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The views expressed are those of the writers and do not reflect the Institute of Chartered Accountants of Pakistan. All submissions received will be edited for clarity and space.
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Budgets are part of management control designed to promote the efficient use of resources and providing support for other critical functions. The extent to which any budget is successful is very much dependent on its acceptance and the attitudes of workers towards it.

This issue focuses on the behavioural aspects of budgeting and how an understanding of its importance can contribute to a successful budgeting process. It describes the nature of budgeting and analyses the budgeting process in organisations.

The Institute is an independent representative professional body which regulates the profession and fulfilling the public interest throughout the five decades. The Institute’s leadership, Council and expert committee members were sought for comment on major issues such as the country’s budget.

The Institute's budget proposals were widely reported, with the media noting our call for the government to provide more support to the community and to reinforce country’s standing as an international centre of finance and commerce.

The Institute of Chartered Accountants of Pakistan Committee on Taxation has been constantly making efforts to identify areas where reforms are needed for broadening of the tax base, improving revenue collections, ensuring voluntary tax compliance and building tax payers’ confidence, leading towards tax compliant culture.

Like every year, the Committee proposed and finalised the Budget proposals for the government in April and held a press conference to publicize our recommendations. This year, the proposals contain for the first time a series of suggestions for administrative reforms for effective implementation of the fiscal laws, increasing tax payers’ compliance, improving quality of Human Resource of the FBR and the governance structure of the Policy Board. On budget day, a press release was issued and the media interviewed Institute representatives. A budget commentary was also being formulated by the Institute and a seminar on Post Budget was also held for the Industry professionals.

Throughout our journey, growth and progress has maintained a pace, and we are confident that it will continue unabated in times to come. I hope we all continue to benchmark our efforts in the interests of the national development and integrity and create better opportunities for accountancy professionals in this vibrant phase of globalisation.

M. Sharif Tabani, FCA
Almost every enterprise, regardless of size, complexity or sector, relies heavily on budgets and budgetary systems to achieve strategic goals. The success and importance of budgeting relates to the identification of organisational goals, allocation of responsibilities for achieving these goals, and consequently its execution.

The process of budgeting involves setting strategic goals and objectives and developing forecasts for revenues, costs, production, cash flows and other important factors. However, it is believed that there are both technical and behavioural aspects to budgeting that can benefit all firms if properly understood and co-ordinated. Although the technical aspect is always emphasized as being most important, the recognition of both the technical and behavioural aspects of budgeting is essential, if goal and behaviour congruence are to be achieved. (Goal and behaviour congruence exists when the goals of the manager or worker are in accordance with the goals of the organisation.)

Our members hold leading positions both locally and globally. We maintain our recognition and brand value by providing leadership and direction for professional change. Our members continue to serve locally in the boards of the Securities and Exchange Commission, State Bank of Pakistan and provide leadership from a regulatory perspective to the country. To complement our national role further, we also provide crucial insights into the preparation of the National Budget, by incorporating ideas and feedback from our members.

As we have been doing in the past, taking the views of our members on board, the Institute submitted several crucial proposals for the National Budget to the Ministry of Finance. From the proposals we submitted, few proposals received favourable consideration of the Government and have since been enacted into tax law.

The Pre and Post Budget Seminars organised by Institute are one of the most sought after events in our annual calendar, much looked forward to by our members, students as well as the general public. The increasing number of participants we record annually bears testament to the importance of this event. During the year under review, we recorded a total of 850 paid participants among whom were eminent industry professionals who registered for the seminar held during the year 2015.

Dear Members, you are the backbone of this august Institute, your ownership, involvement and dedication for the profession and the Institute is what is required to take the Institute to the next level. We have a tremendous foundation to build upon, and I am confident we can meet challenges that the future will bring.

Yacoob Suttar, FCA
Join the Discourse

Topic of Discourse:
Accountants, through the budget process, can motivate employees and improve attitudes amongst managers towards budgetary control...Do you agree?
A machine runs well when all its parts and constituents are well maintained and run as per their specifications. Similarly, an organisation moves towards the journey of achieving its objectives and targets when all the stakeholders and constituents are on the same page and have aligned their own goals and objectives with those of the organisation. Business-centric employees and managers capable of making structured and non-structured decisions contributing to the growth of the organisation are in high demand these days. There is a general misconception that targets or budgets are set for employees and managers affiliated with marketing jobs. The finance team is entrusted with the responsibility for making decisions as to the utilisation of resources which, in some cases, goes as high up as devising the marketing strategy of an organisation in line with the mission and objectives. Performance of accountants in service industry is measured not only by the yardstick of their contribution towards completion of jobs, but also by their client management and relationship abilities contributing towards business growth. These business growth opportunities are increasingly becoming part of the budgetary process as a motivational tool for employees to enhance their performance in order for them to climb up the ladder in the process of becoming business leaders.

Junaid Amanullah, ACA
Riyadh, KSA
Motivation of the employees comes from the sense of involvement, power and control. So the real participation in setting their goals will help to set a fair and achievable target and will thereby, lead them to devote more time in achieving the entity's objective. This, in turn, will also help to improve their performance and increase motivational levels. Furthermore, if budget figures are a result of bi-directional communication, the entity would be able to register a reduction in the budget deviations. Employees who receive unfavorable results, but had the opportunity to participate in target setting process, have a more tolerant attitude and are more accountable for their actions and outcomes. Thus, participatory budget process will have a positive impact on both motivation and performance of employees.

Awais Khalid, ACA
Lahore
Budgeting control alone may discourage employees. However, this can be neutralised by setting up some sort of appraisal mechanism for employees which is linked to achieving budget targets. For example, those employees who keep costs within the budget would be given extra bonus. In Pakistan, most organisations do not follow zero based budgeting or activity based budgeting process. These organisations prepare their budgets without any rationale and improper planning and by merely rolling over previous year figures. The lack of intent shown by the management which, most of the times, is not aware of the basic purpose and intent behind the budgeting, the use of inappropriate forecasting tools and models. Management’s failure to adapt to changes in environment and lack of proper planning results in unrealistic and out-of-reach targets. This results in frustration and withdrawal among the employees. That is why many privately governed organisations have now opted out of the budgeting process. So, in my opinion, organisations should avoid the use of budgetary control unless it is linked with remuneration package of both employees and managers.

Omar Shahab, ACA
Dubai, United Arab Emirates
In today's world, budget plays an important role in shaping the performance of organisations. The old saying “Fail to plan, then plan to fail”, still holds true. Indeed, budgetary control is one the most crucial forms of measuring performance, be it employees, departments, or even entire organisations. The main question still remains unanswered as to who should be the budget driver. In my opinion, accountants are not at all suited to be the right fit for the budgetary process. While accountants may possess the financial prowess, nevertheless, they are often viewed as policing the organisations if they enforce budgetary controls. This leads to the detriment of the morale and motivation of the employees, which then cascades down to resistance to share complete and requisite information from all other departments in the organisation. In conclusion, accountants cannot motivate employees and improve attitudes as their role in the organisation makes them unsuitable for the task. Instead, budgetary control is best achieved by departmental monitoring and analysis.
Mudassar Ghulam Nabi, ACA
Islamabad

Budget is a control document that sets goals, provides directions and sets the tone of an organisation. A well-prepared and balanced budget may serve as a source of motivation for employees. However, there are factors that may not lead to motivation or serve as factors of demotivation, some of which are: setting high targets without availability of sufficient resources, marketing plans or employee reward schemes, etc.

Muhammad Aamer Malik, FCA
Lahore

Budget is a management tool to layout financial operating plan for the accomplishment of organisational objectives through optimum utilisation of resources, to exert controls, to map out the future and, provides a roadmap to embrace uncertainties with greater preparedness and is, therefore, considered as one of the most effective management tools. The budget process which is more participatory in nature encourages employees to contribute their first-hand knowledge and provides them the feeling of empowerment as if they are also playing a key role in steering the organisation. Employee participation in the budget process is more likely to internalise the changes it demands. They’ll own it, commit to it, and work every single day to work towards its goals and targets. Participation implores information sharing for greater understanding of the situation, cross-discussions clarify ambiguities, and culture of increased cohesiveness is promoted. Participatory process is sometimes not the right answer to the budgetary hitches, because employees do not always consider bottom-up approach as an opportunity to bring their best selves forward. Many a times, it’s used as an opportunity to keep cushions (slack), especially when budget targets are linked directly with performance evaluation and rewards. They always want to outperform their budgeted targets, which may mean lack of motivation to set challenging goals. The greater pressure they feel from the management to meet targets not set or agreed by them as a team, the more they’ll distrust the process. Also, employees are not always informed about the long-term organisational goals so they may opt for more short-term view of success which entails the potential to be extremely destructive. The pitfalls, however, can be dealt with by understanding that every financial and functional tool is for humans and thus has a behavioral element attached to it. Accountants by understanding this phenomenon can use budget process as a tool that works for them not against them. Open communication can impart trust by ensuring transparency of budget objectives, processes and incentives; thus, everybody feels onboard and “leads” the organisation on the path of success.

Kamran Ahmad, ACA
Rawalpindi

Planning is an important part in every aspect of an organisation's operations and budget is part of financial planning which helps an organisation to monitor efficiency of operations and maintain profitability. By setting the budget, employees get direction for executing operations, with controlled spending and also gets motivation to deliver according to financial target to gain recognition. However, in order to get employees motivated and improve their attitude towards budgetary control, budget should be prepared by involvement of user department and forecasting future expenditure based on business needs. Imposed budget amount without assessment of business needs might not result in achieving the benefits in question.

Hamza Bilal, ACA
Faisalabad

Budgets can act as a motivational factor by creating goal congruence between individual and organisations goals. However, the success of budgeting depends on how budgets are created, participation of employees in the budgeting process, the objectives and targets set to be achieved. Budgets need to be carefully designed because if objectives are un-realistic or if employee participation is minimum, it can impact the ownership of budgets by employees and can instead act as a demotivating factor. Successful implementation of budget depends on the individual circumstances of the company and both micro and macro environmental factors. If carefully designed, budgets can motivate employees and improve attitudes among managers towards budgetary control.

Ahsan Subhani, ACA
Lahore

Accountants through the budget process can motivate employees and improve attitudes amongst managers towards budgetary control. The benefits gained on achieving the required budget level is important for motivating lower level managers and employees. Consequently, the management style, culture and attitude towards employees will determine the approach to budgeting within the organisation. Motivation is a fuel that drives employees to achieve strategic goals and the resultant force that influences action towards such goals. However, obtaining goal congruence is essentially a behavioral issue. Involvement in the budgeting process is, therefore, of significant importance because budgets serve to motivate employees and managers by giving them a sense of purpose. Where rewards are attached to the attainment of budget standards it serves to act as a motivator. Accountants must recognise that accounting techniques and human relations are inseparably bound with each other. The behavior aspects of budgeting are significant and the accountant has a responsibility to minimise the behavioral problems within the accounting systems for control. It follows that management accountants should work more closely with behavioral scientists to gain an understanding of the essential role that human behavior plays in successful budget use.
Anees, ACA
Lahore

Budgets are part of management control designed to promote efficient use of resources and providing support for other critical functions. Almost every enterprise, regardless of size and complexity of sector, relies heavily upon budgets and budgetary systems to achieve strategic goals. An annual budget of both revenues and expenses is the linchpin of management for almost every type of organisation. It enables CEOs and management committees to plan their activities, set goals and measure actual performance. Without a developed budget, you’re just wondering how your firm will function and what you’ll earn. It is empirical that budgeting process has greater impact on organisational behavior. It is human nature, if there are set targets and goals, they put an extra effort and utilise maximum of their abilities to achieve those targets. So, budgets are used to motivate members of the organisation by serving as targets and mechanisms for gaining involvement and commitment. Budgeting is one of the most successful and useful management techniques that can reap handsome reward if properly understood and implemented. It also improves productivity of employees in such a way that it sets a single target and each employee thinking and working in the same direction as a team instead of having wondering on their own. Similarly, motivation level will also be affected if the budget puts any impact on the perks and benefits of the employees. Budgeting is also important for the management as it involves setting strategic goals and objectives and developing forecasts for revenues, costs, production, cash flows, and other important factors. Budgets are formalised plans of management’s objectives. They serve as a guide in the implementation of a selected strategy but during budget period, it acts as a management control device. It helps managers to achieve revenues with the available resources and cost controls. Accountants are the main developers of budgets. So, I agree that accountants, through the budget process, can motivate employees and improve attitudes amongst managers towards budgetary control.

Budget is a control document that sets goals, provides directions and sets the tone of an organisation.

Planning is an important part in every aspect of an organisation’s operations and budget is part of financial planning which helps an organisation to monitor efficiency of operations and maintain profitability.
What is Budget?

A budget (derived from old French word baguette, purse) is a quantified financial plan for a forthcoming accounting period. In other terms, a budget is an organisational plan related to the use of available resources stated in monetary terms for a defined period of time, usually one year.

Budgeting is a tool used by management to help implement the business strategies, control business expenditures, undertake measures to increase revenue, plan about investments of surplus cash and arrange sources of finance to meet future obligations. It is a financial roadmap for a company which ensures the alignment of its business direction to its vision and mission using the available resources.

Types of budgets: There are various types of techniques used by organisations to develop budgets.

- **Static/Fixed budgeting:** This technique sets inflexible (fixed) objectives related to target revenue and expenses for the forthcoming accounting period and does not adapt to subsequent events and environmental factors that can affect achieve predetermined objectives. Thus, this technique introduces rigidity and is only suitable in stable environments with very slow pace of change.

- **Flexible budgeting:** This technique involves setting different targets related to revenues and expenses considering various environmental factors that may be present in future and will impact the outcome for the period. This technique is more complex but is more comparable to actual outcomes for the period.

- **Zero based budgeting:** This technique challenges assumptions and estimates made during previous accounting period since it involves a vast study of factors every time a budget is set. The budget is made from scratch without incorporating previous accounting period results thus it takes detailed working and considerable time. It involves determination of outcomes that management wants and then allocation of resources to achieve those outcomes. This approach is more relevant to service sector organisations.

- **Incremental budgeting:** This technique involves development of budgets based on the results of previous accounting periods and incorporating the same into the budgets. It is incremental on approach and does not involve detailed evaluation of various factors such as organisations efficiencies and progressions, and thus does not provoke for improvement.

- **The rolling budget:** It involves addition of new budget period upon completion of existing budget period so that at all times the length of period covered by a budget remains constant. It involves considerable level of resources and effort and thus it is least efficient.

Why to develop budgets

Following are the core objectives for making a budget:

- **Organisational Structure & Direction:** The basic objective of developing a budget is to enable an organisation in help planning the use of available resources in such a way to aligning its direction to its vision and mission, and to make strategic decisions to come up as a profitable, prosperous and strong market leader.
• Profitability Review: It helps management to help identify profitable business units of the company and planning for further diversification of profitable products and at the same time determining the units which are at loss and which need to be closed/disposed of.

• Resource Allocation: It helps management to allocate its resources at its best to achieve organisations goals and ensure highest possible profits.

• Cashflow Forecasts: It enables the management to help predict the cash inflows and outflows the company may expect during its accounting period and make investing decisions accordingly. It is extremely useful for companies that are operating on a cyclical basis and have seasonal cash flows.

• Performance Evaluation: A company is able to review its performance by comparison of actual results with budgeted outcome. Thus it enables management to help identify problem areas which either needs management attention or could be closed down due to non-profitability.

• Coordination and Communication: Budgeting process improves coordination and communication between departments and helps align interdepartmental objectives with the aim of achieving overall strategic objective, i.e. vision and mission of the organisation.

Budgeting in Modern Business environment

As early as 1992, the famous guru of management, Peter Drucker, wrote in The Wall Street Journal: “Uncertainty—in the economy, society, politics—has become so great as to render futile, if not counterproductive, the kind of planning most companies still practice: forecasting based on probabilities.”

Modern day business environment is very unstable and pace of change is very rapid. Technology, law and order situation, innovation, competition are the factors leading to a continuous change in business environment. Traditional budgeting involves setting budgets for twelve months period which is not suitable in modern business as now a days business needs to be adaptive and flexible as opposed to rigidity to combat with the pace of change. Modern business requires a system that needs to be more flexible and adaptive to business environment and more flexibility is to be enjoyed by operational core so that timely actions can be taken to keep the business in competition.

Despite the reasoning behind these limitations, Hope and Fraser (1997) report that 99% of European companies use formal budgeting procedures, this figure is likely to remain high even today. In addition, a survey of US organisations by Libby & Lindsay (2007) revealed that over 50% of senior managers felt businesses could not cope without budgets and that they were imperative to success. Managers also believed that despite the associated time and costs budgets were adding value to a company. Ekholm & Wallin (2010) feel the annual budget is not dead yet, but it is past its peak and has lost usefulness and become outdated.

How budgeting can cope with modern business requirements

Modern day business strategists are introducing a new concept named Beyond Budgeting, to cope with the rapid pace of change and unstable business environment. The Beyond Budgeting Round Table (BBRT), a network designed to transform the traditional budget system, studied fourteen companies without budgets or almost without budgets and from this they produced twelve guiding principles to Beyond Budgeting:

• Measure performance against the competition, not internal targets.
• Motivate employees by empowerment.
• Delegation to divisional managers allows them to take responsibility.
• Give operational managers independent access to resources.
• Create customer focused teams.
• Provide transparent information sharing across the organisation.
• Set targets on external benchmarks.
• Rewards in line with beating the competitors.
• Allow managers to be involved with strategy planning.
• Grant management access to local resources.
• Coordinate the internal use of resources.
• Performance measurement information should be available freely. (Daum, 2002)

Other responses of the supporters of the budgeting process are to use better budgeting techniques. Better budgeting techniques are more flexible and adaptive as they introduce areas like flexible budgets, roll forward budgets, zero based budgeting. These techniques adapt to business environment, question previous assumptions and estimates, are adjusted frequently with shorter time periods, involves the input of operational core in setting up budgets and carrying out frequent performance evaluations during an accounting period.

**Budgeting and behavioural aspects**

As budgets are to be implemented by humans, the success of the budgeting process can be significantly impacted by human factors. We need to worry about how the budgets are set, the targets set are they SMART, what happens if budgeted targets are not achieved, the attitude of senior management towards budgets, political factors involved, will employees be held responsible for factors beyond their controls, compensation related to the achievement of budgets, how to reconcile the pressure to achieve short term goals with ambitions for long term goals.

A budget is a target and aiming towards a target can motivate employees, encourage team work, create goal congruence (by linkage of compensation and rewards with achievement of organisation’s objectives). Employees have different perceptions of targets but it is thought that if targets are too low employees
will not be motivated to work hard or if the targets are too tough or unachievable employees can be demotivated as they believe that they are going to fall short of targets set for them. It is also seen that where the targets set by managements are too high for an employee to achieve, he uses wrong means to ensure achieving those targets either for the sake of the incentive or for the sake of staying at his job. So the objective is to set targets that can motivate employees to work hard to achieve objectives that are achievable, i.e. neither too tough nor too low. The relationship between budget difficulty and actual performance is typically represented in below picture which shows the following:

- When the budget is very easy, actual performance is low. It has been pulled down by the low demands made of employees.
- When the budget is very difficult, actual performance is low. Why try when you are doomed to failure? When a budget is set at the level of the expectations (the best estimate of what performance will actually be), employees are likely to perform as expected.
- If a more difficult aspirational budget is set, employees will try harder, and if the budget is judged just right then their actual performance will be at its maximum, though often falling short of the budget.

Thus budgets need to be carefully designed to be source of motivation and goal congruence rather than being demotivating factors.

**Participative or Authoritative**

There are two main approaches towards setting up budgets:

1. **Participative Budgets**: This technique involves discussion among employees and management about the targets to be set for forthcoming period. As employees are involved there is likely to be greater ownership of targets and thus enhanced motivation to achieve those objectives. This approach is only relevant where employees have the required skills to participate and give their inputs related to development of objectives.

2. **Authoritative Budgets**: This technique involves little or no involvement of employees in setting up budgets. Senior management develops budgets and informs lower level employees about targets to be achieved. This approach is suitable where lower level employees are not qualified enough to participate in the development of objectives.

**Conclusion**: Budgets are a tool used by management to control the use of resources and monitor expenditures and revenues for forthcoming accounting period. They assist management in achieving the strategic business objectives of the organisation. However, in order to be effective in modern day business environment, the budgets need to be carefully designed and developed considering all the necessary factors that are needed to be incorporated.
The real economy is affected in terms of output level, employment, growth rate, investment and savings. The annual budgets of the federal and provincial governments should make a significant impact on the real economy, financial variables, social sectors, poverty and income distribution and finally make up the infrastructure deficit.

The financial variables affected are fiscal balances, current account, debt-to-GDP ratio and tax-to-GDP ratios, etc. Social sectors such as education, health, water supply, social safety nets are directly impacted while poverty and income distribution are indirectly impacted. Infrastructure deficit can be made up by complementary private investment.

This impact analysis can only be carried out in conjunction with the monetary, exchange rate, trade and other sectoral policies. A partial analysis can, however, be attempted to highlight the possible positive and negative aspects of the budgets announced keeping this limitation in mind.

We could start by pointing out what is missing in these budget statements. The most glaring omission is that the actual achievements in respect of physical targets against the financial allocations made in the closing year’s budget are neither presented nor discussed. A statement showing the original targets and actual achievements should be presented before parliament and the provincial assemblies, and the variance between the two should be adequately explained and disclosed.

The sanctity and credibility of the budgets...
The annual budgets of the federal and provincial governments should make a significant impact on the real economy, financial variables, social sectors, poverty and income distribution and finally make up the infrastructure deficit.

Fourth, there is a lack of coordination between the federal and provincial revenue authorities in the collection of sales tax on services. An integrated common market for goods and services requires uniform treatment across jurisdictions. The FBR and the PRAs should enter into consultations and arrive upon arrangements whereby taxpayers do not have to be subjected to multiple tax incidence and rates and a single filing should suffice for all purposes.

Firms that have a national presence have to be saved from the additional costs of filing tax returns across different jurisdictions.

Fifth, the provinces, after the NFC award, are no longer interested in mobilising their own taxes thus keeping their electorates appeased. In India, the state governments contribute almost one-third to aggregate national tax revenues while in Pakistan the contribution of the provinces is less than one tenth. There is no way that taxes on agriculture income and urban property can be kept at such negligible levels and the tax-to-GDP ratio be expected to rise to 15pc. The current year’s budgets follow past pattern and show no signs of any serious commitment to tax these undertaxed incomes.

To conclude, public investment projects should be expedited for completion and incentives to the private sector for generating higher output, incomes, exports and employment could be better structured in the federal and provincial budgets to maximise the impact on the real economy. The writer is dean and director at the Institute of Business Administration, Karachi.

Courtesy:
The finance minister has used his budget speech this year to build a further 5,000 hospitals and 20,000 schools across the country.

The minimum wage, starting at rupees 29,000 has been increased to rupees 35,000 per month and will now increase in line with the Retail Price Index.

The finance minister also scrapped farm subsidies that the government feels are no longer required.

The opposition leader said the budget did not work for businesses who must now pay for the changes in the minimum wage. However, there was hardly any support for this in the house apart from a handful of members.

Measures announced in the budget statement include:

- An increase in the income tax threshold to Rs 45,000 meaning people earning up to rupees 10,000 above the minimum wage will pay no tax.
- State funded education to now increase to apply to Ph.d courses as well.
- Maintenance loans for students – paid to students with family incomes below rupees 45,000.
- Corporate tax cut to 15%.

- Following the easing of relationship with neighbouring India and stabilisation of Afghanistan, target of spending 3% of national income on defence (down from 4% in 2024).
- With 75% of vehicles and power generation plant using sustainable means, duties on fossil fuels have been increased from 90% to 100%.
- The mass transit schemes such as Lahore Underground, Karachi Light Railway (KLR) and Islamabad Overground have been extremely successful. A new scheme to offer similar services to Faisalabad, Multan, Quetta and other large cities by 2035 will be launched during the year.
- With success of Lahore Bullet Train service to New Delhi and Peshawar Tunnel offering high speed passenger and freight train services to Kabul, plans have been approved to create modern port terminals connecting Karachi with Gwadar, Muscat and Mumbai. These are in addition to the projects to double the capacity at Gwadar and Karachi ports.
- A fresh clampdown on tax avoidance and corruption is expected to contribute 2% to the income.
- With most sections of society now thought to be fairly taxed, the final reduction in the high tax rate for salaried individuals is being brought down from 16% to 15%.
Unveiling the budget, the finance minister said Pakistan’s economy today was “fundamentally stronger than it was ten years ago,” with living standards rising strongly.

And his budget was “a plan for Pakistan for the next five years to keep moving us from a low wage, high defence spend, high tax avoiding economy; to the higher wage, lower defence spend, lower tax and no tax avoidance country we intend to create.”

In a surprise announcement at the end of his speech, the finance minister announced the launch of the largest solar energy investment in Asia that will see Pakistan export electricity to Afghanistan by 2030. This, he said, was in sharp contrast with the position 10 years ago that saw frequent outages.

The move is expected to boost the employment by 60,000 and will cause firms in Baluchistan to create more jobs, according to the finance minister.

He also announced that, thanks to the national debt falling, a Rs. 15,000 benefit — the amount one household can claim in a year — would be introduced to help those in need while the government assists them in finding employment.

The government will also transition the armed forces freed up following the improvement of relations with India and various anti-terrorism operations to education and health services. However, the investment in nuclear deterrents will be maintained to balance the reduction in the armed forces.

He also tightened up the tax status for multinational companies operating in the country and said the FBR would receive a further Rs. 18 billion by 2030, on top of already committed amounts to monitor electronic transactions.

Business groups gave the revised minimum wage announcement a mixed reaction, with the Institute of Chartered Accountants saying it was “time for companies to increase pay now that the economy is performing so much better than last year.”

The president of Pakistan said in a statement, “This is the Pakistan that Muhammad Ali Jinnah dreamed of. It is absolutely vital that we continue to put our differences aside and work to improve the lives of ordinary Pakistanis.”

The Karachi Stock Exchange KSE100 Index closed 1,208 points up at 97,832. At the close of markets, the Pakistan Rupee was trading at PKR40/1USD, PKR50/1GBP, PKR10/1AED and was at par with the Indian Rupee. Inter-bank interest rates remained unchanged at 3.5%.

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The federal budget 2015-16 has a clear focus on reinvigorating economic growth after two years of economic consolidation, as fiscal incentives for businesses including tax incentives for new industrial units have been announced in parallel with concrete steps for increasing the tax net, experts said.

The government said that budget has been presented keeping one eye on the larger picture. Pakistan’s GDP is provisionally estimated to have increased by 4.24% in FY15 with target for FY16 set at 5.5%. FY16 sectoral contributions include 3.9% for agriculture, 6.4% for industries and 5.7% for services. Long term sustainable GDP growth is targeted at 7.0% by FY18 underpinned by an increased focus on alleviating energy shortfall. Fiscal deficit for FY16 is targeted at 4.3% compared to 5.0% in FY15. The GoP is also targeting PKR 1.5tn expenditure under the National Development programme for FY16 with PKR 700b earmarked as the Federal Public Sector Development Program (PSDP).

The financial experts in a report released by BMA Capital stated that budget remained a positive event for cements (higher PSDP allocation, tax incentives for downstream construction sector, reduction in Extended Fund Facility (EFF) rates) and textiles (reduction in Long Term Financing Facility (LTFF) and Extended Fund Facility (EFF) rates, extension in benefits of duty drawback, maintain duty on machinery import at 0%). However, a uniform 35% tax on all sources of...
income of banks coupled with a higher Temporarily Displaced Person (TDR) tax at 4% has further added to the list of negatives for the banking sector. In budget FY16, the government has allocated Rs. 112b under PSDP for power sector and plan to add 14,400MW to the National Grid by FY18 under which 10,400MW electricity will come from Pak-China Economic Corridor (CPEC). The government has also announced 47% reduction in power subsidies to Rs. 118b (0.4% of GDP) for FY16. Moreover, to encourage investment in power sector, the government has introduced relieve measures like: 1. exemption to electricity transmission projects for a period of 10 years, provided that the project is set up by June, 2018; 2. exemption from sales tax and custom duty on import of solar panels extended to Jun 2016; and 3. five-year tax exemption has been granted for manufacturers involved in domestic production of solar and wind energy equipment. The government has allocated total PSDP of Rs. 1,513.7b, up 29% then revised FY15 estimates Federal Public Sector Development Program (PSDP) of Rs. 700b, up 29%.

Various construction projects including small dams, highways, roads and power projects will be commenced in FY16 which will likely lift local cement demand. The government expects local cement demand to post double-digit growth in FY16. Government has decided to impose 20% import duty on Portland cement in order to protect local cement industry from cheap Iranian cement being dumped in Pakistan. The government has increased duty on coal price for cement manufacturers, thereby affecting earnings of companies by 1-3% in case players do not pass on the impact.

The government has slashed Export Refinance Rate (ERF) from 6.0% to 4.5% and Long Term Financing Rate (LTFR) from 7.5% to 6.0%. This will have a positive impact on D.G Khan Cement Company Limited (DGKC) and Maple Leaf Cement Factory Limited (MLCF) amongst other companies in the sector.

In one of the relief measures to Khyber Pakhtunkhwa (KPK) province, the government has given a 5-year tax holiday for companies establishing a new manufacturing unit during period of Jul 2015-Jun 2018. In cement companies, Cherat Cement (CHCC) had already achieved financial closure for its new cement plant in July 2014. If the new law is applicable on bringing new production line during the said period regardless of financial closure, CHCC will get a huge relief from this development. To boost construction activities across Pakistan, the government has budgeted incentives like: 1. mark-up (on housing loans obtained by individuals from banks/other lenders) will be allowed to be adjusted up to 50% of taxable income or Rs. 1mn; 2. minimum tax on builders for the construction and sale of residential/other buildings has been suspended for a period of three years; 3. supply of bricks and crushed stone will be exempted from sales tax for three years up to Jun 2018; and 4. duty on import of used construction machinery by registered construction companies will be reduce.

A few highlights of the budget for the fiscal year 2014-15 with a total outlay of Rs3.945 trillion:

- The total outlay of budget 2014-15 is Rs. 4302 billion. This size is 7.9% higher than the size of budget estimates 2013-14.
- The resource availability during 2014-15 has been estimated at Rs. 4074 billion against Rs. 3011 billion in the budget estimates of 2013-14.
- The net revenue receipts for 2014-15 have been estimated at Rs. 2225 billion indicating an increase of 16% over the budget estimates of 2013-14.
- The provincial share in federal revenue receipts is estimated at Rs. 1720 billion during 2014-15, which is 14.5% higher than the budget estimates for 2013-14.
- The net capital receipts for 2014-15 have been estimated at Rs. 691 billion against the budget estimates of Rs. 493 billion in 2013-14, i.e. an increase of 40%.
- The external receipts in 2014-15 are estimated at Rs. 869 billion. This shows an increase of 50.7% over the budget estimates for 2013-14.
- The overall expenditure during 2014-15 has been estimated at Rs. 4302 billion, out of which the current expenditure is Rs. 3463 billion and development expenditure is Rs. 839 billion. Current expenditure has been estimated to be higher than the revised estimates for 2013-14 by 8.3%, while development expenditure lower by 2.4%.
- The share of current expenditure in total budgetary outlay for 2014-15 is 80.5% as compared to 78.8% in revised estimates for 2013-14.
- The expenditure on General Public Services is estimated at Rs. 2543 billion which is 73.4% of the current expenditure.
- The size of Public Sector Development Programme (PSDP) for 2014-15 is Rs. 1175 billion. Out of this, Rs. 650 billion has been allocated to provinces. Federal PSDP has been estimated at Rs. 525 billion, out of which Rs. 296 billion to Federal Ministries/Divisions, Rs. 176 billion to Corporations, Rs. 12.5 billion to Pak Millennium Development Goals and Community Development Programme, Rs. 36 billion to Federal Development Programme/Projects for Provinces and Special Areas, and Rs. 5 billion to Earthquake Reconstruction and Rehabilitation Authority (ERRA).
- The other development expenditure outside PSDP for 2014-15 has been estimated at Rs. 162 billion.
- To meet expenditure, bank borrowing has been estimated for 2014-15 at Rs. 228 billion, which is lower than the budget and revised estimates of 2013-14.
The government budget is often viewed as a purely technical assemblage of words and numbers, to be left to the bureaucrats and a few politicians. In reality, the government budget is at the center of public policy and the development prospects of a country. Under legitimate governance, the government is expected to fulfill the roles and respect the limitations decided by society. Those roles are articulated into policy objectives—quantitative ones, such as raising the literacy rate by a certain number, or qualitative ones, such as correcting market imperfections. Some of these policy objectives may be met by issuing regulations or prescriptions, granting loan guarantees, or intervening in other ways that do not require direct and immediate expenditure. Most policy objectives, however, require financial resources, which can come only from the public in the form of taxes and fees—and, for most African countries, are complemented by aid from external partners.

The fundamental principle of fiscal management in countries with good governance is that the executive branch of government can neither take moneys from the public nor make any expenditure from those moneys, except by explicit approval of the legislature as the representative organ of the citizens. Consequently, properly understood, the budget should be the financial mirror of society’s economic and social choices and, thus, at the very center of the country’s governance structure. As such, the budget is anything but a mere technical document and should reflect all components of good governance.

Good Governance and Public Expenditure Management

Good governance rests on four pillars: accountability, transparency, predictability, and participation. Accountability means the capacity to call public officials to task for their actions. Transparency entails low-cost access to relevant information. Predictability

Good governance rests on four pillars: accountability, transparency, predictability, and participation.
Accountability is a must, but it does not become operational until one defines accountability of whom, for what, and to whom.

The Meaning of Fiduciary Risk in Public Finance: In recent years, the major international development agencies have become concerned about the fiduciary risk of development assistance, partly, but not exclusively, in relation to the Heavily Indebted Poor Countries (HIPC) initiative. The notion of fiduciary risk in public expenditure is grounded on the basic governance principle that no funds can be mobilised from the citizens—or spent—without the explicit approval of their elected representatives. Thus, the executive branch has a fiduciary responsibility to the country to ensure that the budget is executed as approved by the legislature, and fiduciary risk can be defined as the risk that government expenditures diverge from those authorised in the budget (World Bank 2003). In this sense, fiduciary risk in African countries was high until recently; it has been reduced somewhat by a variety of measures advocated by the international community, particularly in the context of HIPC debt relief.

Other, more expansive definitions of fiduciary risk—for example, that of the U.K. Department for International Development (DFID)—add to the risks of misappropriation and misallocation the additional risk that the budgeted resources are either wasted or spent ineffectively.

The Unity of the Budget

It is clear that it is impossible for the government budget to reflect the preferences and choices of society and to incorporate the principles of good governance if it includes only a small proportion of revenues and expenditures. In such cases, the legislature can review and approve only some of the activities for which the expenditures are made. The lack of information on the other expenditures may lead to abuses of executive power and provides a wide opening for corruption and a large-scale theft of public resources. Two major issues are involved here: first, if the budget excludes major expenditures, there can be no assurance that scarce resources are used effectively.

In public expenditure management, a lack of predictability of financial resources undermines strategic prioritisation and makes it hard for public officials to plan for the provision of services (and gives them an excellent alibi for nonperformance, to boot). Predictability of government expenditure in the aggregate and in the various sectors is also needed as a signpost to guide the private sector in making its own production, marketing, and investment decisions. And budgetary rules must be clear and uniformly applied to everyone. Transparency of fiscal and financial information is a must for an informed executive, legislature, and public. Normally, it takes place through the filters of a competent legislative staff and capable and independent public media. It is essential not only that information be provided, but that it be relevant and in understandable form. Dumping immense amounts of raw budgetary material on the public does nothing to improve fiscal transparency. The IMF (International Monetary Fund) Code of Good Practices on Fiscal Transparency underlines the importance of clear fiscal roles and responsibilities; public availability of information; open processes of budget preparation, execution, and reporting; and independent reviews and assurance of the integrity of fiscal forecasts, information, and accounts (IMF 2001). (Although not all African countries can meet all aspects of the IMF Code at this time, its principles are generally applicable, and progress toward achieving its standards should be a major objective of budget reform in Africa.)

Participation, in appropriate ways, can improve the quality of budgetary decisions and provide an essential reality check for their implementation. Predictability, transparency, and participation, in turn, are the essential ingredients of accountability, which is the key to good budgeting (and good government in general). Accountability entails both the obligation to render accounts of how the budgetary resources have been used and the possibility of significant consequences for satisfactory or unsatisfactory performance.
In public expenditure management, a lack of predictability of financial resources undermines strategic prioritisation and makes it hard for public officials to plan for the provision of services (and gives them an excellent alibi for nonperformance).

resources are appropriately allocated to priority programs and that legal control and public accountability are properly enforced. Only if all proposed expenditures are on the table at the same time does it become possible to review them in relation to one another and to choose those that have higher relative benefits for the community. Second, the amount of expenditures that are not included is itself often uncertain and opaque. In turn, this uncertainty makes macroeconomic programming more difficult and increases the risk of corruption and waste. Imagine that, as the head of a household, you have large sources of income in addition to your salary but discuss with your family the allocation of only your salary. At best, even if the additional income is allocated well, family members cannot cooperate in making sure that it is spent well, nor can they feel any responsibility for mistakes in this respect. At worst, the additional income will be frittered away on frivolous expenditures, with adverse impacts on the family’s future finances and well-being.

For all these reasons, the budget should in principle cover all transactions financed through public financial resources. Budget comprehensiveness does not mean that all expenditures should be managed according to the same set of procedures. In practice, as discussed later, certain categories of transactions may need to be administered separately from the overall government budget. For efficiency, specific arrangements may be established for administering some programs financed through public resources, provided that they are not allowed to lead to a fragmented approach to budgeting and expenditure policy formulation.

The requirements of good governance, fiduciary responsibility, and budget unity are reflected in certain practical principles for the coverage of the budget, its annuality, and the guiding concepts.

The Coverage of the Budget

The coverage of the budget naturally depends on the scope of activities of the government, as decided, directly and indirectly, by the society it represents. Whatever revenues and expenditures are included in the budget, it is important to review them and present them together. Government policy objectives can be achieved through tax policy, through public expenditure policy, or through a combination of the two. Therefore, direct comparisons are needed of the costs and benefits of alternative revenue and expenditure packages. Moreover, a sound program of public expenditure requires as a starting point a realistic estimate of revenue. This is because the choices among different expenditure proposals, choices that are at the center of the budgeting process, cannot be made without a clear idea of how much money is likely to be available. An expenditure program that does not conform to a realistic limit on resources available is a wish list, not a program, and the budget that contains it is only a bulky paper document. That being said, this chapter focuses on the expenditure side.

The Annuality of the Budget

Obviously, the legislature’s approval to collect revenue and spend it cannot be given on a weekly or monthly basis, or for an indefinite period of time. In almost all countries, the budget covers 12 months and both the government’s revenue-collecting authority and its spending authorisation expire at the end of the fiscal year. (This fiscal, or financial, year is usually but not always the calendar year.) The annuality rule is justified both by the need for legislative control of the executive and—especially in developing countries—by fluid economic circumstances, which would make budgeting for two or more years totally impractical. The annual nature of the budget is often confused with the multi-year periodicity of the medium-term expenditure frameworks (MTEFs) used in many countries to frame the annual budget process. It is important to keep in mind the distinction between the legislative authorisation to spend, which covers only one fiscal year, and the multi-year forecasts and intentions of the MTEF. There is no such thing as a multi-year budget anywhere in the developing world.

An expenditure program that does not conform to a realistic limit on resources available is a wish list, not a program, and the budget that contains it is only a bulky paper document.
Some readers may argue with the title and might have an opinion that there is a difference between strategic planning and budgeting. Yes, there is a difference between the two but budgeting is a part of strategic planning. The strategic plan sets out the direction of an organisation. It directly links with the vision and mission statement. It mainly comprises of sales and marketing, supply chain, research and development and budgeting – financial plan, whereas, budgeting alone, is a quantitative expression of a plan for a defined period of time. It may include planned sales volumes, their associated costs and expenses, planned capacity and capital expenditures, forecasted cash flows, assets and liabilities. Budgeting aligns monetary and non-monetary resources of an organisation with its requirement and allocates the scarce resources to ensure optimum usage.

I think, the above basics are enough to define what budgeting is. Skipping the budgeting process, let’s come directly to the real challenge which comes while preparing the budget. Yes, the underlying assumptions, having a pivotal role and in fact, the base for a budget, is the biggest challenge of budgeting process. Accordingly, to manage changes in this critical area, companies usually use rolling forecast model to incorporate any changes in the assumptions and prepare tactical plan to reduce the negative gap from the budget. While preparing tactical plan, we again come across a challenge as there are certain changes in assumptions which are controllable while the others are not. The ones which are not controllable may severely impact the budget and companies might have to absorb their hit on the profit and loss account. Some companies plan to address the changes in such non-controllable factors, what is called a contingency budget. This contingency budget is also used to cover up any omission and error in the budget. Similarly, unexpected changes in the fiscal and monetary policies of the government, unusual movements in forex rates having a negative effect on the company, can also be managed from this contingency pool.

Now, once a budget has been developed, what are the tools to effectively monitor and control a budget? Well, there are multiple tools being used by the companies. You might be aware of the tools like material and labor variance reports for controlling the material and labor budget, however, control measures for overheads varies from company to company. Most frequently used tool across the companies is the cost tracker report. This report compares the actual expense with the last month and budgeted expense for the month. A cost center summary report to CEO and top management highlighting the departments and areas exceeding the budget is an effective way to control the expenses. Further, some companies also give cost saving targets to employees on the basis of the cost tracker report which is an effective and motivating measure to not only monitor, but also to control the budget.

Budgeting is a continuous learning process and there is always something new to learn from previous year’s process which should be taken care of while preparing the next year budget. So keep learning and adjusting for happy budgeting!

The strategic plan sets out the direction of an organisation. It directly links with the vision and mission statement.
The audit report is a communication tool to give your stakeholders (the board, management or other stakeholders) assurance information. Internal auditors, like many finance professionals, generally are notorious about marketing themselves. From my multiple years of experience, including recent years as the Chief Audit Executive (CAE), of producing and presenting the audit reports to my clients (the board and management), I concluded that the audit report is your only direct “product” that you need to sell skillfully. Here comes the real, tangible value addition of the internal audit function which can make or break your reputation. I have tried to summarise the following points from my practical experience, which I believe, may bring significant value to your report writing:

**1. Start right:** The report is the final product. You can never generate a good report without a good field audit. To generate reliable and impactful audit reports, internal audit has to make the field audit work strong. Make your reports fully supported by appropriate evidences, as a senior auditor you should focus on the supervision of field work.

**2. Avoid scope creeps & spend quality time on reporting:** I can recall my days with one of the big four firms, when we used to have tight deadlines and meeting deadlines was not only the client criteria of rating your services but also the key criterion of auditor’s performance appraisal. What practically happens is that reporting is the last phase of audit lifecycle, and an auditor tries to overcome any time lapse in the early stages here. Hence, you go with the risk of not putting enough quality time on reporting. Planning and keep tracking your timeline, learn to say “no”, choosing what not to do is as important as what you do.

**3. Decide what’s reportable:** Evaluate the mis-statements or weaknesses identified during the audit to see what is reportable and what is not. Materiality is an important consideration here. One specific point I would like to emphasise on is the errors or control lapses for which management actions have already been taken and you agree professionally that controls put in place mitigate the risk reasonably. Don’t report them (you should document in audit work papers the issue identified, the controls now put in place, your judgment about the sufficiency of controls and not report it).

**4. Standard Format Reports:** Unlike statutory external audit, there is no precise format for the internal audit report, which indeed reflects the nature of internal audit function’s responsibilities. Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) are not very clear; the framework require each engagement to ‘where appropriate, contain internal auditors overall opinion and/or conclusions’ and ‘communications must be accurate, objective, clear, concise, constructive, complete and timely’. I have witnessed a variety of formats internal auditors use to report their findings; from Big 4/top consulting firms to industry formats. I prefer using standard formats, but I would like to temper this with...
Reporting
-A Tool to Make or Break Your Impression

Writing a good report takes time, energy and practice, but it is well worth the effort.

some practical pragmatism. Use standard format, but don't make it a holy verse, keep improving!

5. **Veracity of opinion:** In my humble opinion the most vital part of writing an audit report is the veracity of the opinion. Being 'right' is important, it downright makes or breaks your impression. No one will remember the slight delay in issuing the opinion, if the resulting report is well-written with the right opinion.

6. **Clear & concise:** Try to present your findings as clear and concise as possible, keep your professional integrity and due care in mind. Increase the readability of your report. Avoid using jargons, short forms and abbreviations without properly explaining them – even with the use of glossaries. I have attended numerous board/audit committee meetings; believe me, they never turn pages to see what the term X means.

7. **What's wrong:** Risk – what has gone or can go wrong? Here comes the real challenge for an auditor as well as an opportunity to sell your audit observation to your client (management and the board). Tell them plainly what’s wrong, be concise and specific and try to quantify the risk, wherever possible.

8. **Be realistic & quantify your recommendations:** There is no alternative to thoughtfully crafted recommendations in line with the business. Be realistic, don’t give the impression you belong to utopia. Avoid asking management to do further analysis. In addition to quantification of risk – try also to quantify the value of your recommendation. We all love the concept of “benefit must outweigh the cost” of control. Most of your audience understands this, so this is also relevant here.

9. **Use benchmarking carefully:** This is a typical problem of big 4 auditors as they have seen some of the best controls in practice at their large client’s, and they want to implement the same controls or with little tweaks at every company on the earth. While I strongly believe that knowledge of “best practices” is an important asset that you have, but every company is unique. Please try to avoid falling in the trap of “best practices”, use benchmarking very carefully.

10. **Rating:** Use your model to rate the risk/importance of
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audit observation. I think this should suffice, I have put enough stress.

11. Keep your audience in mind: This is relevant throughout the report writing cycle, right from the first draft of the audit report to the presentation to your audience (the board/committees and management). This is a skill, which comes with experience!

12. Be prepared: Know your report inside out. It is particularly relevant to CAE or the director/partner who is leading the exit conference or presenting the report to board/audit committee. Usually you are not involved in the detailed audit and don’t know much about the “background stories” behind audit observations. Prepare yourself well, try to keep yourself involved at various stages of the audit. However, at the least, ask your team to present the report to you once before going to the client (management or board), keep yourself in the shoes of the client and try to ask the questions that they might ask.

13. Ask for feedback: ask for feedback on enhancements in your reporting from your audience (senior management and board). Keep 10 minutes of IA slot at board/CEO meetings once in a year to specifically ask for feedback on how can I serve you better? I believe that’s easier said than done, but the benefits are huge. If you get an opportunity peer reviews also help, especially the guys in practice. There is no harm even to ask one of the senior members of your team to review your reports and identify the enhancements. Report writing is the continual challenge I have faced as a CAE. Writing a good report takes time, energy and practice, but in my view, it is well worth the effort. I always learn new things about it, please feel free to share your thoughts on improving the report writing. These steps may generally apply to all internal audit functions, irrespective of structure, age, size or location. Please tell me which ones you find more relevant to your particular function?
Auditing
Joint Operating Agreements and Minority Interest Holders

by Saeed Akhtar Chugtai

Introduction

The Oil and Gas Exploration and Production (E & P) sector has many peculiar management and operating mechanisms. One such peculiarity is conducting the exploration activities as a joint venture by the E & P companies. The decision making body is the Operating Committee duly represented by the Joint Venture Partners. The workings of the Operating Committee is regulated by the Joint Operating Agreements (JOA), thus such agreements have great importance. It is a general conception that majority interest holders prevail in an Operating Committee meeting. However, would this hold true, even in the face of a conflict of interest situation?

It is difficult to take a very clear position on the subject as there is little common law authority or English law cases dealing with the application of the fiduciary constraints on the decision making in the operating committee. It would be more practical to ensure that due regard is given to the interests of the minority and that they are kept on board in the decision making process. Adequate disclosure should be made in order to promote transparency. It essentially depends on the nature of the transaction and whether a fiduciary
relationship can be established, that would determine the objective answer to the question.

What is a Joint Operating Agreement (JOA)?
The most interesting feature of the JOA is that the participants have the liberty to mutually draw their own set of rules that govern the co-operative endeavour. The agreement defines the rights and obligations of the participants and also lays down the extent of their interests in the co-operative endeavour. The participants contribute towards the costs and reap the benefits in proportion to their interest. In the oil and gas industry the participants contribute towards the costs and in case of a discovery take hold of their share of production and sell it on their own. The JOA does not give rise to an artificial juridical personality, instead the participants continue to hold their status as separate legal entities. It would be best to say that a JOA is an economic entity.

In order to conduct the affairs of the endeavour the participants form an operating committee and also appoint an operator. In spirit the operator is required to work within the confines of the decisions made by the operating committee. The operating committee scope of work includes both the routine, day to day matters as well as the policy matters (Gerard, 1995).

What are the rights of the Parties to the JOA?
The relationship between the participants has many facets, but essentially it is contractual in nature. The operator acts as an agent of other participants while entering into contracts with third parties and also holds the property acquired for the joint operations in trust for the other participants. The multidimensional nature of the relationship, invokes the principles of The Trust Law, The Contract Law, The agency law and the Real and Personal Property law.

The joint operating agreement in the oil & gas industry covers commercial adventures, wherein the operator administers the operations on behalf of the other participants, and thus argued by some to entail fiduciary rights and obligations. This stricter standard thus requires the participants, not to be in a situation where the fiduciary duty conflicts either with any of their personal interests or another fiduciary duty. They must not profit from his fiduciary position without express knowledge and consent. Fiduciaries must conduct themselves “at a level higher than that trodden by the crowd.” (Meinhard v Salmon, 1928).

The peculiar nature of the JOA thus induces incorporation of specific clauses in the agreement, which avoid the application of fiduciary duty. The justification of so doing is to enable the JOA participant to work in the interest of the JOA, while it aligns with his own interest. It is because of this particular reason that the participants individually sell their share of the produce. In order to promote harmony and trust between the JOA participants, fiduciary duty clauses might be toned down by the inclusion of clauses 'Utmost good faith' or 'just Good faith'.

What is the significance of the Joint Agreements for the Extractive Industries?
In the extractive industry the joint operations have become a norm. This style of operation entitles the participants to preserve their independence yet allows them to share the resources and skills. Most importantly the joint operation allows the individual participant companies to diversify their risks by involving themselves in a number of projects.

The mechanism also promotes tax efficiency as the revenues from the joint operations are accounted for in the participants books. He can thus match his costs with the revenue and structure his accounts to reap the benefits entitled under the tax regime. The oil industry, particularly the exploration phase is high capital intensive. The joint operations allows for retention of the participant’s structure and character. He is therefore able to arrange finance on the basis of his perceived financial strength.

The risk and nature of the oil and gas industry together with the imposition of the fiduciary obligations requires that a certain degree of trust must exist between the participants. The JOA helps nourish this trust by enabling the participants to pick and choose the “right number and mix” of the coventurers (Peter Roberts, 2008).

What is the Decision Making Process and Issues?
The JOA is drafted by the participants to ensure smooth administration and promote transparency. In a number of jurisdictions model JOAs are used. It is opined that these model agreements reflect the best practices. These agreements recommend varying degrees of control upon the operator and accordingly the decision making process on some matters is to meet a certain pass mark criteria while in others the decision has to be unanimous.
Theoretically the motion/decision would be carried if the pass mark is met, even if it is held by one party except matters requiring unanimous support. A deadlock might be created if unanimity is not reached.

The large stakeholders have greater access to the financial resources, which the small players do not. It is thus argued that it might not be just to impose a decision on the small players which they might not have the capacity to fund.

**Why and how Conflict of Interest question arises?**

In the real world a number of limitations influence the ground reality. While there is a general agreement that all the participants must work for the common benefit of all, yet each participant must also protect his own interests, and essentially the individual interests override the common interests (Peter Roberts, 2008).

While the quest for power and influence is ingrained in human nature so is the urge to seek freedom from controls. This thought is also reflected in the manner the companies conduct themselves. The operators thus tend to discourage undue interference from the coventurers while some of them have a tendency to micro manage the operations (Peter Roberts, 2008).

In most cases the operator is the company which has the highest commitment and stake in the project. Given his level of exposure, it is assumed that it would manage the operations more efficiently than the others. In some jurisdictions the national laws may warrant that the operatorship be carried out by an indigenous company which might not have the largest interest in the project. Even in this case the multinational companies can yield significant influence. The large companies have a greater capacity to enter into “Umbrella Agreements”. These agreements tend to lock in the suppliers, who would give discounts and concessional rates to the operator for large volumes of the business. There is an argument that sometimes the economies of scale negotiated by the operator are not fully reflected in the costs of the project. In other words the operator might benefit more than the partners.

In essence, conflict of interest situation arises when one or more co-venturers also act as an opposing party in a transaction i.e. a counter party. The conflict of interest situation arises when in the operating committee the decisions are tainted due to undisclosed private interest and undisclosed personnel benefit.

In the following paragraphs arguments have been presented in support of the contention that Majority would NOT prevail, in the face of a conflict of interest.

**a. True and Faithful**

Joint operating agreements are different from the partnerships, however, it is important to recognise that there are a number of features which are common between the two setups. Most importantly, it is expected that the participants would be true and faithful to each other as they would be required to be in all partnerships, whether it is expressed in the deed or not.

In case of the Const v Harris (1824) 37 ER 1191 it was observed that, in cases where a majority could bind the minority, if some of the partners were to agree, that they would, by a majority, bind the others, that, let one of them say what he would with respect to the interests of the partnership, they would over-rule him, the Court would compel them to rescind that agreement, and say, that was a length to which they should not go; the Court would not allow the rules applying to partnership concerns to be broken in upon by an agreement of that sort. The majority, therefore, needs to be mindful of the concerns and rights of the minorities.

**b. Limited role of Minority Interest Holder**

The exposure of the minority interest holders in a joint operations venture is low and therefore might reflect in their reduced participation in the affairs of the venture. It is therefore all the more important for the majority stakeholders that the rights of the minority stakeholders are duly respected.

In the case of in case of the Const v Harris (1824) 37 ER 1191 it was observed that that, where a person, interested as the Plaintiff was, proposed to do every part of his duty to the other parties interested, the Court would compel those other parties to do their duty towards him, but that, if he chose to discharge his duty towards those other parties in a more limited way, the question would be, whether that circumstance did not destroy his right to call upon them to do their duty towards him. This observation places a fair amount of responsibility on the majority stakeholders towards the minority. Due care must therefore be made while conducting the affairs of the joint venture. Efforts should be
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made to ensure adequate time and opportunity is accorded to the minority to understand the issue and voice concern if any.

c. **Clandestine Majority**

In making decisions at the operating committee level, the decisions must and generally made on the basis of majority vote, it is thus important to highlight that support from the majority should have be obtained in a free and transparent manner, giving due accord to the merit of the matter. This argument is supported on the basis of the following case laws.

In the case of Blisset v Daniel (1853) 68 ER 1002 it was observed that the negotiating by one partner for the concurrence of his two co-partners to exercise this power in the manner it has been exercised is in itself a course of proceeding which the Court would hold sufficient to invalidate the act, if there existed nothing else in the matter. A similar stance was also taken in the case of Featherstonhaugh v. Fenwick (17 Ves. 298. It thus recognised that the manner the majority has been obtained also needs to be considered and reviewed.

d. **Establishment of Fiduciary Relationship by Action**

In case of Pacific Coal Pty Ltd v Idemitsu Queensland Pty Ltd, 21 Jan 1992, unreported SC of Queensland, the judgement held that even in the presence of express contractual provisions, fiduciary constraints would apply. In this case, the joint venture involved development of a coal deposits. Some of the partners, headed by Pacific Coal required more time to consider the feasibility while the others headed by Idemitsu Queensland Pty Ltd, believed that the time already accorded was sufficient. During this debate the lease licence was cancelled and awarded to Idemitsu Queensland Pty Ltd. The award of the licence was objected to by Pacific Coal Pty Ltd.

The judge stated that **having regard to the form which the joint venture takes and the obligations assumed by the participants** while establishing the fiduciary relationship between the participants. The defendant’s arguments that a commercial agreement entered into by parties at arms’ length precluded the existence of a fiduciary relationship were rejected.

On the basis of the above argument it is established that majority might not prevail, in a conflict of interest situation.

**Conclusion and Opinion**

The conflict of interest is recognised at the very foundations of the Joint Operating Agreements. The extractive industry’s prime motive to prefer JOA arrangements is to have a working frame work, which allows the JOA participants to safeguard their individual interests and align them with the overall interests of the Joint operations.

It is also important to realise that even though the majority might be able to have its way, but it would not necessarily entail smooth operations. Even the minority interest holders might be vested with “clothed” veto powers, e.g at the time of getting the budget or AFE approvals. A majority interest holder would do himself good if the minority interest holders are kept on board in the decision making process.

The nature of the Extractive Industries attracts a special kind of an investor. The exposure of risk at the exploration to the production level is very high. It is of utmost importance to ensure that the business relationship is established with companies that share perceptions. It is equally important to realise that the greater the transparency in operations, the greater the trust the JOA participants would be able to repose in each other.

**REFERENCE LIST**

2 SECONDARY SOURCES

1.2 BOOKS

2.2 ARTICLES


MEASURE TO MANAGE:
Cost Optimisation

by Yasser Saifi
Background
Over the years, we have seen significant focus towards direct and indirect cost optimisation. Many large scale organisations have had to go down a path of rapid reduction in costs and laying off a number of employees to ensure they keep afloat amidst a challenging and rapidly changing revenue environment. While many organisations have succeeded quite easily in cutting down costs, we want to bring the attention to the ever more pertinent question of sustainability of a reduced cost structure to the forefront. It is quite simple to reduce employees and, therefore, directly have a positive bottomline impact, however, the ramifications are not so simple to deal with. In almost all cases, we have seen organisations ending up demotivating the retained organisations through increasing workload and senior leadership in a dilemma of being in a dangerously blind spot with respect to the operational risk that quick cost reduction measures create. While it is somewhat simpler for revenue generating functions to estimate the impact of cost reductions on the bottomline that is not the case with all support functions that have become ever so important in large scale organisations. It is the cost cutting measures in such support organisations where the question of optimisation becomes more complex to deal with.

For support functions, the key lesson we have learnt through the financial crisis over the last few years is to try and understand the value of their services and the cost of such services, and to weight them in the balance of operational risk.

Here, we briefly analyse how an organisation can deal with achieving this complex balance and make informed decisions around cost optimisation for support functions that are sustainable and do not expose the organisation to unwarranted risk.

Connected Operating Model

Objectives
It is almost unthinkable to manage a large organisation without knowing what it does and how it achieves its objectives. Therefore, first and foremost is to ensure an organisation has a set of defined objectives. This appears quite an obvious statement, however, we have seen a real confusion in large organisations where a web of processes once evolves, it becomes very difficult to identify what ultimate objective they serve and in the end organisations are left to deal with hundreds and thousands of intertwined processes without a clearly defined objective. Therefore, it’s paramount to make sure the objectives are clearly defined.

Connectivity between Support Functions
Almost always, except in some cases, the objective of one support function is a preceding requirement for another support function further down the chain and so on. Therefore, a strong connection between the objectives of all support functions is a fundamental requirement in ensuring the organisation stays
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We would like members, students and ICAP staff to contribute features and articles for *The Pakistan Accountant*. Besides the theme of the next issue, *Governance in Family-Owned Companies*, you can contribute articles on any of the following categories:

- Auditing and Accounting
- Value addition to SMP, SME
- Governance and Ethics
- Banking and Finance
- Sustainability and Social Accounting
- Student related Subjects
- Risk Management
- New Legislation Impacting CAs
- CA Developments in International Arena
- Information Technology
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- Tax and Economy
- Business Management and HR
- General interest
- IAS’s, IFRS - recent development, impact, adoption, expected changes etc.

Kindly send your articles by so that they can be included in the next issue. Articles received after the due date will be used for the successive issues after approval of the Publications Committee.

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connected from front to back. In most instances, we see evolved processes connected between support functions, but several years of evolution in processes makes it extremely expensive to achieve certain objectives. As such, a clear and well-connected footprint of numerous organisations throughout the chain should be a key focus. These connected objectives then start to shape up into a blueprint of a front to back service catalogue.

**Process Web Supporting Service Catalogue**

Once we have a comprehensive web of connected objectives, organisations should ensure any and all processes are executed to satisfy one or more objectives. We have noticed a significant amount of overlap and wasteful processes that evolve over years without any sight of the objectives they achieve. In our experience, there is a significant amount of wasted activity that organisations undertake repeatedly.

**Cost of Service and Associated Risk**

**Measuring Risk**

Every objective across the organisation should be assessed with respect to inherent risk considering the nature of the objective and the industry to which it relates with a measure with respect to the amount that will be at risk if the objective was not met at all. Likewise, every process should also go through an inherent risk assessment. This risk assessment is a critical part and must be carried out with expert knowledge of the business.

**Cost of Service**

A simpler proposition in comparison to measurement of risk is the assignment of cost to each and every process carried out across the front to back. This requires tedious effort but as long as it is captured within a 10% tolerance for error, it does provide a very powerful view over the cost of various objectives and processes across the front to back environment.

**Making the Right Decisions to Optimise Costs**

Carrying out an exercise to measure risk and cost towards a service often reveals significant opportunities to reduce costs through one of the following measures:

- Removing duplicated efforts/processes
- Cutting down processes/objectives which do not pose a significant amount of risk
- Merging similar objectives under combined teams which may typically sit across two separate support functions
- In some cases, completely cutting down a service keeping in view the marginal cost and risk posed as a result of a complete closure of an activity.

The principles laid here are complex in their application but we believe they are the necessary ingredients for a successful and sustainable cost optimisation strategy for support organisations.
CARBON FINANCING

by Kamran Saleem
Introduction

There is an international consensus that global warming has significantly jeopardised the sustainability of atmosphere essential for economic and social development. Food and water scarcity, increase in coastal floods, and deterioration in health emanating from spread of diseases are some likely repercussions of global warming. Therefore, extensive measures are required to reduce Green House Gas (GHG) concentration to cope with global warming.

According to the United Nations Inter-governmental Panel on Climate Change (IPCC), Green House Gas (GHG) emission needs to be reduced by 60-80 percent from the level of 1990s to stabilise the global temperature. The Kyoto Treaty (KT) in 1997 presented a global consensus that increasing global atmospheric temperature may be a serious threat to global economic development and therefore needs to be monitored and controlled. An effort was made to convert this consensus into legal binding through the creation of Kyoto Protocol (KP) in 2005.

Under the Kyoto Protocol, developed countries have been given a binding target of reducing combined GHG emission by 5.2 percent from the level of 1990s during the period 2008-2012. This was mainly due to the fact that developed countries are contributing more to the global current stock of GHG concentration. On the other hand, flexibility has been extended to developing countries by not putting any cap on their carbon emission level. This flexibility shows the realisation at international level that developing countries lack resources and capacity to monitor climate change. However, greater vulnerability of developing countries to climate change cannot be ignored due to high population growth, poor health status, and incapability of coping up with natural disasters like flood and earthquakes, etc. This signifies a greater need for developing countries to switch to clean industries and to develop capacity for emission reduction. Lack of resources and absence of modern technology are major constraints of developing countries in achieving environment sustainability.

These facts highlight the climate change as one of the greatest global action problems with differentiating motives of developed and developing countries. Addressing this issue, KP offers following market mechanisms:

1. Joint Implementation (JI)
2. International Emission Trading (IET)
3. Clean Development Mechanism

In all the three mechanisms, permission can be granted to the developed countries that have a commitment on carbon emission to emit more than the prescribed limits. This can either be done through: a) carbon acquisition (which is allowed under JI and IET), and b) carbon trading (which is allowed under CDM). Carbon acquisition is an international transaction of carbon between countries that have commitment under the KP. For instance, a country that is currently emitting above its limit of carbon emission can actually compensate by acquiring permission for additional emission of carbon from the country which is emitting less than its limit. Unlike carbon acquisition, carbon trading has no pre-condition of having cap on carbon emission under KP. In other words, voluntary participants (mainly developing countries) can also benefit from this mechanism (Article 12, Kyoto Protocol). For instance, a country that is currently emitting at its limit of carbon emission can acquire permission for additional carbon emission by investing in emission reduction projects in developing countries.

Carbon Trading is a market-based mechanism for dropping GHG concentration through reducing carbon dioxide emission in the atmosphere. Under CDM, carbon trading takes place through the exchange of Certified Emission Reduction (CER) units. Specifically, the developed countries help developing countries in carrying emission reduction/removal projects and in exchange, earn CERs from developing countries. Purchasing one unit of CER allows developed country to emit one tonne of carbon dioxide in addition to its limit. These CERs are actually traded internationally through carbon exchanges. To facilitate the settlement of transactions and funding, banks and investment companies are extending services. Average price of issued CERs is estimated to be Euro 17.5 with a range of Euro 10 to Euro 25 for the period 2008-2012.

Global Warming & Carbon Trading

1.1 Causes

- Greenhouse gases
- Carbon dioxide, methane, nitrous oxide, sulfur hexafluoride, hydrofluorocarbons and perfluorocarbons

1.2 Effects

- Increase in average global temperature
- Rise in sea levels
- Erratic changes in climate
Source: United Nations Framework convention on climate change

1.3 Future
• Major cities would drown
• Droughts, heat waves, floods etc. would be rampant
• Major social, economic and climatic implication

1.4 IPCC has identified the six major GHGs.

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Common Sources</th>
<th>Global Warming Potential (GWP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co₂</td>
<td>Carbon Dioxide</td>
<td>Fossil fuel combustion, forest clearing, cement production, etc</td>
<td>1</td>
</tr>
<tr>
<td>CH₄</td>
<td>Methane</td>
<td>Landfills, production and distribution of natural gas and petroleum, fermentation from the digestive system of livestock, rice cultivation, fossil fuel combustion, etc</td>
<td>21X</td>
</tr>
<tr>
<td>N₂O</td>
<td>Nitrous Oxide</td>
<td>Fossil fuel combustion, fertilizers, nylon production, manure, etc</td>
<td>310X</td>
</tr>
<tr>
<td>HFC’s</td>
<td>Hydrofluorocarbons</td>
<td>Refrigeration gases, aluminum smelting, semiconductor manufacturing, etc</td>
<td>Up to 11,700X</td>
</tr>
<tr>
<td>PFC’s</td>
<td>Perfluorocarbons</td>
<td>Aluminum production, semiconductor industry, etc</td>
<td>Up to 9200X</td>
</tr>
<tr>
<td>SF₆</td>
<td>Sulfur Hexafluoride</td>
<td>Electrical transmission and distribution systems, circuit breakers, magnesium production, etc</td>
<td>Up to 23,900X</td>
</tr>
</tbody>
</table>

1.5 The UN Framework Convention on Climate Change (UNFCCC)
• An intergovernmental treaty developed to address the problem of climate change.
• Entered into force on March 21, 1994.
• By August 2009 it had been ratified by 193 countries.
• Parties to the Convention have regular meetings – the Conference of Parties (COP) to assess their progress towards meeting their obligations and to consider future climate change actions.
• to establish national greenhouse gas inventories of greenhouse gas (GHG) emissions and removals.

1.6 Emission Trading
• Emission trading (also known as cap and trade) is a market-based approach used to control pollution by providing economic incentives for achieving reductions in the emissions of pollutants.
• A central authority (usually a governmental body) sets a limit or cap on the amount of a pollutant that can be emitted.
• The limit or cap is allocated or sold to firms in the form of emission permits which represent the right to emit or discharge a specific volume of the specified pollutant.
• Firms are required to hold a number of permits (or carbon credits) equivalent to their emissions.
• The total number of permits cannot exceed the cap, limiting total emissions to that level.
• Firms that need to increase their emission permits must buy permits from those who require fewer permits.
• The transfer of permits is referred to as a trade.
• In effect, the buyer is paying a charge for polluting, while the seller is being rewarded for having reduced emissions.
• Carbon emission trading is a form of emissions trading that specifically targets carbon dioxide (calculated in tones of carbon dioxide equivalent or (CO₂e) and it currently constitutes the bulk of emissions trading.

How does emission trading work:
1.7 Economics of International Emissions Trading

It is possible for a country to reduce emissions using a Command-Control approach, such as regulation, direct and indirect taxes. The cost of that approach differs between countries because the Marginal Abatement Cost Curve (MAC) — the cost of eliminating an additional unit of pollution — differs by country. It might cost China $2 to eliminate a ton of CO2, but it would probably cost Sweden or the U.S. much more. International emissions-trading markets were created precisely to exploit differing MACs.

1.8 Carbon Transactions Types

There exist two conceptually different categories of carbon transactions.

1. Allowance based transactions

Here carbon units are allowances, or units of “right to pollute,” created and assigned through various systems, including free allocation and auctioning, by regulators under cap-and-trade regimes. Examples are:

- the Kyoto Protocol IET, which generates tradable carbon units known as Assigned Amount Units;
- the European Union Emissions Trading Scheme (EU ETS), which deals in EU Allowances (EUAs).

2. Project based transactions

Here the carbon units are carbon credits, also referred to as carbon offsets or emission credits. These are units of “carbon compensation”, generated by offset (or emission reduction) projects with the overriding aim of negating, or neutralising, a given amount of greenhouse gas emissions (in CO2 equivalent) released in one place by avoiding the release of the same amount of emissions elsewhere or by absorbing the equivalent amount of CO2 that would have otherwise remained in the atmosphere (in a process known as carbon sequestration).

The Kyoto Protocol CDM and JI schemes are examples of project-based mechanisms and the carbon units traded within those market segments are known as Certified Emission Reductions (CERs) and Emission Reduction Units (ERUs), respectively.

1.9 The Kyoto Protocol

- An international agreement linked to the UNFCCC.
- Sets binding targets for 37 industrialised countries and the European Community for reducing greenhouse gas emissions.
- Sets binding target for reducing greenhouse gas emissions to an average of five per cent against 1990 levels over the five-year period 2008-2012.
- Flexibility to developing countries by not putting any cap on their carbon emission level.
- By August 2009, the Protocol had been ratified by 188 countries, including Annex I parties representing 63.7% of Annex I greenhouse gas emissions in 1990 except United States of America.
- Targets can be achieved through domestic measures or by purchasing international carbon credits.
- KP offers following flexible market mechanisms:
  1. Joint Implementation (JI): A developed country with relatively high costs of domestic greenhouse reduction would set up a project in another developed country.
  2. International Emission Trading (IET): Countries can trade in the international carbon credit market to cover their shortfall in Assigned amount units. Countries with surplus units can sell them to countries that are exceeding their emission targets under Annex B of the Kyoto Protocol.
  3. Clean Development Mechanism (CDM): to assist parties not included in Annex I in achieving
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sustainable development and in contributing to the ultimate objective of the United Nations Framework Convention on Climate Change (UNFCCC), which is to prevent dangerous climate change; and to assist parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments (greenhouse gas (GHG) emission caps).

In all the three mechanisms, permission can be granted to the developed countries that have a commitment on carbon emission to emit more than the prescribed limits. This can either be done through: a) carbon acquisition (which is allowed under JI and IET, and b) carbon trading (which is allowed under CDM).

**Carbon Trading in Pakistan**
- Ministry of Environment has been declared as Designated National Authority for CDM. D. G. environment is the focal point for DNA.
- CDM Cell has been established under DNA for promotion of CDM, and for policy/technical support to DNA.
- Pakistan National Operational Strategy for CDM has been approved in February 2006 (www.cdmpakistan.gov.pk)
- Pakistan has granted Host Country Approval to fourteen (14) CDM projects and more than 60 CDM projects are in process of development which require host country approval in future.
- Several capacity building/ awareness raising initiatives have been conducted under this project.
- Government of Pakistan has signed a Memorandum of Understanding (MoU) on Cooperation in CDM with Japanese Carbon Fund (JCF) through Japan Bank for International Cooperation (JBIC) has been signed in July 2008.
- Government of Pakistan has signed a Memorandum of Understanding (MoU) in August 2008 with CAMCO International for the realisation of CDM projects in Pakistan.
- A number of similar MoUs for promotion and enhancement of CDM Project Activities in Pakistan.

**Project Approval Process**
- Project proponent has to submit CDM Project Design Documents (PDDs) to the DNA. Director general Environment, Focal Person of DNA
- The Submitted CDM project will be evaluated according to National CDM Criteria.
- Letter of approval will be issued by DNA within one month of the project submission.

**Tax and Credit Sharing Policies**
- No income tax or duty on transfer/sale of CDM emission credits.
- Credits to be awarded fully to the project sponsors.
- Banks and other financial institutions to be encouraged to provide special incentives to CDM Project Proponents.

**Host Country Approval to 14 CDM Projects**
4. Pakarab Fertiliser Co-generation Power Project, Multan.
5. Generator Change Project at Maple Leaf Cement Company Limited, Mianwali.
10. Community-Based Renewable Energy Development in the Northern Areas and Chitral, Pakistan.

**Expected Benefits from the 14 CDM Projects in Pakistan**
- Foreign direct investment = US$ 345 million.
- GHG Reduction = 3.35 million tones per annum.
- Other sustainable development, social, economic and environmental benefits to Pakistan.

**CDM Projects in Pipeline**
More than 60 CDM Projects are in Pipeline in different sectors
- Energy (efficiencies/renewable/alternate energy) 3 Projects
- Waste management/industrial processes 20 Projects
- Afforestation/reforestation CDM 05 Projects
International Public Sector Accounting Standards (IPSASs), in the opinion of the accounting community at large, is considered the definitive set of accrual-based international accounting standards of the International Federation of Accountants (IFAC) for the public sector entities. Is it correct?

The sovereign debt crisis in several countries around the world has posed the challenges of maintaining financial stability for these governments. This is now considered imperative to prevent and respond to these issues. Many governments in the world are exploring the adoption of accrual-based accounting frameworks in order to improve their decision-making ability. An improved Public Sector Financial Management is one of the solutions to the problem. What are IPSASs? Are these same as International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs)? There is a close relationship between IPSASs and International Financial Reporting Standards (IFRS) due to the fact that IPSASs are largely based on the principles of IFRSs.

In the authors’ opinion the IPSASs are primarily drawn from IFRSs, thus the same old wine is put into new bottle. However, this is a red fine to provide a red flag to the entity and an early warning about the health deterioration of the public sector entity.

The rationale for drawing IPSASs from IFRSs is to ensure greater comparability between private and public sector reporting to account for similar types of transactions more or less in the same manner. While IFRSs are developed primarily for profit-oriented
entities, commercial enterprises, listed companies, etc., the IPSASs are written for public sector entities. These public sector entities provide goods and services and are primarily engaged to enhance and maintain the well-being of the citizens of the country. The robust financial management is, therefore, an eventual requirement for all public sector entities.

Are there differences between IPSASs and IFRSs? Why are there differences between the two?

The differences between the two reporting frameworks - IPSASs vs. IFRSs, stem primarily from the following three sources:

- The changes made by the IPSASB of the International Federation of Accountants (IFAC) when developing an equivalent IPSASs based on IFRSs, are to reflect differences between the public and private sectors.

- The differences in the range of topics covered by the two sets of standards because of differences in the prevalence of particular types of transactions.

- The Differences in the timing of when new or amended requirements are introduced into both set of standards – the IPSASs and IFRSs.

A few significant differences between IPSASs and IFRSs are:

- **Service potential as part of the definitions and recognition criteria:** Many of the assets and liabilities of entities within the public sector are acquired or incurred as a result of the entity’s service delivery mandate, for example, heritage assets and parks maintained for public access. IPSASs introduce the concept of service potential into the definition of assets, liabilities, revenue and expenses. Service potential is also a supplementary recognition criterion to account for items that do not result in the inflow or outflow of economic benefits to the entity, where an item either contributes to or detracts from the entity’s ability to deliver its services.

- **Exchange vs. non-exchange transactions:** Non-exchange transactions are those transactions where an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. Within the public sector non-exchange transactions are prevalent. IPSAS provides principles to guide the measurement and recognition of non-exchange transactions, whereas IFRS is silent on the matter.

- **Recognition of revenue from government grants:** IPSASs focuses on whether there is entitlement to the revenue from government grants (even though there may be restrictions
Soft launch of ICAP Quetta Satellite Office

President ICAP Yacoob Suttar inaugurated the ICAP Quetta satellite office on January 12, 2015. Vice President South Syed Najmul Hussain, Southern Regional Committee member Syed Asmatullah, local members, ICAP officials and media persons were also present on the occasion.

ICAP Quetta has been established for the convenience of local residents and the people of Baluchistan. The office is located on Hali Road to facilitate CA aspirants, parents, members and educational institutions and will serve to nurture young talent by providing information about the premier accounting qualification of Pakistan. Speaking on the occasion the President highlighted that the presence of the ICAP office in Quetta will assist in promoting CA Pakistan in the province. He said that the Institute decided to explore this opportunity for the privilege of its valued members, students and the profession of Chartered Accountancy, and to broaden ICAP’s existing network of members and students.

ICAP Delegation Meets Governor Baluchistan

A delegation of The Institute of Chartered Accountants of Pakistan (ICAP) headed by the president Yacoob Suttar, met with governor of Baluchistan Muhammad Khan Achakzai at the governor house, Quetta. The ICAP delegation briefed the governor Baluchistan about CA Pakistan and the Institute’s recent initiatives and the establishment of www.icap.org.pk

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2. ICAP Delegation Meets Governor Baluchistan

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7. Seminar on IFRS 10

8. Session on Exposure Draft on Framework of QCR Program 2014

9. Seminar on Accounting Standards for Non-Profit Organisations

10. Seminar on Consumer Insights for CFOs and Finance People

11. Seminar on Sales Tax on Franchising

12. ICAP Toastmasters Club Karachi and Lahore

13. ICAP delegates attend UAE Chapter Meetings, Dubai and Abu Dhabi

14. ICAP KSA Chapter’s Family Fun Day in Khobar

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Students Section

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CA Students Conference 2014

Meet of the Month

Hiba Azhar - “I wouldn’t advice girls to go for Chartered Accountancy…!”
on how the funds are spent), or an obligation to meet certain conditions, which is recorded as liability. The distinction between restrictions and conditions is crucial in determining whether or not to recognise revenue from a non-exchange transaction. As a result, government grants are generally fully released to income earlier under IPSASs than under IFRSs.

- **Income tax:** IPSASs presumes that entities that operate within the public sector are generally exempt from income taxes and, therefore, does not cater for the accounting of income taxes. In the unlikely event that an entity reports using IPSASs but is liable for tax, reference may be made to IFRS (IAS 12 Income Taxes) to seek appropriate guidance.

- **Consolidations and interests in associates and joint ventures:** With the introduction of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities, there are significant differences between IFRS and IPSAS. IPSAS is still based on old testaments – the preceding standards such as IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interest in Joint Ventures. The main difference that arises with the introduction of IFRS 10, IFRS 11 and IFRS 12 is the manner in which control is determined for the purpose of consolidation. By the time the IPSASB finalises its project to consider these new developments in IFRS, this could become a major source of difference between the two frameworks.

- **Financial instruments classification and measurement:** With the emergence and ongoing development of IFRS 9 Financial Instruments, the classification and measurement of financial instruments under IFRS is changing from its old version – the IAS 39. Prior to the introduction of IFRS 9, the recognition and measurement of financial instruments were similar under IFRS and IPSAS. By the time the IPSASB finalises its project to consider these new developments in IFRS, this could become a major source of difference between the two frameworks.

- **Reporting of budgets vs. actuals:** With the increased focus on stewardship, service delivery and budget management in the public sector, IPSASs requires a comparison of the actual financial performance of an entity with the approved budget of that entity, where the budget is publicly available. There is no equivalent requirement in IFRS so far. The author considered it a significant deficit in reporting for public sector enterprises whose shares are publicly traded. A challenge for the CFOs of publicly traded entities to meet in the coming years.

- **Impairment of non-cash-generating assets:** In the light of the assets recognition based purely on their service potential (as opposed to economic benefits), IPSASs also caters specifically for impairment considerations for non-cash-generating assets. IFRS assumes that all assets will be cash-generating; whereas IPSAS assumes that the majority of a public sector entity’s assets are likely to be non-cash generating. IPSAS 21 Impairment of Non-cash-generating Assets provides specific guidance on how to determine the value-in-use of such assets.

- **Elimination of private sector specific concepts:** IFRS provides principles for certain economic phenomena that are irrelevant to the operations of a public sector entity, such as accounting for share-based payments and earnings per share disclosures. IPSAS excludes such guidance and refers reporting entities back to IFRS if and when applicable.

- **Growing divergence in the conceptual framework of the IPSASB and IASB:** The International Public Sector Accounting Standards Board (IPSASB) of IFAC is in the process of developing its own conceptual framework, proposing concepts that may be more suitable and relevant in the public sector context as opposed to commercial entities of the private sectors. The authors are therefore hoping for greater differences in the outlook and focus of the IPSASB and IASB in the future.

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ETHICS IN BUSINESS

by Adil Farooq Qureshi
Accountants have a fair understanding of everything going on in the business world. The reality is that we face ethical issues in our industries, firms and other organisations and we need to have an understanding to observe and deal with such matters.

Everyone agrees that business managers must all have an understanding of finance and human resource management, but is necessary for them to study ethics? You will find many a manager who’ll make excuses like ‘ethics can’t be managed’, or ‘being legal = being ethical’ or ‘managing ethics has little practical relevance.’

Business ethics go beyond merely paying handsome salaries to employees and adhering to laws and regulations. Business ethics are the principles and standards that determine acceptable conduct in business. It first applies on internal processes and then moves to external factors including social responsibility and environmental concerns. Internal processes need to be transparent in accessing, understanding, laying the responsibility and implementing. Corporations have to maximise positive impact on societies including compliance with relevant legal structure, values and norms of cultures in which they are operating and minimise their negative impact on society.

When business people ask why they should behave ethically, perhaps they have another question in mind, what is in it for us? It is perfectly all right to ask if there is a reward for being good, but this has nothing to do with whether one should be good. One should be good because ‘good’ is, by definition, that which one should be.

Fundamentally, businesses exist to create value for stakeholders, especially profit for shareholders. Other stakeholders include employees, customers, suppliers, government and social community at large. If corporate officers invest company funds to train
the chronically unemployed or reduce emissions below legal limits, they in effect levy a ‘tax’ on the company’s owners, employees and customers in order to accomplish a social purpose. But they have no right to spend other people’s money on social welfare projects leaving them to government or not-for-profit organisations. However, it is clear that maximising profit can ‘tax’ the broader community no less than ethical choices can ‘tax’ the owners. The business executive has a special obligation to owners, but it is not grounded in libertarian principles. It is based simply on the fact that the executive acts on behalf of the owners.

Companies also embed ethics into business in a very basic way by adding value to people’s lives. Examples of this include developing products that make life more enjoyable like Apple’s iPod or offering progressive employment practices like PepsiCo’s flexible work programs. The interests of companies and their stakeholders are, and should be, inextricably linked.

Although many people use the terms ethics and social responsibility interchangeably, they do not mean the same thing. One school of thought says that ethics relates to an individual’s or a work group’s decisions that society evaluates as right or wrong, whereas social responsibility is a broader concept that concerns the impact of the entire business’s activities on society. However, I believe that the scope of ethics is wider and it encompasses social responsibility and every other aspect of the business undertaken by a person or a group of persons.

The most basic ethical and social responsibility concerns have been codified as laws and regulations. At a minimum, managers are expected to obey these laws and regulations. However, ethics often presents a standard that exceeds the legal minimum. Business ethics and laws together act as a compliance system requiring that businesses and employees act responsibly in society. The interaction of ethical, legal and economic responsibilities is shown below:

Gallup Poll finds that only 17 percent to 20 percent of the public thought the business ethics of executives to be very high or high and research shows that there is a gap between the existence of company ethics and CSR policies and the embedding of its substance in the organisation’s ‘blood stream’ (More & Webley, 2003).

Why Managers Behave Ethically

| Most of Us | 1. To avoid some punishment. |
| Many of Us | 2. To receive some reward. |
| Very Few of Us | 3. To be responsive to family, friends or superiors. |
| | 4. To be a good citizen. |
| | 5. To do what is right, pursue some ideal, such as justice. |

In business, culture encompasses everything from how employees dress, to the way they work with customers, and their interactions with the boss.
2013, the confidence of employees towards senior management’s transparency and even supervisor’s personal life ethics also impact upon the reporting of ethical misconduct. According to the Report, 41% of the employees surveyed reported what they observed and 21% of them faced some type of retaliation later. Further, managers are responsible for a worrisome share (60%) of workplace misconduct and senior leaders are more likely (24%) than lower-level managers to break rules. This is particularly important since managers are expected to act as role models for other employees and enforce/promote ethical conduct across the organisation.

Culture is another way of referring to “the way things are done around here.” In business, culture encompasses everything from how employees dress, to the way they work with customers, and their interactions with the boss. Ethics is a component of culture. In strong ethical cultures:

**Management and Supervisors**
- Communicate ethics as a priority
- Set a good example of ethical conduct
- Provide information about what is going on
- Support following organisational standards

**Coworkers**
- Consider ethics in making decisions
- Talk about ethics in the work we do
- Set a good example of ethical conduct
- Support following organisational standards

Ethics within an organisation represents an essential element that each and every individual (from executives to lower management) is expected to comply with. However, the point is that we should now move forward from this and make our transactions based on the ethical conduct of our suppliers and customers. It is very simple, just like ensuring that the hotel you are eating meal from, has same hygiene standards followed at home. The more individuals’ factor business ethics into their purchase and investing decisions the more responsible companies will be. And same goes true for suppliers and customers. If the companies evaluate ethics as one of the factors before starting a supplier/customer relationship, more and more companies will come into the ethics net and start considering them before taking business decisions. Eventually, we shall achieve an ethical culture not only in our businesses, but in our society in general.

Our listed companies are required by law to formulate code of ethics and whistleblowing policy. However, fewer organisations are focusing on business ethics by making it part of their vision and mission and even fewer organisations make ethical values part of hiring and employee evaluation processes.

There is a dire need to establish an ethics organisation at country level to measure and compare parameters on ethical practices, misconduct, reporting etc., and business ethics to be made a permanent subject for all studies at professional level.

Our world is rapidly changing – and the changes affect every business, every industry, and every country. The business world eagerly awaits tomorrow’s strong and ethical leaders.

> **Business ethics and laws together act as a compliance system requiring that businesses and employees act responsibly in society.**
Islamic Banking and Finance

by Farhan Ilyas

“The need for a fair financial system brought about the birth of Islamic banking during mid-1970s.”
Islamic banking is banking or banking activity that is consistent with the principles of Sharia and its practical application through the development of Islamic economics.

The Basic Difference between Capitalist and Islamic Economy
Islam does not deny the market forces and market economy. Even the profit motive is acceptable to a reasonable extent. Private ownership is not totally negated. Yet, the basic difference between capitalist and Islamic economy is that in secular capitalism, the profit motive or private ownership are given unbridled power to make economic decisions. Their liberty is not controlled by any divine injunctions.

History of Islamic Banking
Since the beginning of the 18th century, banking has been conducted on an interest-based system of lending money to those in need. With no other alternative available, people had no choice but to borrow money at often high interest rates. This led to the formation of an unfair system that brought unnecessary hardship on people. A fair financial system was in need that brought about the birth of Islamic banking during mid-1970s. Its objective was to provide a financial alternative that was fair, transparent and above all, a source of economic uplift for all those in need of Islamic banking, enlightened with the guidance of Islamic Shari'ah principles, emerged as an alternative financial system that neither gave nor took interest, thereby introducing a fair system of social justice and equality, while fulfilling the financial needs of people and maintaining high standards of ethics, transparency and a sense of responsibility.

According to Shari’ah, interest free loans are meant for cooperative and charitable activities, and not normally for commercial transactions, except in a very limited range. So far as commercial financing is concerned, the Islamic Shari’ah has a different set-up for that purpose. The principle is that the person extending money to another person must decide whether he wishes to help the opposite party or he wants to share his profits. If he wants to help the borrower, he must rescind from any claim to any additional amount. His principal will be secured and guaranteed, but no return over and above the principal amount is legitimate. But if he is advancing money to share the profits earned by the other party, he can claim a stipulated proportion of profit actually earned by him, and must share the loss also, if he suffers a loss.

It is thus obvious that exclusion of interest from financial activities does not necessarily mean that the financier cannot earn a profit. If financing is meant for a commercial purpose, it can be based on the concept of profit and loss sharing, for which musharakah and mudarabah have been designed since the very inception of the Islamic commercial law.

Islamic Mood of Finance
Musharakah:
A joint enterprise or partnership structure with profit/loss sharing implications that is used in Islamic finance instead of interest-bearing loans. Musharakah allows each party involved in a business to share in the profits and risks. Instead of charging interest as a creditor, the financier will achieve a return in the form of a portion of the actual profits earned, according to a predetermined ratio.

Example:
Musharakah plays a vital role in financing business operations based on Islamic principles, which prohibit making a profit on interest from loans. For example, suppose that an individual (A) wants to begin a business but has limited funds. Individual (B) has excess funds and wishes to be the financier in musharakah with A. The two people would come to an agreement to the terms and begin a business in which both share a portion of the profits and losses. This negates the need for A to receive a loan from B.

Mudarabah:
The term refers to a form of business contract in which one party brings capital and the other personal effort. The proportionate share in profit is determined by mutual agreement. But the loss, if any, is borne only by the owner of the capital, in which case the entrepreneur gets nothing for his labour. The financier is known as ‘rabal-maal’ and the entrepreneur as ‘mudarib’. As a financing technique adopted by Islamic banks, it is a contract in which all the capital is provided by the Islamic bank while the business
is managed by the other party. The profit is shared in pre-agreed ratios, and loss, if any, unless caused by negligence or violation of terms of the contract by the 'mudarib' is borne by the Islamic bank. The bank passes on this loss to the depositors.

**Murabahah**: Most of the Islamic banks and financial institutions are using murabahah as an Islamic mode of financing, and most of their financing operations are based on murabahah. That is why this term has been taken in the economic circles today as a method of banking operations, while the original concept of murabahah is different from this assumption.

“Murabahah” is, in fact, a term of Islamic Fiqh and it refers to a particular kind of sale having nothing to do with financing in its original sense. If a seller agrees with his purchaser to provide him a specific commodity on a certain profit added to his cost, it is called a murabahah transaction. The basic ingredient of murabahah is that the seller discloses the actual cost he has incurred in acquiring the commodity, and then adds some profit thereon. This profit may be in lump sum or may be based on a percentage. The payment in the case of murabahah may be at spot, and may be on a subsequent date agreed upon by the parties. Therefore, murabahah does not necessarily imply the concept of deferred payment, as generally believed by some people who have heard about murabahah only in relation with the banking transactions.

**Ijara**: Ijara is an exchange transaction in which a known benefit arising from a specified asset is made available in return for a payment, but where ownership of the asset itself is not transferred. The ijara contract is essentially of the same design as an instalment leasing agreement. Where fixed assets are the subject of the lease, such can return to the lessor at the end of the lease period, in which case the lease takes on the features of an operating lease and thus only a part amortisation of the leased asset’s value results. In an alternative approach, the lessee can agree at the outset to buy the asset at the end of the lease period in which case the lease takes on the nature of a hire purchase known as ijara wa iqtina (literally, lease and ownership). Some jurists do not permit this latter arrangement on the basis that it represents more or less a guaranteed financial return at the outset to the lessor, in much the same way as a modern interest-based finance lease. The terms of ijara are flexible enough to be applied to the hiring of an employee by an employer in return for a rent that is actually a fixed wage.

Some generally agreed conditions for ijara are as follows:

I. The leased item should be transferred to the lessee on completion of the lease agreement and should be of a condition that is fit for performance of the required tasks. The lessor should transfer the leased...
items to the lessee in their completed form.

II. The usufruct of the leased item should have value.

III. The amount and timing of the lease payments should be agreed in advance, though the agreed schedule and amount of those payments need not be uniform.

IV. The lease payment schedule becomes active upon complete acquisition of the usufruct of the leased goods, whether such usufruct is in fact enjoyed by the lessor or not.

V. The period of the lease must be specified.

VI. The conditions of usage of the leased items must be stated.

VII. The lessor must have full possession and legal ownership of the asset prior to leasing it.

VIII. The leased asset must continue to exist throughout the term of the lease. Items which are consumed in the process of usage, ammunition for instance, cannot be leased.

IX. In contrast with most conventional finance leases, the responsibility for maintenance and insurance of the leased item under ijara remains that of the lessor throughout.

X. A price cannot be pre-determined for the sale of the asset at the expiry of the lease. However, lessor and lessee may agree the continuation of the lease or the sale of the leased asset to the lessee under a new agreement at the end of the initial lease period.

XI. In the event of late payment of rental, the ijara may be terminated immediately.

XII. The lessor may claim compensation for any damage caused to the leased assets as a result of negligence on the part of the lessee.

Istisna’a:

Istisna’a is a contract of exchange with deferred delivery, applied to specified made-to-order items. General agreement upon principles of practice is difficult to identify, however it is often stated that:

I. The nature and quality of the item to be delivered must be specified.

II. The manufacturer must make a commitment to produce the item as described.

III. The delivery date is not fixed. The item is deliverable upon completion by the manufacturer.

IV. The contract is irrevocable after the commencement of manufacture except where delivered goods do not meet the contracted terms.

V. Payment can be made in one lump sum or in instalments, and at any time up to or after the time of delivery.

VI. The manufacturer is responsible for the sourcing of inputs to the production process.

Istisna’a differs from ijara in that the manufacturer must procure his own raw materials. Otherwise the contract would amount to a hiring of the seller’s wage labour as occurs under ijara.

Bay al-salam:

Bay al-salam is a contract for deferred delivery that was originally sanctioned during the time of the Prophet, peace be upon him, to facilitate the trading activities of farmers who were awaiting the harvest of crops. In more modern times it has also been applied to the production of raw materials and fungible goods in general.

Generally agreed conditions for bay al-salam are that:

I. The goods sold need not be in existence at the time of contracting.

II. The delivery date and location must be specified.

III. Full advance settlement of the agreed trade price is required at the time of contracting, otherwise the contract would sanction the trading of one debt for another which is not deemed permissible in Islam.

IV. The quality of the items to be delivered should be defined. Items must be fungible in nature. Hence, rare items, or those that are not precisely specifiable, cannot be the subject of the bay al-salam contract. If the quality of the items upon delivery are found to be other than specified, the buyer has the right of refusal.

V. The quantity of the items to be delivered should be defined and fixed according to the normal method of measurement of those items and should not depend upon unforeseeable factors. The quantity
of goods purchased under the bay al-salam contract cannot for example be defined as that resulting from the cultivation of a given plot of land since such a quantity may vary according to unforeseeable factors.

VI. The buyer does not enjoy ownership of the goods until delivery has taken place.

VII. The buyer has the right to take surety from the seller as a form of performance bond.

VIII. Where the seller is unable to produce the contracted items on the delivery date, the buyer may nullify the bay al-salam contract and exercise the performance bond.

IX. The seller may deliver the contracted items irrespective of the buyer's circumstances on the delivery date.

Islamic financing is clearly distinguishable from the interest-based financing on the following grounds:
1. In conventional financing, the financier gives money to his client as an interest-bearing loan, after which he has no concern as to how the money is used by the client. In the case of murabahah, on the contrary, no money is advanced by the financier. Instead, the financier himself purchases the commodity required by the client. Since this transaction cannot be completed unless the client assures the financier that he wishes to purchase a commodity, therefore, murabahah is not possible at all, unless the financier creates inventory.

In this manner, financing is always backed by assets.

2. In the conventional financing system, loans may be advanced for any profitable purpose. A gambling casino can borrow money from a bank to develop its gambling business. A pornographic magazine or a company making nude films are as good customers of a conventional bank as a house-builder. Thus, conventional financing is not bound by any divine or religious restrictions. But the Islamic banks and financial institutions cannot remain indifferent about the nature of the activity for which the facility is required. They cannot effect murabahah for any purpose which is either prohibited in Shari'ah or is harmful to the moral health of the society.

3. It is one of the basic requirements for the validity of murabahah that the commodity is purchased by the financier which means that he assumes the risk of the commodity before selling it to the customer. The profit claimed by the financier is the reward of the risk he assumes. No such risk is assumed in an interest-based loan.

4. In an interest bearing loan, the amount to be repaid by the borrower keeps on increasing with the passage of time. In murabahah, on the other hand, a selling price once agreed becomes and remains fixed.

Advantages of Islamic Banking
Some of the major advantages of Islamic banking:
1. **Justice and Fairness:** The main feature of the Islamic model is that it is based on a profit-sharing principle, whereby the risk is shared by the bank and the customer.

2. **Liquidity:** Follow the profit and loss-sharing principle to mobilise resources and are less likely to face any sudden run on deposits. As such, they have a minimum need for maintaining high liquidity.

3. **No Fixed Obligations:** Islamic banks do not have fixed obligations such as interest payments on deposits. Therefore, they are able to allocate resources to profitable and economically desirable activities. This also holds good for Islamic financing, as the payment obligations of the entrepreneur is associated with the revenue.

4. **Transparency:** Transparent to the account holders on the investments made in different areas and the profits realized from these investments. The profit is then shared in the pre-agreed ratio.

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1. [http://www.investopedia.com/terms/m/musharakah.asp](http://www.investopedia.com/terms/m/musharakah.asp)
3. [http://www.kantakji.com/media/8489/murabaha.htm](http://www.kantakji.com/media/8489/murabaha.htm)
COMMITMENT to COMMUNITIES

by Moneeza Usman Butt
commitment to communities is becoming the focus of many organisations and individuals. Serious efforts are made by many organisations to show their commitment to the communities in which they operate, and such attribute is increasingly being adopted in the value charter of many companies. This is an imperative value teaching selflessness and giving back to the community that one comes from. On a micro level, it could be our neighborhood, our sect or our academic fraternity but on a macro level, it has wider connotations. It encompasses not only our country but the whole world including our environment.

This value is what is now commonly referred to Corporate Social Responsibility (CSR) in the corporate world. Over the years, organisations have realised that sustainability in operations is linked directly to the wellbeing of communities. Efforts spent on improving the environment, alleviating poverty and promoting education and health care initiatives are not just helping certain concerned individuals but creating a long term sustainable environment in which businesses prosper. Consequently, the concept of sustainability reporting has also gained a lot of ground and enterprises are encouraged to present and also get their sustainability reports audited. In this context there are The Global Reporting Guidelines which serve as standards for reporting on sustainability. In Pakistan, Corporate Social Responsibility Voluntary Guidelines 2013 have been issued by Securities & Exchange Commission of Pakistan (SECP). In addition, SECP has also issued S.R.O. 983(I)/2009 dated November 16, 2009 applicable to public companies requiring descriptive as well as monetary disclosures of CSR activities undertaken by companies in their annual reports.

Research has shown that the good feelings one experiences when helping others may be just as important to your health as exercise and a healthy diet. The smile from a child or thankful person that shows you’re really making a difference in someone’s life is one of the greatest feelings in the world.

Last, but not the least, one point to be stressed is that in playing our part as socially responsible citizens of this world, we just do not need to help monetarily. We could also help by investing our time and volunteer for activities whatever time we could afford from our busy schedules to give back to the society which nurtures us. I use the word ‘invest’ as I consider it not an expense or sunk cost but something that would bear fruit, if not for us then for our future generations. After all, what goes around comes around!
Self-Motivation for Accountants

by Altaf Noor Ali

“Motivation is what drives us to action. Self-motivation is when you become your own coach or mentor and talk yourself up to achieve higher things in life.”
My search for a famous world leader or a billionaire who's a professional accountant did not yield anyone familiar. Sure, there must be a few finance ministers (as in Pakistan today) and some CEOs of the world top corporates from our fraternity. Is that status a verdict against the self-motivation of accountants?

Always thought it was difficult to motivate others. Even more difficult is to keep oneself motivated everyday of life, especially if you happen to be an accountant.

Motivation is what drives us to action. Self-motivation is when you become your own coach or mentor and talk yourself up to achieve higher things in life.

Apparently, professional accountants are likely to be highly self-motivated people, and for good reasons. On your way to qualification, one goes through a hard time working and studying together, without any external force to motivate you; your self-confidence takes a deep dip when you miss the passing mark at exams and you feel left out when your fellows pass, etc.

These challenges are tough but you are even tougher because you prevail over them to become a professional accountant. And guess who's the most important person to cheer you up all the way...U.

So far so good. You have now qualified and onto a reasonably decent job. Now what?

Many fresh qualified accountants seem to lose their sense of motivation on qualifying. Why? Possibly because they remain so focused and for so long on their qualification that once that mark is achieved - with a decent job as a reward - the self-motivational trip comes to a halt.

This is where it takes an accountant to know that the motivation cycles are like nine orbits around the sun each signifying a different age; expanding as you move to a new situation.

What should motivate you if you think you have achieved everything in life? Nothing. That is why the only place in the world where no one needs motivation is a graveyard.

That is why the foundation to keep yourself motivated is to aim for something in your current phase in life and go all out for it, just what you did while studying for the qualification.

What should you aim for in your current situation?

Most people think that its money that motivates and keeps you interested but for me some aspects keep individuals interested more than money. For example, how about learning a new language, a new skill, or if you are too bored with your job, going on your own if you think your expenses will be met without difficulty. How about shifting to a new place or even a new country? How about pursuing your hobbies? How about a more balanced home-work balance?

Even better, forget about yourself and start thinking about others. How about taking up a cause that you consider close to your heart? Start teaching voluntarily in local school if education is close to your heart. May be you can benefit your Institute with your professional expertise as a volunteer? There is no dearth of good causes for any person to be attached to and to be a cause of happiness for others by doing good.

Whatever you do, it should keep you engaged. Do not sit even after you turn sixty or eighty. Make it a point to make every day of your life count for something you did worthwhile.

Life is too short to be spent waiting for an inspiration, its all do-it-yourself stuff.

The room on the top is wide open for a world leader or a billionaire who's a professional accountant. Or, you may even settle on making the corporate you work for the top one of the world and become its CEO. I will delighted to find us as a result of my search.

Go on and find your own recipe of life that keeps you self-motivated.

Many fresh qualified accountants seem to lose their sense of motivation on qualifying. Why? What can motivate you if you think you have achieved everything in life? Nothing. That is why the only place in the world where no one needs motivation is a graveyard.
Next-Time-Promise exists everywhere; just recall how many you have honoured out of those you made. This could be a best Self Appraisal Technique.
It’s a very important assignment and has strategic importance for us, I expect you to complete it by tomorrow morning”. My boss dismissed the meeting with expressions that any delays on my part could trigger a catastrophe.

My idea about the time required to complete it was around an hour or so. I was so tired that day and this assignment required some intellectual brain storming. Why not I come an hour early tomorrow and complete it before I am summoned? Not a bad idea for that day. Reverse scheduling could work. If I have to come an hour before office, means 08:00 am. Usually it takes 30 minutes to travel from home to office means 07:30 am, and pressing my dress, breakfast and shower takes another 30 minutes, so 07:00 am would be ideal. With this plan, I cleared my desk and left office.

Tring-tring, tring-tring, my cell beeped at 07:15 am again and my response was not different this time too. It’s so cold outside and my bed has the world’s most powerful magnet which used to keep me clutched in it. I can skip breakfast and will wake up on next beep. The next beep definitely punched my eardrum like a punching bag but, unfortunately, I remained deaf to it.

When I gained consciousness, it was 08:30 am. The sight of the clock made me go gymnast. Throwing away my blanket, I jumped out of my bed and rushed to get ready for office. My time plan was shattered; I skipped breakfast, shower, pressing my dress and focused only on the essentials for entering the office at the earliest possible.

While driving towards office, I started thinking of different reasons which should sound natural, lead everyone to conclude that I am innocent in getting late and can possibly dilute the aggression of my boss. For example, my car had some starting problem or it was punctured or I confronted a traffic jam, etc. While entering the parking lot, I made a Next-Time-Promise that I will never ever wake up late. Oh God! Just save me this time.

Next-Time-Promise became a kind of routine. Out of 365 opportunities in a year, I honoured this promise only occasionally. I can recall my student life, when I was in the habit of sleeping early with the commitment that I will wake up at Fajr and study with a fresh mind, and almost every day, at around 10:00 am, I used to make a Next-Time-Promise that I won’t wake up late next time. Not me alone, everyone makes such Next-Time-Promise in different areas of life. Like on fifteenth of every month, most of us make a Next-Time-Promise not to spend the salary so lavishly next time. But it goes like a routine every month. The list of events leading to the Next-Time-Promise becomes endless as soon as you cease to remain single….., oops! I am really sorry, I promise this will not happen next time!

Next-Time-Promise exists everywhere; just recall how many you have honoured out of those you made. This could be a best Self Appraisal Technique. As you reduce the number of dishonoured promises, so shall you progress in every aspect of life.

Next-Time-Promise became a kind of routine. Out of 365 opportunities in a year, I honoured this promise only occasionally.
Innovation
Prerequisite, not Preference
by Saifuddin Adeeb

“Innovation in today’s age of Information and Communications Technology is inescapable.”
The Dawn of Innovation

Innovation owes its birth to a gleaming, sparkling, out of box, singular, up-to-the-minute and fresh thought or idea. The first and ground-breaking seat of a thought or an idea is the human mind. Following the birth of a heading out idea, the process of comprehension, investigation, analysis, observation, study, texting and thinking through takes place and finally the conceptual fine tuning is set about. It is unneeded to put emphasis on that all this has to persevere in proper direction. The pacesetters - an individual or a panel - dream and unleash their dream to capture a concrete contemplation and then club and consolidate the ideas. Then on, it needs to be further nurtured and cultivated. The idea cannot be imprisoned or killed. It inherently is blessed with infinity. Upon breaking away and free from hackneyed conventionality and staleness and being translated into a matter-of-fact reality, it grows to be and signifies innovation.

The Call for Innovation in Our Day

Innovation in today’s age of ICT (Information and Communications Technology) is inescapable. The free, focused and result-oriented (and at times even defiant) thought process has to go into the roots of each and every facet of today’s businesses, be it rendering services, trading or manufacturing.

The Overpowering Pull of ICT

The advent of ICT (Information and Communications Technology) has made it essential not just to go on with but accelerate a process of both spot on, and ready to act to the needs of business and versatile innovation. The step-up culture need to be invented, pioneered, integrated, stressed, reared, plowed, and fostered, else a business is competed out. The innovators symbolise leading light and therefore, they have to dig deep and spread out all around. It, in absolute inexorableness, needs to be a multifaceted enterprise. The wings of innovation must remain sprawling, unendingly. It has to be remembered that innovation and progress are dovetailed into and are supplementary and complimentary to each other and they can only move and grow in tandem. The intensification needs innovation and innovation is conceivably heading for growth.

The Innovation Package

Innovation has to be integrated and there must be a workable connect amidst all that envelop an innermost and deep-seated innovation. There must be a fit together and the outreach of innovation must be as all-embracing as possible. Innovation does not take off in sheltered and curbed inaccessibility and, even if it does, it cannot sustain. Therefore, innovation innately has to activate a wide ranging brunt and in necessity it has to be a shared effort. The individual excellence does not and cannot have any value or place in an innovation quest.

Cross Boarder Innovations

In a present globalised world, where, for illustration kids have extra debonair teddy bear than they ever had, the innovation can and must cross boarders and expand, where required, There can be a sustained multi-culturalism and partnership in an innovation project. In todays full-of-challenges trade globalisation, innovation does not remain just an attempt or an endeavour. It denotes continued and unrelenting struggle and it is, therefore, needed to be stuck with. The innovation squad has to at times, negotiate bumpy rides and bouncy voyage through the unknown frontiers and violent waters and wrestle in a battleground against the newer tests and torments that are confronted every minute.

The Innovation Leader

The innovation leader has to fashion a squaring off and at times generate a ceasefire, amidst the innovation team associates so that all them straighten out on one page and in no uncertain terms identify with and appreciate each other’s standpoint and continuum. The intra team contacts and communications shall need to be equipped with exceptional set of lexis and shored up through decent language evolved to bring about the reciprocal grasp and communication intelligibility likewise. The know-how and do how also need to be plugged into each other.
The Group Effort
In all innovation meetings there are intense and at times contradicting, opposing, and fighting exchanges of views and thorny issues and everyone must first agree to disagree. When entering a meeting room all team members, regardless of their rank and position, shall need to leave their respective grade label and sense of self at the rear. Then only innovation can go on and bloom. The premeditated exhibition of individual superiority and brilliance is most alienating, devastating and dreadfully detrimental to the mutual interest and benefit of an innovation venture.

The Dream Corridor
It must be at all times committed to the memory of innovation leaders that true leadership in no way incarcerates inventiveness. The team leader must stir up, hearten and enthuse the team members to trance without restraint and make earnest efforts to chase and hunt for the realisation of their dreams. The dream corridor must always remain open to the team members, for fresh air comes only from an air access strip. The way in, and reach to dream, must never terminate.

Balancing the Innovation
On the other hand, the innovation has also to be balanced, hard-nosed and action driven. One must not indulge in innovation for the sake of innovation. Innovation has to have an underneath purpose and meaning. Innovation, rather than injuring, must add value to the overall societal welfare. Likewise, one has to keep in mind the affordability of innovation. There can be users of innovations outside the geographical area, where the innovation takes birth. In such cases, rather than dismantling the applicable domestic apparatus, the innovation can be exported to the territory that can afford it. It does not need to be laid on with a trowel that amidst the objective and its realisation, order is the conduit. Therefore, the discipline has to remain all through the innovation pursuit. The edifice of innovation has to be un-wearyingly structured brick by brick.

Innovation Code
There has to be code of ethics and appropriate legislations for innovations and innovators. The unscrupulous and imitative innovation has to be forbidden, for one cannot legitimately own a derivative and clinched innovation. The innovation is inherently original and belongs to and is owned by the originator alone. There is at times a thin line and on other occasion a big river amidst innovation and replication. There is a manifest difference between borrowing or stealing on the one hand, and creating and owning, on the other. The innovation signifies sourcing, pooling and sharing the ingenious ideas.

Innovation Reach
The compass of innovation is long-drawn-out. It ranges from making a small change in a petite process to fully undergoing a fundamental or sweeping alteration, to totally adjusting and reworking the entire system. There are times when one innovation triggers yet another innovation and then there is a sequence of innovations. There are generations of innovations both vertically and horizontally. There are times when one has to be innovative in innovating. It has already been emphasised that a stand-alone
innovation will not work and whatever that is innovated must fit into the overall environment where it is intended to be placed into service. The innovation has to be tied to the current and foreseeable future needs and must all the time remain germane to the current time. The moment it loses connect with the current time and becomes archaic and ancient, another innovation expedition is necessitated.

**Innovation Storehouse**
There is at times need to put a hold on and warehouse innovations. The time may not be ripe or relevant for the innovation if a team has moved very fast and the society in general is not prepared and has not been attuned to accept the innovation. In such situations the innovation shall need to be stored for a while and brought out when there is acceptability and readiness amongst the innovation users.

**Responsive Innovation**
One must always put emphasis of an adequate degree to the need for an innovation to be pragmatic. The rigidity is deleterious to an innovation undertaking and there must always be built in litheness to make the innovation work and settle in newer and variable conditions. The preset innovation and shifting times do not and cannot go hand in hand, with good measure of kinship. The tougher the innovation exertion, the longer will be the life innovation. One does not make a profound modification for a transitory period. The revolutionising change has to endure and survive with a reasonable time length of existence. Excessive and too quick innovations, besides being economically not viable could be counter-productive and instead of value addition, it in greater likelihood can produce value diminution. Following innovation must not in a short time take apart the earlier innovation, without the fruits of erstwhile innovation having been harvested.

**The Six Rs**
There are six Rs that are immediately pertinent and key to an innovation effort. The innovation must take place at the right place, right time, right cost, in right quantity, of right quality and by the right people. The entire innovation design must remain within the four corners and under the shadow of foregoing six Rs. One cannot put together an edifice of innovation if any of the foregoing six Rs is or are absent or missing.

**The Precipitate Innovation**
We must also remember that an explosive innovation shall, in greater likelihood, bring about destruction, for if there is an outburst there is bound to be obliteration. Likewise, there should be a gradual and progressive growth in innovation rather than a stretched leap. Step by step innovation sustains and if innovation is jumped then besides the innovation arriving a bit too early, it will craft a breach and create emptiness. There must be sense of fulfillment and relevance. One must not go berserk with the innovation. He shall need to be gentle and kind to the innovation plant that he has plowed. Control and patience is a prerequisite in an impatient and adoring innovation pursuit.

**Innovation a Specialists Practice**
Innovation is a specialist subject and has to be alienated from general research and development. Innovation has to be incubated and roomed singly, one by one. There must always remain a connect and disconnect amidst focused innovation and general research development. The business entity must within R&D budget have a distinctive allocation for innovation. The business entity that fails to notice this stark realism and does not endow in innovation as a stand-alone investment is doom destined. The business entity will, reap, garner and draw together real IP value if it implants the root of innovation and there is enough and conscientious pay out towards innovative intellectualism. Innovation must eternally be powered and fuelled with resources, which must keep flowing at the right time, in the right direction and of right size.

**Innovation Archives**
Innovation activities that are embarked upon from time to time must besides being properly furnished
with regulation and aided with systems always remain by the book archived. There always remains a need to revert to the past efforts for more often than not the past is the best guide. The need to suitably document and store the entire innovation exercise does not need to be overstressed. The entire chronological grid of innovation needs to be properly arranged and there must always be a living and vivacious access to past innovation efforts and these efforts must be given all possible forms and shapes for an enhanced recollection of an endeavour that was embarked upon in the very recent, recent, not recent, distant and long distant past. The more capacious is the documentation of innovation, the greater value and utility it will have in times to come.

**The Department from the Subject**

It is forever imperative to remain all the time on the alert in an innovation work out, to ensure that there is no misdirected effort that causes sacrilege of the sanctity that innovation carries. The self-critique rather than being self-complimentary is incredibly significant. This will bring about the much needed and quick perfection in the quality of innovation effort. One must also learn from an innovational effort of the peers and must remain in constant touch with them. This will broaden his horizon and prepare and enrich him with the knowledge and experience of triumphs and failure of others in the field.

**Rewarding Innovation**

A prudent employer shall always fashion opportunities for and reward innovation. The reward does not necessarily mean pecuniary motivation and stimulus. It can take various forms and innovators can be primed and sponsored in diverse ways. There can be foreign trips and higher education induced for innovators. The presence of an incentive plan for innovators shall encourage and attract many in the organisation to this inspired pursuit. During a work day, work week, work month, or work year a time slot can be dedicated to track innovation on precise subject or in an all-purpose mode. The innovation effort arouses a sense of fondness in the entity and to what the entity is engaged in. This will bring about a qualitative progression in the workforce. The human resource should be encouraged to instill a practice to innovate.

**The Innovation Game Plan**

Innovation needs to be as it should be ordered and prearranged and one must not, having profligate time on hand, grope in the dark at a loose end. Having identified an area where to innovate, it is essential that the innovation team controls wilderness and combats the reverie. The thought journey is endless and therefore, it is crucial that the innovation effort is game planned and properly structured so that there are no deviations and resultant wastage of resources.

**The Intelligent Property**

It is vital to, in an apt manner and rightfully own an entity’s innovation and shield it from being pilferaged. The resources that are flown into an innovation enterprise at times runs into enormous sums of money. The innovation has its own high value. Globally speaking, there are many entities in diverse sectors whose foremost attention and premier concentration is on innovation and on their balance sheet IP is the principal item in terms of value. There are entities that invest in innovation and contract out the manufacturing. For them it is fundamental to focus and mull over on continued innovation and that is the single means to live to tell the tale and flourish. They do not interlock themselves in manufacturing and related matters. They outsource pretty nearly the entire manufacturing undertaking.

**The Change Management**

Finally, the entity must have change management consultants on board for change and innovation are synonymous and the changes that innovation brings about need to be by the book and continually managed. It is gruelling to sell the change. The habit of accepting the change for improvement needs to be hammered within the organisation. The entity must have change counsellors always lending hand to the affectees of innovation.
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