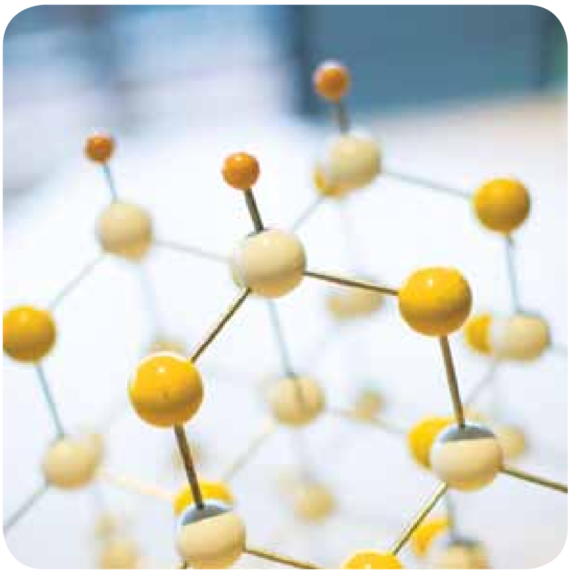
THE PAKISTAN ACCOUNTANT

Jul-Sep 2013

Magazine of The Institute of Chartered Accountants of Pakistan



Financial Planning

The Pursuit of Happiness

THE PAKISTAN ACCOUNTANT
Volume 49 Issue 3
July - September 2013

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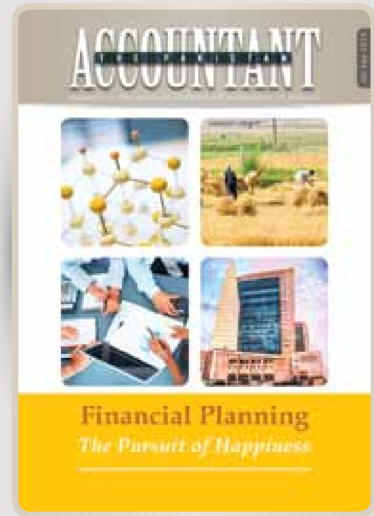

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Editor's Letter

"Money is only a tool. It will take you wherever you wish, but it will not replace you as the driver. It will give you the means for the satisfaction of your desires, but it will not provide you with desires."
--- Ayn Rand

Financial planning is itself an industry, which is increasingly being used by leading global firms to provide a competitive advantage while others are using the opportunity to uncover additional savings by leveraging a wide range of service delivery options and process improvements to reduce costs and generate additional value. The growing demand for financial planning has been fuelled by the government active policies. It provides better estimates of a variety of important consequences of operating and financial strategies.

Financial planning ability is a core competence of an accountant. The role of accountants in providing sound financial planning services cannot be over emphasized. Multinational corporations that realized the scope of accountants as financial planners, years ago reap that by engaging the services of accounting firms in the area of transfer pricing, the financial benefits speaks for itself.

A modern day accountant shares certain things in common with the military personnel which is considered to be the source of most of the strategic planning theories. Good accountants have all the military qualities combined with business acumen and accounting motivation. As the chief custodian of the financial information accountants deliver design and deployment of sound financial services through the outlet of financial planning which is a key factor to empowering people to achieve their financial dreams.

Today future financial performance continues to be at the top of the improvement agenda for many CFOs. Transforming the financial planning process requires strong leadership and the ability to have finance, sales, and operations work together to offer realistic views of the future.

Successful financial planning includes people, process, and technology as it is part art and part science and must be considered when looking to improve an organization's financial planning and forecasting activities. Simply stated, organizations should be structured to support rationalized financial processes, and technology should be viewed as an enabler. If all three aren't aligned, improvement in only one area often will not yield sustainable results.

M. Sharif Tabani, FCA

President's Page

Aristotle wisely stated 2,000 years ago that is relevant today – "happiness is the meaning and purpose of life, the whole aim and end of human existence".

Companies are working to map their path to growth amid specific industry and keeping in view the level of circumstances. Factors such as increasing buying power in emerging markets, burgeoning regulation, and more intense investor scrutiny are shaping industry dynamics, creating new opportunities for growth and introducing new risks to performance.

Improving processes and systems for financial planning can help companies make the most of the opportunities, while minimizing the accompanying risks. In order to maintain investor confidence and provide insight to top management, there is an increased demand for finance departments to provide prospective insights on business trends and drivers of performance.

Financial planning, a key component of managing and driving business performance, continues to be of limited value and mired with conservatism for many organizations. Extended financial planning and forecasting that delay decision making, financial drivers and metrics that don't align with strategies and the ownership of planning projections that often gets attached to finance adds to the frustration with many planning and forecasting functions. Dissatisfaction with financial planning often echoes across the organization from executives who can't trust the accuracy and outputs from the process to the front line managers who question the amount of time spent on activities supporting the analysis, making it imperative for finance to reassess and transform the value of the overall financial planning process. Companies that have addressed these challenges, recognize that reshaping the financial planning process to deliver value throughout the organization is important. Transformation and improvement extends well beyond reengineered processes and new financial planning systems into the organizations' overall management style and culture.

From a financial planning perspective, accountants are standardizing planning processes and implementing a best-of-breed technology solution which will help them respond effectively to changing competitive dynamics. The complexity of industry dynamics requires accountants to have much more robust capabilities to build out various scenarios of achieving financial sustainability which is a long-term goal that requires the concerted efforts of the entire organization: in strategic planning, in administration and finances, in fund raising policies, and in the planning and implementation of strategies that enable it to generate its own income. Although financial consultation faces many challenges, it is entering in a period called golden age in financial planning, a time of extraordinary opportunity, growth, prosperity and, better and more focused service to the community of financial consumers.

Making the right changes in financial-planning processes yield more than improved efficiency. Financial-planning process improvements can help accountants gain a better understanding of the business and make more informed decisions as a result. Creativity alone is not enough to achieve sustainability in financial planning; it is essential that organisation adopt the most advanced strategies and methods within its grasp to maximize the potential for success. It should no longer be an impossible dream. Achieving this goal is both a necessity and an obligation for organizations since it ensures the ability to accomplish the respective missions.

Naeem Akhtar Sheikh, FCA

Join the Discourse

This issue's topic is:

Why companies want to introduce new behaviors into organization?
A kind of Behavior Change that Stuck Around Forever …
What you think?

Asif Amin, ACA
Karachi (R # 7085)

As it is widely said that CHANGE is the only thing which is PERMANENT because it is a PROCESS, not an EVENT. Organizations in today's fast moving environment should embrace change as they will likely to lose their competitive edge if they fail to meet the internal and external demands. Simply asking the question "Why" can lead to innovative ideas and thoughts that can directly impact the organization's stance for competitiveness. Today, Innovation is not just about introducing new products; it also covers bringing behavioral change within and outside the organization. We have often heard that if we want to bring Change, we have to be willing to be uncomfortable. Organizations also brings innovation and behavioral change within the organization as it ultimately benefits the organization through increased commitment. Investing in people and making employees well-versed with the intended behavioral change requires an analysis of the tools and trainings to assist them learn new skills. By doing so organizations can meet the increasing demand of the market and fill the gaps between the skills required to respond to growth and current skills. 'They Say That Time Changes Things, But You Actually Have To Change Them Yourself' – Anoy Warhol.

Syed Zishan Haider Zaidi, FCA
Lahore (R # 2276)

Multinational Companies introduce new behaviors into organization to keep their leaders alive and judge the high potential/high achiever among their team members. Behavior change is very important to keep the people active & align with the fast growing environment and enhance the their capabilities & willingness to succeed in a variety of more complex roles, scope and in major stretch assignment.

Aamir Jan Muhammad, FCA
Karachi (R # 2632)

Like family upbringing traits shape up the personality of a person, in a same manner organizational behavior reflects in the attitude of employees i.e. they are institutionalized. We all behave differently under different situations, e.g. at home we are different, at work, with friends, during travel and so forth. You will find a way difference in behavior of a person with Army background, employee of a Government department and employee of a multinational company, mainly due to their working environment of their organization. In the nutshell, it's a continuous process of first instilling bench mark organizational behavior in the organization across the board as a base and then look for improvements rather than stuck around on the base forever. A wise man very rightly said that "if you are not improving every day, you are getting worse".

Khurram Amanullah, ACA
Kingdom of Saudi Arabia (R # 5213)

Change never comes without any reason. Change is not a single event; it does not occur overnight. Organizational behavior postulates that a manager's role is not to control workers, but to facilitate employee performance. The concept that people work for money only is not appropriately right in current scenario. Employees have certain other needs, for instance, contributing to organizational objectives, attaining a feeling of accomplishment, and using their creativity in the work environment. All these needs are completely dependent on the organizational environment. Change is defined as pervasive influence, where all aspects are subject to continual change of one form or another. An organizational change is a wider concept as compared to some small changes like replacing a person. Its drivers can vary from inside factors as well as outside factors. Examples can be change in vision, mission, objective of an organization, restructuring operations, new technologies, etc. or change in government, constitution, geopolitical environment. All these factors play an important role and can result an inevitable change in the organization behavior.

Shahbaz Farooq, ACA
Lahore (R # 7198)

Human Resource and Knowledge management are two key factors in determining success or failure of an organization. These two factors are also main ingredients of organizational behavior. Technological development, emerging markets, revised stakeholders requirements, social maturations, environmental changes, increase in global knowledge and continuously modifying local and international regulatory requirements are some of the critical components towards new behavior requirement in any organization. It's organizational behavior which decides how an organization consistently performs in existence of these critical external components. The introduction of new behavior allows organization's human resource to effectively and timely treat new external requirements, which not only enables the organization to remain competitive in terms of cost and value, but also allows it to ensure its sustainable performance. Nevertheless, the main issue doesn't lie in identification of need for behavior change but management of such new behavior introduction. Organizational behavior is dependent on rituals, beliefs and values of individuals and groups working in it. Unless management addresses these basic constituents, a mere introduction to new behavior may not allow organization to achieve core objectives of such new behavior.

Haroon Sulaman, ACA
Faisalabad (R # 5178)

Top management can do evolve new mindsets. Individuals, teams and entire organizations adapt, grow, and prepare for future challenges. They learn to change what they do and how they do it. As a result, they have grown bigger minds for solving bigger problems. The important elements are to ensure that your employees have the requisite skills and capabilities; use model of the desired behaviors yourself; Installing systems and processes which allows, encourage and monitor change. etc. Companies have no choice but to bring change. The world is moving and shifting fast and the top management knows it. They are applying their best to the structures, systems and processes to compete in the industry.

Fawad Hassan, ACA
Islamabad (R # 7108)

The behavioral change an organization pursues depends on what it wants to achieve through such change. A company may bring a behavioral change either when there is a change in top management followed by a change in its vision and mission or when it is envisaged by the sitting management that the current modus operandi is not bringing the desired results. Managing the organizational behavior is a smart tool which will help entrepreneur to steer organization in such a manner that could bring an on card business idea to reality. Our present Government, being allied by lot of finest business minds, must consider utilizing this tool to bring a revolutionary change in public sector since there is a dire need of behavioral change in public sector organizations.

Syed Imtiaz Abbas Hussain, FCA
Karachi (R # 1676)

Companies want to introduce new behaviors into their organization as existing behaviors have stuck up around their growth, diversification, profitability and HR development. So instead of concentrating on large and huge projects, hiring sophisticated HR with long term planning etc, they need to introduce behaviors which will be beneficial for future needs like HR development should not be compromised; Tax and levies avoiding attitude must be stopped for consistent growth and expansion of the company and team work attitude should be introduced to obtain reasonable growth and profitability.

Yasir Ahmad Hashmi, ACA
Dublin, Ireland (R # 6038)

Stand out of the crowd and you will get attention. People drive teams and teams drive organization. In the current era, competitive advantage, for an organization, can only be possible if it has vivid description of future and determination of cutting through red tape. Customer in this world is now well-informed and you really need something different to sell your product or service. Young babies like Facebook or Google are competing with the grand fathers, like IBM or Microsoft, of the industry. Why? Competitive advantage; changed behaviors towards everything around the organization - doing things differently. If people are not competitive or doing something really different, they are making their teams static and ultimately organizations as well. Look at Pakistani retail market; I cannot find out any retailer who really visioned, before Gourmet Foods, to provide reasonable quality at economical price. Everyone who brings quality charges premium; very few try to bring the quality from finest to reasonable and price from highest to reachable points. Nirala, one of the best confectionery brands in Pakistan few years ago, along with other small retail chains, is now being beaten by Gourmet Foods every day Gourmet Foods introduce a new product at economical price to its shelves. Though its a very old strategy around the globe Gourmet Foods is working on, but I think it is successful because its new in the Pakistani retail market. Some of you who have heard about Primark (Penneys) clothing & accessories brand in Europe, might realize that Gourmet Foods is doing the same in Pakistan with foods market- selling things at reachable prices and setting off costs of reasonable (not finest) quality through economies of large scale. These young successful organizations' people are generating new behaviors of competitive advantage within people, teams and then ultimately across organizations within their regions and world over. Therefore, every organization targeting competitive advantage, will always demand new and changed behaviors from its people.

Integrated Financial Planning

Fayyaz Amin Malik
FCMA, ACA

Planning

Planning is the management process of setting goals and formulating ways to achieve company's goals. It also involves identifying and gathering the required resources to achieve targets/goals. Normally, companies develop business plans after having strategic plans which may further be divided into financial, marketing and operational plans.

Strategic Plan	Business Plan	Financial Plan
Vision	Contents of Business Plan	Current Financing
Mission	• Background information	Funding Plan
Goals/Objectives	• Marketing Plan	Financial Forecast
Tools (SWOT, BSC)	• Operational Plan	• Balance Sheet
Resources	• Financial Plan	• Income Statement
Performance Reviews →	Background Info: →	• Cash flow
Timely Adjustment	➡ Status	Risk Analysis
Milestones	➡ History	Decision Making
Continuous Process	➡ Team	• Breakeven
	➡ Financial Structure	• NPV
		• IRR
		• BSC

Planning Process Exhibit 1

Integrated Business Planning

Integrated Financial Planning (IFP) is the part of Integrated Business Planning (IBP), and IBP is connecting the whole planning process within the organization using different tools, resources and Integrated Management Information Systems (IMIS).

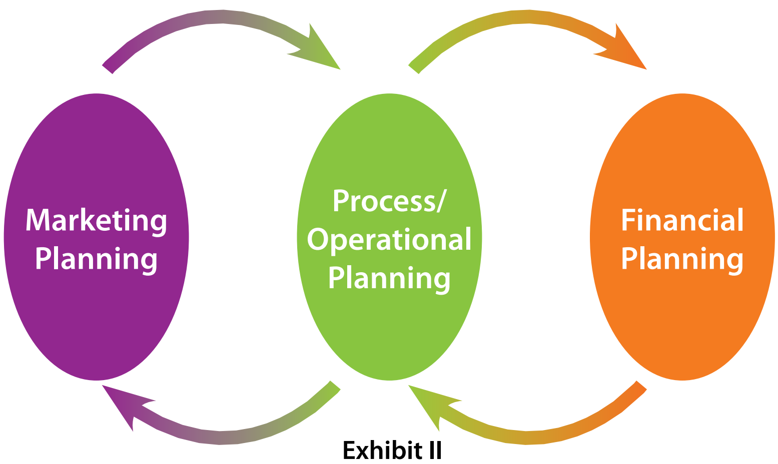


Exhibit II

Integrated Financial Planning

The understanding of Financial Planning (FP) is the key to Integrated Financial Planning. Basically, financial planning is achieving financial goals trough proper management of finances. In other words FP is a process by which an entity or a person can plan the timing and effectiveness of its financial decisions. What should be the financial goals? These goals can be derived from traditional financial decisions which include:

- Financing Decisions
- Investment Decisions
- Dividend Decisions

The goals which may be derived from these traditional kinds of decisions may have following categories:

- Changing the capital structure by retirement of debt
- Investment in Plant & Equipment by considering new technologies
- The extent of dividend declaration in respect of equity price

There is no formal definition of Financial Plan; however the whole financial planning process can be elaborated with the help of exhibit 1. Firstly, the current financing structure should be studied so that the new funding requirements if any may be addressed. After the evaluation of financing needs of an entity, the future forecast may be represented in the form of:

- Forecasted Balance Sheet
- Forecasted Income Statement
- Forecasted Cash flow

After forecasting model is done, a detailed risk analysis exercise may help to refine IFP. Risk analysis is an exercise through which those factors are identified and assessed which may adversely affect the IFP process.

The identification and measurement of key performance indicators should be the continuous process as a part of Integrated Financial Planning (IFP). The financial KPI's may include the following; the list is not exhaustive as some other KPI's may become the part of this list as a result of risk analysis.

- Product costing
- Activity Based costing/ management
- Profitability and variance analysis
- Transfer Pricing
- Performance Measurement
- ROI, ROA
- EVA

If, during risk analysis the management of an entity finds some factors, due to the changing environment or some other reason, and those has adversely affected the IFP, the linked KPI as mentioned above may be adjusted properly.

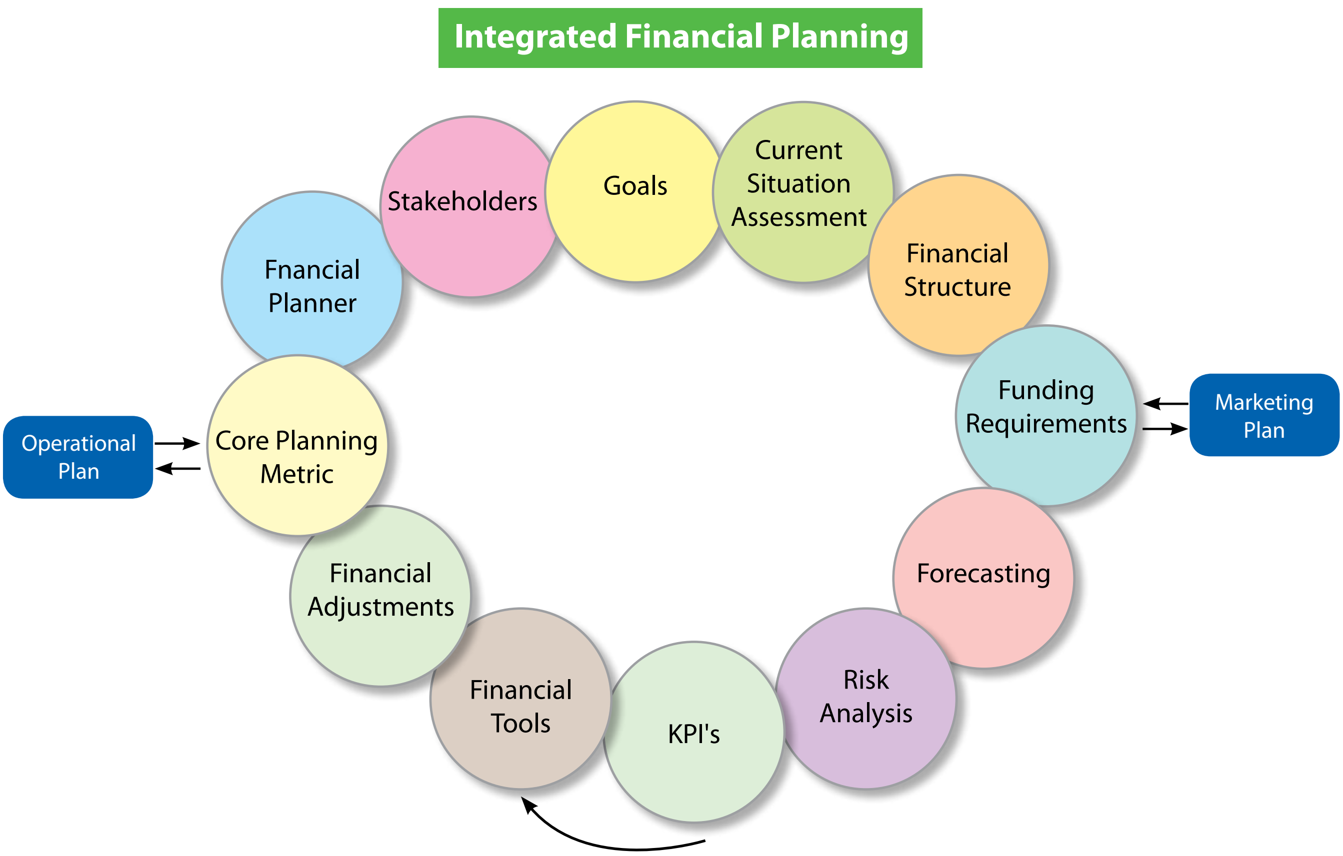


Exhibit III

Once KPI's are identified and measured, financial tools are used to make necessary adjustments to the IFP process in light of results of KPI's. The planned financial events are relatively easy to review, execute and adjust, the unplanned events like risk management, emergency fun, property health and other insurances should also be the part of financial plan. The success of IFP is also measured by performance metrics of an entity, which measure organization activities and performance. This is the reason that the core planning metric becomes the part of IFP as illustrated in Exhibit III. The core planning metric analyze and measure the:

- Revenue and profit growth
- Cash Flow
- Balance Sheet
- Market Share and Volume
- EPS
- ROE

The market share, market volume, EPS and ROE are performance indicators for prospective and current investors and market price is also the indication of wealth of shareholders. One of the core objectives of any organization is to maximize the wealth of shareholders.

As already discussed, Financial Plan has no formal definition; however its components may be summarized as follows:

1. Executive Summary
2. Major Assumptions
   - Internal
   - External
3. Operating Plan
   a. Revenue Plan
   b. Expense Plan
4. Capital Plan
   a. Commitments
   b. Facilities
   c. Arrangements
5. Liquidity Plan
6. Financing Plan
7. Summary

The development of financial plan is a result of some core financial planning activities, its integration with operational/ process and marketing plan summarize it as Integrated Financial Planning (IFP) and have following steps:

1. Assess the business environment
2. Confirm the business vision and objectives
3. Identify the types of resources needed to achieve these objectives
4. Quantify the amount of resource (labor, equipment, materials)
5. Calculate the total cost of each type of resource
6. Summarize the costs to create a budget
7. Identify any risks and issues with the budget set.

The formulation and continuous analysis of all the activities of IFP is a very technical and professional issue and requires the right kind of human resource, in Pakistan it is being done by professional accountant or business manager. In global scenario, these activities are performed by professional planner as affiliated with following institutes/ boards:

- Financial Planning Standard Board (FPSB)
- Financial Planning Association (FPA)
- Financial Planning Association of Australia (FPAA)
- Certified Financial Planning Board (CFP Board)

Stakeholders which include Government, Employees, customers, suppliers, creditors, community, Trade unions, owners and investors are the pillars of any entity and are part of Integrated Financial Planning (IFP) and IFP is designed on the basis of their needs, activities and views.

In the changing and dynamic global environment the IFP is supported by Integrated Financial Management Information System (IFMIS). United States Agency-International Development (USAID) has developed a practical guide with the name of Integrated Financial Management Information System (IFMIS). This guide is developed for transitional and developing countries and represents practical country cases of Slovak Republic, Kosovo, Kazakhstan, Uganda, Iraq and Vietnam. Though it is based on macro scale, however it provides an excellent basis for financial plans and management.

Non financial performance measures like Balanced Score Card (BSC) may also help financial planners in preparation of financial models and their execution and review. Balanced Score Card is a strategy tool which helps managers to keep track of activities and their review. BSC have four perspectives:

1. Financial
2. Customer
3. Internal Business Process
4. Learning and Growth

The financial aspect of BSC help financial planners in the Formulation of the Integrated Financial Planning Models.

Financial Planning & Analysis

M. Asad Mirza, ACA

Think as you work, for in the final analysis, your worth to your company comes not only in solving problems, but also in anticipating them'.

(Harold Wallace Ross)

The success of any organization depends on the effectiveness of its decision making process and this requires the availability of quality and up to date information. Due to this, planning and analysis (both financial and non-financial) is of supreme importance. Management wants excellence in what they do and that depends on ***'Effective at being Efficient'*** methodology and this is only possible with high-quality analytical information at hand. In other words, the paper in front is of such quality that ***'it speaks its self'*** even if no one is there to give the explanation.

Financial planning and analysis entails producing and providing management with accurate timely financial data related to business financial performance, quantitative and qualitative analysis and key performance indicators (KPI's) to support day to day business and investment decision making. It also includes providing business plan reports including budgets, strategic forecast plans including rolling forecast, feasibility studies etc to identify & interpret financial & non-financial risks in order to enable management to improve existing performance in line with business objectives. It drives the financial performance of the business through financial and commercial insights and support in developing commercially viable business decisions in alignment with strategic goals and objectives of the business.

An important constituent of financial planning is budgeting and forecasting. Budgeting includes developing innovative model that includes all financial and non-financial elements ranging from sales mix (no of units of each product to be sold), production mix and purchases of finished inventory for resale (no of units to be produced and imported to achieve sales), business financials including profitability analysis (gross profit, expenses planning including calculation of fixed & variable costs and breakeven point), capital expenditure budget and cash flows development. The budget can further be broken in to different categories like region wise, local and export business etc and this depends on the business requirement and reporting mechanism and complexity. Other qualitative factors to consider in budget preparation includes new product launch, marketing of existing products in new market niche, proposed application of new technological developments and advancements to gain competitive edge, development of unique selling point (USP) and discussion of critical success factors (CSF) etc. The management of good organizations relies heavily on budgets as it provides a yard stick against which the organization's actual performance is compared for the whole year.

Forecast budget is defined as 'estimated calculated budget' in its simplest terms. Forecast is made to align the existing business plan with realistic /current estimates and liaise with the management to ensure validity of business plan parameters & assumptions. Any changes that are not considered at the time of budget are considered in forecast in order to look at the more realistic picture. For example the public response for company's new product exceeded the company's expectation at the time of budget and this requires the sales revision in forecast to explain the changed circumstances. Had this been not done, there will always be a positive deviation in sales and shows an incorrect analysis.

The role of financial planning in investment/ divestment decisions and other business decisions i.e. business valuations, capital management using quantitative techniques like NPV, DCF, IRR and free cash flows is worth mentioning. The financial planning function interprets the risk, strategic cost and revenue implications and provides structured analysis to support decision making. It ascertains the financial and operational viability of the company for the above mentioned strategic decisions and also represent finance in meetings to evaluate performance of those decisions.

Financial analysis includes comparing actual performance against budget and forecast in order to ensure that where the organization is standing against the targets that were set at the beginning of the year. The management is responsible to keep a close eye on the performance as at the end of the year they are the ones who are going to answer the shareholders if profit and other targets are not made and company is not in a position to pay dividends. Shareholders are concerned primarily with dividends and capital gains and both of these form of remuneration for them depends heavily on the company's performance. It is therefore, imperative that the reporting and controlling function is of such highest quality as it do not only provides high-quality analytical information for effective decision making but also raises 'red flags' for the anticipated problem to the concerned stakeholders so that it can be solved in time without horrendous consequences for the organization. The most commonly used analysis includes horizontal and vertical analysis, trend analysis etc. Key performance indicators (KPIs) are also used for evaluation purposes. It includes CM, gross profit and expenses as % of sales, proportion of direct and indirect costs in total costs, assets turnover, ROCE %, receivable, payable and inventory turnover, EVA etc.

The availability of high quality information is of paramount importance for achieving brilliance in developing effective analysis. It is not only the financial information that is important but the significance of non-financial information cannot be undermined. Therefore, all the stakeholders ranging from sales, purchases, marketing, stores, payables etc are important and input from all of them are indispensable for the final output. The quality of information systems also plays a vital role in this as the f low of information will be smooth in a highly integrated system and all the required information are available on ***'one click'*** only.

In today's world of highly technological advancement where everything is getting integrated and automated, the financial planning cannot give the required results for the management unless all the processes are ***'integrated'*** and flawless, uninterrupted and dependable information is accessible for speedy and succinct decision making.

Financial Controller

A helping Hand

Farhan Abdul Latif, ACA
Aatira Mushtaq

The relative importance of different fields within the financial portfolios of companies has undergone a paradigm shift in the recent past. In an environment where Active Corporate Citizenship is of prime importance, the Chief Financial Officers (CFO) are forced to pay closer attention to the strategic fields of Investor Relations and Corporate Governance, giving rise to a new hero in the finance departments of contemporary firms – the Financial Controller (FC).

Financial Controllers are now deemed to be an operating backbone in most firms, and their role is synonymous to that of a **Financial Operating Officer**. In this capacity, the FC is designated with the tough task of ensuring that all remains well in the internal affairs of the company. They act as business partners per say to the Internal Stakeholders of the company. Hence, it can be safely inferred that while the CFO retains an overall supervisory function, his/her major attention is focused on maintaining and promoting stability and balance in the external affairs of the company.

The good governance stipulates that there must be succession planning for every key role within the organization; in this regard, the presence of an FC allows the Human Resource and Remuneration Committee to prepare someone capable of stepping into the shoes of the CFO in the event of need. While this dimension of the shifting paradigm is still not very popular in most companies (as evidenced by the Job Descriptions of their FC), an increasing number of organizations are working to include an internally agreed upon set of core competencies for selection and induction of individuals on this post.

The role of a Financial Controller can be segregated into various categories, with their individual relevance and significance in ensuring the success of the organization being a separate topic of discussion. A synopsis of the key categories is as follows:

a) **Management Reporting:** Facilitating management decision making by extracting data from a variety of sources and bringing it together in the form of a comprehensive analysis is the base upon which the FC role is built. While the CFO retains the overall ownership of such strategic information, the FC works to ensure the availability, reliability and accuracy of such information. The CFO, CEO, BOD and other members of the Top Management are the key stakeholders to which the FC is responsible in this capacity.

b) **Financial planning:** This is another area where the FC plays a significant role in coordination with CFOs; while the CFO provides strategic guidelines for financial planning, the FC ensures that finance team is mobilized and actions of different functions within finance department are in line with the company's strategic goals. Highlighting and changes needed in the Tactical Plans of the company to help ensure achievement of budgeted targets and setting out monitoring criteria to observe deviations if any that occur from the budget is the responsibility of the FC as well.

c) **Innovation and Control Watchdogs:** FC's are on a constant look out for innovative ideas, dedicating extensive time and effort in analyzing business transactions and defining internal control implications of activities to the Chief Financial Officer.

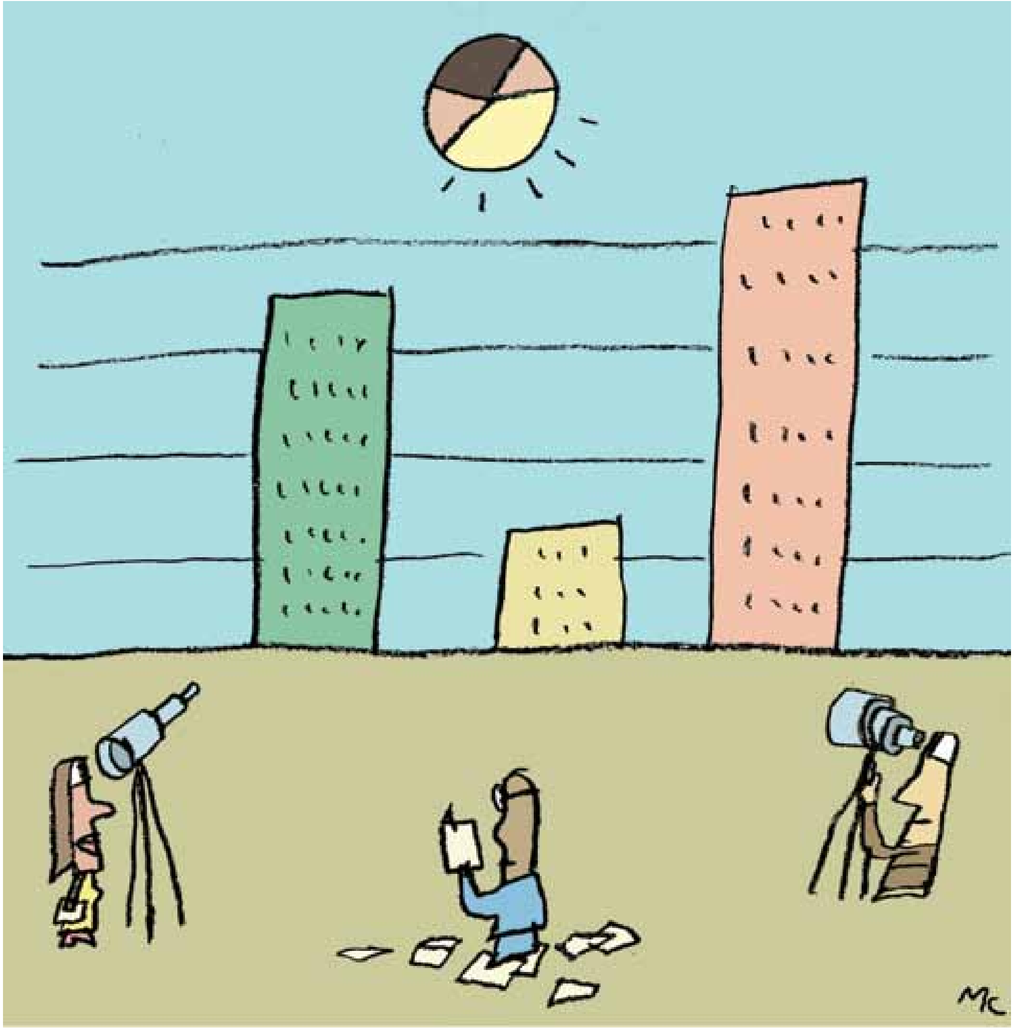
d) **Team Planning:** This is another area of focus of the FC; they must organize their team in such a way that they can work at a strategic level, delving into the depth of routine matters only if and when needed. Further, he must place the right people for taking over the right role taking into account the technicalities of their jobs and the pace of commercialization.

In sum, we can say that FCs spend a bulk of their time working as a helping hand to the CFO in ensuring the delivery of the company's strategy. Most companies use different strategic tools to track long term and short term goals; FCs play a key role in the execution and monitoring of these goals. A crucial illustration of this comes from the key role that Budgeting and Planning plays in the determination of forecasted profitability and sales of a firm. The Finance Department in this respect can monitor performance and line up corrective actions of different departments for the under achievement of forecasted growth and profitability.

There is much evidence that effective IT and other services can bring cost and quality benefits to the firm. However, finance departments need to ensure that these savings are re-invested to develop the decision support and value systems of business. There is opportunity for FCs to utilize these savings generated for betterment of processes and for application into more value added activities.

Hence, FC plays a significant role in both the organic and inorganic growth of the Company. Successful FCs are required to advice on potential acquisitions and ventures; this involves ensuring proper due diligence and appropriate valuation of the project. The FC is a critical member of the management team and is expected to contribute to the ongoing growth and success of the Company.

In sum while the role of the CFO and FC is not completely conjugal, there seems to be extensive coordination and linkage between the two roles and managing them effectively is critical to the success of every modern organization.



What do investors, analysts and other stakeholders like, hate — or ignore — in financial reports? Their answers may surprise you

By John Lorinc

A few words on statements

Kevin Dancey, ICAEW

Like all professional investors, Robert Floyd spends a lot of time poring over disclosure documents. And not surprisingly, the president of Birch Leaf Investments of Mississauga, Ont., has formed some trenchant opinions about what he finds in the deluge of quarter- lies, annual reports and proxy circulars that cross his desk.

He is indifferent to the self-congratulatory content about corporate social responsibility (CSR) and often skips over the boilerplate in the management discussion and analysis (MD&A) as well as overly detailed technical descriptions of marginal product lines — a hallmark of Nortel Networks' annual reports. "You tend to jump to the numbers," confesses Floyd, a certified financial analyst.

As for those numbers, even audited figures can prove vexing if the company hasn't fully explained how currency exchange rates figure in its calculations or which accounting assumptions go into deriving key financial measures that would allow Floyd to benchmark the firm against rivals. "When comparing companies, what you want to see is that companies are using similar [accounting] standards," he says. "If you're looking at any item, you have to understand how [it's] derived."

In the lingering aftermath of the 2008 credit crisis, many investors have nervously watched international capital markets heave and rock in what seems to be an endless cycle of surges and meltdowns. So crisp, user-friendly financial information has never been more important for investors spooked by the comatose US economy and the debt chaos in the Eurozone. But after a decade of post-Enron reforms coupled with the complex transition to international financial reporting standards (IFRS), there's mounting evidence that disclosure is becoming increasingly complex, despite efforts by the US Securities and Exchange Commission (SEC) and other regulators to encourage more plain-English reporting.

Certainly, large institutional shareholders are voicing their concerns. In August 2010, the Canadian Coalition for Good Governance fired a warning shot, calling on issuers to prepare simpler financial statements; to distinguish audited and unaudited information; to improve capital expenditure reporting by explaining more clearly how such investments relate to the company's core business; and to provide full disclosure of related-party transactions and other conflicts of interest. "Clear and plain disclosure is an effective and constructive communication tool that will ultimately lead to a better alignment of the interests of shareholders with the interests of the board and management," the group said.

Other observers share the coalition's frustrations. "The basic thrust of financial accounting is that it gets more and more complicated every day," says Karim Jamal, the CA distinguished chair in accounting at the Alberta School of Business at the University of Alberta and *CA magazine's* technical editor for education. IFRS alone could lead to a 50% to 60% increase in the length of notes to financial statements. "There's a broad level of concern among regulators that the average user can't read them," he says.

Which raises a thorny problem. Economists have long argued that transparency encourages the efficient allocation of resources in global capital markets. But in the post-Enron push for more and better disclosure, did securities regulators and accounting standards boards' unwittingly accomplish the opposite effect?

Investor needs vary greatly, so relevance is in the eye of the beholder. Nortel, for example, infamously packed its reports with arcana on insignificant product lines.

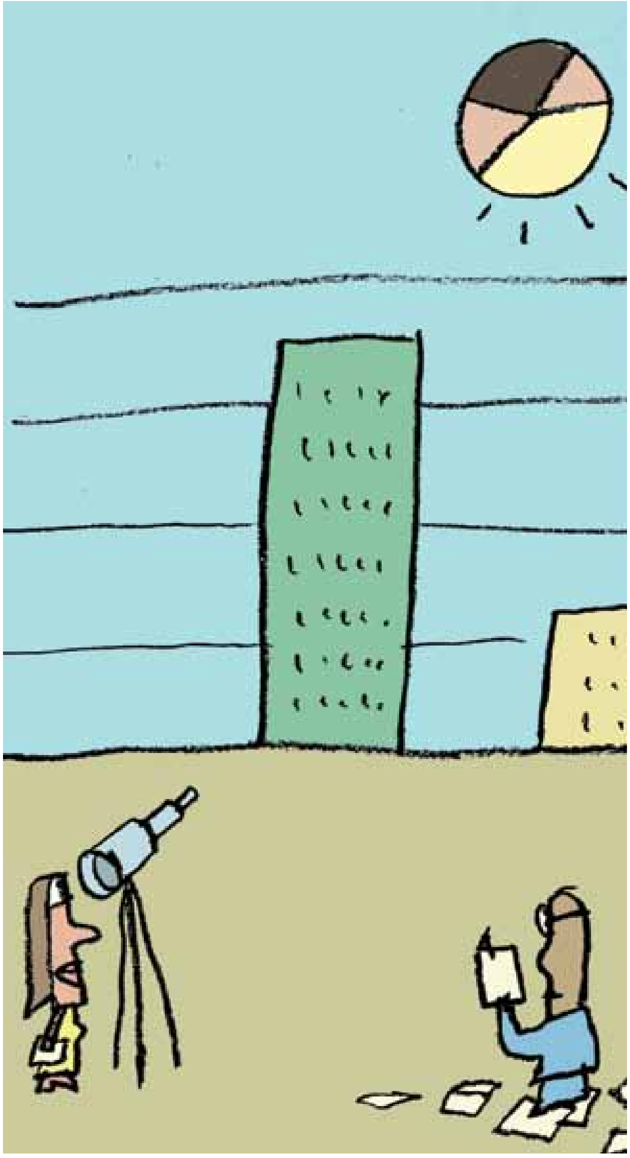
STRIPPED TO ITS ESSENCE, FINANCIAL REPORTING IS ABOUT STORYTELLING. How has a company performed over a given period and what, by inference, does that story say about the firm's future? But because reports are geared at a very diverse audience, the needs and interests of users vary greatly. Some investors focus on cash-flow metrics while others are drawn to the technical minutiae in the notes or the product-line descriptions. Companies, for their part, can only do so much to ward against misinterpretations. Indeed, like all narratives, these corporate stories can be told more or less compellingly. As Jamal says, "There's a difference between good writing and bad writing. It's not easy to communicate well."

Last year, the UK's Financial Reporting Council (FRC) broke open the simmering concerns about the usefulness of financial disclosure with a strongly worded report on the accumulation of "clutter" in annual reports, quarterlies and other reporting. Prepared by the Financial Reporting Review Panel and the Accounting Standards Board, "Cutting clutter: Combating clutter in annual reports" did not mince words about its diagnosis of the dilemma facing many investors: "Clutter," the report's sponsors wrote, "undermines the usefulness of annual reports and accounts by obscuring important information and inhibiting a clear understanding of the business and the issues that it faces."

Clutter, the FRC report said, describes a species of financial reporting that is dense with detail but ultimately reveals little about a company's performance. It includes immaterial disclosure that serves to obscure or inhibit interpretation of key information, as well as the accumulation of unchanging boilerplate language that piles up in a lot of disclosure documents. "Immaterial disclosures are remarkably common, for example detailed notes supporting line items that are small — often the case for share-based payments. However, reports also contain explanatory narrative information that is either wholly or largely unchanged from year to year. It is the changes that can often be illuminating but, without comparing the precise text, it is often difficult to identify them."

The FRC fingered a complicated dynamic that will be familiar to anyone who deals with publicly traded companies. Anxious about shareholder lawsuits and regulator scrutiny, some issuers and their legal advisers will err on the side of caution by over reporting, while auditors take a tick-box approach to compliance. "All of those involved in the annual report process are influenced by others' behaviours; the combined effect is often a barrier to cutting clutter," states the report.

In Canada in 2011, the adoption of IFRS has exacerbated the sense of confusion as companies reconcile historical financial information with restatements or recalculations arising from the new standards. On the transition issues, says *The Globe and Mail's* Streetwise columnist Boyd Erman, investors are adapting and recognize the importance of international standards for firms



competing in a global marketplace. "This happens," he says. "It's a pain in the butt to learn some new rules but it's no big deal." Accounting standards organizations, moreover, have sought to define immateriality and allow issuers to exclude IFRS-mandated information that doesn't directly bear on the company's performance.

But the reality is that investor expectations and needs vary greatly, so relevance is in the eye of the beholder. Floyd cites the example of drill core data that turns up in the disclosures of mining companies. He says mining analysts revel in this kind of granular technical detail. In a different sector, Nortel was infamous for packing its financial reports with highly detailed arcana about relatively insignificant product lines, the success or failure of which wouldn't make a big difference to the company's overall performance. Biotech and other early-stage R&D companies also tend to include highly detailed information about the commercialization process, often folding in minor developments as a new drug therapy, for example, inches its way through the regulatory approvals pipeline. In some cases, the proliferation of this kind of information may be intended to create a sense that an early-stage tech company is larger than it actually is. As a professional investor with less specialized knowledge, Floyd prefers to see management put this type of information into a broader corporate context with a discussion about the implications of the sample findings or new products.

When asked about overly detailed disclosure, analyst Craig Geoffrey, a University of Waterloo lecturer who used to run a small hedge fund, finds himself thinking about proxy circulars and corporate governance disclosure. Executive compensation has been a very hot topic in recent years, especially with poorly performing firms that continued to pay out large bonuses. But despite all the media hype about over-paid CEOs, Geoffrey isn't convinced that the information helps him make investment decisions. "I'm not sure that investors are focusing on the details of executive compensation."

Of course, others disagree. Floyd scrutinizes notes about the allocation of options, although he doesn't spend a huge amount of time on such data. "You want to see fair compensation but not egregious compensation," he says. "Is it important? Sure it's important. You want to know if the CEO or senior executives are milking the company." According to Jamal, executive compensation disclosure could and should be much more transparent: "If they wanted to, they could make it relatively transparent. But they don't want to."

For Mike Lyons, chief investment officer for Lyons Asset Management Inc. in Oakville, Ont., the main concern isn't so much about clutter as it is about reliability and precision. An accountant and CFA, Lyons focuses his attention on a company's cash flow, receivables, inventories and liabilities, as well as the dividend stream. "The real issue is, how much cash is this company generating?" he says.

In his view, the asset side of the balance sheet is more problematic for many public companies because those figures rely heavily on accounting and valuation estimates. "I'm a CA," he says. "My problem is knowing how much estimation there is in some of the numbers in the financial statements."

Indeed, when assessing a company for its investment potential, Lyons takes balance-sheet figures for goodwill, land values and equipment with a grain of salt because the actual value for such assets doesn't really become apparent until the company attempts to sell them. "That's where you get into fake precision debates," he says.

The standard auditor's report, attached to financial statements, creates its own skepticism, even though auditors now can be held liable for their judgments. The investors interviewed for this story agreed they'd prefer to see external auditors looking for fraud or other forms of calculated mismanagement rather than just confirm numbers. In fact, Geoffrey says, less-sophisticated investors may overestimate the value of the audit because they don't understand the limitations of the sampling process.

THE OBFUSCATION ANALYSTS *Is there a link between the clarity of disclosure and financial performance?*

Feng Li, Ernst & Young associate professor of accounting at the University of Michigan's Ross School of Business, has pioneered the technique of applying linguistic analysis methods to tens of thousands of disclosure documents to gauge readability. His goal: to determine if there's a relationship between annual report readability and future performance. "If disclosure readability is strategically used by managers to hide adverse information, a relationship between firm performance and readability would be expected," he observed in a 2006 working paper.

Indeed, when analyzing sentence lengths and word choices, Li found that firms with lower earnings tend to file annual reports that are more difficult to understand. He discovered a similar link between readability and the performance consistency over time. In another University of Michigan study, published in 2011, Li and two colleagues discovered that firms with less readable 10-Ks attract less accurate analyst earnings forecasts and a greater dispersion of shares.

His analysis also shows that executives in poorly performing firms may deliberately make their disclosure more opaque in order to drive up the cost of analysis as a means of protecting the share price. By contrast, strongly performing companies have an incentive to be clear in their reporting as a way of signaling investors that they're a safe bet. "While the SEC may be worried about boilerplate legalese, perhaps what's more relevant to investors is possible management obfuscation," the working paper states. For companies that lace their reporting with dense legal language, adds Karim Jamal, CA distinguished chair in accounting at the Alberta School of Business at the University of Alberta, the inference is that "they're being cautious and don't want to give" the information.

Alastair Lawrence, assistant professor in the Haas School of Business at the University of California, Berkeley, pressed the connection further while completing a doctoral thesis at the Rotman School of Management at the University of Toronto on whether individual investors invest more in firms with readable, concise and transparent financial disclosures. Relying on discount brokerage data, he found that individual investors and institutions prefer to buy shares in firms with "readable, concise and transparent disclosures." His research was the first study to link individuals' investment returns with the quality of financial disclosures.

Lawrence says, "If individuals are not grasping the information, they're disadvantaged." While his research was based on investment data from the 1990s, the question of disclosure accessibility, in his view, has only grown more relevant: "The golden question is, what is the ideal disclosure environment for all investors?"

—JL

The other category of disclosure information that receives less-than-stellar grades involves the push in recent years toward a more quantified assessment of a company's environmental and social record. As the horrific BP oil spill in the Gulf of Mexico in 2010 demonstrated, the financial consequences of environmental disasters can be enormous; therefore a risk assessment is critical for investors. As BP's 2010 annual report notes, the company is in the process of paying out US$30 billion to make amends to the victims of the Deepwater Horizon disaster. Whether BP shareholders realized the sheer magnitude of the risk to which they were exposed is another matter. Despite such disasters, some investors view sustainability and CSR as a way for a company with a poor environmental track record to show it is trying to be a good corporate citizen, and see the data in such reporting as extraneous to hard-nosed decision-making.

It's an attitude that seems to prevail among some business journalists. John Daly, veteran editor and investment writer at *The Globe and Mail*, says such content tends to serve as a distraction. As he notes, "A lot of journalists go straight to the 10-K and the black-and-white information." Erman agrees: "I'm a pretty hardcore cash-flow statement, financial-ratios kind of guy," he notes, adding that discussions about CSR data almost never come up when he talks to analysts and investors.

Others argue that CSR tends to get ignored for a different reason. Citing KPMG's international fraud surveys, Duff Conacher, founding director of Democracy Watch, says the SEC has tougher standards than Canada does when it comes to forcing publicly traded firms to reveal incidents that could have a material impact on performance, such as corporate fraud. "Investors would be much less likely to invest in such companies," he says.

Shareholder exposure to environmental disasters and fraud isn't the only sort of risk not fully accounted for in financial reporting. Geoffrey points out that companies such as banks or telecom giants fail to include a frank discussion about regulatory risk in their disclosure documents. Case in point: the embattled Bank of America. The massive lender has been plagued by lawsuits claiming billions of dollars in damages, as well as questions about its foreclosures practices. In late August 2011, uber-investor Warren Buffett staked a US$5-billion bet on the company. But within days of Buffett's move, the Federal Housing Finance Agency whacked BofA with yet another lawsuit, claiming it misled publicly owned lending organizations about the quality of loans it had packaged and sold.

Geoffrey also says most bank disclosures in particular tend to be silent on the impact of new international banking rules on their operations and key metrics, such as liquidity ratios. "I think you see the bare minimum based on what they have to tell," he says. "But if there's a major regulatory risk, that should be disclosed and tied into the balance sheet."

But the move toward much more detail in the notes to the financial statements does help investors assess other forms of risk, such as currency fluctuations and their impact on commodity fluctuations, or contingent liabilities such as the value of a long-term lease on a manufacturing facility. As Geoffrey points out, if a company decides to change its production methods, that lease can become a financial millstone.

Analysts and sophisticated investors also say they benefit now that notes to financial statements include raw data and explanations about how certain values have been derived so the calculations can be verified independently. "Most people don't bother undoing aggressive accounting so companies can get away with it," says Partha Mohanram, the CGA Ontario professor of financial accounting and associate professor at the Rotman School of Management at the University of Toronto. "Now at least you can blame investors for not doing their homework."

Yet despite the masses of additional information in financial reports as well as the move to IFRS, some types of performance content don't appear consistently in the disclosure documents. Some companies, for example, include segmented market data while others do not, while many offer it up in response to questions on quarterly conference calls for analysts and the financial press. Geoffrey recalls listening in on such a call with Alcoa, a US-based aluminum-production company. In response to one question, the executives on the call began talking about their operations in Russia and South America, offering information that he knew wasn't part of the firm's disclosure documents. "That's information investors would love," he says.

But while some larger companies post digital recordings or transcripts of those calls on their websites, it is not a universal practice, which means those on the conference calls have a leg up on ordinary investors. Geoffrey says the transcripts should become part of the System for Electronic Document Analysis and Retrieval database of financial documents. But Lyons points out that with segmented data, consistency over time can be a concern for investors looking for reliable information.

DALY TELLS A REVEALING STORY ABOUT A RIDDLE AT THE core of a feature about Barrick Gold Corp. *The Globe's Report on Business* magazine had dug into some of the problems at one of the company's African mines. To round out the coverage, the magazine wanted to figure out how much that particular mine earned — a task that proved to be "incredibly difficult," Daly explains. "It's a fairly simple question — how profitable is this mine? But it was tough to answer even though there's a ton of detail in these reports."

Mining companies, in Daly's experience, pack their disclosure documents with technical detail aimed at analysts and geologists. But the information can be impenetrable for a general reader, he says, noting that companies often foreground different income measures to gauge profitability: some focus on EBITDA while others, such as the dot-com firms of the late 1990s, like to talk about operating earnings. Erman adds that some firms, such as TD Bank, rely on "made-up measures" such as return on invested capital instead. "Companies will always invent metrics that show them in the best light," he says. "I'm afraid that won't change."

Yet the difficulty of comparing organizations that rely on different or exotic accounting measures sometimes isn't just a mathematical riddle. Often, says Daly, companies seem to deploy complexity to obfuscate. As Jamal says, the increasing complexity in corporate disclosure sorts investors into two broad groups: those who can make sense of all the information and those who can't.

Complicated information forces some investors to rely more on equity analysts and large institutional funds. Indeed, such disclosure means that research firms and fund companies can recoup their investment in analysts with the skills to decipher the notes and recalculate the numbers. Less savvy individual investors, meanwhile, gravitate toward companies with straightforward financial reports. This division poses a dilemma for regulators, Jamal adds; "From a regulatory point of view, are they protecting the small investor and the integrity of the market?"

IN ITS REPORT ON CURBING CLUTTER, the FRC proposes a few basic approaches for companies looking to clarify the content of their disclosure. At the beginning of the process for generating an annual report, the authors say, investor relations officials should aim to answer some fundamental questions, among them: what are the overall objectives, tone and areas of focus? Is there a consensus on what constitutes materiality and how to reduce clutter associated with trivial or boilerplate disclosure? Who will be responsible for vetting the annual report for consistency with these objectives? And what are the plans for communicating more effectively? The FRC also recommends senior managers devise a way to monitor the ongoing development of the annual report with an eye to reducing duplication and calibrating discussions of risk factors so they reflect the significance to the overall health of the company.

But will such changes make the world better and safer for small investors? Not everyone is convinced by the anti-clutter/ pro-readability arguments. "I don't think the problem is of too much or too little information," says Mohanram. "The problem is that people aren't using the information correctly. There's a huge amount of research that shows that people ignore more of what's in the footnotes."

Erman says he's not distracted by clutter, arguing that investors eventually figure out how to navigate through the maze of information that flows out of a publicly traded firm. "People will adapt," he says.

As Jamal points out, much depends on an individual company's corporate culture and its willingness to be as frank and open with investors as possible. In fact, despite the persuasive efforts of regulators and professional bodies such as the CICA, which hand out annual awards to the issuers with the best financial reporting, the matter of the readability of corporate disclosure documents won't be resolved any time soon. After all, corporations often have complicated and messy stories to tell. "Everyone wants life to fit into an Excel spreadsheet," says Mohanram. "Unfortunately, that's not the way the world works because each firm is different."

John Lorinc is a Toronto-based writer.

Modifications in the Standard Audit Report

Mansoor Zia

Audit report represents the end product of the auditor's examination of his client's financial statements.

In normal circumstances standard audit report, as prescribed by the Securities and Exchange Commission of Pakistan in Form 35-A, is issued by the auditor on the financial statements audited by him. The standard audit report provides a positive opinion with reasonable assurance that the financial statements give a true and fair view of the state of the company's affairs as of certain date and of profit/loss, its cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

However, there may be circumstances in which the auditor may require to modify the standard report due to unusual or abnormal circumstances highlighted during the course of audit.

The auditor would modify his report on the matters that do not affect his opinion or modify his report on the matters that do affect his opinion.

Matters that do not affect the auditor's opinion

In the following circumstances the auditor would modify his report by adding an emphasis of matters paragraph following Zakat paragraph of the standard report drawing attention of the reader to the note that more extensively discusses the matter affecting the financial statements:

1. Where substantial doubt exists with respect to entity's ability to continue as a going concern.
2. Where significant uncertainty other than (a) above exists, the resolution of which depend upon future events which may affect the financial statements.

Matters that do affect the auditor's opinion

In the following circumstances the auditor would modify his report by expressing a qualified, adverse opinion or disclaimer:

1. Where sufficient appropriate audit evidence lacks or audit scope is significantly limited (scope limitations).
2. Where financial statements are materially non compliant in compliance with the Companies Ordinance, 1984 or IFRS/AFRS (departures from approved accounting standards as applicable in Pakistan).

1. Modification in the Standard Audit Report Regarding Going Concern Issues

An entity is said to be a going concern if it assumes to continue its operating activities for a foreseeable future, at least one year from the date of balance sheet, and is solvent.

In normal circumstances auditor is not required to evaluate entity's ability to continue as going concern but if conditions and events which may cast significant doubt on the entity's ability to continue as a going concern exists, he must evaluate the entity's ability to continue as a going concern and considers whether management's plans for dealing with the conditions and events causing the uncertainty are likely to negate the problem (Appendices I & II).

If after evaluating management's plans substantial doubt still exists, the notes to the financial statements must adequately disclose the going concern problem and management's plans to mitigate the problem (Appendix III).

If analysis of management's plans convinces the auditor that substantial doubt does not exist, he/she still should consider the adequacy of financial statements note disclosures related to the matter (Appendix III).

If the management refuses to make disclosures or limit the disclosures (inadequate disclosures) in the notes to the financial statements regarding going concern problem, the auditor should consider modifying the report by qualifying the opinion (Appendix IV).

If after evaluating management's plans and conditions and events the auditor concluded that the financial statements have been inappropriately prepared on a going concern assumption, he/she should express an adverse opinion on the financial statements (Appendix V).

2. Modification in the Standard Audit Report Regarding Significant Uncertainty

"An uncertainty is a matter whose outcome depends on future actions or events not under the direct control of the entity but that may affect the financial statements"

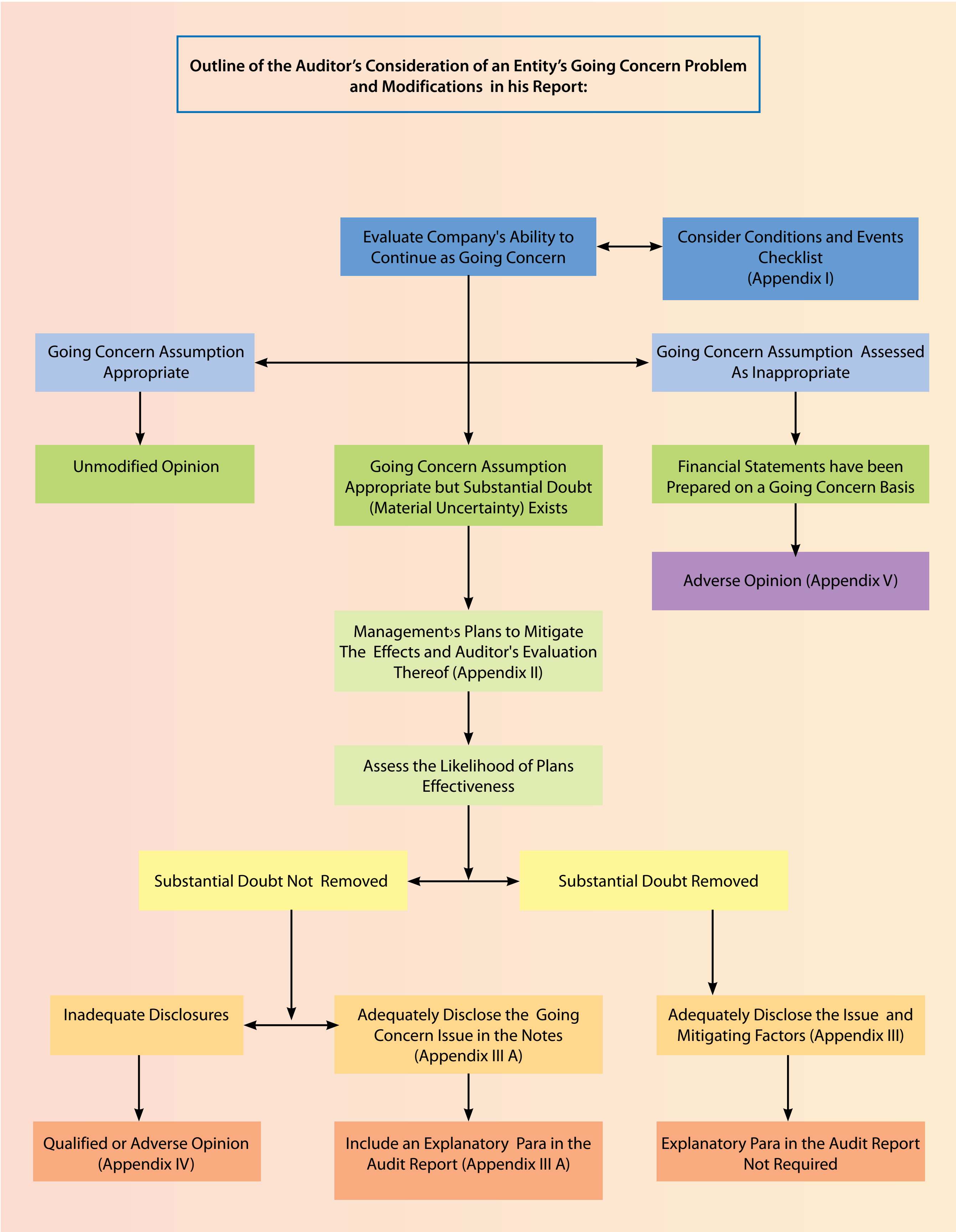
The auditor should consider modifying the report by adding an emphasis of matter paragraph with respect to a significant uncertainty (usually explained under contingency note) following Zakat paragraph.

Uncertainty may exist with respect to the following:

a) The outcome of a major litigation.
b) The outcome of negotiation for significant financial support.
c) The effect of political unrest in a foreign country where assets are held.
d) The effect of labour union negotiation which might lead to the company closing significant part of its operations.

An illustration of a matter paragraph for a significant uncertainty in an auditor's report (para 8 of ISA 701)

"Without qualifying our opinion we draw attention to Note Z to the financial statements. The Company is the defendant in a lawsuit alleging infringement of certain patent rights and claiming royalties and punitive damages. The Company has filed a counter action, and preliminary hearings and discovery proceedings on both actions are in progress. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements."


Outline of the Auditor's Consideration of an Entity's Going Concern Problem and Modifications in his Report:
Evaluate Company's Ability to Continue as Going Concern
Consider Conditions and Events Checklist (Appendix I)
Going Concern Assumption Appropriate
Going Concern Assumption Assessed As Inappropriate
Unmodified Opinion
Going Concern Assumption Appropriate but Substantial Doubt (Material Uncertainty) Exists
Financial Statements have been Prepared on a Going Concern Basis
Adverse Opinion (Appendix V)
Management›s Plans to Mitigate The Effects and Auditor's Evaluation Thereof (Appendix II)
Assess the Likelihood of Plans Effectiveness
Substantial Doubt Not Removed
Substantial Doubt Removed
Inadequate Disclosures
Adequately Disclose the Going Concern Issue in the Notes (Appendix III A)
Adequately Disclose the Issue and Mitigating Factors (Appendix III)
Qualified or Adverse Opinion (Appendix IV)
Include an Explanatory Para in the Audit Report (Appendix III A)
Explanatory Para in the Audit Report Not Required

APPENDIX I

Conditions and Events which may Cast Significant Doubt on the Entity's Ability to Continue as Going Concern

A) **Negative Trends**
1. Recurring operating losses.
2. Working capital deficiencies.
3. Negative cash flows from operations.
4. Poor key financial ratios.

B) **Financial difficulties**
1. Default in loans.
2. Unpaid or discontinuance of dividends.
3. Denial of normal trade credits by suppliers.
4. Debts restructuring or inability to comply with the terms of loan agreement.
5. Non compliance with statutory capital requirement or other statutory requirements.

C) **Internal matters**
1. Labour difficulties/problems.
2. Dependence on the success of one project.
3. Loss of key personnel without replacement.
4. Need of significantly revised operations.

D) **External matters**
1. Pending litigation against the company.
2. Loss of key franchise, license or patents.
3. Loss of principal customer or supplier without replacement.
4. Under or uninsured risks.

APPENDIX II

Management's Plans to Mitigate the Effects of Substantial Doubt and Auditor's Evaluation thereof

When substantial doubt is raised, the auditor should obtain information about the management's plans and consider whether the plans for dealing with the conditions and events causing the uncertainty are likely to mitigate the doubts and the plans can be effectively implemented.

The management's plans may include:

1. **Plans to Dispose of Assets**

   Auditor consideration may include:
   a) Restrictions on disposals if any, such as covenants in loan agreements or encumbrances;
   b) Marketability of the assets to be sold;
   c) Direct or indirect effects of disposal.

2. **Plans to Borrow Money or Re-structure Debt**

   Auditor consideration may include:
   a) Availability of debt financing including credit arrangements e.g sale and lease-back;
   b) Commitment by financier for arranging debt restructuring or commitments to guarantee loans to the company.
   c) Current restrictions on borrowings or the sufficiency of available collateral.

3. **Plans to increase ownership equity**

   Auditor consideration may include:
   a) Feasibility of such plans
   b) Effect of increase in capital on dividend policy

APPENDIX III

Disclosures in the Notes to the Financial Statements

1. **After Evaluating Management's Plans, Substantial Doubt (material uncertainty) Still Exists**

   a) The notes to the financial statements must adequately disclose:
      i) The principal events or conditions that give rise to the significant doubt on the entity's ability to continue as a going concern, and
      ii) Management's plans to deal with these events or conditions.

   b) The notes should also state clearly that there is material uncertainty related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the ordinary course of business.

The note should preferably inserted before significant accounting policies note to the financial statements (Appendix III-A).

If the auditor is satisfied as to the adequacy of disclosures, as above, he/she should express an unqualified opinion but modify the report by adding an emphasis of matter paragraph following Zakat paragraph highlighting the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern and draws attention to the note concerning going concern issues (Appendix III-A).

2. **After Evaluating Management's Plans, Substantial Doubt (Material Uncertainty) is Removed**

If the substantial doubt is mitigated because of the consideration of management's plans, the auditor should consider disclosure of principal conditions and events that led to the belief that a substantial doubt existed, their possible effects and any factors including management's plans which are likely to negate the problem.

No emphasis of matter paragraph in auditor's report is added.

APPENDIX III-A

Adequate Disclosures in the Notes Regarding Existence of Going Concern Problem

Note Z – Going Concern Issue

The company has been suffering recurring operating losses which eroded its paid up capital. Its current liabilities exceeded its current assets by Rs. XX. The Company's plant is also not fully operational due to labour issues resulting in contraction of trading activities. These factors may cast substantial doubt on the company's ability to continue as a going concern and therefore may not be able to realize its assets and discharge its liabilities in the ordinary course of business.

However, the management has taken drastic action to mitigate these negative factors which include sincere efforts for successful negotiation with the trade union and making arrangement for short term finances with the company's bankers to boost production to the plant's capacity.

Emphasis of Matter Paragraph in Audit Report

Without qualifying our opinion, we draw attention to Note Z to the financial statements

As discussed in Note Z, the Company has suffered recurring losses from operations which resulted in net capital deficiency of Rs. XX as at June 30,201X. Its working capital deficiency also has increased substantially to the extent of Rs. XX as at June 30,201X. These conditions along with other matters mentioned in note Z raises substantial doubt that the company will be able to continue as a going concern.

The financial statements have been prepared on a going concern basis, which assumes that the company would be able to negotiate successfully with the trade union and to obtain financial support from its bankers.

APPENDIX IV

If Adequate Disclosure Regarding Going Concern Problem is not made, A Qualified Opinion is Expressed

Explanatory Paragraph in the Audit Report Following the Scope Paragraph:

………after due verification, we report that:

a) The notes to the company's financial statements do not disclose (or do not adequately disclose) that there is material uncertainty related to the principal events or conditions that give rise to the significant doubt on the company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the ordinary course of business. The notes also do not clearly state the management's plans to deal with these events or conditions.

In our opinion, disclosure of this information is required by the approved accounting standards as applicable in Pakistan.

Opinion paragraph:

Except for the omission of the information included in paragraph (a), in our opinion and to the best of our information………..(remaining words are same as in the standard report).

APPENDIX V

If Financial Statements have been Inappropriately Prepared on a Going Concern Basis - Adverse Opinion is Expressed

Explanatory Paragraph in the Audit Report Following the Scope Paragraph:

……..after due verification, we report that:

a) As indicative from note ZZ to the financial statements, the company is no more a going concern as it has ceased its operating activities since 201X and has accumulated losses of Rs. XX and net working capital deficiency of Rs. XX as at June 30, 201X. Consequently adjustment to the recorded assets and classification of liabilities need to be made by bringing the company's assets to their fair values and its liabilities at present values. However, the financial statements have been prepared on a going concern basis which is inappropriate under the circumstances. In the absence of the availability of fair values of assets and present values of liabilities, the monetary effects on the Company's financial statements, as a whole, cannot be determined.

In our opinion, because of the matters discussed in paragraph (a) above, the balance sheet, profit and loss account, statement of cash flows and the statement of changes in equity together with the notes forming part thereof, do not conform with the approved accounting standards as applicable in Pakistan and do not give the information required by the Companies Ordinance, 1984 in the manner so required and respectively do not give a true and fair view…….

(remaining words are same as in the standard report).

In our opinion………(Zakat paragraph).

(Note ZZ not produced)

Modifications in the Standard Audit Report With Respect to Scope Limitations and Departures from Approved Accounting Standards.

Scope Limitation

Auditor would modify the standard audit report when he is unable to issue an unqualified opinion on the financial statements due to limitations on his scope of work either imposed by client or by circumstances.

1. **Limitations imposed by the client**

   The scope of the examination may be significantly limited by the client so that the auditor is unable to apply audit procedures considered necessary or is unable to obtain sufficient appropriate audit evidence. For example the client does not allow the auditor to circularize debtors/creditors balances or to observing physical stock taking.

2. **Limitations imposed by circumstances**

   Circumstances- imposed limitations refer to the situation where the auditor is unable to apply audit procedures due to timing of the work or weak internal control which may make it impossible for the auditor to perform the audit. For example, the auditor may be engaged after the year end physical inventory or inadequacy of the accounting records.

Under the above (1) and (2) circumstances, the auditor would modify his report by either expressing a qualified opinion or would disclaim an opinion on the financial statements. However, if adequate alternative procedures available, the limitation itself will not lead to a qualified report or a disclaimer.

A qualified opinion is expressed when the matter or an amount is material but not pervasive to the financial statements (Appendix A). If the matter or an amount is both material and pervasive, disclaimer of opinion is expressed by the auditor (Appendix B).

Departures from Approved Accounting Standards

Auditor would modify the standard audit report when he is unable to issue an unqualified opinion on the financial statements due to disagreement with client's management over-

i) The choice of an accounting policy, the method of its application and disclosures in the financial statements;

ii) Disclosure of an item in the notes to the financial statements;

iii) Non-compliance with the requirements of the Companies Ordinance, 1984 or IFRS/AFRS or the local laws.

Under the circumstances, the auditor would modify his report by either expressing a qualified opinion or would express an adverse opinion on the financial statements.

A qualified opinion is expressed when the matter or an amount is material but not pervasive to the financial statements (Appendix C). However, if the matter or an amount is both material and pervasive to the financial statements, adverse opinion is expressed by the auditor (Appendix D).

The scope limitation or insufficiency of evidence is not explained in a note to the financial statements because the description is the responsibility of the auditor.

Appendix A

Scope Limitation Qualified

When a qualified opinion results from a scope limitations or insufficient evidence, the situation is disclosed in an explanatory paragraph following the scope paragraph and referred to in the opinion paragraph. The scope paragraph is modified as under:

Except as discussed in the paragraph (a) below, we conducted our audit ……. (remaining words are same as in the standard report).

Explanatory paragraph:

a) We were unable to physically verify the quantity of stocks of Rs. XX as of June 30, 20IX as we were engaged subsequent to that date. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to the stock quantities by other audit procedures.

Reference in the opinion paragraph:

Except for the effect of such adjustment, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the stock quantities by other audit procedures, in our opinion…….(remaining words are same as in the standard report).

Appendix B

Scope Limitation Disclaimer

When a disclaimer of opinion is expressed due to scope limitation the last sentence in the second paragraph of the standard report "our responsibility…"should be omitted from the standard report. Scope paragraph of the standard report is also omitted.

Auditor's Report to the Members

We have audited the annexed………(Standard audit report wordings).
It is the responsibility………(Standard audit report wordings but omit "our responsibility ……….).
Omit the scope paragraph "We conducted our audit…………

Insert explanatory paragraph:

"The Company has not physically counted its stock as at June 30, 20IX stated in the financial statements at Rs. XX. Further we were unable to circularize debtors and creditors amounting to Rs. XX and Rs. XX respectively for balance confirmations. Due to the inadequacy of the accounting records we were not able to apply other auditing procedures to satisfy ourselves as to the stock quantities and existence and valuation of debtors and creditors. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements."

In our opinion……….. (Zakat paragraph).

Appendix C

Departures from Approved Accounting Standards Qualified

If the departures from approved accounting standards consist of inadequate disclosures of required information, the correct and complete information, if available, should be included in an explanatory paragraph which precedes the qualified opinion paragraph. When the information is not available, the explanatory paragraph of the report should so state.

Explanatory Paragraph in the Audit Report Following the Scope Paragraph

……….and, after due verification, we report that:

a) The Company's policy is to recognize gratuity expense at the time of payment which, in our opinion, should be recognized when the gratuity is earned by the employees on a daily basis in order to conform with the approved accounting standards.

If the gratuity was provided on accrual basis, deferred liability would have been Rs. XX and the unappropriated profit would have been reduced by the same amount. Further, the net profit for the year would have been less by Rs. XX and earnings per share would have been less by Rs. X.

Other paragraphs are same as per standard report.

Opinion paragraph:

Except for the effect of the matters described in (a) above, in our opinion…………
(remaining wordings as per standard report)
In our opinion ……(Zakat paragraph)

Appendix D

Adverse Opinion on Departures from Approved Accounting Standards

The introductory and scope paragraphs remain unchanged. The opinion paragraph should directly refer to a separate note, if any, to the financial statements disclosing the basis for the adverse opinion.

Explanatory Paragraph in the Audit Report Following the Scope Paragraph:

a) As disclosed in the accounting policy notes to the financial statements, the Company does not provide for gratuity on accrual basis. Also the Company has not measured its available-for-sale investments at fair value but at cost. Further, the Company has not provided for doubtful debt of a major customer who went bankrupt during the year.

Approved Accounting Standards require that gratuity to be provided on accrual basis and deferred, available-for-sale investment be measured at fair value and adequate provision be made against doubtful debts.

Because of the departures from approved accounting standards identified above, as at June 30, 20IX, deferred gratuity liability was understated by Rs. XX, available for sale investments have been increased by Rs. XX and trade debts have been overstated by Rs. XX; resulting in an increase of current year profit by Rs. XX and accumulated profit by Rs. XX.

In our opinion, because of the matters discussed in paragraph (a) above, the balance sheet, profit and loss account, statement of cash flows and the statement of changes in equity together with the notes forming part thereof, do not conform with the approved accounting standards as applicable in Pakistan and do not give the information required by the Companies Ordinance, 1984 in the manner so required and respectively do not give a true and fair view…….

(remaining words are same as in the standard report).

In our opinion………(Zakat paragraph).

PART 2

Modifications in the Standard Audit Report with Respect to Scope Limitations and Departures from Approved Accounting Standards

Scope Limitation

The standard audit report should be modified when the auditor is unable to express unqualified opinion on the financial statements due to the limitations on his scope of work either imposed by client or by circumstances.

1. **Limitations imposed by the client**
   The scope of the examination may be significantly limited by the client so that the auditor is unable to apply audit procedures considered necessary or is unable to obtain sufficient appropriate audit evidence. For example the client does not allow the auditor to circularize debtors/creditors balances or to observing physical stock taking.

2. **Limitations imposed by circumstances**
   Circumstances- imposed limitations refer to the situation where the auditor is unable to apply audit procedures due to timing of the work or weak internal control which may make it impossible for the auditor to perform the audit. For example, the auditor may be engaged after the year end physical inventory or inadequacy of the accounting records.

Under the above (1) and (2) circumstances, the auditor would modify the report by either expressing a qualified opinion or would disclaim an opinion on the financial statements. However, if adequate alternative procedures available, the limitation itself will not lead to a qualified report or a disclaimer.

A qualified opinion is expressed when the matter or an amount is material but not pervasive to the financial statements (Appendix A). If the matter or an amount is both material and pervasive, disclaimer of opinion is expressed by the auditor (Appendix B).

Departures from Approved Accounting Standards

Auditor would modify the standard audit report when he is unable to issue an unqualified opinion on the financial statements due to disagreement with client's management over-

i- The choice of an accounting policy, the method of its application and disclosures in the financial statements;

ii- Disclosure of an item in the notes to the financial statements;

iii- Non-compliance with the requirements of the Companies Ordinance, 1984 or IFRS/AFRS or the local laws.

Under the circumstances, the auditor would modify his report by either expressing a qualified opinion or would express an adverse opinion on the financial statements.

A qualified opinion is expressed when the matter or an amount is material but not pervasive to the financial statements (Appendix C). However, if the matter or an amount is both material and pervasive to the financial statements, adverse opinion is expressed by the auditor (Appendix D).

The scope limitation or insufficiency of evidence is not explained in a note to the financial statements because the description is the responsibility of the auditor.

Appendix A

Scope Limitation Qualified

When a qualified opinion results from a scope limitations or insufficient evidence, the situation is disclosed in an explanatory paragraph following the scope paragraph and referred to in the opinion paragraph. The scope paragraph is modified as under:

Except as discussed in the paragraph (a) below, we conducted our audit ……. (remaining words are same as in the standard report).

Explanatory paragraph:

a) We were unable to physically verify the quantity of stocks of Rs. XX as of June 30, 20IX as we were engaged subsequent to that date. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to the stock quantities by other audit procedures.

Reference in the opinion paragraph:

Except for the effect of such adjustment, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the stock quantities by other audit procedures, in our opinion…………..(remaining words are same as in the standard report).

Appendix B

Scope Limitation Disclaimer

When a disclaimer of opinion is expressed due to scope limitation the last sentence in the second paragraph of the standard report "our responsibility…"should be omitted from the standard report. Scope paragraph of the standard report is also omitted.

Auditor's Report to the Members

We have audited the annexed……….. (Standard audit report wordings).

It is the responsibility……… (Standard audit report wordings but omit "our responsibility ……….).

Omit the scope paragraph "We conducted our audit……………………

Insert explanatory paragraph:

"The Company has not physically counted its stock as at June 30, 20IX stated in the financial statements at Rs. XX. Further we were unable to circularize debtors and creditors amounting to Rs. XX and Rs. XX respectively for balance confirmations. Due to the inadequacy of the accounting records we were not able to apply other auditing procedures to satisfy ourselves as to the stock quantities and existence and valuation of debtors and creditors. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements."

In our opinion……….. (Zakat paragraph).

Appendix C

Departures from Approved Accounting Standards Qualified

If the departures from approved accounting standards consist of inadequate disclosures of required information, the correct and complete information, if available, should be included in an explanatory paragraph which precedes the qualified opinion paragraph. When the information is not available, the explanatory paragraph of the report should so state.

Explanatory Paragraph in the Audit Report Following the Scope Paragraph

……….and, after due verification, we report that:

a) The Company's policy is to recognize gratuity expense at the time of payment which, in our opinion, should be recognized when the gratuity is earned by the employees on a daily basis in order to conform with the approved accounting standards.

If the gratuity was provided on accrual basis, deferred liability would have been Rs. XX and the inappropriate profit would have been reduced by the same amount. Further, the net profit for the year would have been less by Rs. XX and earnings per share would have been less by Rs. X.

Other paragraphs are same as per standard report.

Opinion paragraph:

Except for the effect of the matters described in (a) above, in our opinion…………
(remaining wordings as per standard report)
In our opinion ……(Zakat paragraph)

Appendix D

Adverse Opinion on Departures from Approved Accounting Standards

The introductory and scope paragraphs remain unchanged. The opinion paragraph should directly refer to a separate note, if any, to the financial statements disclosing the basis for the adverse opinion.

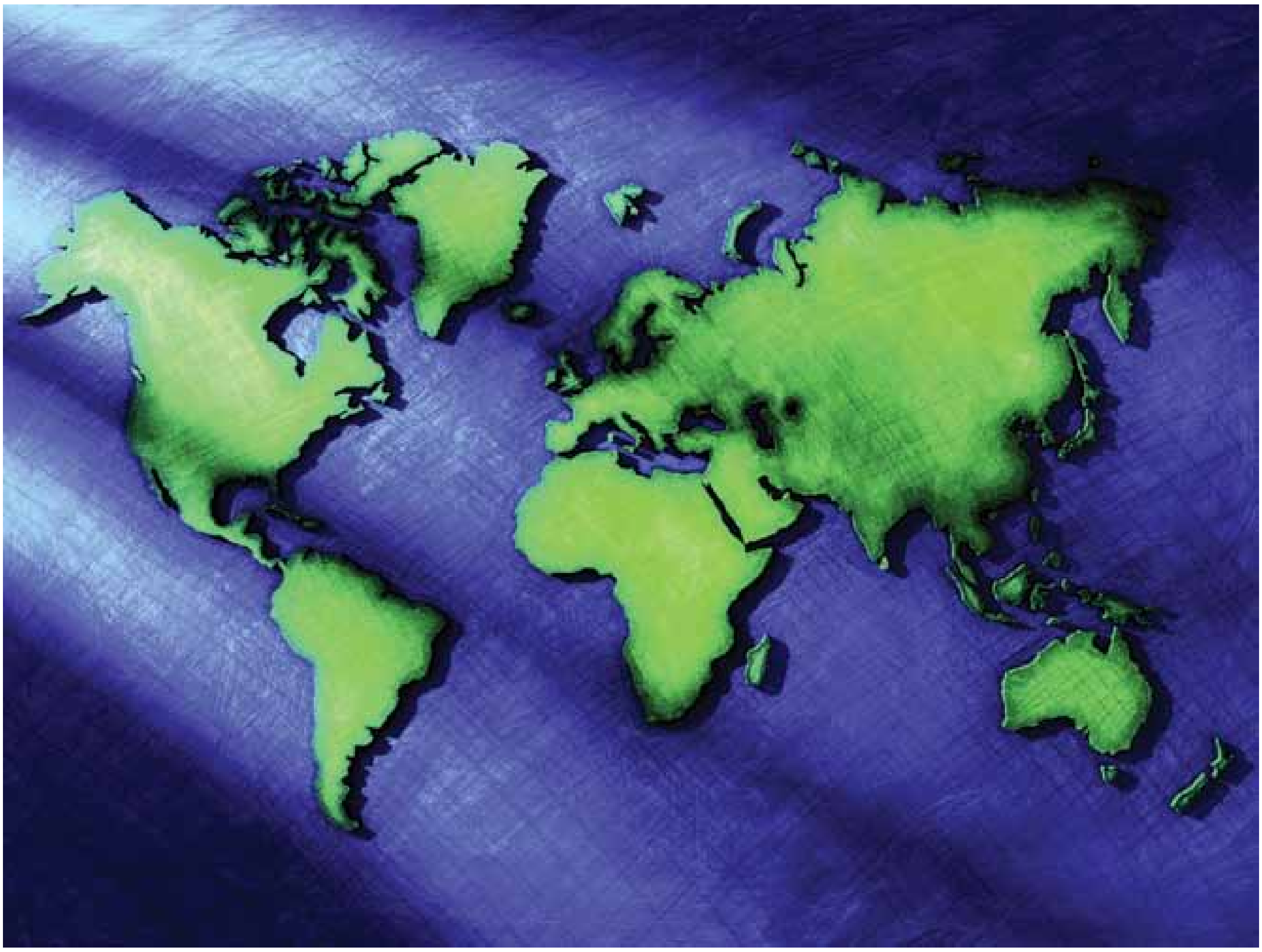
Explanatory Paragraph in the Audit Report Following the Scope Paragraph:

a) As disclosed in the accounting policy notes to the financial statements, the Company does not provide for gratuity on accrual basis. Also the Company has not measured its available-for-sale investments at fair value but at cost. Further, the Company has not provided for doubtful debt of a major customer who went bankrupt during the year.

Approved Accounting Standards require that gratuity to be provided on accrual basis and deferred, available-for-sale investment be measured at fair value and adequate provision be made against doubtful debts.

Because of the departures from approved accounting standards identified above, as at June 30, 20IX, deferred gratuity liability was understated by Rs. XX, available for sale investments have been increased by Rs. XX and trade debts have been overstated by Rs. XX; resulting in an increase of current year profit by Rs. XX and accumulated profit by Rs. XX.

In our opinion, because of the matters discussed in paragraph (a) above, the balance sheet, profit and loss account, statement of cash flows and the statement of changes in equity together with the notes forming part thereof, do not conform with the approved accounting standards as applicable in Pakistan and do not give the information required by the Companies Ordinance, 1984 in the manner so required and respectively do not give a true and fair view…….
(remaining words are same as in the standard report).
In our opinion………(Zakat paragraph).



Sohail R. Bhojani, FCA

Carnage at the Carnival

Twenty million Pakistanis affected, total economic impact of a staggering 43 billion Dollars and the dreams of thousands of families washed away. A nation, already stagnant, set back by several decades. The stark facts which lead many a caring citizens to a recently held carnival organised to raise funds for our fellow-countrymen who had suffered enormously at the hands of the merciless floods. What your columnist witnessed that afternoon in the swank lawns of a swish Lahore hotel may not make pretty reading for a lot of his readers.

Approaching the venue, locating the epicenter of the carnival was easy. *Shakira,* (the Columbian diva who achieved modern age musical immortality with a song serenading the truthfulness of her derriere!) welcomed the attendees by letting all and sundry know that it was time for Africa. Having failed to find any obvious connection, I was left to conclude that this was, perhaps, a misguided effort to establish a tenuous, symbiotic relationship between the down-trodden people of Africa and the victims of the greatest national disaster to have hit our country. I guess it's the best we can do till *Shehzad Roy* or some other teen idol releases another, more apt pop number to appeal to our national conscience.

The show was put on to show solidarity with the stricken flood victims and generate much needed funds. Instead, the pomp and wealth on show was enough to warrant a suo moto show cause notice from our higher judiciary. It seemed that the cause had been hijacked by designer ladies with designer gentlemen, designer children and designer domestic help in tow. The sheer quantum of top foreign labels they came armed would give a *Harrods'* or *Macy's* collection a good run for their money.

The choicest rags and bags, timepieces and showpieces, eyewear and footwear, inner and outerwear, here, there and everywhere. It was part catwalk, part Hollywood-style red carpet, all pure pantomime. Almost as if the elegant world of *haute couture* continued to spin in its elegant orbit, unmindful of the backdrop of flood-inflicted devastation that should have thrown its axis off balance. Now don't get me wrong dear Reader – there is nothing wrong with dressing well, looking good and having a ball. However, this unfortunately was not the time for it.

All one needed was an excited member of some self-proclaimed fashion police squad to thrust a microphone in one's face asking which brands one was sporting while supporting this cause *nobile*. Thankfully I was spared my fellow carnival-goers' latest attempts to mispronounce names such as *Hermes, Zegna* and *Aigner*. Worse still were the none-too-subtle efforts of the happy folk at the carnival to push their branded merchandise in each others' faces. After all, a lot of moolah had been spent in keeping up with the Jaans-es as well as the Joneses, and if bling had been procured, bling had to be flaunted.

By the way, this season's accessory to-die-for, I was informed by a reliable source gracing the occasion, is not an uber-expensive handbag, a flashy pair of sunshades or those must-have party shoes. It is in fact, a Filipino maid (or two)! Our rampant fetish for all things foreign knows no bounds, even if it contributes to local unemployment. There is, however, hope for handbag lovers. Next year's accessory to-die-for, I am again educated by the same source, is a *Birkin* bag, a bargain at one and a half million Rupees, enough to feed an entire flood-stricken village for months.

I digress, dear Reader, but I couldn't see how extracting one thousand Rupees (the price of the entrance ticket) from a one hundred thousand Rupee handbag can lead one to be satisfied with one's contribution towards the cause. But then, perhaps it is too much to seek the spiritual when one is surrounded with so much of the superficial. We seem to have traded in our *Qawwalis* for *Cavallis* a long time ago. Hence no surprise that we were more interested in stepping on each others' *Prada-clad* toes in blatant efforts at one-upmanship (no wonder the devil has a particular affinity for the iconic Italian brand) and seeing the world through dispassionate eyes hidden behind our rose-tinted *Chanels* set atop newly nipped and tucked and finely reshaped noses. Navel-gazing eschewed, colonic-irrigation espoused, it seems. Further digressing confession: I have labeled one of my wife's friend's husband *Jimmy Choo* – as much for his penchant for spoiling his spouse rotten with an array of products from the designer as for the fact that I never cared to remember his real name. I hope the (fashion) gods are forgiving.

Perhaps out of the frustration germinated from the sad irony of the situation, I managed to pick a fight – with a ten year old. He was part of a posse of schoolchildren, smart uniforms proudly advertising their pedigree school (one of the best educational institutions in the land it has to be said). His sin – queue jumping. However, I don't think much heed was paid to my quick admonishment aimed at bringing about behavioral correction. He and his partners-in-crime simply sniggered and ran off to the next amusement on offer without remorse – happily oblivious to the hundreds of thousands of kids struggling post-flood to find their next meal. But then, should one expect anything else from these (hopefully) innocent souls, having observed their parents sashaying and shimmying, botoxing and liposuctioning their way through middle-age, seeking status and comfort from an OTT flaunting of material wealth, with taxes and the law being something that happens to other people.

Makes me think. Revolutions and civil wars are born out of a sense of injustice, inequity or imbalance. Ours can't be far off if the wealth we have concentrated in the immaculately-manicured hands of a very elite chosen few (the carnival was to me an illustrative microcosm of this) and their growing propensity to flash it in the face of the suffering millions is anything to go by. Number 34 on the global country corruption index, real inflation poised to hit 20%, less than 3 Dollars daily income per capita, 33% of our population living below the poverty line, widespread unemployment and illiteracy and countless dashed hopes – facts, along with Shakira's hips – don't lie.

Time to wake up or watch out for our elected lords and masters in power.

Liquidity Risk Management

A Bigger Challenge for Banks

Mohammad Shoaib Jan Memon, ACA

For financial services firms one of the most painful lessons out of the financial crisis has been the importance of strong liquidity risk management. The rapid collapse of major firms including Lehman Brothers, Bear Sterns and Northern Rock stemmed largely from liquidity issues of one way or form, drying up confidence in the institutions. The UK financial services regulator having its reputation severely damaged by the crisis took a bold step and a lead globally in introducing significant new liquidity risk management requirements for financial institutions in 2009-2010. These requirements have changed the landscape for banking operations in the UK. This article aims to summarize these regulations and their application and impact from a practical perspective, with potential lessons for firms and regulators in other jurisdictions.

Overview

The liquidity rules apply in some form to all UK banks and investment firms including subsidiaries and branches of foreign banks. There are certain exemptions and modifications available depending on the underlying structure and complexity of the business. The rules may be broken down into four parts, which are largely interlinked:

I- Liquidity adequacy rule and self sufficiency

The fundamental principle under the rules is that "a firm (bank or investment firm) must at all times maintain adequate resources to ensure there is no significant risk that it cannot meet its liabilities as they fall due". It must do so on a "self sufficient basis" i.e. without relying on any other parts of the group it belongs to.

Self sufficiency is a fundamental concept of the revised rules and requires that the liquidity resources remain under day to day control of local management, unencumbered and attributed to the balance sheet of the relevant firm. Instances of trapped liquidity and barriers on free flow of liquidity within the same group have surfaced in the past due to either legal complications or geographical restrictions. Whilst certain modifications are available for branches, depending on meeting prescribed requirements, an indirect objective has also been to encourage use of subsidiaries which has other benefits for the regulator including more supervisory powers, local capital attribution and availability.

II- Liquidity assessment

Firms must hold adequate amount of liquidity resources appropriate to the risk profile and business activities. Essentially, firms are required to undertake a detailed assessment of various specified liquidity risks to which their business is subject to and test their resilience to market wide and idiosyncratic (firm-specific) stresses – alone and in combination. This assessment becomes part of what is called as Individual Liquidity Adequacy Assessment ("ILAA"). The process can be seen as similar to the Internal Capital Adequacy Process ("ICAAP") now widely undertaken to assess adequacy of capital resources with consideration of all material risks. In fact, more recently the regulator has indicated that there should be a linkage between the stress scenarios used in the ICAAP and the ILAA.

The regulator has included ten liquidity risk drivers that should be considered in the liquidity stress scenarios depending on the business activities. The stress scenarios are expected to be "extreme but plausible", with management explaining the rationale for each scenario considered. The liquidity risk drivers with their brief examples (not exhaustive) are noted below:

- Wholesale funding – wholesale depositors consider that the firm is unlikely to meet liabilities as they fall due and therefore do not roll over matured deposits;
- Intra-group liquidity – lending to group counterparties is expected to roll over whilst no roll over in the deposits received;
- Intra-day liquidity – credit limits available for participation in payment or settlement systems withdrawn;
- Cross-currency liquidity – access to foreign currency markets restricted for a period of time;
- Retail funding – retail depositors consider that the firm is unlikely to meet liabilities as they fall due and withdraw deposits. However, it is accepted that retail depositors are less responsive to potential crisis than the more sophisticated

wholesale depositors;

- Off-balance sheet liquidity – cash outflows against off-balance sheet activities including call on guarantees issued and increased margin requirements on derivative transactions;
- Franchise-viability risk – liquidity required to maintain core business franchise and reputation;
- Marketable assets – ability to derive funding from the marketable assets (e.g. bonds) in a timely manner through either repo or sale;
- Non-marketable asset – ability to derive funding from the non-liquid assets (e.g. loans, property, etc) and the impact on the business through forced sale; and
- Funding diversification – degree of diversification in the liquidity resources and potential stress points.

The key expectation out of the analysis is that the firm must be able to withstand a 'two week firm idiosyncratic stress' and a 'market wide stress which may last up to three months'.

This analysis becomes part of the ILAA and is used to determine the funding profile and the liquid asset buffer required by the firm. Consistent to the ICAAP process, ILAA is expected to be subject to senior management and board of directors' review and input. The regulator then undertakes a supervisory review of the ILAA and prescribes the Individual Liquidity Guidance for the firm, which includes size of the Liquid Asset Buffer and the funding profile the firm must maintain.

Another important element of the ILAA process is devising a Contingency Funding Plan, which sets out the strategies for addressing liquidity shortfalls in emergency situations e.g. means to raise additional emergency funding, liquidate assets to raise cash, etc.

III- Liquid Asset Buffer

The Liquid Asset Buffer (LAB) expected to be held by the firm pursuant to the ILAA and Individual Liquidity Guidance from the regulator must comprise an appropriate and diversified mix of highly rated sovereign, central bank and multi-lateral bank bonds and central bank reserve placements. The LAB is expected to comprise of currencies considered to be material for the firm based on the underlying balance sheet structure. In addition, the firm is expected to turn over the LAB portfolio on regular basis either through outright sale or repo, whilst maintaining the overall requirement.

The requirement to hold LAB portfolio has resulted in a substantial increase in holding of low yielding sovereign or quasi-sovereign bonds impacting profits generated by the banks significantly. The LAB portfolio can be used under stressed conditions to meet liabilities but the regulator expects a full understanding of why a need for utilization occurred and plans to address the situation.

IV- Systems, controls and reporting

Firms are required to have robust strategies, policies, systems and procedures in place to identify, measure, manage, monitor and stress test risk in a detailed manner. The information generated is required to be reported at a substantially granular level with increased frequency to the regulator. Also, the regulator expects that a firm to be capable of reporting on a daily or weekly basis in a stress situation if required. The responsibility has been placed on the senior management and board of directors to ensure compliance at all times. Supervisory action may be undertaken in case of material weaknesses or failures. Again, the banks have invested significantly in technological and human resources to ensure they comply with these requirements.

Another important aspect of the regulations is ensuring a robust liquidity transfer pricing mechanism exists within the firms to ensure business units promoting appropriate liquidity behaviors (e.g. retail deposits considered more beneficial than short-term wholesale funding) are compensated favorably whilst those introducing additional risks are charged a premium. This has impacted the pricing of lending activities as well as margins paid for deposits depending on their nature and tenor.

V- Comparison with Basel III

The Bank for International Settlements through its Basel III proposals has also introduced two new key liquidity ratios. The "Liquidity Coverage Ratio" requires a bank to hold sufficient high quality liquid assets to survive a stress over a 30 days period; whereas the "Net Stable Funding Ratio" promotes resiliency of banks over longer term time horizons by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing structural basis. However, it is generally observed that the current UK requirements for liquidity risk management are more restrictive than Basel III, thereby potentially creating economic disadvantages for bank operating out of the UK versus their global competitors.

Conclusion

A liquidity crisis will kill a bank quicker than a solvency (capital) crisis and is therefore a bigger challenge. Even insolvent banks can continue in business for a while provided their liquidity needs are met, thereby buying time to deal with the solvency problem. The above discussed changes have affected the business models of banks in the UK with wide ranging impacts. Whilst the Black Swan theory may still hold for the next financial crisis, the last crisis has brought liquidity risk management to the forefront of the agenda for UK banks. The regulator in the UK considers the changes to result in a much improved liquidity risk management structure and safer financial institutions. Only time can tell how robust and effective they have been. From an own practical experience, preparing for and meeting the above requirements has substantially improved the understanding of liquidity risk factors and their implications within the organization, and prepared ground to deal with pressure points more quickly, effectively and in a systematic manner. Hopefully, some food for thought for senior bank management teams especially the Treasurers, CFOs and CROs in other jurisdictions.

Risk & Opportunity Controlling

Muhammad Najam ul Saqib, ACA

> "The Chinese use two brush strokes to write the word 'crisis.' One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger--but recognize the opportunity."
>
> John F. Kennedy

Risk and reward go hands in hands and that's why risk taking has been an indispensable element of business for countless years. There are many examples of entrepreneurs that have taken high risks in business and have reaped very high rewards. On the contrary there are also quite a number of those whose risk taking has resulted in failure. One of the difference between successful and failed risk takers is often assumed to be either luck or having a talent for knowing what risks to take. Another difference is whether the risks have been properly identified and managed or not.

I would share my understanding on this area from the practical point of view.

While risk continues to dominate the business attention, competition is becoming just as dominant a feature. Maximizing the shareholders return is a prime objective of every business and with this comes the market volatility, sales pressure and variation in market share, demanding stakeholders — and this all contributes to a drive to remain competitive. And with that drive there comes the "opportunity". For that reason, in practice, the Risk Management process is not only confined to Risks rather it is a hybrid and is pronounced as *Risk and Opportunity Controlling*.

So what is an *Opportunity* and what constitutes a *Risk*?

In simple business terminology;

Opportunity

An *opportunity* is the possibility of favorable circumstance or circumstances which if occur will have a positive influence on the company's economic situation.

Risk

A risk is the other negative side of the opportunity coin and can lead to losses up to a level that endangers the company's existence. Risks are defined as uncertain event(s),or circumstance(s) which if occur could lead to negative impact in relation to company's earnings.

Why would I need Risk and Opportunity Controlling?

Now having defined these two sides of the Coin next question could come into one's mind is *"Why would I need Risk and Opportunity Controlling?".* Simple answer is that no one likes "Surprises", even in our personal lives we would be more comfortable and compassionate with the things going into our expected way, isn't it! Same holds true for the business enterprises too. Even it's a medium sized local company or a multi-billion Group everyone is confronted with a volatility in the economic environment, ever increasing regulatory and compliance regulations posses a challenge in the way, competition - to remain competitive whilst highly efficient is a real big deal, and it carries on……with all this a great deal of uncertainty is attached to. We can never be 100% sure that we complied with all the regulations, we are too great that customers will always stay with us, our EBIT forecasts will be right on spot! – this can only happen in a Perfect world – but nothing is Perfect in this World ☺. Nevertheless the business could implement internal systems which help them in "Controlling" these uncertainties i.e. Opportunities and Risks by striking a balance between safety interests and value-added goals.

The process is much more complex for a multi-national Group and is even a regulatory requirement for listed companies in many of the countries. Management stewardship needs to keep up the entrusted confidence of the stakeholders in their best capacity. Enron collapse was an eye opener for the regulators which resulted in putting more emphasis on transparency in financial reporting and putting more emphasis on internal controls. This led to stringent additional reporting requirements for the listed companies and even warranted an overhaul to their internal compliance structure and Risk and Opportunity Controlling is amongst one of these!

Therefore in many parts of the world (and in my personal experience as working for a Germany company it is the case in Germany) listed Companies have to fulfill legal requirements by running a risk alert system by publishing annually and quarterly information on opportunities and risks.

What is Risk and Opportunity Controlling?

Therefore opportunity and risk controlling is a systematic procedure, whereby during outlining the financial plan of an enterprise the management assess the current business scenarios and build its financial assumptions to formulate a profit outlook for the short or medium term (1-3 years), opportunities and risks not considered in planning are identified and measured, and appropriate action plans are presented for utilizing opportunities and managing risks. This is an important aspect as the listed companies share their financial operational plans with the Capital markets and the investors expect its adherence. Any material deviation could jeopardize the economic value of the enterprise by the Capital markets' reaction. Investors expect the Companies to keep up the committed profit outlook.

This is much intricate for a multi-national Group. I would rather quote the experience with a Group which operates across the Globe to briefly outline the practical aspects of this process.

Drive is to increase shareholder value by detecting opportunities and risks as early as possible, and this is done by *collecting* major information within *one system* using a *group wide standard guideline*. The key elements of this process are;

a) Identification/measurement –Identification and measurement of the Opportunities and Risks.

b) Aggregation and reporting of the identified Opportunities and Risks.

c) Strategic risk management - review and refinement of the opportunity and risk policy and opportunity and risk strategy by the Board of Directors.

d) Operational risk management – creating action plans and their implementation.

e) Control - monitoring of early warning indicators, review of action plans as well as analysis and improvement of the entire opportunity and risk controlling process.

Usually reporting, validating and communicating the risks is achieved by implementing a common system across the Group. Everyone has to speak the same language otherwise just imagine how difficult would it be to collate the information from a subsidiary in Africa or to develop a common understanding between a Controller working in Uruguay vs a colleague sitting in Germany! Overall consolidation of the reported opportunities and risks provides an overview of all relevant opportunities and risks in the Group and supports the development of an opportunity and **risk strategy**.

How we do it?

Analysis of identified opportunities and risks

The identified opportunity/risk is explained in greater detail in the first step of the opportunities and risk analysis and placed in a "cause-effect" context. Possible triggers for the opportunity /risk, as well as the consequences of the occurrence of an opportunity/risk, are recorded and documented. When considering the cause-and-effect chain, the emphasis is on the their financial effects.

To supplement the presentation of cause-and-effect relationships, the main factors influencing the occurrence and the amount of the opportunity/ risk are defined.

When analyzing opportunities and risks, the identified opportunities and risks must not be considered independently from one another. The connections between individual opportunities/ risks must be described and their interactions or correlations must be assessed. For example, a transportation company which operates as a network could report a risk of rising fuel costs but at the same time an opportunity to report also is existent which stipulates the higher fuel surcharge revenue potential! – so these two are interlinked.

Management action plans

As part of an effective control-based opportunity and risk management system, appropriate action plans for utilizing opportunities or managing risk must be set up.

- Avoid risks
- Reduce risks
- Transfer risks
- Take over opportunities
- Strengthen opportunities

Measuring/monitoring of opportunities and risks

The primary goal of opportunities and risk measurement is to evaluate the extent to which identified opportunities

and risks could impact the company's earnings. Three scenarios must be set up for this possible deviation along with the attached likelihood of occurrence;

- Best case
- Expected case
- Worst case

Aggregation/reporting

The aggregation/reporting step in the process comprises the evaluation, plausibility check, and aggregation of the results of the regular opportunity and risk reporting Group-wide.

Strategic risk management

This is tone at the Top!. Overall opportunity and risk strategy is determined by Board of Management and defines which fundamental opportunities and risks the Group is exposed to, and how opportunity and risk management must be developed in order to control these successfully.

Operational risk management

The action plans need to be defined on how we tackle the identified risks and in which way we would seize the available opportunities. This is defined by the local management and must be aligned with the overall Group strategy.

Monitoring

Last but not least is the proper monitoring of identified opportunities and risks and associated action plans. Internal audit, setting up warning systems, management reviews are all the classic techniques to achieve this milestone.

The thoughtful and transparent handling of opportunities and risks is essential for a functioning opportunity and risk management system. This requires an opportunity and risk culture firmly anchored in the company. Therefore, increasing employees' sensitivity to existing and potential opportunities and risks as well as the communication of items relevant to opportunity and risk across divisional lines gains a decisive importance. The realization of opportunities with the simultaneous control of the accompanying risks makes a substantial contribution to the creation of sustainable enterprise value.

"A ship is always safe at the shore - but that is NOT what it is built for."
Albert Einstein

Few suggestions on proposed changes made by SECP in Company Laws

Syed Imtiaz Abbas Hussain, FCA

The Securities and Exchange Commission of Pakistan (SECP) is continuously busy by contributing efforts to make companies laws easy simple and modernize and to put it at par with International Standards and at the same time to make it hassle free to encourage corporatization in the country within the regulatory framework.

To ensure protection of investors, provide enhanced transparency and to facilitate companies, SECP has proposed changes in legislations, which includes the following:

- Companies (Distribution of Specie Dividend) Regulations, 2013
- Pharmaceutical Industry Cost Accounting Records Order, 2013
- Amendment to Single Member Company Rules
- Associations Not For Profit (Licensing and Corporate Governance) Regulations, 2013
- SECP expands Sharia Advisory Board

Few suggestions and critical comments on above proposed changes made by SECP in Company Laws are as under:

1. Companies (Distribution of Specie Dividend) Regulations, 2013

1.1 Introduction of concept of Specie dividend (to pay dividend in kind when distributing company suffers fund shortage) is a good move by the SECP but it seems to be not workable in Pakistan as it lacks utility due to its lengthy and cumbersome process and also not cost effective, as this regulation restricts specie dividend to 50% of declared dividend, involvement of sound and strong shares, requires listing of un-listed Investee companies, five years financial projections, processing cost may be more or equals to the mark up on borrowing of the company for to pay dividend in cash and much more. So practically a distributing company having sound and strong securities in their investment portfolio will never encourage to swap it with dividend payment and prefer to borrow from financial institutions to pay dividend rather to go to opt for 50% specie dividend and 50% cash dividend;

1.2 This regulation has not appropriately and sufficiently addressed the restriction imposed under Section 62 of the Companies Ordinance 1984 where by no person who holds more than 10% of the shares of a company shall offer for sale to the public any share of the company held by him except with the approval of the commission. Here sale of share equally means specie dividend. Even disclaimer on covering page of Information Memorandum of Annexure I does not tantamount to approval by SECP as it clearly states that, "This is not a prospectus for issue of securities to the general public but a document prepared for the purpose of distribution of Specie Dividend. This Information Memorandum has not been approved by the SECP or the Stock Exchange(s)";

1.3 Likewise this regulation has also not taken care of for the restriction imposed under Section 249 of the Companies Ordinance 1984 whereby no dividend shall be paid by a company otherwise than out of profits of the company. Here specie dividend is being paid out of disposal of shares investment of the company;

1.4 As per this regulation, specie dividend is debited to profit after income tax and credit to share investment of the company. Further income tax implication need to be critically reviewed;

1.5 Since specie dividend process is lengthy and cumbersome, it will be difficult for the company to manage period for payment of dividend as required under section 251 of the Companies ordinance 1984 as a result the chief executive of the company shall be subjected to heavy fine and punishment. This Regulation should clearly exempt distributing company on this issue from Section 251; and

1.6 The break up value of share of unlisted investee company will be far away from real market value of share as it will be calculated on the basis of historical cost (book value) of fixed assets while market value of fixed assets including land used to be too high.

2. Pharmaceutical Industry (Cost Accounting Records) Order, 2013

2.1 The concept of accumulation of cost in costing is to allocate cost to each formation /batch in order to determine cost of production per unit and cost of sale per unit and to use data in cost control purpose and to use in management accounting for making business decisions. So following issues must be considered in Order 2013 to make the accumulated cost data reliable:

2.1.1 To ensure that unabsorbed overhead is not allocated to cost of production;

2.1.2 Semi variable overhead must be split into fixed and variable to compute reasonable and meaningful total fixed cost and total variable cost, so that contribution may also be computed to be used in cost accounting and management accounting;

2.1.3 To calculate equivalent production while allocating overhead to production and work in process at each stage of production;

2.1.4 To ensure closing stock in trade should not carry over cost by apply lower of cost and Net realizable Value method; and

2.1.5 Production capacities per line of product should be encouraged to determine by technical staff of the Industry, which is the back bone in costing.

2.2 Encourage to prepare cost sheet on monthly basis and to reconcile it with monthly financial accounts;

2.3 Encourage ERP system as Pharmaceutical Industry used to have professional and multinational environment;

2.4 Encourage to take physical stock taking every month religiously;

2.5 Break Even quantity per line of product should be encouraged to mention in cost sheet;

2.6 If contribution per line of product is less than fixed cost, then management should give reasons therefore and if contribution per line of product is in negative then management will have to justify and give reason why they produce this line of product;

2.7 There are hundreds of thousands industries, who did not realized the importance of costing department and internal audit department as a result they collapsed within no time. These effective and efficient departments, managed by professional staff, help business enterprise in providing reliable financial information and measure effectiveness and efficiency of operations, which are among basic tools of internal control; and

2.8 In the last, please recheck and correct referencing of Para and Sub-Para in many pages of the draft Order 2013, which are not properly mentioned as a result creating confusion in understanding the Order 2013.

3. Amendment to Single Member Company (SMC) Rules

3.1 To dilute cumbersomeness in SMC pre-incorporation procedure, SECP proposed to delete requirements of nominee director and alternate nominee director with their consent, as well as particulars and documents of the legal heirs of the single member; and

3.2 This amendment is welcoming as it is more logical, but addition in amended Rules by an explicit provision regarding nominee of single member may consider family member of single member as nominee whose documents of the legal heirs must be thoroughly checked and adopted to avoid putting company wealth of single member in dispute, because there are hundreds of thousands cases of wealth which are in dispute since decades due to dispute in the documents of the legal heirs of the deceases.

4. Associations Not For Profit (Licensing and Corporate Governance) Regulations, 2013

4.1 At last Regulations for Associations Not For profit, as required under Section 42 (2) of the Companies Ordinance 1984, have been drafted by SECP and have nicely put all related issues in one place for convenience of the Associations;

4.2 Regulations have not covered new Associations and have covered only existing Company incorporated and an Association already in existence and registered under any other laws;

4.3 Definition of the word donation under Regulation No. 2(e) has not included Zakat, which usually heavily paid by many Muslims to NGOs and NPOs;

4.4 Regulations have prohibited Associations not to engage in Industrial, Commercial and Trading activities and have confined their activities only to donations. So under which Regulation an Association which is engage in promoting commerce, art, science, religion, sports, social service and any other useful object for which they establish schools, institutions, training centers etc., and for that they charge fee and rest of the expenditures covers from donations and government grants etc;

4.5 Regulation No. 6 (d) tantamount to conflict of interest as it allowed ex-officer of SECP to file application for licensing purpose of the Association as it may significantly influence SECP officer in granting license objectively;

4.6 As per Regulation No. 18 (1), an Association should file annual audited accounts with the Registrar within 30 days of the date of its AGM or where no such meeting is held or if held is not concluded, and then file within 4 months of the close of its annual accounts, which is practically not possible. Further Registrar should allow for some special reason to extend the period for a term not exceeding one month;

4.7 For new Association, who has no legal name and legal documents, how it is possible to hire professionals like CEO, CFO, Company Secretary and CIA, who may demand letter of appointment on Association's letterhead. At the same time it is not possible for members of a new Association to meet lengthy, complicated and cumbersome requirements for licensing and registration. It is suggested to allow Association to be registered but should not allow to operate unless license is obtain. It is how the procedure will be workable and practicable; and

4.8 The objective behind imposing too much controls on Association through Licensing, Registration, corporate governance etc., is to ensure transparency and to ensure there is no corruption and misuse of donation receive and disburse. Regulations have not fully and satisfactorily covered this vital objective. Few may be as below:

4.8.1 Terms of reference of Audit Committee under regulation No. 21 (8) should also include objective verification of restricted funds and record of donations received and donation disbursed during the financial year as maintained under Regulation No. 18 (2);

4.8.2 Form N6 of Statement of Compliance with the Association Not for Profit (Licensing and Corporate Governance) regulations 2013 should also include findings of Audit Committee on objective verification of restricted fund and donation records as maintained under Regulation No. 18 (2) alongwith explanations for adverse report by persons charged with governance; and

4.8.3 Regulations should include severe punishment in the shape of heavy fine and imprisonment for misuse and corruption in regards to restricted fund and donation of the Association.

5. SECP expands Sharia Advisory Board

5.1 SECP has increased number of members of Sharia Advisory Board from 7 to 9. Two members of the board are taken from SECP to deal with the technical side and assist Islamic scholars, while one member would manage the assessment procedures. Other six members are renowned Islamic scholars who will scrutinize the services and products as per teachings of Islam and also minimize the differences among all the sects regarding Islamic banking and investment market; and

5.2 Two members of the Sharia Advisory Board from SECP will tantamount to conflict of interest and under significant influence as Islamic Scholars may not deliver their goods in the a way it should be due to presence of SECP officers.

The author is a fellow member of the Institute of Chartered Accountants of Pakistan having 25 years experience in different capacities.

Accounting Implications of Tax Consolidation

Syed Muhammad Nabeel, ACA

In current highly competitive global market, cost savings is a very important tool of ensuring long term success. Knowing how to implement effective cost reduction strategies can be the determining factor in the survival of a business. Taxes are an important cost element of any organization and entities frequently do tax planning to minimise their tax bills. One of the methods of tax reduction which is gaining popularity is tax consolidation.

Tax consolidation refers to merging wholly-owned or majority owned subsidiaries of an entity as a single entity for tax purposes so that combined profit or loss of these entities is taxed and a consolidated tax return is filed.

From tax collector's perspective such a tax regime is beneficial as it reduces administrative costs to collect tax. On the other hand a taxpayer may see a reduction in his tax bill as:

- losses in one group company can be utilized to reduce profits in other group companies;
- assets can be transferred between group companies without triggering tax on any gain on transfer;
- dividends can be paid between group companies without tax liabilities arising; and
- unutilized tax credits of one group company can be used by other group companies

Tax consolidation systems are generally elective rather than compulsory. Many countries have adopted such regime including United States, United Kingdom, Japan and Australia. Each country has its own rules and regulations governing tax consolidation and these vary from very strict regulations, such as irrevocable election of being taxed at consolidated level and forfeiture of previous tax losses, to more flexible regulations such as freedom to include or exclude certain entities from tax consolidation and carry back of tax losses etc.

The process of tax consolidation typically involves identifying the member entities that will be participating in tax consolidation and making one of those entities as the lead or head entity i.e., the entity which is responsible for all of the group's tax obligations (such as paying tax and filing tax returns).

Accounting

International Financial Reporting Standards (IFRSs) do not contain any guidance on accounting transactions arising due to tax consolidation. However, local GAAPs, such as Australian IFRS (A-IFRS), have issued recognition and measurement guidance on such transactions. The principal accounting issues associated with tax consolidation are:

- Who should recognize current and deferred taxes of wholly-owned subsidiaries i.e., the subsidiaries or the head entity in their stand-alone financial statements or only by the group on consolidation?
- How should tax funding (or contribution) arrangements be accounted for?

of the tax consolidated group.

This method is simpler in terms that individual member entities are unaffected and continue to perform their accounting related to taxes in usual manner.

Separate taxpayer within the group method

The calculation of current and deferred taxes for each entity is made on the basis that the entity is subject to tax as part of the tax-consolidated group. Therefore, adjustments are made in each entity in relation to its transactions that do not give rise to a tax consequence for the group or that have a different tax consequence at the tax group level. These adjustments include:

Allocation method:

Generally there are two most widely used and generally acceptable methods of allocating tax to member entities in a tax consolidation system. These are:

- Stand-alone taxpayer method
- Separate taxpayer within the group method

Stand-alone taxpayer method

Each entity in the tax-consolidated group measures its current and deferred taxes as if it continued to be a separate taxable entity in its own right.

This approach means that an entity:

- recognises tax in relation to its intragroup transactions;
- assesses the recovery of its unused tax losses and tax credits in its own circumstances, without regard to the circumstances of the tax consolidated group;
- measures temporary differences by reference to the carrying amounts of assets and liabilities in the entity's statement of financial position and their tax bases applying under tax consolidation, as those are the only available tax bases.

Under this approach, the role of head entity is more important because it will have to pass all necessary adjustments to reflect consolidated position while assuming tax assets and liabilities of member entities. Moreover, if there is a compensation agreement between member entities, an entity will be compensated only for those tax losses and tax credits which it can recover in its individual capacity without regard to the circumstances

- unrealised profits and losses on the intragroup sale or transfer of inventory or other assets;
- management fees and other charges between entities in the group; and
- tax losses / credits that are not expected to be recoverable by the entity on a stand-alone basis but which are expected to be recoverable in the context of the group.

Temporary differences are measured by reference to the carrying amounts of assets and liabilities either in the entity's statement of financial position or at the level of the tax-consolidated group and their tax bases applying under tax consolidation. If there is a compensation agreement between member entities, an entity will be compensated for all of its tax losses and tax credits regardless of what can be recovered by it in its individual capacity.

This is a more just method in terms that the member entities get the benefit of recording their tax gain in their income statement.

Important issues

Role of head entity:

The role of head entity is pivotal in a tax consolidation system. It may not necessarily be the parent company. The head entity is usually responsible to tax authorities for submission of tax return and settlement of taxes. It carries all tax related assets and liabilities in its books of account. It also acts as a clearing house if there is a compensation arrangement between the entities. The head entity needs to lead the process by regularly obtaining information from member entities, determining the tax position of the group, reconciling balances, settling accounts with other entities and making payment to tax authorities.

No compensation arrangement

If there is a compensation arrangement between member entities, then an intercompany payable will be recorded by the entity having taxable profits as current tax liability will be transferred to head entity and an intercompany receivable will be recorded by the entity having tax losses or tax credit as the same will also be transferred to head entity. However, in the absence of a compensation agreement, group entities will record an equity contribution from and dividend distribution to immediate parent entities instead of intercompany payable and intercompany receivable respectively. This is explained further below:

- When an entity having taxable profits transfers its tax liability to head entity, derecognition of liability in its books will be considered as an equity contribution by the ultimate parent for accounting purposes.
- When an entity having tax losses or credit transfers them to head entity, derecognition of such assets (if any) in its books will be considered as a dividend distribution to the ultimate parent for accounting purposes.
- The head entity will record a dividend distribution on assumption of tax liability and an equity contribution on recognition of tax assets.
- Accounting entries for equity contribution and dividend distribution will be required to be passed in each intermediary parent company if many entities are forming part of the organizational hierarchy between ultimate parent and tax group entities.

Hence it is important to have compensation agreement between tax group entities because:

- equity contributions and dividend distributions are sensitive corporate matters that need to follow due legal process; and
- accounting complexity will be minimized as other entities in the organizational hierarchy will not be affected as outstanding balances will be settled between tax group entities.

Temporary differences

Deferred tax arises not only from tax losses / credits but also from temporary differences. Following the implementation of tax consolidation for the tax consolidated group, both the head entity and the subsidiaries in the group continue to recognise deferred tax amounts. The tax consolidation system results in subsidiaries' tax losses / credits being assumed by the head entity, but does not address deferred tax assets and liabilities arising from temporary differences. Therefore,

such deferred taxes continue to be recognised by each entity in the tax consolidated group and are not transferred to the head entity.

Group tax relief

Instead of having a tax consolidation system, certain jurisdictions (e.g., UK) follow a group tax relief approach. Such an approach neither requires formation of a formal tax consolidated group nor it requires filing of consolidated tax return. Each entity computes tax liability in its own capacity and files tax return accordingly. However, group tax relief allows an entity to offset its tax liability against unutilized tax losses and tax credit of another group entity. Hence by virtue of being part of one group, entities will obtain this tax relief. Even under group tax relief, the concerned entities need to follow an allocation method and decide whether they need to agree a compensation arrangement. Hence the accounting implications arising under group tax relief would be similar to those discussed under tax consolidation.

Based on above it is clear that tax consolidation system enables entities to maximize tax benefits. However, to capture the accounting effect of these transactions, the entities need to select appropriate allocation method, decide whether a compensation arrangement is required and put a process in place to facilitate regular determination of tax position, settlement of tax liability and intercompany balances, if any.

Hassle Free e-Filing of Tax Returns

Ellahi Bukhsh Qureshi

A Tax Return is an official account given to revenue board declaring sources of income and their taxability in accordance with the provisions of governing legislation in respective jurisdiction. In the whole world technocrats are prone to making tax returns simpler and easier for a common person to understand and file their tax returns without any hassle. An ordinary man, without know-how about taxation should be able to file his return without any professional assistance except in case of corporate and technically complex entities.

In Australia, tax returns for individuals are e-filed and the process has been fragmented into carefully designed step-by-step process i.e. one by one question appears before the screen of the taxpayer, inquiring his sources of Income, number of dependents, details of expenses etc. and at the end he gets his return filed without any facing any complex structure forms, which impedes the easy procedure of filing returns. The one is commonly found in Pakistan.

Now it has to be agreed, that it would be un-fair and un-justified to compare an underdeveloped country with a developed country. It is imperative to say that our under-developed economy is no match to Australian economy. Since, most part of our economy is un-documented and that the different database systems have not been integrated. Australian Taxation Office has a high-tech IT enabled integrated system with various law enforcing institutions which enable them to obtain corroborative data regarding any taxpayer which helps them develop a portal for easy accessible e-filing of returns. This system helps out not just taxpayer with hassle-free filing of tax return but the revenue authority with lower cost of cross checking the data and a pool of information at one window. However, the initial investment of setting up integrated IT system would indeed be an exorbitant piece out of our deteriorating budget.

In Australia, the returns for individuals for the year 2012 is broken down into following systematic and sequential questions, which eventually fills out the return: (source: www.ato.gov.au)

- Income questions
- Deduction questions
- Tax Offset questions
- Private Health Insurance Policy Details
- Medicare levy questions
- Food levy exemption
- Adjustment questions
- Income test questions
- Spouse details
- Adjusted Taxable Income (ATI)

Keeping in view the above process, an individual person is waived off from complex filing and understanding of returns, in fact, all what he has to do here is casually answer some sequential questions on a computer screen which eventually leads to filing his returns. Such swift and user-friendly procedure, not only accommodates the taxpayer with simplicity but motivate others to submit their returns. The electronic revolution stepped forward by PRAL (Pakistan Revenue Automation (PVT) Limited) without a doubt has been a stepping stone to advancement and efficiency of revenue collection in Pakistan, which needs further developments to simplify compliance for taxpayers.

I believe we will be at that stage someday to introduce such a system which improves the tax collectivity and by reducing the cost of collection with one-time investment of IT systems and subsequent maintenance cost. However, if we look into at our returns under our own prevailing conditions, our unknown grey economy causes a huge draw back not just in revenue collection but also with an exorbitant cost of collection and proceedings. It was indeed a prosperous step in the year 2007 by introducing the concept of e-filing returns. It was yet a cost-cutting step and a forum to get rid of exhausting paper work to be dealt for filing a return. Practicing in the industry for more than two years, I have found that the 2% taxpayers that we have on our dashboard comprises an alarming number of taxpayers which are salaried persons. And now that they have to file a tax return, they face mawkish procedures for filing returns, costing them a piece out of their bread, as they have to pay some professional to file return for them.

In case of Individuals (especially salaried persons) following outcomes could be put forward from empirical study:

- Despite of guidelines and manuals available at the e-FBR portal for filing returns, taxpayers are very often reluctant to go through long manuals due to tough nine-to-five job schedule.
- Mostly individuals find the tax returns pointless, since they believe that there tax is deducted by the employer and that they are not evading any tax from the government.
- If some of the salaried persons are filing returns that is majorly because their case has been upheld for assessment by revenue authority or that they have received any notice from the revenue authority in case of non-compliance of filing tax returns which amounts to penalty in which reaction they comply afterwards out of apprehension.
- In most of the cases individuals complaint of hassling features of tax returns which demotivates them towards the duty to the authority.

Apart from returns for individuals, return forms made for companies also involve flaws which impede proper implication of tax workings prepared which are in accordance with the provisions of law. Some of the Basic Problems in filing electronic Tax Returns (For Individuals/ AOP/Company) are as follows: (The analyses are pointed out from Returns for the Tax year -2012)

Time Trial of Computerized Payment Receipt (CPR): (In all cases)

Another ubiquitous problem faced by the taxpayers filing tax returns at the 11th hour, is that when they have one day left at their disposal for filing tax return which is subject to tax payment. Normally CPR of tax payment made to National Bank of Pakistan (NBP) through cash is uploaded by evening on the same day, while tax

payment made to NBP through cheque takes one or two day time for clearance purpose. Now, if I am filing return today subject to tax payment, while tomorrow is the due date, and I have to pay tax through cheque. The CPR would not be uploaded to the e-portal database by day after tomorrow.

Remedy:

In this scenario, there is an option of entering the CPR number manually, which is not quite on the eye-sight for everyone to know. After verifying the return, on the top left side of the page below tabs, there are options lined up with access to return, wealth statement etc. down there you would find an option namely "Enter CPR No.". When you click the option, a dialogue box pops-up in front of you requiring you to input CPR manually. This is how you can tackle this problem other than by traditionally adding the payable amount into "Annex B – Tax already paid" under the head "Others".

Tax on Dividend – (In case of Company)

In case of a company, dividend income is subject to lower corporate tax rate of 10% in place of 35% and falls under the regime of normal taxation unlike Final Tax Regime in case of Individual and AOP. In the returns for company, all the income under normal tax structure is pooled and after deducting admissible expenses, the residue of profits are transferred to the column applying tax rate at

35%. Now the net profit calculated comprises dividend income, which is however, subject to 10% reduced tax rate but there is no option given in returns to fragment out the portion of dividend income. This fallacy causes an undue increment in tax liability at 25% of dividend income.

There is no proper way to cope with such misrepresentation and misapplication of law. The usual course of action followed by many is by deducting from the net profit the portion of dividend income under admissible deduction section as "Income relating to PTR/ FTR" which totally pervades the legal provision of law and goes astray. Now it should be cleared here, that dividend income is not a source of income under the ambit of Final Tax Regime but Normal. By deducting so, the effect of tax on dividend is canceled out. The same amount is then added to the column under PTR section of the returns namely "Dividend Income for Banks only" on the column 135 (depicted on the excerpt of return of income for company), where 10% tax is calculated on the same. Apparently, this course implies misrepresentation, but due to lack of options left for the taxpayer, he has to carry out the same in order to work out correct tax working. This is a common problem where tax implications are bound by the barriers upheld by the form and structure of returns.

Other than the above mentioned technical defects and difficulties, there are also some usual minor server breakdowns faced especially before last few days of due date. Such flaws need to be coped in order to deliver hassle free flow of filing returns. On the basis of the above study I found a dire need for a user-friendly system for filing the tax returns for individual specifically salaried persons, a perfect example can be the system of Australian tax filing system.

The main reason of putting up this article is to seek a soft corner for salaried persons to comply with legal requirements without any cost and hassle. A person earning only salary income has to pay-off some money to some professional who could file his returns for him. Although the person's tax working isn't complicated neither requiring any further tax payment to be made, since tax is already deducted by the employer where he works. This particular class with a tight schedule and unlike corporate entities, they don't hire a professional to handle their legal issues, neither have they had resources to do so. He is the sole beholder of responsibilities embodied by the society and law. He surely needs a favor in this regard for a simple and swift procedure for filing returns. On the other hand the flaws in the present structure of forms should be mitigated and efforts to wipe them out should be made for hassle-free filing.

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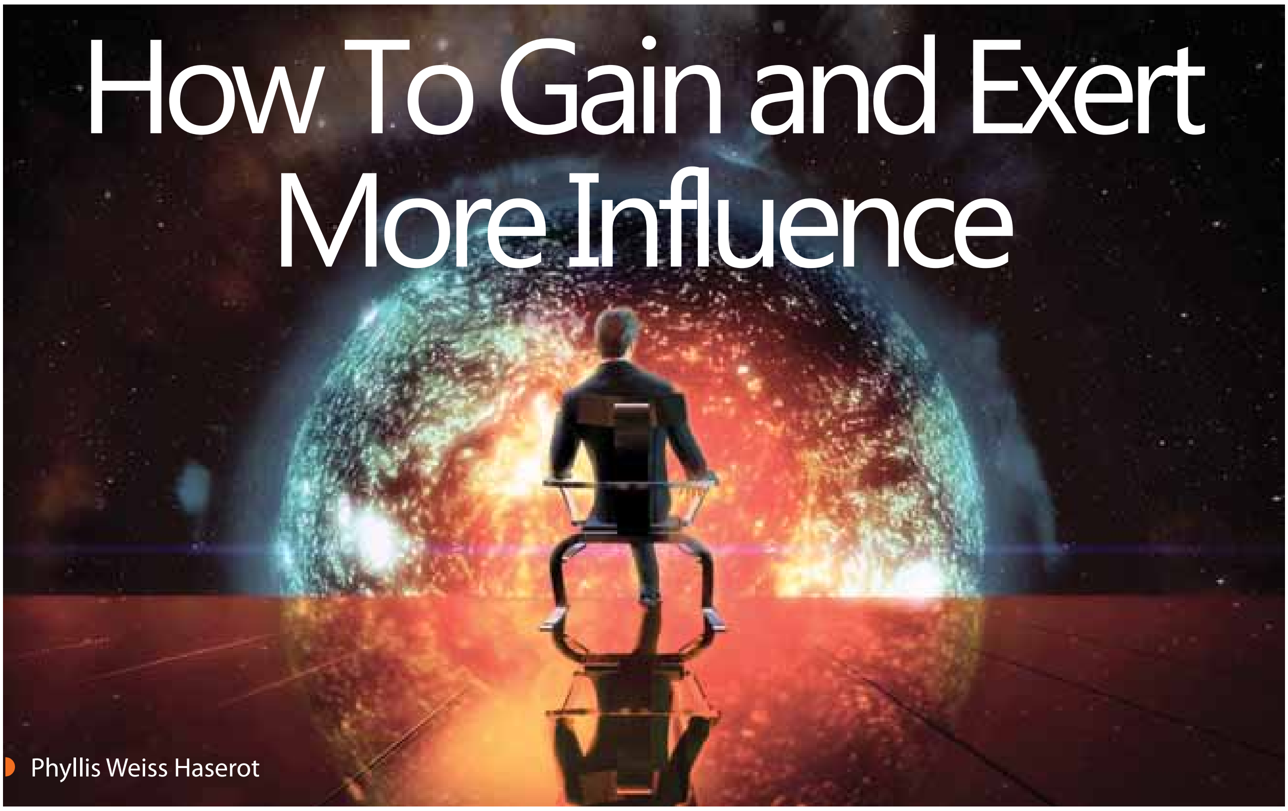
How To Gain and Exert More Influence



Phyllis Weiss Haserot

Firm leaders and partners are feeling less and less in control of circumstances than ever. They don't have their whole workforce easily in view. They can't monitor how and where people are getting and sharing information. New forces of influence have arisen and grown stronger in recent years.

It's not just the shifted balance of power with clients. Social media has consumed our time and our lives. Different generations with different views, behaviors and facility with technology are influencing attitudes toward authority, leadership and management style. Collaboration of multi-generational and multi-cultural teams is more crucial than ever. The uncertain, unsettling economy has caused a sort of industry vertigo.

So perceived and actual control has diminished. But we all can exert our *influence* in a positive way with knowledge gained from assessment and communication tools and cultivating a multi-generational forum for expressing expectations. At its greatest strength, a firm is a smoothly functioning multi-generational team that elicits and recognizes the highest performance from each member regardless of numbers of years of experience or formal position.

People at all levels have some power to influence factors in their work lives based on their personal strengths, their ability to interact with others, and the knowledge that they hold or share. Those in leadership positions are poised to exert more influence than followers, but they have to be willing to take a stand, give consistent support, and be ever vigilant to maintain trust among their colleagues and "followers." Unless the leader is truly a dictator, direct influence is limited, even as a CEO, managing partner - or parent.

What Can You Influence?

Let's take a look at ways that a leader at any level – from chair/CEO or managing partner to practice or business unit head, committee chair or team leader, to name the most obvious – can directly influence the climate for high performance and creativity/innovation in an organization. These factors are likely to trigger intrinsic motivation in their professional and manager constituents or team members.

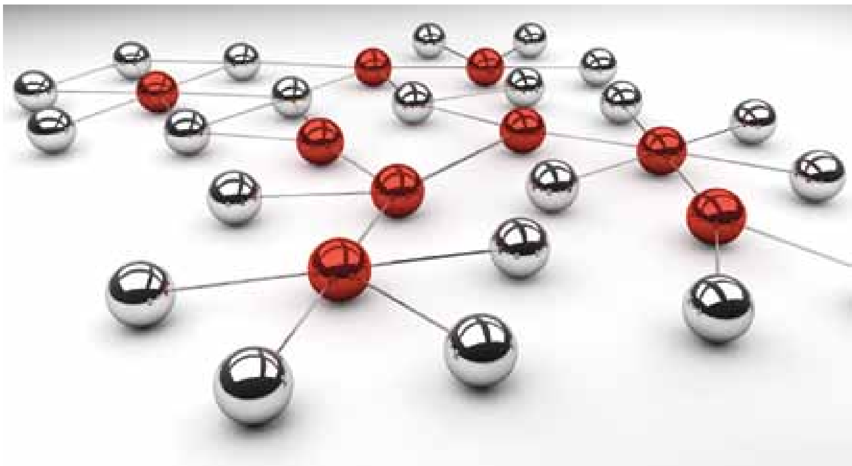
- Professionals, executives and other knowledge workers seek challenge in their work. Leaders can affect the degree to which they are emotionally engaged and committed to their work.
- Control over their jobs is a significant intrinsic motivator. Leaders have an important say in how much freedom professionals and managers have to decide on assignments and how to do their jobs.
- Leaders decide how much support in terms of resources and visible backing of ideas they give to individuals and teams.
- Leaders influence how much risk-taking is carried out by not only their words of encouragement, but also their decision not to put disincentives in place and take negative actions upon failure.
- Creating an open environment where people feel safe in putting forth their points of view is an important way in which leaders sustain a high performance culture built on trust.
- Leaders set an example for the degree of

transparency fostered throughout the firm's culture.

- Leaders have considerable influence on how conflict is managed. Conflict can be a good thing; a high performance climate cannot exist without some conflict, but it must be well managed.

- Related to conflict and openness is the ability of individuals and team members to engage in lively discussion and debate about opportunities, problems and challenges. The more alternatives presented, the better the decision-making.

- Leaders can influence the degree of opportunity for debate.



Most of the factors above are part of the dimensions of the climate for innovation defined by Scott Isaksen and other researchers at the Center for Creative Studies at the State University of New York, Buffalo and are based on studies by Goran Ekvall of the University of Lund in Sweden during the 1980s. The studies demonstrated that the climate within an organization had a significant effect on people's willingness and ability to be creative and innovative. That is necessary for achieving and sustaining high performance over time.

Improving Team Effectiveness

A significant factor influencing high performance in teams is the ability to convene a group of people with a variety of natural role preferences distinct from technical/professional expertise. The ability to convene a desired group of people is one part of a definition of power – that is, not only offering the invitation to meet, but also actually having people wanting to appear, engage and contribute.

Teams often get stuck because they are made up of multiple people who want to play the same role or don't feel comfortable in the role they are asked to play in the process of creation and implementation of an idea or project, whether for a client or for internal matters or governance. The style and role preference don›t mesh. Yet the same individuals might be much more productive if roles were designated based on their natural behavioral style preferences. This is especially important when seeking to benefit from a multi-generational team in today's world where years of experience may not be the best criterion for assigning roles. Interpersonal skills, relationships, tech savvy, creativity, management ability and other factors need to be considered.

The four primary team roles, one passing off responsibilities to the next, are Creator, Advancer, Refiner, and Executor. A fifth, Facilitator has attributes of each of the four and can play a harmonizing role. The Creator generates original ideas and is usually a "big picture" thinker. With the new ideas, the Advancer recognizes opportunities and ways to promote the ideas. The Refiner analyzes, challenges and looks for problems with the ideas and may hand them back with the analysis to the Advancer or Creator for more shaping, if necessary. Then the Executor sets the plans for implementation in motion and follows through the process to completion. Many people can play more than one role or flex their style enough to do it competently. Think of how important this combination of players is on any client service delivery team.

In any case, a successful team needs a combination of people who can willingly and competently take on all of the roles. An assessment we use called "Team Dimensions" helps identify preferred roles and helps teams organize their processes and projects.

Influence Responsibly

Influencing is part art and part science. Professionals think what they know is the key, but how you read and approach people is more important. The principles of persuasion are more people-oriented than task-oriented. Remember that reciprocity is a key principle of persuasion. Show respect and trust first. If you are a leader at any level, be cognizant of the ways you have the ability to directly influence the culture of your firm or group, individuals' motivation to take risks and innovate, and ultimately their work satisfaction and success with clients. Use this influence wisely. It can make or break your firm or business unit.

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The author is the President of Practice Development Counsel, a business development and organizational effectiveness consulting and coaching firm working with profesional firms for over 20 years.

Measurement and Recognition of **Human Resources**

Sami Ullah Khan

Over the years accounting fraternity is on the look for a way out to the ongoing debate of whether to recognize the human resource as a financial asset. The fundamental conflict is the human nature of the resource as only non-human assets are disclosed in a balance sheet. However recognition of intangibles like 'goodwill' always triggers the need of disclosure of HR as a corporate asset.

Human Resources as an Asset

Generally accepted accounting pronouncements define an asset as something that can generate cash or value in future. Going by this simple definition, human resources should be accounted for in the balance sheet. However, the situation is a bit complex if we consider the more formal definition of asset (Glossary of terms used in International Financial Reporting Standards-IFRS) which states that:

"An asset is a resource:

(a) Controlled by an entity as a result of past events; and

(b) From which future economic benefits are expected to flow to the entity."

As evident from the formal definition, an asset is simply an economic resource representing ownership of value convertible into cash or equivalent liquid resource. One of the major reasons why human resources are not recognized in the corporate financial statements is the controllability/ ownership part of the definition of an asset. The human assets are not owned or controlled by the organization in the way defined in the above referred definition together with the explanatory material given in relevant International Financial Reporting Standards and interpretations. As a matter of fact, human resources do generate cash for an organization, however they are not owned by the organization. They therefore are not recognized in the financial statements.

This definition and accounting practices do not make the importance of human resource any less. Their value and importance for a corporate entity cannot be underrated. Recently practitioners have developed models for the valuation of human assets. Based on these models, some of the renowned companies have valued their human asset and one of the examples of such companies is the 2nd largest software company in India, INFOSYS. According to the additional notes filed with the regulatory authorities, INFOSYS has recently valued each of its employees at over Rs. 10 million.

Financial Models and HR Valuation

There are many financial models to value human assets. Infosys used the Lev & Schwartz model to calculate the value of their human resources. In the past, companies such as Bharat Heavy Electricals Ltd (BHEL), Steel Authority of India Ltd (SAIL), Minerals and Metals Trading Corporation of India Ltd (MMTC Ltd), Oil and Natural Gas Corporation Limited (ONGC) and National Thermal Power Corporation Ltd (NTPC) have also used the same model. The model uses several factors such as age, annual earnings up to retirement, retirement age of the employees & cost of capital to value the human assets of the company. However, the model ignores productivity of employees, attrition rate and training expenses in its calculation.

The concept is still in its infancy and no model has yet been accepted by the accountancy bodies around the globe. However, financial advisory practitioners and standard setters are working hard to develop a harmonious framework for the valuation and recognition of human resource. Awaiting any generally accepted treatment, as a result the corporate bodies are not under any statutory requirement to value its human assets for the purpose of external financial reporting.

People are one of the most valuable resources for any organization. Regardless of the profitability and other performance indicators, it is the people who set the direction of any business venture. This necessitates the valuation of human assets atleast for internal management reporting. This will facilitate the decision making process at different levels of management in a company. Pertinent parameters for such valuation should be the return on human resource value, ratio of total income to human asset value etc. These parameters depict the efficiency of human resources employed by the company.

These valuations can also facilitate investors in their investment decisions. They should consider the value of human assets together with balance sheet assets while appraising available investment options. One should not ignore the importance of human assets in planning for future success of an organization.

COMPANY TRANSFORMATION

British Petroleum - A Case Study

Saeed Akhtar Chughtai, ACA

The oil industry has under gone great changes over the years. Before 1970 the industry was dominated by multinational companies, however with the formation of OPEC the control shifted, the pricing mechanism changed and the nationalist sentiments saw greater involvement of states and state owned companies in the oil world. (Jerome Davis, 2005).

Up till the 1980s most oil majors were vertically integrated. Most of them indulged in production, refining and marketing of crude oil and its products. This philosophy remained unscathed inspite of OPEC era nationalization. The MNCs instead, entered into long term supply contracts with the new nationalist owners, sought to develop and explore new anchorages and focused heavily on areas outside the OPEC.

Previously the refineries were designed for a single crude oil type and a limited range of crude oil products. The volatile swing in oil prices had a great impact on the refineries. These had to be upgraded at a cost of billion of dollars so that they could cater for different grades of crude and maximise the premium product content. The simultaneous evolution of a structured futures oil market and improvements in refining technology enabled the refineries to purchase crude from any source with reference to quoted futures market prices and process the crude as per the requirements of the local market. This allowed some flexibility even for the vertically integrated companies. In addition the need for huge capital investment and high risk of developing promising new fields in deep water Gulf of Mexico, Caspian sea and central Asia induced a wave of mergers and acquisitions during the 1990s / 2000.

In the post 1970 era oil giants like Gulf Oil disappeared altogether while some merged with others, in order to battle the wave of change. Royal Dutch Shell apparently held ground and retained its position. (Jerome Davis, 2005).

The riotously varying crude oil prices, concerns for the environment, changing demand, lower rate of reserve replacement and greater state involvement forced the multinationals to undergo profound transformation, each choosing, a slightly different path. British Petroleum was able to survive and carve a bigger niche for itself by revamping, essentially its internal context. The focus of this case study is 1990 to 2010.

Internal Context - Opportunities, Challenges & Solutions

The complexity science theory lays down that problems and the solutions are interwoven in a manner that addressing a problem compounds or create another. (Colander, D. 2000). It is therefore important to realize that management of issues is a fine balancing act and as soon as a solution is found for one problem, another issue may be evolving. We now proceed to identify some of the opportunities, challenges and solutions which made BP_______ BEYOND PETROLEUM.

1. The funding for the exploration phase essentially is financed from equity, given the high level of risk. It is therefore important for the E & P companies to adequately reward their shareholders. This becomes a challenge when confronted with depressed oil prices.

   In order to address this issue BP came up with the concept of "Shareholder value". By 1996 Divid Simon declared that "shareholder return is our key measure". Work on this strategy began in 1992, where by debt was reduced, costs cut and capital spending rationalized. This resulted in a 20% increase in shareholder value from 1992 onwards. (Paul Stonham, 2000).

2. Increase in the rate of return required improvement in profitability. The Profitability was improved by reducing costs, focusing investments in high graded portfolio, sale of underperforming assets, particularly refineries, cutting bureaucracies and staff compliment rationalization.(Nick Butler, 2006). The cost focus of BP continues to this day as reflected by BP's Group Chief Executive 2011 Review.

3. After privatization during the Thatcher era and the ever changing global energy scene the company had to compete in the open arena. Given its rich history and influential role over the years, BP viewed its place amongst the oil giants Exxon and Mobile. Organic growth alone could not help attain this objective. It therefore resorted to a series of acquisitions and mergers (Nick Butler, 2006). In addition the flat prices of the time i.e 1990s and the general fixed nature of costs in the industry, the oil companies resorted to mergers and acquisitions. This enabled them to reap economies of scale and synergy.

4. The megamergers of the 1990s while helped to improve profitability, at the same time resulted in a challenge for bringing diverse corporate cultures and mature heritage at one.

   BP's management thought of addressing this by making people work in smaller units. It was believed that a lot could be achieved if the people are identified closer to the objectives. BP established "Atomic structure" where in long term targets could be divided into smaller units.

   BP provided a platform for promoting structured interaction between and among various levels of management. The top management encouraged informal dialogue. In order to promote close association across boundary lines, the whole management team of different businesses was placed in the same building, same floor.

5. The size and history of BP, gave it the capacity to generate proprietary knowledge. It was important that to harness the benefits of this capacity it must be retained and disseminated across the organization. BP was one of the first companies in the industry to really appreciate the fruits of using Information Technology.

   BP gave great importance to develop knowledge. It believed that " A company has to learn better than its competitors " It therefore promoted a culture in which individuals were encouraged to bring insight .The vision for learning organization was made possible only because of intellectual curiosity of the top management, building up human capital, peer assist process and quality communication between management tiers. While Shell excelled in scenario based planning, BP devised networks of talking partners across industry. It was the insights obtained from INTEL which averted risks of over investment in IT.

   On the operational level it was important to link the various management levels and promote interaction. The top management was to focus on strategic issues while the operational delivery was entrusted to young managers recruited from around the world. The top team managed the external relations of the firm particularly the governments while the business unit leaders focussed on the delivery of operating performance.

   The BP management of the era considered communication between various tiers of management to be very important to ensure performance. It was described as "Structure for having conversations". This communication gave birth to a number of management initiatives one of which was called "Performance Contract".

6. The layers of bureaucracy were initially established to exert better control and cohesion. Undoing these layers to save costs could only be done if a system was put in place to fill the gap.

This was done by setting standards for an activity to be considered a business unit. If a business could not be made worth a billion dollars it was not worthwhile.

Performance culture was introduced through the concept of "Performance Contract". In it the business leaders along with their teams sets targets for themselves. The areas covered were financial, social and environmental. If they were not met the individuals responsible were given one or two options to perform elsewhere.

In addition control was exerted through "Peer Group Review". While this served as a platform to establish the propriety of the performance contract targets and consequent resource allocation, it also served as a pedestal to share knowledge. The high performing business unit in the Peer Group was given the additional responsibility to assist the under performing business unit to improve. The motivation to perform was built into the bonus structure where in 50% of the business unit leaders' bonus was based on the peer group performance and 50% on the unit's performance. The concept at one end strengthened control and at the other promoted integration.

7. BP was now working in a very competitive position. It had become one of the three giants of the industry. It was the time when the investors not only valued financial gains, but also weighed how such gains were achieved. The concerns for the environment and treatment of all the stakeholders in the business process were important. (Mintzberg, 2004). While financial indicators served to be the litmus test of performance yet the management took a balanced and holistic approach. In such a scenario BP chose to project itself as "a force of good". It was the first energy company to acknowledge the damaging consequences of climate change and presented its commitment to invest in alternative fuels and take measures to address the problem. It took upon itself to reduce its carbon emission and was able to achieve its targets (Nick Butler, 2006).

BP recognised and emphasized the importance of the communities that it worked in. It helped develop infrastructure and capacity building projects of governments.

It strived to build its human capital. It ensured that safety in operations is given due importance. The Top management not only sponsored and devised university based education programs for executives, but also devoted much time on a daily basis to coaching talented young people across the organization. Intellectual curiosity was promoted. Dissent and challenge legitimized. The Top management considered it essential to engage in dialogue with the employees and stakeholders. Platforms were provided to promote conversations and connected these to a purpose.

BP developed its own transparent labour market "Competencies on Line". It was a web portal where employees could profile their skills and find job matches. It also helped identify skill development needs. The organization developed succession plans for the top management, where in bright young professionals would work as assistants to the top brass and was called "turtle". The interactive management also served as the backbone to manage the succession process.

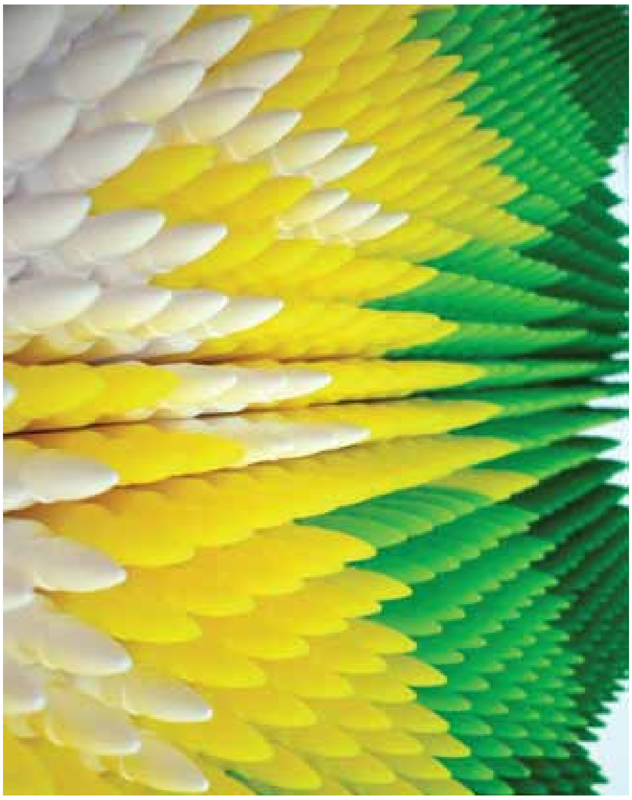
ACHIEVEMENTS

1. By the end of 2000, BP was able to register the ROCE at 17.9 %, the highest amongst the oil giants, Exxon and Shell. The cost cutting measures were identified as the main basis of achieving

this, in addition to the synergy benefits. A lot of scepticism was expressed then on BP's ability to sustain an annual growth of 10% annually. There was a need to increase the TOP LINE.

2. BP's mergers and acquisitions left it with the highest net debt to capital ratio of 25%. Relative to its competitors Shell 1.7% and Mobil 9.5%, the figure was pretty high. Having said so it is important to recognise that its interest cover was 6.3, which is not a very uncomfortable figure in the commodity business (Paul Stonham, 2000).

3. BP projected itself as a force of good. This was primarily based on the stance taken by it on the climate change and recognition that precautionary action was in order. This was a paradigm shift and revolutionary. By investing in alternate energy and a by developing an internal system of trading emissions it was able to demonstrate that reductions were possible at a practical cost (Nick Butler, 2006). The launching of a new logo in 2000 and what it stood for placed in a light different to other energy giants.



LESSONS & CONCLUSIONS

1. There is a need to develop a vision and devise strategies to achieve that vision. A pragmatic assessment of the context is important. It is not necessary that all the plan objectives would be achieved, but indeed progress would be made.

2. In order to initiate a change, planning has to be done in advance. The measures taken to implement change, take time to give results. The transformation of BP started in 1992 and benefits could only be reaped in 1995. Change Management requires direction, which requires top management's commitment and alignment of all the strategies and processes. The business strategy has to be duly supported by IT strategy, financial strategy and business process re-engineering.

3. Market place is ever changing, what might have succeeded earlier might not work in future. BP initially centralized its operations as it needed to promote integration. By 2000, things had to be decentralized in order to support its organic growth.

4. Development of core competencies is important. But there is need to ward of being taken hostage by those competencies. BP developed propriety knowledge in deep sea drilling. It is opined that the impressive reserve replacement ratio could be due to its ability to mine in the risky and dangerous environment of deep sea drilling.

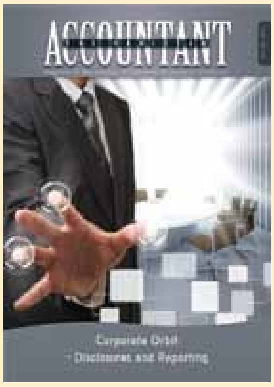
5. Being focused is a stimulus to move in the right direction, but being blinded by it could be detrimental. The cost focus of BP made it compromise its safety in its Gulf of Mexico operations. It did save a month of delay in operations and an odd $20 million, but the costs it has to pay are still being unfolded.

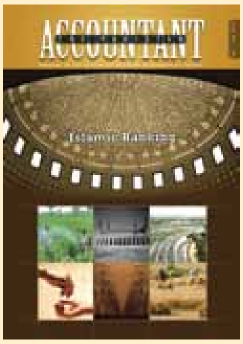
6. BP was able to project itself as a force of good by investing in the alternate energy projects. It was able to move a long way since the 1997 accusation of funding private armies in Columbia. Until the Gulf of Mexico disaster, not much attention was given to earlier incidents like the fatal Texas City refinery fire in 2005 and Prudhoe Bay pipeline burst in 2006. (Kristen Korosec, 2010)

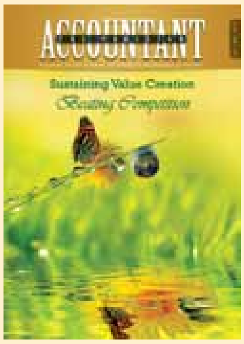
7. BP management has been accused of being reactionary. It has been accused of putting greater emphasis on cutting costs and efficiency even at the cost of preventive maintenance. It seems that the management had developed this false sense of security that nothing bad would happen. It now seems that with the full cost of the Gulf of Mexico yet to be unfolded, it is in for a rude awakening. (Kristen Korosec, 2010).

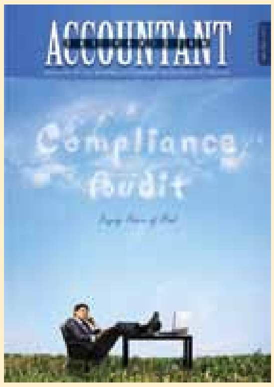
The author is an MBA (International Oil & Gas Management) and an LLM (Energy Law & Policy) from University of Dundee United Kingdom. He is currently a Partner in JASB & Associates Chartered Accountants - Energy & Law Services Division. He can be contacted at saeed.chughtai@jasb-associates.com

THE PAKISTAN ACCOUNTANT NEEDS YOU









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Oct/Dec 2013

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We look forward to your cooperation in this regard.

In Conversation with the Gold Medalists & Merit Certificate Holders

Foundation and Intermediate - Spring 2013

Mr. Sarmad Sattar (Roll No. 4074220)
ICAP Gold Medal
(Ameena Khatib Foundation)
and Merit Certificate
Financial Accounting Module-C.

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

A.1) The challenging and rewarding aspects of this profession inspires me so much that I decided to achieve excellence in chartered accountancy by putting my great efforts in to it. This will also help me earn respect and confidence that my parents had in me.

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

A.2) It requires tremendous hard work and exceptional devotion. Proper time and syllabus management contributes much to the achievement of desired result. Students must show persistence in class tests and should have attempted it as if they were ICAP's examination.

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

A.3) I wish to pursue CFA after qualifying CA and prefer industry over professional practice.

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

A.4) Students must pursue CA dedicatedly. They should plan their studies, and put extra efforts to accomplish the plan. Students should remain optimistic and never lose hope.

Q.5) What are your academic strengths?

A.5) My academic strengths are time management and hard work. I plan my studies carefully and follow the plan with discipline. I always remain optimistic and concentrate on necessary course coverage.

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

A.6) Chartered accountancy is a prestigious and rewarding qualification which gives great respect and reward. One has to show commitment and discipline for becoming a chartered accountant. It enables one to achieve the goals and polish the skills.

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?

A.7) The most struggled subject for me is Module-C Business Communication and Behavioral Studies, Which requires memorization and it is very difficult because I was not accustomed to it. I overcome my difficulty by trying to remember the main points and easily passed my exams.

Final Examination 2013 - Summer 2013

Waqas Ahmad (Roll No. 4069886)
ICAP J P Patel Memorial Gold Medal - Management Accounting.

A.1) After completing my A' levels, I started to evaluate and analyse my potential career choices for future. I had always been excellent in 'Mathematics' subject and had scored distinctions across my studies. I started my journey towards Chartered Accountancy by pursuing ACCA (Association of Chartered Certified Accountants) and won 'Certificates of Merit' for outstanding performance in each of first three exams and also scored a National Distinction in 'Corporate and Business Law'. It was when I started enjoying my professional studies and realised that Chartered Accountancy is the best career choice which suits my aptitude.

A.2) To conquer milestones or achieve something, one has to be disciplined and confident enough to face and surpass potential challenges in their way to success. The student shall carefully review the syllabus to get an idea about the scope of the subject and the areas that examiner intends to test. Reviewing the comments of the examiner is very important, it enable the student to avoid mistakes. Student shall also chalk out study plan and ensure that it incorporates the need for revising the syllabus at least twice before the final examination. Hard work and dedication, prayers of my parents and loved ones and trust on Allah the Almighty are the main ingredients of success which can help one to achieve anything in life!

A.3) After obtaining the membership of ICAP, I intend to pursue my studies towards obtaining membership of ICAEW (Institute of Chartered Accountants England and Wales) in parallel to my professional work.

A.4) There aren't many careers as diverse as Chartered Accountancy. ICAP members enjoy prestigious and rewarding positions in various sectors. The accountancy industry remains buoyant even in recession. Whether you want to work at home or away, being a Chartered Accountant equips you with broad knowledge and a diverse skill set which is transferable to any area of business, finance or accountancy.

A.5) By the grace of Allah the Almighty I have been blessed throughout my academic studies. Alhamdulillah since my childhood I used to be among the high achievers in my school and college.

A.6) Chartered Accountancy is a prestigious qualification which has a global impact in all areas of business and well-deserved reputation of high standards, variety and integrity. You could work across all industry sectors in over 160 countries around the world. Another good thing is that you don't need a background in accountancy or a business related subject at college or university (as in my case) to become a chartered accountant.

A.7) Yes, during my study period I faced a number of hurdles of which the most disruptive was the unexpected road accident which fractured my shoulder due to which I was unable to attend classes and even to write properly for about two months. However I didn't loose hope and kept faith in Allah the Almighty. As soon as I was able to walk on my own I didn't wasted my time and started studying towards my upcoming exams. This was great lesson for me and keeping that in view I would also like to advice others to keep faith in Allah the Almighty and never let yourself defeated by the adverse circumstances around you.

Adeel Ur Rehman (Roll No. 4066646)

ICAP Irtiza Husain Gold Medal - Corporate Laws - Module E

A.1) My School teacher, Sir Jamil was my inspiration who guide and brief me about the Prestige, respect and dignity that a Chartered Accountant enjoys throughout his life time.

A.2) Teachers are your guide, hard work is the route, parents are the motivation and prayers are to strengthen all these things together. It is your hard work which makes it possible to get through.

A.3) CA is a base for my future plans, my aim, destination, and desire to be a CA, but it is not the end of life. Insha Allah I will work hard for CFE and CPA in future.

A.4) One have to be focused, determined, dedicated, goal oriented and consistent for this qualification. HARDWORK IN A RIGHT DIRECTION IS A KEY TO SUCCESS.

A.5) Hard Work, optimistic approach towards studies, vigilant planning, self-improvement and always be a learner are my strengths.

A.6) It is a professional qualification. It polishes the management skills and sharpens the personality. CA is a rewarding qualification which demands devotion and attention.

A.7) During my training period, time management is an obvious problem, but proper planning and scheduling is a tool to handle for Module E.

Merit Certificate Holders
Foundation and Intermediate - Spring 2013

Mr. Gibraeel Khalid (Roll No. 4078425)

Merit Certificate - Functional English Module-A

A.1) Being a science student, it was a risky step for me to go for CA. But with the suggestions of my mother, relatives and friends, who have successfully completed their CA, I joined this profession.

A.2) It takes discipline in adopting and following your own schedule. I strongly suggest students to rely on training institutions, as teachers and tutors will give valuable guidance that no book or website can offer.

A.3) I intend to work in Pakistan so this qualification would be sufficient for me to get a nice job and a nice salary. CA is a prestigious degree and needs no supplements.

A.4) I would like to tell students that this is the age and time to take a decision that will benefit you for the rest of your life. Chartered Accountants are enjoying benefits that no other profession can offer. So if business is your field, I definitely suggest CA for others.

A.5) Consistency is my biggest strength as I am not a very intelligent student. You need to focus just as hard, maybe even harder, in order to be successful in each step of the way.

A.6) It is an excellent opportunity and ICAP's facilities and organization is genuinely focused on giving every student an opportunity to achieve distinction. As for the CA qualification, it is very hard to earn but, has great value once you have it.

A.7) The only issue was the sudden jump that I have faced. It took me months to finally get accustomed to the examinations and subjects. Time management is required but consistency is the key. I can't imagine anyone failing to complete their course, if they spend ample time for the preparation.

Mr. Muhammad Saad (Roll No. 4077707)

Merit Certificate - Quantitative Methods Module-A.

A.1) My source of inspiration to join CA was my father who belongs to the same profession. As Accountancy was a subject in my A Levels too and I found it so much interesting so I decided to join CA.

A.2) It only takes determination and nothing else. One must develop a conceptual grip over all the areas of the subject and then practice hard to be successful.

A.3) I have certain alternatives in mind and have not decided upon one course of action as of now. However, most likely, I would prefer to become a financial consultant.

A.4) If you want to build your career in Accountancy and Finance, there is no better qualification than CA in my view. Make up your mind and shape your study plans accordingly so that you can avail maximum exemptions upon joining CA and complete it within reasonable time.

A.5) I have always been an attentive student. The main focus for me is to learn the concepts thoroughly and compile my own comprehensive notes and that are my academic strengths in my view.

A.6) As far as the professional excellence and job security is concerned, CA is one of the best qualification. Moreover, it is quite achievable despite the general perception in the outside world.

A.7) I took up A and B Modules simultaneously so the pressure seemed too much, However, with time, I have developed a routine which helped me to focus on all the subjects and I was been able to pass the Foundation examination.

Mr. Waqas Amjad (Roll No. 4075672)

Merit Certificate - Introduction to Economics and Finance Module-B

A.1) My biggest and only inspiration to join CA is my own interest in this field of professional Accounting and Auditing. I've always thought of achieving the ultimate knowledge of the said subjects and to the best of my knowledge CA is the only qualification that can satisfy my desires.

A.2) It takes a great deal of hard work to be a high achiever.

A.3) It is impossible to say at the moment about your future plans as everything doesn't go the way you want it to be. I want to live in the present scenario, where I am concentrating on my studies but certainly I would like to become a part of corporate sector after CA.

A.4) I would like to advise them to think and plan carefully before joining CA. Prepare yourself for continuous hard work, be patient and be motivated and once joined do not look back, just concentrate on your studies and forget about your future as it is secured if you qualify.

A.5) My academic strengths are accounting and quantitative subjects like taxation, BCBS, Economics etc.

A.6) Whenever you start a work considering it difficult, you find it easy because you are ready to work hard. As I started CA considering it a challenge and worked hard to be in the business, consequently I found it easy and now, I am confident that if any one who wanted to work hard, will definitely be able to qualify.

A.7) During my study period I have found Module B a bit difficult. To manage properly all the three subjects till the end, I allocate my whole study time in the ratio of three on a daily basis for e.g. two hours for each subject daily. In the end management and preparation of subjects were quite easy for me.

Mr. Abdullah Mubin (Roll No. 4079836)

Merit Certificate - Introduction to Financial Accounting Module-B

A.1) I always wanted to achieve something that makes my parents proud of me and CA is amongst those qualifications which takes the person through different phases of a career including practical exposure and makes the person a complete successful package. That was the reason I pursued Chartered Accountancy.

A.2) Give appropriate time to your studies; follow the guidelines of your teachers and having confidence in yourself. Hard work is the key to success.

A.3) Currently I want to focus only on successful completion of my CA and don't have any particular plans for the future.

A.4) Join CA with having faith in yourself and Almighty Allah. Students should remain consistent in their efforts, should work hard with proper time management.

A.5) I have strong concepts of accounting and economics, I am good at retaining and understanding the lectures being delivered by my teachers and I can apply those lectures very well in my studies.

A.6) The CA qualification is a complete solution and a path that can lead towards a successful life. It grooms students by way of its courses and subjects along with the practical training opportunities.

A.7) I did not face any difficulty as I have focused my studies by giving equal time to all my subjects, followed all the guidelines suggested by my teachers and I have worked extremely hard.

Mr. Umer Najmi (Roll No. 4079961)

Merit certificate - Mercantile Law Module-B

A.1) The prestige associated with Chartered Accountancy was the driving force in inspiring me to opt for this profession. CA in one word is challenge, which brings out the best in a person. This inspired me to join CA.

A.2) Believing in yourself and your abilities and putting behind the fear of failure by anticipating the joy of success is the key. Success begins in the mind and thus it is important to set ambitious goals and show tireless commitment to achieve them.

A.3) I see myself associated with this lucrative career Insha'Allah.

A.4) Hard work always pays off. But in addition, you need to have some self-confidence. Students with a well-prepared schedule and proper time management can always score well in their examinations.

A.5) I love playing with numbers. But most importantly I try being attentive in all the classes which helps me to gain and retain concepts.

A.6) There are excellent prospects of employment in industries. As it is a highly rewarding field so all the hard work for the examinations pays off. The training experience prepares an individual well.

A.7) I appeared for two modules so there was always an issue of managing time. But studies were always my top priority and the committed and dedicated faculty of all the teachers at my institute helped me overcome all difficulties and by the Grace of God, I got a merit.

Ms. Izz Ghanaa Ansari (Roll No. 4074063)

Merit certificate Taxation Module-C

A.1) I was completely oblivious to the world of Accountancy till my A-levels. Dispirited by the dismal chances of employment after engineering and other courses offered by universities, I decided to make CSS my main aim as it was the only field through which I could do justice to my academic record. However, I came across the name of CA and further researched about it and literally took an overnight decision to pursue it and I must say that not for a moment that I have regretted my decision.

A.2) As one of my teachers usually says, CA requires, in addition to hard work, a lot of smart work! So in order to be a distinction holder, it is not necessary that you know each and everything nor is there any condition that you study 20 hours a day. Rather, it is more important that you know how to apply the knowledge you already have to unseen scenarios usually encountered in a CA paper. And that, I must say, is the essence of professional education and an achievement of ICAP in terms of education standard.

A.3) Well, being employed in a multinational firm as a Chartered Accountant with a handsome salary and exquisite perks! Though I am not sure where destiny will take me after CA, but there's one thing that I am quite sure of: I will definitely go on a world tour!

A.4) Be prepared for a real challenge. Once you throw your hat in the ring, leave no stone unturned to prove that you are the best. This means you will spend a lot of sleepless nights but believe me, at the end it will be all worth it! It reminds me of a Cadbury chocolate ad's punch line: "Eat it only if you've earned it!"

A.5) At the forefront of my strengths are my writing skills and reading habits that help me excessively in every type of subject.

A.6) CA gives an opportunity to all those students who are looking forward to a challenging field to excel in and to stand out among others. Also, all the Chartered Accountants that I have encountered to date are not only experts in their field rather they maintain an impressive knowledge base on multifarious subjects and affairs of the world. So my impression about CA qualification is that it helps to groom your personality as a whole that gives you an edge over the professionals from other fields.

A.7) Ironically, I struggled with the question of what does it take to earn a merit certificate. I wanted to keep my aim high so I could easily pass all subjects. By the end, however, I was grappling even with the problem of passing the subjects. But it seems like I have arrived at the answer!

Mr. Nadir Malkani (Roll No. 4075583)

Merit Certificate - Company Law Module-D

A.1) I had no plan till my matriculation to select CA, neither was I much aware of it. But then I joined a college that was owned by a Chartered Accountant, who later became my teacher as well. I was, in fact I am, still very much impressed by him and I wish to be like him. This brought me to Chartered Accountancy.

A.2) Commitment, consistency, lots of hard work and definitely lots of prayers.

A.3) Not yet decided but thinking about to do CPA.

A.4) 'Don't lend your ears to anyone saying you can't do CA (trust me there will be many saying this). Remain steadfast, give your best and let Allah do the rest.

A.5) I am good in numbers and I believe mathematics and related subjects like costing are my strength.

A.6) I believe CA is not difficult, in fact it's challenging.

A.7) I used to have difficulty in interpreting law but thanks to my teachers who were always there to help me out.

Ms. Amal Gulraiz (Roll No. 4074085)

Merit Certificate - Cost Accounting Module-D

A.1) The prestige that Chartered Accountancy brings was the driving force which attracted me towards this profession. Chartered Accountancy provides a potent combination of both respect and monetary returns, thus making it my prime choice.

A.2) In order to excel, one needs to be goal oriented, highly focused on your studies and work consistently. CA requires a lot of hard work and patience and if one is ready to devote them both, then his success will be certain.

A.3) I will join the industry after completing CA because I believe that our country is in a dire need of ambitious professionals who can lift the country up from the current slump and bring it on to the road to prosperity.

A.4) Nothing is impossible in this world, the only thing that matters is the amount of effort that one is willing to put. Likewise, the entrants to this profession should also be ready to work hard and then success will be theirs.

A.5) I believe that staying consistent is my greatest academic strength. This profession requires that students shall remain consistent right from day one and work regularly.

A.6) CA is a very prestigious qualification. Though it demands a high level of focus and attention from the students, but the knowledge and communication skills that it provides equip a person with everything that is needed for a successful professional life.

A.7) Initially I found it difficult to study subjects like Taxation and Company Law because the language is hard to grasp but later I used to it with time and efforts, thus getting good command over them and hence achieve a merit certificate too.

Mr. Muhammad Samie (Roll No. 4070088)

Merit Certificate - Information Technology Module-D

A.1) My father is associated with the profession of commerce and my appetite for Chartered Accountancy got amplified to challenge the maxim which overwhelms the academic world that, *CA is something out-of-reach*. The distinctive professional repute and a privileged status as enjoyed by the Chartered Accountants in the society, dominated by a gigantic number of professions and the depth of knowledge base as mastered by them supported my inspiration to join CA.

A.2) Perseverance, a thirst to compete and outstrip, an expert mentor, proficiency in time management and the moral support and prayers of the parents and the loved ones, constitute the focal ingredients to surpass the competition and grab the aspiring distinction.

A.3) Teaching would be one of my major post-academic activities in conjunction with rendering my services to the corporate world.

A.4) Remember, it's YOU who can qualify and it's YOU who can't. Only diligence serves as the vivid line of distinction among the candidates. The probability of an average but assiduous student to qualify is far more than an intelligent but a careless student. Mere intelligence carries no value until and unless backed by an utmost hard-working attitude.

A.5) My utmost commitment to the task I need to perform, sharp photographic memory, agility in calculations, proficiency in communication, getting grip over the subject through profound practice and sheer inclination towards IT and allied areas are some of my academic strengths I'm able to capitalize.

A.6) The qualification that makes its holders the core workforce of the business world, makes them conspicuous even in the mob of thousands and promises one of the most handsome and dominant careers ahead qualifies as Chartered Accountancy, according to me.

A.7) Time management turned out to be a doughty challenge for me to ensure successful completion of the syllabi followed by satisfactory revision before exams.

Report of the 27th SAFA Board Meeting held on 17th June, 2013 at Colombo, Sri Lanka

Abdul Rahim Suriya, FCA, FCMA

Brief summary of the matters discussed in the SAFA Board meeting :

Mr. Abdul Mannan, President SAFA In his opening remarks, stated that spirit of SAFA should be maintained and emphasized on the need of greater cooperation amongst SAFA member bodies.

Comparative study of Fiscal & Tariff Regimes in SAFA countries

The draft study was circulated by the SAFA Secretariat to all the member bodies with a request to update the relevant information pertaining to their country . The Committee decided that the updating of the study should be a continuous process and should be updated every year since the Fiscal and Tariffs keeps changing every year in all the countries. He added that it was noted that the date of presentment of annual budget of each country is different and varies from January to July. Therefore, the Committee decided 15th August of each year as deadline for sending the updated information to the Secretariat and based on the information so received, the study would be updated on annual basis by September 15

Questionnaire for preparing a comparative study of Transfer Pricing and International Taxation provisions in SAFA countries especially with regard to Double Taxation Avoidance Treaties

The task of developing and circulating the questionnaire was assigned to The Institute of Chartered Accountants of Nepal (ICAN). In January 2013 Sri Lanka Institute agreed to volunteer assistance to ICAN in Questionnaire development process. The board was apprised that a draft note on International Taxation provisions in SAFA countries especially with regard to Double Taxation Avoidance Treaties along with the possible questions, was discussed at the meeting of the Committee. It was decided that by 30 June 2013, the draft questionnaire would be sent to ICAN and then will be circulated to all members of the Committee to offer their comments/ inputs/suggestions on the draft questionnaire within one month time i.e. August 15, 2013.

Comparative Study of the provisions of Transfer Costing in SAFA countries

The task of preparing Comparative Study of the provisions of Transfer Costing in SAFA countries in lines with the study on Transfer Pricing was assigned to Committee on Professional Accountants in Business (PAIB).

Task Force to Harmonize the BPA criteria being followed by SAFA Member Bodies

The Task Force had a detailed discussion at the meeting on the national criteria being followed by SAFA member bodies for evaluation of the winners. The issued was raised that Nepal and Bangladesh are following the same SAFA criteria at national level for giving BPA Awards; while Pakistan, India and Sri Lanka are using different criteria.

Mr. Abdul Rahim Suriya, ICAP Pakistan mentioned that in Pakistan the criteria caters the local need and ICAP have adopted the best practices. The Corporate Reports in Pakistan, in certain areas, are better than developed countries reports.

Task Force was of the view that qualified report should not be considered at all for the competition, negative marking was recommended for non-compliance of regulatory requirements of respective SAFA country, and review of annual report by Industry expert and regulatory requirement review should also be introduced at national level.

SAFA Regional Standard Setters Conference 2013 at Colombo, Sri Lanka

Mr. Arjuna Herath informed that next Regional Standard Setters Conference was planned to be hosted by CA Sri Lanka coinciding with AOSSG meetings in the last week of November 2013. at the request of ICAI, it was decided to change the dates that would be communicated to the members shortly.

Restructuring the existing organizational structure of SAFA

Mr. Sujeewa Rajapakse had written to all the past Presidents of SAFA for their views on the organizational structure and the need of both Assembly and the Board. based on the responses received the Task Force is of the view that to exercise proper governance and to have an effective work to be done through the Committees both Assembly and Board should remain as it is and no change is required in the existing organizational structure.

Task Force to develop a strategy to combat corruption in SAARC Region

The Board formulated a Task Force to develop a strategy to combat corruption in SAARC Region under the Chairmanship of Mr. Abdul Bashir, Deputy Auditor General, Pakistan & Member National Council ICMAP. The Board requested representative of ICMAP for expediting on the matter.

1. Training program proposal received from Audit Office of Maldives for staff and other Public Sector Organisations and
2. also for staff of Maldives Inland Revenue Authority

The Board noted that these had been forwarded to CPA Maldives who had sought for certain clarification on the proposal such as the duration of the training, financials, profile of faculties etc.

CA Sri Lanka has signed MoU with CPA Maldives for technical cooperation.

To develop Concept Paper for developing Ethical Framework for SMPs

Mr. Ghulam Mustafa Qazi, ICMAP had to prepare a Concept paper for developing ethical framework for SMPs. SMP Committee had formed a small sub group to further deliberate on the matter. Mr. Anwaruddin Chowdhury suggested that the Code of Ethics for SMPs can not be different from the Code of Ethics applicable to all practicing members. Mr. Sujeewa Rajapakse suggested that the Code of Ethics of respective SAFA member bodies should be considered while finalizing its recommendations.

Concept Paper on the need of Quality Assurance and the relaxations of certain conditions for SMPs

Mr. Nazir Chaudhari, ICAP Pakistan had to develop a Concept Paper on the need of Quality Assurance and the relaxations of certain conditions for SMPs. the matter was also discussed at the meeting of SMP Committee and a small sub group has been formed to study the matter. The sub group will place its recommendation at the next meeting of the Committee.

Resolution proposed by Task Force to address Risk & challenges to Accountancy Profession in SAFA Region

Mr. Abdul Rahim Suriya of ICAP apprised that the Task Force had decided that a guideline would be prepared by the Task Force. Mr. Lakshman Watawala has been authorized to finalise the questionnaire in this regard for circulation amongst SAFA member bodies which will provide input from all members countries.

Developing SAFA Standard and Guidelines for Education, Training and Assessments –Proposal of the Institute of Chartered Accountants of Sri Lanka

Mr. V. Murali, Chairman, Committee on Education, Training and CPD informed that the Committee on consideration of the proposal decided to develop Regional Standards based on International Education Standards issued by IAESB of IFAC. He further informed that the Committee also discussed the concerns raised at the previous meeting and decided to replace the word 'CA' by 'Professional Accountant' to address the concern. Committee at its next meeting would discuss in detail the broad educational standards required at regional level on education, training, IT and soft skills development that would be applicable for both CA & CMA member bodies.

World Congress of Accountants 2014 at Rome, Italy

Scientific Committee of WCOA 2014 has been working on the WCOA 2014 program and will contact SAFA and other IFAC Acknowledged Accountancy Groupings and Regional Accountancy Bodies in due time for inputs and suggestions.

Comparative Study on the status of Accrual Based Accounting in SAFA Countries would be considered as a separate agenda item.

Restructuring of existing Committee System and amendment in SAFA Constitution

Task Force noted that the tenure of three years of existing Committees started w.e.f. 1st January 2011 after revision of Constitution in August 2010, except International Relations Committee that was formed in 2013. Therefore the term of various Committees except International Relations Committee would come to end on 31st December 2013.. Task Force also expressed serious concern on the continuity issues and highlighted the following recommendations on the existing Committee system:

i) To have continuity of same members on the Committees

ii) Chairman to be Member of the Council or member of relevant Committees of respective Institutes

iii) All Committees to have Deputy Chairman appointed by Committee ratified by SAFA Board

iv) The tenure of the Chairman, Deputy Chairman and the Committee should be two years.

v) Chairmanship from each Institute to be rotated every six years and the Institute chairing the Committee will provide full technical support to the Committee for its efficient working and for maintenance of records.

vi) Where Institutes have exceeded 6 years to continue for a further period of two years before change

vii) Chairmanship will be rotated amongst Institutes in order to provide opportunities to other Institutes.

On issue of tenure of President and Vice President, the Task Force has recommended no change in the existing tenure of one year.

Proposal from Institute of Chartered Accountants of India to host the SAFA meeting

coinciding with CAPA meetings and ICAI International Conference at Kolkata, India

The Board decided to hold SAFA Board and Committee meetings on 21st November 2013. and if needed some of the Committee meetings could also be organized on 20th November 2013.

Forthcoming SAFA events

After detailed deliberations, the following schedule of meetings/events was tentatively planned for 2013:

- SAFA Board, Committee meetings and Conference in September 2013 at Dhaka, Bangladesh to be hosted jointly by ICAB & ICMAB.

- SAFA Board/Committee meetings proposed to be hosted by Institute of Chartered Accountants of India coinciding with the CAPA meetings & International Conference at Kolkata, India on 21st November 2013.

Member Body Report - The Institute of Chartered Accountants of Pakistan (icap)

1. (a) Independent Oversight of the Audit Profession:

Audit oversight is entirely unknown in Pakistan. To enhance **Quality** the Institute of Chartered Accountants of Pakistan (ICAP) had set up a Quality Control Review Committee (QCRC) for monitoring the quality of audits through a voluntary programme in 1987. Quality reviews by the QCRC were made mandatory in 2002 following the issuance of the Code of Corporate Governance (CCG). The CCG requires that a listed entity would only appoint that firm of chartered accountants as its statutory auditors which has been provided a satisfactory rating by the QCRC. That QCRC was in 2005 converted into a Quality Assurance Board (QAB) with a revised framework. The QAB continues to function independently of the Council and to further enhance its credibility a number of its members are nominated directly by the Securities and Exchange of Commission (SECP) and a member is also nominated by the State Bank of Pakistan. In Pakistan, the concept of having an independent audit oversight system is now gaining currency. Following discussions in the Council, a committee, which includes representatives from ICAP and SECP, is at present in the process of deliberating upon the mechanism of setting up of an independent audit oversight board in Pakistan and drafting its framework. Once their deliberations are concluded the draft framework is expected to be shared with the ICAP members for their information and input.

(b) Status of Audit Law and Cost Accounting standards:

A Committee comprising of representatives of ICAP, SECP and ICMAP has been constituted to formulate the Cost Accounting Standards. The first draft of the Cost Accounting Standard on "Classification of Cost" is under consideration of the Committee. It has also been agreed by the Committee that before developing Cost Accounting Standards a comprehensive Cost Accounting Framework be developed. There is also a view that whether all such costing standards should be aligned with IFRS/IAS and should not be developed in isolation.

(c) Revision of Framework of the Quality Control Review (QCR) Program:

Revision of Framework of the QCR Program is under consideration of the QAB. In addition to this format of composite report which would cover both reviews i.e. engagement review and firm review under ISQC-1 has also been finalized by the QAB. The above matter will be sent to the Council for its approval soon.

2. (a) Director's Training Program:

SECP approved the directors' mandatory training certification program of ICAP. It is required to be completed by every director of a listed company. The Institute launched the program and in first four programs , 128 directors of the leading listing companies passed out. The objective of this program is to acquaint them with the Code, applicable laws, their duties and responsibilities to enable them to effectively manage the affairs of the listed companies for and on behalf of shareholders. DTP is a Pakistan specific course but aims to create familiarity with global principles of corporate governance. This is a four day certificate course which covers the broader perspectives and principles of corporate governance, applicable laws, financial and strategic management, reporting and communications.

(b) Awareness Session with SECP on revised Code of Corporate Governance 2012:

In order to respond to the concerns and enable better understanding of the revised Code of Corporate Governance 2012, SECP had conducted awareness sessions at all three stock exchanges targeted towards CEOs, CFOs, Company Secretaries and Internal Auditors of the listed companies. Owing to the robust membership and the fact that ICAP members are actively involved in implementing revised code in their roles as CFOs, Company Secretaries, Internal Auditors, External Auditors, Board Members and CEOs, the SECP in collaboration with ICAP has conducted an awareness session on Revised Code of Corporate Governance 2012 on **June 11, 2013** at ICAP Karachi.

3. Syllabus and Study Packs:

ICAP has revamped the Chartered Accountancy qualification by incorporating latest developments in curriculum and structure and had launched its Education Scheme 2013 on May 28, 2013. The new structure will facilitate the students to undertake the contemporary and future challenges of business, finance and economy. The new modular system has 4 tiers of CA qualification and each stage has stand-alone recognition. Each certification has its own market recognition and will open up new employment avenues. To facilitate CA students revised syllabus and exam specific study material has also been introduced. The objective is to make ICAP's education and examination fully compatible with those of other leading Chartered Accountant institutes and to meet the growing expectations of the market from Chartered Accountants. The revision of curriculum and syllabus was by an independent review of the same was also carried out by a professional body. The Institute is also in process of publishing its first official study support material. The Institute has engaged a UK based publisher to produce a high class exam aligned study packs for all examinations. After witnessing sharp growth during 2007-2009, the intake declined from the boom figure of 4700 in 2008 to 3400 in 2012. Now the intake is in stagnation mode and we expect it to improve with this reform.

4. Status of foreign accountancy bodies:

The Institute refrain all its Training Organizations from engaging students of foreign accountancy bodies (ICAEW and ACCA).

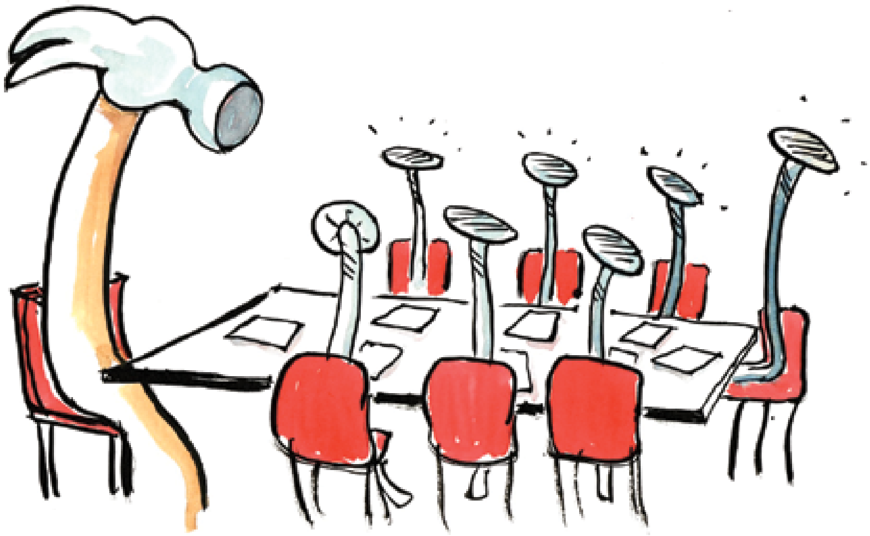
5. ISAE 3402 – 'Assurance Reports on Controls at a Service Organization' and ISAE 3420 'Assurance Engagements to Report on the Compilation of Pro-Forma Financial Information Included in a Prospectus' have been adopted.

6. IFRS for SMEs and 'Islamic Financial Accounting Standard 3 – Profit and Loss Sharing on Deposit Accounts' is in process of being notified by the Securities and Exchange Commission of Pakistan.

7. Roundtables are being held on the following IFRS for seeking stakeholder comments before recommending for adoption to the Council:

- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements

8. The Committee On Accounting & Auditing Standards For Interest Free Modes Of Financing And Investments (IBC):



The Islamic banking committee of ICAP has completed the work on the Standard on 'Profit and Loss Sharing on Deposits' which has been sent to the SECP for notification. Following Islamic banking standards are under the consideration of the committee:

- Standard on 'Diminishing Musharaka'
- Accounting Standard No. 4 on Musharaka Issued by Accounting & Auditing Organization for Islamic Financial Institutions (AAOFI), Bahrain
- Financial Reporting Framework for the Preparation and Presentation of Financial Statements of Islamic Financial Institutions Subsequent to the Notification of Islamic Financial Standards.

Invitation To Comment (ITC) on Improving the Auditor's Report issued by IAASB:

This ITC sets out the IAASB's indicative direction proposed for the future auditor's report. The IAASB has identified number of improvements to auditor reporting and after this ITC, Auditor's report format would be significantly changed; the most important is the inclusion of Auditor's Commentary in the audit report. ICAP' relevant committee had formulated comments on this ITC and sent to IAASB in October 2012.

9. Best Corporate Report and Best Sustainability Report Awards:

In order to encourage the public listed companies to improve the quality of their Annual Reports, particularly in relation to disclosures as well as corporate governance, the Joint Committee of the Institute of Chartered Accountants of Pakistan and Institute of Cost & Management Accountants of Pakistan has been awarding the Best Corporate Report Awards for last thirteen years. Annual reports are evaluated on the basis of the 'Criteria' which is reviewed on a regular basis in order to keep pace with the international best practices and the local reporting frameworks.

The BCR Criteria includes voluntary disclosures such as a 'Forward Looking Statement' Vertical & Horizontal Analysis of the financial statements, summary of issues rose in the last Annual General Meeting and its implementation status, calendar of major events, and a complete section on corporate governance including disclosure of policies for Investors' grievances, safety of records of the company,

Furthermore in order to promote the responsible reporting by companies covering the economic, environment and social performance of the business, the joint committee of ICAP and ICMAP included a new award namely, 'Best Sustainability Report Award' in 2011. The Criteria is based on internationally recognized Framework; G3 Guidelines of Global Reporting Initiative (GRI), an international standard on Sustainability Reporting that has also been recommended by the International Federation of Accountants (IFAC).

10. Number of Members of ICAP:

Description	No. of Members
Overseas	1352
Practicing	760
Non-Practicing	3946
Total Active Members	**6058**

11. Composition of Council and Government Nominees:

Affairs of ICAP are governed by a Council comprising of 19 members. 15 members of the Council are elected by ICAP members and 4 council members are nominated by the Federal Government. Current nominees of the Government are Chairman SECP, Chairman FBR, Deputy Auditor General of Pakistan, and Secretary Finance. Apart from its core functions, ICAP contributes in promoting corporate governance, formulating economic policies of Federal and Provincial Governments including federal budget making with specific focus on taxation. ICAP is also a prominent participant of professional activities and development at international level.