal and external stakeholders. The strategy should also identify a defined timeline for implementation and periodic review of its CSR activities. The review should include:

- ▶ *The relevance of the working model to changes in business or social needs.*
- ▶ *The relevance of the impact assessment methodologies adopted by the company*

Each company's approach to an implementation strategy will be distinctive. The implementation strategy will stem from the identified CSR commitments. Key steps in an implementation strategy include:

- ▶ Developing a CSR business plan. The business plan includes the measureable targets and key performance indicators relating to the commitments. An internal and external communication plan should be developed.
- ▶ Creating a communication plan to identify how the employees and other stakeholders will be engaged.
- ▶ Conducting CSR training to instill a CSR Culture

A company can define a set of key performance indicators to measure performance related to their CSR commitments over a period of time. The KPIs are either quantitative or qualitative. By disclosing information on a set of KPIs over a number of reports, a company communicates their commitment to CSR to their stakeholders.

The methodology for a measurement and monitoring program will be unique to each organization and should be in line with the organization's management processes. Including an impact assessment method in monitoring and evaluation can be by which business would monitor and ensure their adherence to law, ethical standards, and international norms by embracing responsibility for the impact of their activities on the environment, consumers, employees, communities, stakeholders and all other members of the public.

Reporting and disclosure on CSR Policy

The company is required as per guidelines to make information available on its CSR Policy publically on the company website, in its annual reports or other communication media 'where deemed necessary'.

When a company communicates its CSR policy it

highlights its interest in its CSR issues. This is a key communication tool for organizations for identifying its principles, areas of interests and commitments as regards to CSR. Availability of the information to public underlines the company's aspiration to be transparent and accountable to its stakeholders.

Other Aspects Covered in the Guidelines:

Following the CSR policy with Reporting and Assurance:

The guidelines specify that a company 'must prominently disclose' the CSR achievements of the company in the form of a report. The guidelines encourage a 'descriptive narration' of the future commitment along with an overview of how the company plans to fund them. The Guidelines also stipulate that a company shall 'make arrangement for obtaining assurance by an independent external party' as part of its CSR report.

The policy will act as a framework for the company's approach to CSR. Once the policy was developed, the next step for the company is to work on its CSR commitments, reporting on progress and assurance of its processes.

A Well Defined CSR Policy can Manage Risk

'Embedding corporate responsibility is a sophisticated way to slash risk right across business functions' (Ethical

Corporation (2012)).

It has become a best practice, for companies to manage impacts on society and report on performance. From a risk management point of view, it can enable a company to know the non financial issues which can affect the business and address them before they take large proportion.

The CSR policy will serve as the guiding document to manage such risks. In terms of business practices, it identifies areas and processes for improvement within the company as it opens the processes up for external scrutiny having a clearly developed policy will not only add credibility to the company's CSR processes but will move the company to face future risks in business sustainability.

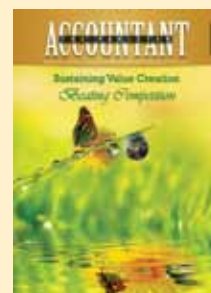
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Behavioral Finance – Mental Accounting

► Farhan Abdul Latif, ACA

Company Secretary & Financial Controller and Acting CFO, National Foods Limited



Upon first notice the term Mental Accounting may appear frivolous and impertinent to many. Contrary to popular belief, this field bears no resemblance whatsoever to the conventional debits, credits and other jargon centric standards of conventional accounting and rather deals with our day to day decisions.

Briefly said, Mental accounting is the phenomenon whereby people treat one sum of money differently from another sum of money even though money is fungible (interchangeable). People generally classify their sources of wealth into three basic heads of current income, currently owned assets, and the present value of future income; while all three of these can equally enhance the consumption capacity of an individual, often our attitudes towards their usage are significantly discriminatory.

The concept of Mental Accounting hence forms a partial response to the issue of self-control. It asserts that classifying a part of wealth in a manner that makes it appear less available, in effect actually increases the chances of its short term consumption. Conventionally, people are assumed to spend most from their current income and least from their expected future income. A general lack of self-control is seen in the manner in which people consume current income while savings, which tend to increase proportionally with income, are generally reclassified into current assets or future income. Rationality dictates that people make their expenditure decisions after taking their entire source of the wealth into account. However, the shocking reality stands otherwise.

The following example offers an insightful explanation of this principal. A and B are two friends who regularly meet at weekends for dinner spending approximately Rs. 5,000 on average. They bear the dinner bill alternately; that is if A charges the dinner bill for the first week of January on his credit card, the bill for next week's dinner is charged to B's card. In the following week, however, A. unfortunately forgets to bring his credit card along and has to pay the bill of Rs 5000 in cash. In the fourth week, A peculiarly requests B to discontinue the tradition. One can't help but wonder what caused A to make such a sudden request to cease off an old and recurring tradition. Behavioral Finance Theory holds the answer to this riddle; because in the third week A had to pay his bill through cash, he realized that he was in fact spending a substantial amount of money on dinner every fortnight.

The credit card payments had been masking the true impact of the expense on A and B, however, making an actual cash payment made A realize the true hit that the dinners were having on his spending power.

Credit card payments form one of the prime examples of this concept; by not impacting the cash position of the spender at present time, they mask the true financial burden of the transaction on the wealth of the consumer and thereby enhance their propensity to spend. This clearly explains why studies correlate the usage of credit cards with increased spending by people. The objective of this article is not to debate on the benefits of the credit card system, rather to highlight the lack of control present in people's spending behaviors when they utilize mediums of money/wealth other than cash.

Let us use another example to clarify the concept further. Mr. C goes to Las Vegas for a business deal, where he spends the night in a hotel with a CASINO. After spending the whole day in important meetings he seeks some entertainment and goes to the Casino where he gambles for Rs. 500,000; unfortunately he loses all his money. This upsets him greatly as he loses almost 75% of the cash balance that he had available. That same night he dreams of an Octopus who secretly tells him that '9' is his lucky number during his stay at the Hotel. Nursing his injured spirits, C visits the Casino again with Rs 10000 and bets on the Number 9 in every game. The octopus prophecy turns fruitful and C successfully makes Rs 10 million from his meager Rs. 10000. Wanting to multiply his earnings further, C sets out to a famous Casino in Las Vegas where he bets the entire sum of Rs 10 Million on a game. However, luck is not on his side this time as the number '9' does not appear even once unfortunately and he ends up losing all his money. The question to contest here is regarding the total amount that he loses in the bet, as Mental Accounting perceives the loss in a fairly distinct manner than conventional wisdom. People generally assert that since C's actual outflow was Rs 10,000, his actual loss is same as this amount. However, despite the fact that C had made the sum of Rs 10 million without any effort, it was a part of his wealth and therefore, C should treat it as such.

This article aims to help you realize the relevance of Mental Accounting to our routine decisions and our daily lives. In case you still don't realize the distinctions we are programmed to make instinctually, you should definitely give it some deep thought again.

Impact of Global Financial Crisis on Developing Economies

Prof. Dr. Badar Alam Iqbal
Prof. Dr. Munir Hassan &
Dr. Farha Naaz Ghauri



Abstract

Global financial crisis is become a chronic problem for every one. It is a double edge weapon cutting both ways. It has created far reaching effects, consequences, and implications for both part of the world namely developed world and developing world. This crisis is creating many social problems namely-unemployment, poverty and hunger. It is also indirectly affecting the availability of funds for most chronic global problem climate change and global warming. Hence, this paper deals with some vital issues relating to global financial crisis in general and effects of it on developing economies.

Key Words: Unemployment, poverty, hunger, climate change, global warming, deflationary trap. African economies, trade, finance.

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Introduction

Developing world is paying a huge economic price for the present global financial crisis which was originated at the centre of global financial system. Accordingly, the growth in the developing world is slowing dramatically and so many economies finding it very difficult to sustain their respective economies. Some emerging economies may face a danger of falling into a deflationary trap.

Is Financial Crisis can become a Calamity for Poor Nations?

The global financial crisis could become “a human and development calamity” for many poor economies especially African economies. Accordingly, the World Bank is urging upon the donor countries to accelerate the delivery of money that they have agreed upon and also think about further pledge of money to overcome the crisis.¹

Developing nations, its main constituency, face ‘especially serious consequences, impact and implications’ with the crisis driving more than 50 million people into extreme poverty, particularly women and children.²

The World Bank is responding through its existing healthy balance sheet to increase lending up to US \$ 100 billion over three years and launch initiatives in social protection, public works and agriculture. No one can say how long it would last or when recovery would start.³

Effects of Crisis on Developing Nations

The most unfortunate thing is that the developing economies are not the real culprits or responsible for the escalating financial crisis which was originated and started from the United States especially in finance sector and thereafter the same has been transformed

throughout the globe and affecting badly multiple sectors and areas. This crisis transformed into developing world through the channels of trade and finance. Although, economists have mainly concentrated on how the global financial crisis affecting the developed world the picture and situation has been reverse. The effects of global financial crisis are more intensive and extensive in developing world. As a result, ramifications are of more serious nature.⁴

The serious effects of global financial crisis are in terms of plummeting exports, quick and sharp decrease in Gross National Product (GNP); considerable decline in industrial production, substantial decrease in gross capital flows; increasing unemployment; poverty, social development, external debt crisis, trade balance, balance of payments; and foreign exchange reserve depletion.⁵



Transformation through Finance Route

The economists' world over believe that there are four routes of global financial crisis in developing nations:

- 1) Many economies have global financial crisis due to heavy investment on toxic or depreciated assets. The main countries that have lost substantial funds are Singapore, Middle East oil producing nations who have made huge investment in big, US, Swiss and the UK banks. China has also made investment in toxic assets. Similarly, people from Singapore and Hong Kong have made investment in Lehmann Brothers which has gone in bankruptcy. Likewise, people from Latin America have invested in US based Stanford Bank which is now mired in fraud charges.⁶
- 2) There has been substantial decline in funds that are flowing into developing economies. Accordingly, net capital flows to emerging economies have gone down from US \$ 929 billion in 2007 to US \$ 466 billion in 2008 and thereafter went down further to a level

of US \$ 165 billion in 2009.⁷ Out of the total capital flows to developing countries, portfolio investment that went up considerably in developing economies has gone out, especially from the sale of shares in the stock markets. In case of bond markets business transactions in emerging markets recorded a decline of US \$ 45 billion i.e. from US \$ 50 billion during the second quarter of 2008 to only US \$ 5 billion during the last quarter of 2008.

- 3) There has been a constant and alarming reverse flow in bank credit the life line of economic development which always based on capital formation. According to Institute of International Finance (IIF), the banks world wide would take out more in debt repayment in emerging markets which they provide or extend in new loans.
- 4) The existing flow of FDI has been slowed down. According to UNCTAD, the FDI flows have gone down by 21 per cent and in absolute terms they stood at US \$ 1.4 trillion during 2008. The degree of effect of DFI is more in case of developed economies. While on the other hand, FDI flows to developing economies have shown a rise of 4 per cent in 2008. But this rise is much lower than the rise recorded during 2007 i.e. 21 per cent.

Transformation through Trade Route

This is the second most vital route through which the global financial crisis entered into developing world. There are many ways that have affected developing economies.

- 1) One of the major instruments through which the developing economies provide some degree of sustainability to their economies namely exports. The exports of many developing countries have gone down alarmingly and these because of sharp decline in the demand of good in the two biggest regions namely the Europe and the USA. According to the latest data available, export value has declined by 46 per cent in Japan, 44 per cent in Taiwan, 40 per cent in Philippines, 38 per cent in case of Singapore, 34 per cent in case of South Korea and 28 per cent in case of Malaysia. The effect is of worst nature in case of China where hundred of units have closed down and the nearly 20 million people went out of jobs.⁸
- 2) Trade in services also constitutes a significant share in overall trade. This segment of trade also felt a heat due to global financial crisis. One of the major segments of trade in services is tourism which has recorded a decline of 1 per cent in tourist arrivals in the second half

of 2008. Similarly, the Caribbean region that heavily depends upon tourism, the decline is estimated at one-third of the present session.¹⁰ The other two vital segments are outsourcing and remittances. On both the counts, developing economies have been much affected, resulting into sharp decline in foreign exchange (6 per cent in 2009) on the one hand and on the other hand increasing unemployment.

- 3) In developing economies banks play a vital and strategic role in the promotion of foreign trade and therefore, always extend finance to traders so that they could export more. This component is facing a worsening as the banks are tightening the supply of credit for day to day export and import business. According to World Trade Organization (WTO), there is considerable shortfall in trade financing in developing economies and the shortage of funds amounted to US \$ 25 billion. This gap has to be filled in by all means.
- 4) The decline in capital inflows or outflows along with decrease in exports of goods has resulted into deterioration in the balance of payments as well as in forex reserves of so many developing economies. Accordingly, such countries have taken drastic action by devaluing their respective currencies and as a result, these nations are finding difficult to make debt servicing. For example Pakistan and Sri Lanka has approached IMF for funds to avoid debt defaults.



Role of Multilateral Agencies

Multilateral agencies may contribute positively and constructively in the process of easing out global meltdown. IMF and IBRD are playing an increasing role in this direction.

IMF:

Not any longer, member countries that joined the Fund during the period 1945 -1971, had agreed to maintain

fixed exchange rate between their respective currencies and the US \$. But this Bretton Woods system fell apart when a high rate of inflation in the United States and the rising trade deficit prompted the people of the USA to allow \$ to float. Since then, IMF members have been free to choose any kind or form of exchanger arrangement they wish or like (except pegging their currency to gold); allowing the currency to float freely; pegging it to another currency or a basket of currencies; adopting a currency of another country or participating in a currency block. These trends have added fuel to fire and global financial crisis has erupted.⁹

Recently, the IMF has pinpointed that global economy is yet to weather the worst of a recession that claimed a record number of European jobs. The 16 countries Euro Zone lost a record 1.22 million jobs in the first quarter. The number of employed fell from 1.2 per cent year-on-year, the deepest annual drop measurements started in 1965. In the words of Howard "markedly weakening labor markets are a major threat to recovery prospects in the Euro Zone". Statistics is slightly better in case of USA.



World Bank:

In managing the global financial crisis, the role of the World Bank is more positive and constructive. The World Bank is also determining what additional measure is required to counteract the worst Global financial crisis in the decades. The World Bank has also invited G-7 and then G-20 nations group for deliberations. These groups were of the opinion that more needs to be done as the global financial crisis is of unfold nature.

These groups have also asked all donors to speed up delivery of commitments to increase aid and for all to go beyond their existing commitments. According to these Groups, the world economy is stabilizing, but it would take until mid-2010 for the world to emerge from the worst has also invited G-7 and then G-20 nations group. These groups were of the opinion that more needs to be done as the global financial crisis is of unfold nature. These groups have also asked all donors to speed up delivery of commitments to increase aid and for all to go beyond their existing commitments. According to these Groups, the world economy is stabilizing, but it would take until mid-2010 for the world to emerge from the worst recession in decades. Stimulus packages, bank recapitalization and other needed measures taken

by the Governments and Central Banks to deal with crisis are beginning to show results. "Financial markets are trending up and other economic indicators are improving, but there are still downside risks".¹⁰

Role of Asia:

Driven by India and China, the emerging Asian economies no longer witness slump, which would lead the global recovery.¹¹ The slump in activity in emerging Asia is over. The region returned to positive growth of the aggregate level in the first quarter of 2009.¹²

The other major Asian economies wherein positive growth has been witnessed are Taiwan, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Thailand, and Hong Kong. Asian region is trying hard to assume a more assertive role in overcoming the global financial crisis. The implications of a stronger and wealthier Asia exercising a positive and purposeful role and contribution are of far reaching for the world economy. A number of developing economies in Asian continent are building up policy space through responsible policy management and are in a position to ease monetary and fiscal policies to provide countercyclical support.

Many developing countries have much less room to manoeuvre. These countries face difficult external situations wherein capital flows have reversed and hence, require tightening policies to reduce risks of a capital account crisis.¹³ Therefore, it would be more appropriate to make sure that large scale financial stimulus is available as required from official sources, to help developing economies deal with difficult external financial conditions.



BRIC Economies:

BRIC countries are coming up as faster growing. Similarly, India is among the fastest growing BRIC nations and is ready to play positive and coordinating international efforts to overcome the on going financial and economic slowdown. Brazil, Russia, India and China well known as BRIC nations and Shanghai Cooperation Organization

have come together for a meeting in regard to coordinate efforts for facing the challenge of global financial and economic crisis. This group has come to a saying that we have potential to lead global economic growth as economic recovery is closely linked to the success of BRIC countries.¹⁴

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Hedge Fund Industry

An Overview

► Azhar Abbas Awan, ACA
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What is a Hedge Fund?



A hedge fund is an investment fund that can undertake a wider range of investment and trading activities than other funds, but which is generally only open to certain types of investors specified by regulators. These investors are typically institutions, such as pension funds, university endowments and foundations, or high-net-worth individuals, who are considered to have the resources to

understand the nature of the funds. Hedge funds invest in a diverse range of assets, based on the investment strategies outlined in their prospectus. Hedge funds are typically open-ended and the value of an investment in a hedge fund is calculated as a share of the fund's net asset value, on regular intervals i.e. daily, weekly, monthly or quarterly. On each such interval investors can subscribe and withdraw their investment based on net assets value per share. Because hedge funds are not sold to the public or retail investors, the funds and their managers have historically not been subject to the same regulations that govern other funds and investment fund managers with regard to how the fund may be structured and how strategies and techniques are employed. Hedge funds are typically registered in countries which are tax free and subject to fewer regulations. Most popular countries for Hedge Funds registration are Cayman Islands, United States of America, Luxembourg and Ireland.

How Do Hedge Funds Work?

Although there is no standard formulae to set up Hedge Fund but there are certain common characteristics that are present in most hedge funds. All hedge funds start with a hedge fund manager.

This manager comes up with investment philosophy based on his experience to the table with view to



convince investors that this strategy will garner them some good returns, and therefore they should invest. Once some investors are on board, the Fund is registered as Company or Partnership in a selected country. A typical Hedge Fund will have no employees of its own rather investment management, prime broker, custodian and administrator roles are outsourced to well reputed companies in the market. Investment managers are responsible to carry out the investment activities as per prospectus of the Fund, whereas administrative is usually responsible for accounting of the investment activities, share capital activities and providing middle and back office services. Investment Manager receives investment management fee which is a percentage of net assets along with incentive fee which is percentage of profits during the period. Administrator fee is usually a percentage of net assets.

Magnitude and Geographical Outlook

As of October 2012, the estimated size of the global hedge fund industry was US\$2.19 trillion.

The legal structure and domicile of a hedge fund is usually determined by the tax environment of the fund's expected investors. Regulatory considerations will also play a role. Many hedge funds are established in offshore financial centres so that no tax is charged at the fund level (although the investors will still be subject to tax in



their own jurisdictions on any increase in the value of their investments).

It is estimated that around a half of the number of hedge funds are registered offshore and a half onshore. The Cayman Islands are the leading location, accounting for 34% of the number of global hedge funds. They are followed by the US with 24%, Luxembourg with 10%, Ireland with 7%, the British Virgin Islands with 6% and Bermuda with 3%.

In contrast to the funds themselves, investment managers are primarily located onshore in order to draw on the major pools of financial talent and to be close to investors. With the bulk of hedge fund investment coming from the United States of America, New York City has become the leading location for hedge fund managers. London is Europe's leading centre for hedge fund managers, with 70% of European hedge fund investments, about US\$395 billion, at the end of 2011. Asia, and more particularly China, is taking on a more important role as a source of funds for the global hedge fund industry. The UK and the US are leading locations for management of Asian hedge funds' assets with around a quarter of the total each.

Future Prospects for Pakistan

Hedge fund administration is a large industry which thrives on the technical skills of accountants and IT experts.



A high cost of such technical skills in advanced countries forced leading Hedge Fund administrators to open their offices in countries where cheap technical labor is available. In this regard most of the administrators have selected India which proved extremely successful business model. Boom of fund administration business in India sucked the accountants and IT experts from the market. Pakistan is also among the leading countries that possess required accounting and technical skills to meet the demands of Hedge Fund administration business but unfortunately our geopolitical security situation is unhelpful. As soon as security issues in Pakistan are addressed and confidence of global community is restored, Pakistan will be ripe for influx of hedge fund administration business.

How to
Make Your

Small Practice a Big Success

Practice Management Tips for SMPs

Giancarlo Attolini, Deputy Chair, IFAC SMP Committee and Paul Thompson, Deputy Director, SME and SMP Affairs, IFAC

Introduction

Today, small- and medium-sized practices (SMPs) are confronted by a range of operational, market, and regulatory challenges. According to the [January](#) and [April](#) editions of the SMP Quick Poll, regulation and the pace of regulatory changes are among the top challenges for both SMPs and their small- and medium-sized entity (SMEs) clients. To alleviate these and other challenges, IFAC's Small and Medium Practices (SMP) Committee is collaborating with IFAC member organizations to assist SMPs globally. Perhaps the most tangible example of this collaboration is the resources, tools, and advice aimed at improving the ability of SMPs to provide high-quality professional services (see list of resources at end).

Despite the challenges, SMPs can and do prosper. This article suggests some simple tips to help SMPs improve the management of their practice and increase their chances of success.

7 Tips for Success

The following practice management tips can help your SMP succeed:

1. **Develop a mission statement, vision, and strategic plan:** Write a compelling mission statement that focuses on your core values and publicize this statement; a statement such as "Helping small businesses become big businesses" could be persuasive with potential clients. No matter how small the practice, you should support your mission statement with a strategy and plan.
2. **Identify your edge and carve a niche:** Evaluate your practice's skills and capabilities and identify what sets you apart. SMPs should continually look

at how they can differentiate themselves from the competition by offering additional services or becoming experts in a particular area.

Once your practice is able to identify its edge, it should identify its target clients. Do these clients fall into a particular category? Does your practice know about a particular industry, or do you have special expertise in a particular area or trade? If so, you may want to consider developing a niche and marketing your practice to a specific target audience.

3. **Offer business advice:** While the [April SMP Quick Poll](#) results indicated that traditional accountancy-based services, such as audit, accounts preparation, and tax services, are their main sources of revenue, SMPs are increasingly offering business advisory services in areas such as financial planning, risk management, and human resources, alongside or in place of their more traditional offerings (see [The Role of SMPs in Providing Business Support to SMEs](#)). You should look closely at how your practice can better help its clients and consider providing a broader range of services to help them successfully run and operate their businesses. In the longer run, this should result in more successful and more satisfied clients, which can translate into more business and increased revenue for your practice.
4. **Target small businesses:** SMPs are especially well positioned to serve small businesses. As small businesses themselves, they share similar aspirations, concerns, and attributes. SMPs' clients are almost exclusively small businesses, and as a result of this specialization, SMPs develop considerable understanding of and expertise in such businesses.
5. **Promote the practice:** Accountants generally

SMPs offer a unique value proposition to clients:

- ▶ Personal attention – SMPs are often available to meet in person.
- ▶ Customization – SMPs provide services closely tailored to their clients' needs.
- ▶ One-stop shop – SMPs offer a broad range of services, accountancy and other.
- ▶ Trust, competency and responsiveness – SMPs have a high level of integrity and competence and are highly responsive.
- ▶ Close relationship – SMPs build strong and lasting relationships with their clients.

Source: *The Role of SMPs in Providing Business Support to SMEs*

have little expertise or experience in promotion or marketing; it is not typically part of their core education and training. This can impede growth for SMPs. Therefore, you may want to consider hiring an external marketing or public relations consultant who can develop a plan and strategy to best reach your particular clients. Alternatively, you could develop this skill set in-house by training an existing employee. Appropriate channels and activities to promote and demonstrate your practice's expertise should be chosen depending on your objectives and target clients. For example, you could host a call-in radio show, write a newspaper column, or write a blog about small business accounting and tax issues. In other cases, it may be appropriate to establish a leadership position within local business or trade associations to promote your practice's niche and attract new clients.

6. **Develop relationships with other firms:** SMPs should establish relationships with other professional firms, both accountancy and non-accountancy—such as legal, HR, and IT firms—to meet client needs that fall outside their area of expertise. By working together with other firms, SMPs can leverage resources and help convince clients that they have the capability of a much larger practice. Having a relationship with other firms may also result in client referrals.

To further leverage economies of scale and synergies, your practice may want to consider joining an accounting network or association, or merging with another practice. When developing relationships with other firms, it is important to ensure that your firm's mission, values, and objectives are complementary to those of the other firm(s).

7. **Embrace new technologies:** To compete effectively, SMPs should consider automating their processes to improve efficiency and turnaround times and, in turn, lower costs. In addition, they should stay aware of new technologies - both to help their own practices and so they can advise their clients on technologies that may help them operate more effectively. Helping clients identify

and implement new technologies can serve as a value-added service, which can help generate new revenue, as well as boost client satisfaction and loyalty.

Putting ideas into action

To help you put the tips in this article into practice, we encourage you to download the *Guide to Practice Management for Use by Small- and Medium-Sized Practices*. This free guide aims to help SMPs become more proficient at managing their practices. It comprises eight stand-alone modules on topics ranging from planning and building your firm to managing people and client relationships. It features case studies, checklists and forms, and an office procedures manual.

Resources for SMPs

The following resources (all free of charge) are accessible via IFAC's International Center for SMPs: www.ifac.org/SMP.

- ▶ Publications - *Guide to Practice Management for Small- and Medium-Sized Practices* (PM Guide) and accompanying User Guide, and *The Role of SMPs in Providing Business Support to SMEs*
- ▶ Presentations and videos from 2011 IFAC SMP Forum in Istanbul, Turkey, including the session, *SMPs Evolving to Better Serve SMEs* (Session 3)
- ▶ Quarterly eNews and Relevant Links

The PM Guide is being translated into a number of languages by IFAC member bodies. To see a complete list of translations (both completed and in progress), visit IFAC's Translations Database (www.ifac.org/Translations/database.php).

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Changing Ways to See Clearly



► Bilal Ahsan, FCA

Nearly everyone will acknowledge that one of the most discussed topics between colleagues is work load or to be precise it is complaints about non-manageable work load and the presence of stress in their working lives. How many formal and informal discussions have you been a part of where the words uncertainty, stress, workload, lack of time &/or unfair work distribution have been mentioned?

While there is nothing wrong about discussing such things, what these kind of discussions do is that they shift our focus away from the actual "problem" which is that the tasks needed to completed are more than the time given to achieve them (in mind of the employee). Instead of looking for the root causes for the problems that are facing the employees, they start discussing the problem itself and how much pity it entitles them to. This leads to two major non-productive results. Firstly, it creates a culture of a sub-conscious acceptance meaning that the employees unknowingly become convinced that they themselves are helpless in the situation. Often we find employees of a particular department convinced that the only way of reducing working hours is to change their department. Secondly, employees start looking to others to solve a problem for them. In their minds, they no longer have the responsibility to explore ways to perform better, to organize their working day differently or to increase productivity. Because they have discussed this problem (sometimes many times) they think that they have solved it also. Now the manager or the colleagues need to take pity for the huge work that they are doing and look for ways to reduce the misery in their lives.

The truth is quite the opposite. Not only has the problem not been solved, it has even not been identified. To make matters worse, no one is looking for a solution.

The employees themselves are not as they have already accepted it, the colleagues or listeners are not as it has got nothing to do with them other than providing them with a conversation topic over a cup of coffee and the managers are not as they have got other priorities and also they do not often recognize what is it that they need to do something about.

This leads to frustration and bad blood burning within employees and often ends in unwanted and non-productive arguments focus on meaningless job searches and drop in satisfaction levels with the company's HR policies & processes. Primarily, nothing has been achieved which goes towards addressing the problem, however some activities have been created which give a temporary mental reprieve.

I will try and provide ideas about how individuals can improve their working lives. The intent here is not to come up with an all inclusive list, but to provide ideas and change perceptions on ways of dealing with this.

Ownership

Like with any other individual specific need, the ownership of dealing with this lies with the individual. This should not be interpreted as meaning that others cannot do anything about it, however to make anything change has to be on the "to do" list of the individual. Once it has been established by the individual that he/she has to start the change process and more importantly also to manage it the other steps are easier to complete. Ownership should also not be confused with discussion. Opening conversations with how busy you are and encouraging others to pity you for spending long working hours at your desk is not ownership. This is exactly the opposite for reasons that have been described above.



Realization

Try to look at how you spend an average day (both in and out of office) from the perspective of an outsider & without any emotional attachment.

Routine elements such as time spent in office including coming/leaving time should be noted. Main reasons for not being able to finish tasks on time should be given special attention. As an example we often spent considerable time on one or more of the following routine elements without even realizing it:

- ▶ Dependence on others on getting tasks completed (because of lack of skills or equipment)
- ▶ Working multiple time on same task because the "goal posts keep changing"
- ▶ In attending unscheduled meetings for which we have not prepared enough
- ▶ Idle time as waiting for someone else to complete something else (this time is often then spent on less important activities)
- ▶ Personal behavioural (E.g. personal urge to reply to an email quickly rather than correctly & completely, waiting till last day(s) to complete tasks, not spending or spending inadequate time in thinking through/preparation)

Prioritization

It is an individual's decision on how many routine elements need to be improved & in which order. This decision should be taken after considering expected benefits and ease of solution. Here the main thing is to make a mental note of all elements and being able to recognize these when faced with them. This does not mean that the efforts should also be directed towards optimizing all routine elements as this could be non-productive. Rather the intent is to recognize all routine elements and then to focus on the ones which can be tackled and are expected to be beneficial also.

It is recommended to start with those routine elements which are directly under control of the individual. Once the improvements from these are visible it would be easier to work on those routine elements which require change from others also.

Bringing to Life

Once the path has been found, the most important stage is to take the initial steps. This often starts with the acceptance that the fault may lay within and not on the outside or with someone else. For example, if you are unable to finish your tasks in the morning because of unexpected work given at last moment (usually just after your manager reads his messages), try coming an hour or

so earlier. This will help you to be better prepared for the unexpected. You may also go to your manager yourself and ask for work that needs to be done if you are early enough to have finished your pending tasks. This may not have a noticeable effect in day or so, however, if you make it a routine, effects will be visible.

Similarly, if you need to get input from a number of persons for a topic, try scheduling appointments in advance. Plan yourself so that you do not block more time than needed. Also, give more time to those who in your opinion have greater insight to the topic and who are usually willing to share thoughts openly.

It is always better to ask for specifics before setting off to complete a task. Do not be afraid to ask questions in the beginning or when they arise as these normally tend to save valuable time later on.

Making notes in a diary is a great way of remembering things. Often, we find it difficult to schedule time with senior managers and leaders. In such cases it is advisable that you make a note to discuss a certain topic with them during a meeting to which both of you are invited.

If you rely on a member of your team as you do not know how to work with a certain software or other tools, try learning the skills yourself. This will not only increase your contribution to the team, but also reduce your dependence on others.

The key is to be consistent when trying to change one's routine elements.



Confirming Change

It is important to understand what the benefits of these changes are. It may be that one or more routine elements make you spend more time in the start. Be aware of that and if the trend continues, be prepared to learn from this experience. For others analyse the benefits and consistently review for further improvements.

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That's Just Not Cricket

► Sohail R. Bhojani, FCA

"The last ball coming up, 4 runs required.....and that's a 6, and Pakistan have won. Unbelievable victory by Pakistan...."

Words immortalised by the inimitable Iftikhar Ahmed. Words, all those like me who grew up in the 80s, grew up on. Words that made all us Pakistanis feel, for a long long time, that all was well, not just with our cricket but with our then-undemocratically-ruled country at large. For those who cottoned on to the Indian connection in the lines written so far in this piece - well done. For this is indeed a piece about Pakistan and India. For these were the words certainly playing in my mind when I collected my small family and set off on what was our maiden voyage to the Wahgah Border (this is really how they spell it at the Border).

Frustration - desperate (last) minutes spent locating my 1992 Cricket World Cup replica Team Pakistan shirt - nowhere to be found. A decisive compromise (an oxymoron, surely) had to be reached. It came in the form of my Pakistan - Aik Junoon top, a sleeve of which came emblazoned with a popular music show sponsored by a popular American soft drink brand. Sadly, the thought of putting on the national dress never crossed my mind.

The trip, heading east along Lahore's Canal Bank most of the way, had no chance of being a boring one. What with my five year old (going on fifteen, I promise you) insisting on playing his favourite MP3, a collection of 150 songs including Pakistani (Urdu, Punjabi Sindhi and Sufi), English, Spanish and Arabic songs as well as some Mozart thrown in for good measure. And as no self-respecting kindergartener's collection would dig without the latest foot-tapping Bollywood numbers, we had plenty of those too to complete our in-flight entertainment.

A couple of frantic but well-directed phone calls to my military contacts the day before ensured that we drove past the droves of the honest Common Man and the honest Common Woman, past the car park for civilian vehicles, indeed past the imposing barricade with the imposing STOP sign manned by an imposing quartet of Pakistan Rangers soldiers. Though not a supporter of the VIP culture prevailing in the country, I must say that securing easy access and the best seats in the house did feel a sinful pleasure. I am, however, hereby forever foregoing my democratic right to criticise my President for proving that a rickshaw can double as a maternity ward the next time VIP vehicular movements inconvenience mine.

The fact that I am committing this confession to paper is proof of a conscience still stirring somewhere deep inside. And if there is yet hope for a cynical, existential-

angst-ridden yuppie like me, there has to be optimism that this nation's youth (there are 120 million Pakistanis under the age of 30, a substantial demographic dividend) will one day lift us out of the mire that we have created for ourselves. This confidence flows despite yours truly being patently culpable in making his five year old believe that phone calls and networks get him preferential treatment and exemption from queuing up like mere mortals.

Time to take in the surroundings before the main event. First thing noticed was Segregation with a big S. Missionary school style. There were 2 enclosures, one for the honest Common Man and the other for the honest Common Woman (the VIPs, your columnist included, were exempt from this enforced moral code, possibly by virtue of being neither honest nor common). I guess a more logical way of going about this would have been to have one stand for families and one for others (mainly boisterous lads out to have harmless fun). But then logic has always been forced to beat a hasty retreat wherever officialdom has tried to manage Indo-Pak matters.

More heartening to see was a portrait of the founder of the nation on the bridge crowning the entrance to the stadium (again, that's what it's called at the Border) as opposed to a picture of our last slain ex-Prime Minister. I live in trepidation that my kids will grow up thinking that she was the most important personality in our history (although I have the deepest respect for her contribution to the country). We have even officially ranked her third on the list if we go by airport nomenclature - Founder of the Nation for Karachi, Poet of the East for Lahore and now Daughter of the East for the federal capital.

The next thing to hit me was the sonic-boom-level din generated by hidden speakers blaring out national songs. It was only later that we figured out that, in yet another effort to control our environment, the noise was maintained at a gazillion decibels to drown out the patriotic songs being played equally loudly on the other side of the fence! Both sides creating hardships for themselves in an effort to win an un-winnable contest - so no change there. Would it not be better for both parties to agree on an equal but lower noise level and achieve the same objective? But this small step would only be a few giant leaps away from a mutually agreed disarmament programme, and we can't have that dear Reader, now can we?

The hidden DJ responsible for song selection should be fired forthwith as the music being played was most forgettable and decidedly average. Only after suffering

numerous unremarkable, obscure numbers was the crowd whipped into a frenzy by a rendition of *Dil Dil Pakistan* by Pakistan's first boy-band. My thirst for golden oldies such as *Sohni Dharti Allah Rakhay* and *Jeeway Jeeway Pakistan*, however, remained unsatiated. I will not be hypocritical here and say that I did indeed catch and recognise a couple of catchy Shah Rukh Khan (SRK) movie songs emanating from India.

Getting the crowd going was not left solely at the mercy of the musical genius though. We had not one, not two, but three cheerleaders, aided and abetted by an accomplice on *dhol*. All green *kurta* and white *shalwar* clad. All toting national flags. All sporting flowing, silver beards, a la *Chacha Cricket*, our national cricket mascot (couldn't our cheerleaders follow a music band other than ZZ Top in making their style statement?). At least their outfits were not sponsored by electrical goods brands or soft drinks and their acts, although monotonous after a while, were not crass like those mercenary cheerleaders from the Indian Premier League (IPL) across the border (the boys in green were almost as voluptuous though). They did display their names on their shirt-backs like footballers and it was amusing to find out that they shared the same surname (Ali Wahgah, Amir Wahgah, Asif Wahgah – the Wahgah Boys?). And you could not fault them for industry and effort, despite the fact that they were fighting on multiple fronts – doing better than their Indian counterparts on the other side of the divide and capturing the attentions of their local audience in a bid to be crowned the unofficial champion of the cheerleading troika. Ergo – lots of chants of *Allah-o-Akbar* and *Pakistan zindabad* and after a few practice swings, my five year old joined the happy mayhem.

Let the games begin. Bugles aplenty. And what a show the best of Pakistan Rangers and India Border Security Force put on. The pomp, the dash, the sheer panache (I steal with pride the slogan used by the annual British armed forces show) was simply mesmerizing. Even the Gawking Goras (there was many a brave tourist in attendance) were left gob-smacked.

I can only describe the pageantry as part pantomime, part circus-act and part war minus the shooting. War because the fate of an entire nation's pride that balmy afternoon depended on our soldiers' ability to outshine their Indian counterparts on crucial criteria such lung capacity (essential to outlast the opponent in the military drill shouting contest), hamstringing flexibility (needed to raise one's leg high enough to touch the forehead with the foot) and the noisiest shiny boots (feet have to be slammed repeatedly and with violent force on unforgiving tarmac).

Your columnist can confirm that the Indo-Pak border version of the can-can is every bit as good as the Moulin Rouge. No wonder only the tallest men with the broadest shoulders and the proudest facial hair make the cut to serve their country. I felt humbled by the soldier whose entire military career would culminate at the Wahgah Border without a shot being fired in anger and an arthritic

heel as a long service award to boot, no pun intended.

I am happy to report that we won the contest by a conclusive landslide. I have tried to remain as objective as possible in this assessment and not drawn the conclusion just because I happened to sit on the west side of the LoC. Our men in dark grey outshouted the enemy in every single drill call by a distinctly measurable number of seconds. They were taller, broader and altogether more impressive. So who cares if a comparison of few economic indicators remains unfavourable. They can have their GDP, FDI and literacy rates. We have the bigger lungs, the stretchier limbs and altogether more formidable heels. They have the IPL but we get to play our home test matches at Lords'. We even trump their tennis queen Sania with our very own ace Shoaib.

In fact, it might be an idea to have the newly wed Mr. & Mrs. Malik help with the ceremonial flag lowering, not unlike ringing the closing bell at the New York Stock Exchange (that ubiquitous SRK even beat us to that). That would be some coup in terms of promoting cross-border harmony; probably the most memorable since President Musharraf, the epitome of sartorial elegance in an Amir Adnan sherwani, ambushed Prime Minister Vajpayee at the Khatmandu Summit with that handshake.

Still, dear Reader, I ask. Where did it all go wrong for the inhabitants of the Land of the Pure? How can two nations, sharing the same date of birth, genetic code and history could, in a relatively short span of sixty odd years, be travelling in opposite directions in terms of global importance, economic power and, most painfully, optimism about their future?

And then the flags came down. They were respectfully folded and packed away till the next day when all this would be repeated. The satisfied audience made its way out of the arena, having tired itself out cheering every single soldier whose war chant lasted longer than his Indian counterpart and every single soldier whose gravity-defying standing kick went flying higher than his Indian adversary. How those turbans stay connected to the heads throughout the performance shall remain a mystery to me. There were even photo opportunities with horse-mounted guards for kids who had enterprising parents, again lending a circus-like feel to the parade. Alas, the worst violator of the sanctity of the drill turned out to be the fruit of my own loins, bringing an end to the proceedings with his innocent but well-timed demand – "Can we now go to Joyland please?"

Made me remind myself of yet more immortal words, this time from the great Doctor Mohammad Iqbal:

**Tujhay aaba say apnay koi nisbat ho nahin sakti
Keh tu guftaar, woh qirdaar, tu sabit, woh sayyara**

You bear no comparison to your ancestors...And that perhaps, dear Reader, is where we have gone wrong. I think. Or where we can yet go right, if the next generation can manage to bear no comparison to the one that preceded it.

Prepare any Presentation in 15 Minutes!

Turn The Presentation Nightmare Into Sweet Dreams

■ Muhammad Badar Arshi, FCA

In today's world of information and competition, effective and instantaneous communication is a key to the survival of individuals and organizations. Effective and inspiring communication is the foundation of professional relationships and is crucial in building the camaraderie & rapport with the clients and in the growth of the business.

Communication goes beyond just writing and talking, it is an ability to pass the relevant information and persuade to act. If you are not able to put across your message to the intended audience impressively you are destined to fail.

Being in the field of presentations and training for over a decade now I have seen situations many times where you are required to prepare a presentation, when the client has already arrived in the board room.

When you are time pressed the mind stops thinking, it is called thinking block, and in this situation the presentation you will prepare and deliver could be your last presentation.

So the question is how to manage a situation where you have to prepare a master piece at a very short notice not only to impress your boss but to keep your head above the water.

I have learned this technique at a training academy in my company in one of the sessions. If you apply this technique in any situation you will not only get the pleasant results but also develop great passion for presentations and public speaking.

The important characteristic of this technique is that it breaks the thinkers block and opens the shower of ideas on your mind. The process will not only stimulate the thoughts but will also help in structuring your ideas in a smooth flow on the slides and help in time management of the presentation.

One of the key feature of this technique is that it ensures that none of the key points are missed which normally happens in the situation of anxiety when you are time pressed.

Whenever you are required to prepare a presentation on any topic just remember the word "BIKERS".

BANG: Open the presentation with a "Bang". Bang is an attention gatherer or an ice breaker. A nice bang always hooks up the audience immediately. An attractive smile, a strong and loud welcome or a warm greeting can always be used as an ice breaker. Bangs can be classical or can involve participation of the audience.

INTRODUCTION: "Tell them, what you are going to tell them". Introduction can be as short as explaining the main purpose of the presentation in few lines or can be the list of agenda points.

KEY POINTS: List down 1 to 5 key points about the subject which you would like to emphasize and discuss.

EXPLANATION: Have one slide for each key point and expand on the key points in three to four lines. An example, an illustration or a story always leave a great and lasting impact on audience.

RECAP: Prepare this slide to recap what has been discussed so far to connect the audience with the overall picture of the subject and to help them remember the purpose and message of the presentation.

SURPRISE: A statement which dramatically sums up your key message. This is the most memorable part of the presentation; conclude the presentation with a surprising element. It could be a special offer, strange information or an emotional story. You can use this section to motivate the audience to take the desired action or the outcome you want. People will remember the surprise for long.

A good time allocation ratio could be 10% to BI, 70% to KE and 20% to RS. For instance if you have to deliver a 15 minutes presentation, you may allocate the time as follows:

- ▶ Two minutes for Bang and Introduction,
- ▶ Nine minutes for Key points and Explanation
- ▶ Four minutes for Recap and Surprise.

While preparing the presentation always keep in mind as to WHY you are giving the presentation, what is the **objective** of the presentation and what **outcome** do you want from the presentation, accordingly all your content should relate to that purpose. Any attempt to include anything additional which doesn't fit in the objectives is disaster, doesn't matter how emotional or impressive it is.

Go through the slides and sense the flow and sequence of the information, if you feel to make the changes feel free to do so.

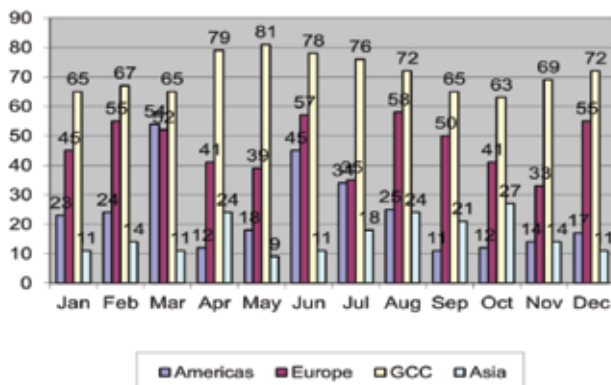
Slides! Are these Thrillers or Turn off Switch?

Teleprompter:

Power point is there to aid you to put across your message. Most people use it as a teleprompter! Does audience really want to come all the way to a meeting to listen to the presenter actually reading the slides? Why not just send the slides to them.

Distractions:

Excessive and ugly animations and charts distract the audience and your message is lost forever.



What is in it for me?

It is an unasked question from the audience, what is the significance of this presentation for me? If slides answer this question, it will create passion in the audience and passion attracts the attention and attention leads to action.

Bullet Points or Visuals?

What is the chance of retaining your message in the minds of your audience after 3 days?

- ▶ 10% People drink grapefruit juice
- ▶ 90% People drink lemonade



Steve jobs vs. Bill Gates:

Don't allow your audience to ignore you. It is you who is important when you occupy the stage, not the PowerPoint. Your slides should not let your audience start reading them and stop listening to you.

The difference of presentation styles of one of the world's best corporate presenter Steve Jobs and Bill Gates.

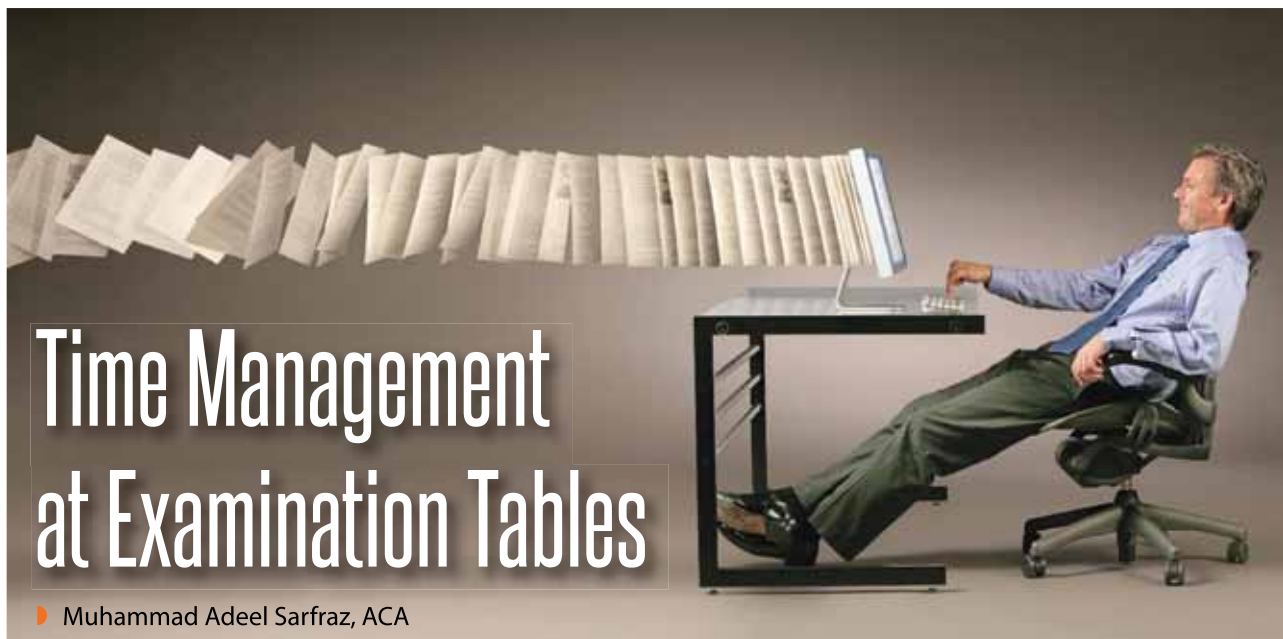


Lessig Method:

One word and one picture and you are the winner. It is a very effective, powerful and memorable technique developed by Larry Lessig a Stanford University Law Professor. Same message, see the difference!



Hope you have enjoyed the reading and the above will help you in your PowerPoint projects. More on presentations next time.



Time Management at Examination Tables

► Muhammad Adeel Sarfraz, ACA

“Lost time is never found again”, a famous saying by Mr. Benjamin Franklin. Mr. Time is taking steps at its own pace on the dial, whether a person wishes for it to go with a faster pace or slower. The timestamp of 30-12-2012 09:00 once passed, will never come again. Resources have always been insufficient and require an effective management. Therefore, efficient and effective management of time is very crucial in our lives.

ICAP has recently allowed additional fifteen minutes to comprehend the question paper before actually starting it to attempt. The reason behind this is to allow you to comprehend the question paper and to analyse it. For your guidance purposes, I have narrated down some key steps in this regard;



- Divide a question into two parts; the requirement part and the remaining part which includes background and inputs. Read quickly the background and inputs of the question and then directly move on to the “requirement” part of it, instead of reading the question thoroughly.
- Re-read the requirements and make sure you underline the focal words and have well understood the requirements for each of the questions.
- Note down, them in your mind, the relevant answer points to this question, you can initially recall. These points can be 1% - 100% relevant to the question requirement. Just write down anything you can recall relevant about it. These points will be filtered upon their execution. These points in mind can be transferred to your working

area, which you can define at the end of your answer sheet.

- Give this question points out of 10, based on the knowledge you know about it;
 - Even if you think you don’t know a question, at least give it a try; you have the ability and yes, you can do it. At minimum, you can deliver the format of the answer and you also know the inputs (given in the question). The only thing you know little about is the calculations part, which you can perform partially. So, never leave a question in exams.
- Once all the questions have been gone through above mentioned stages, assign rankings to the questions based on the points they score in previous step.

Notwithstanding fifteen minutes duration has been elapsed, this exercise is important. However, it should not take more than thirty minutes in total.

Strictly follow the “1.5 x marks” rule. We have to play with a 100 marks of question paper and by application of this rule; we require 150 minutes in total. We have total 195 ((3 x 60 = 180) + 15) minutes for this game. We require 150 minutes for the execution of plan. We are now left with 45 (195 – 150) minutes. These remaining minutes are either for initial planning (as we have already done) and the review of each executed action.

All of these three categories are very important for the game. We have completed various assignments in our article-ship. And we all very well know how important is planning for any task / assignment in our practical life. So never think of shifting minutes from this phase to the execution phase.

Don’t forget to bring your own time machine in the examination hall; the one hanging on the wall is not that effective. Keep it in front of yourself on the table during

complete 195 minutes and strictly monitor it. As you have already planned the question, now it's time for "bring it on" phase. Recall your points and a rough planned sketch in your mind for this answer. Finalise main steps of the execution from the start of the answer till its final outcome, as required in the question. If possible, write down these main steps. Now start the implementation as per your initial planning and main steps for this answer. Strictly follow the heart beat of the time and keep on checking it after every defined interval. You can set your interval, let's say, after every main point answered. First main checkpoint should be at "1 times the marks" minutes (e.g. after 15 minutes of starting a question of 15 marks). Make sure you have at least mentioned every main idea / concept / theme of the question. If the answer is "No", then rearrange your execution plan immediately so that you can answer to every "key concept" of the question in the remaining 0.5 times. If the answer is yes, well done my friend, you are doing awesome.



to give it a second look. Look critically at your answers as if you were the examiner. You will, most probably, find something to improve. Search for things that can impress examiner. Remove / amend the things which can disappoint or leave a negative impression on the examiner.



In either case, stop talking to this question after 1.5 times minutes. Do not exceed your time boundary, it's very important. The time is over for this question, now step forward for the question next in priority. In the examination, I always used the "60%-40%" rule, taught to me by my father; i.e. it is always easier to score for initial 60% marks then to gain additional 40% (not to confuse with Mr. Pareto's rule). Even though you know the answer completely or you know the main concept / calculation to be applied, if the Mr. Time has passed the 1.5 factor for this question, then just wrap answer to this question up, and briefly show the examiner that you knew it, but just couldn't manage time. Nevertheless, the feelings and the passion to attempt the question paper in its true sense is very great and powerful. However, it's more important to pass the exams than to obtain a distinction in it. Moreover, keep in mind that everything you know as an answer, should not be narrated down. Obtain professional services from an excellent part of your body; The Brain. Think sharply and please your examiner with the gift of relevant points only.

And now it's time for "let's have another look" phase. No matter how sure you are about your answer, don't forget

Paper Time	195 Minutes		
Phase	Planning	Implementation	Review
Time per Phase	15–30 min	150 min	15–30 min
Time per Mark	9–18 sec	90 sec	9–18 sec
Examples:			
10 Marks Question	1.5–3 min	15 min	1.5–3 min
15 Marks Question	2.25–4.5 min	22.5 min	2.25–4.5 min

Time is up my fellows, no need to worry now. You have done a wonderful job, and you could not do it any better. You were at your best at this given situation. Question paper discussion after taking the examination is highly not recommended. You have done what you could do. Now just enjoy with your colleagues, have a little chit chat with them and refresh yourselves up. Discussion might lead to the conclusion that you have done something wrong in the paper, while it may be the fact that you have written correct or at least, conveyed correctly the required concept. So, don't discuss, don't give yourself even a chance to get disappointed. Go home; take some rest as if there is no examination tomorrow. But if there really is, then do limit your rest and start for the tomorrow accordingly.

Note: These are my personal views and might not reflect the views and / or concerns of ICAP and / or any other examination body.

In Conversation with the Gold Medalist and Merit Certificate Holders



Gold Medalist



Faizan Idrees - CRN 73717

Kasbati Memorial Gold Medal

Q.1) What was your source of inspiration to join CA?

Before starting O' Levels, I was truly determined to take up science subjects. Back then, I was absorbed into a world of fantasy. I wanted to become an aeronautical engineer; to build a state of the art killing machine for Pakistan's Air Force. However, my parents suggested that I should become a chartered accountant. I decided to take up accounting as a subject in O' Levels. I wanted to find out more about accounting. Finally, I came to know that this was the kind of career at which I could thrive. And so, I had the desire to become a chartered accountant when I was only thirteen.

Q.2) What does it take to be a gold medalist?

In order to pass ICAP's examinations, candidates need to score 50 percent marks. That means, it is usually sufficient to study for 70 percent marks, in order to ensure getting across the passing line. This is indeed what most students do. However, to become a gold medalist, and stand above everybody else, requires tremendous hard work. Aiming for a 100 percent mark is just the beginning.

I believe what it really requires of a student is to show impeccable standards of discipline. The student must plan every day. If the plan calls for studying for 15 hours a day, the student must do so. Procrastination is an unforgivable sin for anyone who plans to score a gold medal. Students must show persistence. To perfect their understanding of the subjects, they must repeat the whole syllabus at least three times. They must always attempt class tests as if they were ICAP's examinations!

Q.3) What are your future plans after the completion of CA?

I find planning for the future a tiring activity. The world is changing so fast that whatever plans I make, they need revision every now and then.

At the moment, after becoming a member of ICAP, I plan to enter into the industry. Therefore, I plan not get into professional practice after qualification. I feel I can satisfy my own personal goals better and also serve Pakistan in a greater capacity if I join the industry. Our country needs a flood of talented and professional people who can solve its economic problems and help to attain greater milestones of economic development.

Q.4) What message would you like to convey to the students who would like to, join the same qualification?

Those people are wise who understand their circumstances and prepare for whatever challenges await them in the future. The students must be willing to devote more time and energy towards studies. They must manage their time more flexibly so that they can enjoy recreation and entertainment while doing great in studies and scoring well in examinations at the same time. The chartered accountancy qualification promises great respect and success to anybody who becomes a member of the profession.

Q.5) What are your academic strengths?

Nobody is gifted with super-intelligence. We all are human beings. We tire. What makes me excel in such an exceptional manner is my do-or-die attitude. I plan my studies very carefully, to ensure that there is ample time for every subject. I follow that plan with great discipline. I am also thankful to all my teachers who have helped me utilize my strengths. They have put great pressure and hard work upon me in order to mould me and help me grow.

Q.6) Generally what are your thoughts and impressions about CA qualification?

I take great pride in working hard for such a prestigious qualification. This qualification is not at all just about accounting. It imparts knowledge to students about many diverse genre that are related to business such as management, accounting, finance, law and ethics. The qualification has great respect in our society. It is unlike any other qualification when it comes to reputation. Anybody can become an accountant. However, to become a chartered accountant, one has to demonstrate great ethics and discipline.

Q.7) During your study period was there something you struggled with, such as a specific technical issue or time management etc? If so, how did you manage to overcome this difficulty?

Certain subjects in the qualification require students to have precise understanding of the syllabus. For example I struggled with Module C Taxation. The language of the subject was very technical. The subject required memorization of the syllabus. Having a background in O' Levels and A' Levels, I was not accustomed to memorizing technical language such as in the subject aforementioned. ICAP's examinations were only two months ahead and I felt I knew nothing about the subject. I knew if I did not put in tremendous effort, I would fail.

Then, my teacher told me I would have to repeat the syllabus many times in order to understand it and retain it in memory. In those two months before the exams, I revised the entire syllabus almost eight times, and at the same time devoting to other subjects the time I had planned for them.

I did not only pass the exam, but also scored a merit certificate! I am very thankful to my teacher for giving me such a great advice.

Merit Certificate Holders

Amal Gulraiz – CRN 74085

Merit Certificate - Taxation

The driving force which inspired me to join CA is the best career prospects offer by this profession. Students who join CA qualification should have confidence in their abilities and stay optimistic. By studying regularly, the workload remains manageable and hence the chances of success increases manifold. CA is a prestigious qualification and it demands a high level of focus and attention from the students.



Ali Raza – CRN 76875

Merit Certificate - Quantitative Methods

When I joined CA, I came to know that it is a comprehensive set of curriculum which paves the way to become an Entrepreneur and a Business Master. This really fascinated me and my passion for CA grew manifold after this. I would suggest that students must come up with passion and work smart. Good understanding capability is required to gain achievement in CA.

Yusra Batool Jafri – CRN 76914

Merit Certificate – Functional English

Chartered Accountancy has been my dream career since once, when there held a career counseling session at my school. Various fields were introduced to us, among which CA was described as the toughest, yet most lucrative career. After ten years from now, I see myself as a successful working woman and want to serve my country financially and economically. CA does not only require hard work, but also proper direction under the supervision of experienced teachers.

**Abdul Haseeb Mirza – CRN 69798**

Merit Certificate – Information Technology

My Late Grandfather was the sole personality to guide me towards CA. The short discussions with him and his continuous career counseling had my mind ready for CA since my O-levels. I am a person comfortable with practical subjects, like Financial and Cost Accounting. My excessive interest in Computers and the continuously changing global web also makes Information Technology my favorite subject. The students of CA must be ambitious and committed towards their career.

Daniyal Suriya – CRN 73818

Merit Certificate – Introduction to Financial Accounting

One should join C.A If he has strong faith, believes in himself and has the integration of hard work, commitment and objective to excel himself in a professional personnel. My core strength in my academic skills has always been the subject of Accounting. The difficulty I faced mostly during my study period was time management, but I overcome it with a proper planning and schedule, and through making appropriate revision notes.

**Aysha Masood – CRN 70052**

Merit Certificate – Cost Accounting

I want to be a successful and a well reputed Chartered Accountant and also plan to carry out some social service programs to help the underprivileged class of our society. CA is among those very few profession that provide you a pre-qualification experience which provides us an edge over other qualification but, no doubt requires true commitment and dedication. I also believe that success without hard work is like trying to harvest where you haven't planted.

Maria Zafar – CRN 74174

Merit Certificate – Mercantile Law

The prestige and eminence associated with the profession of chartered accountancy inspired me to opt for this profession. Before starting CA, one should set high benchmarks and work on it with strength of mind. If you aim for the moon, you shall land among the stars.

**Syeda Sehrish Shah – CRN 73833**

Merit Certificate – Introduction to Economics and Finance

My dream had always been pursuing something extraordinary and I found CA as the best option to opt for realizing my aims and ambitions I have set for myself. To me, CA qualification provides a foundation of many career routes and opportunities of post-qualification progression are numerous and varied. Strong and rigorous revision before examination is essential.

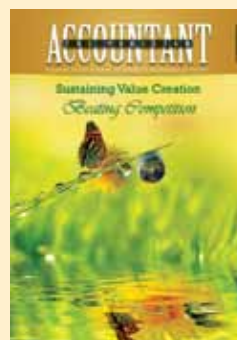
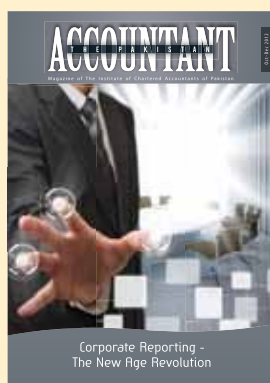
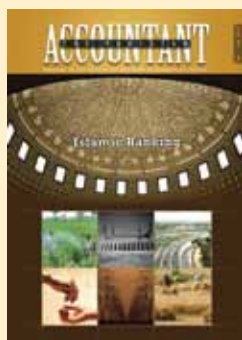
Kanza Akber – CRN 74090

Merit Certificate – Business Communication & Behavioral Studies

CA students must be patient and have a good positive attitude towards studies. With Great hard work and stamina I achieved my results. Even though CA is said to be tougher compared to other fields, its up to you to deliver the interest and hard work on the subject to go through it.



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- | | |
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Members are requested to send in their articles at the earliest at any of the emails below:
asad.shahzad@icap.org.pk and afshan.aleem@icap.org.pk

We look forward to your cooperation in this regard.