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CFO: Sustaining Excellence
– Shifting Gears

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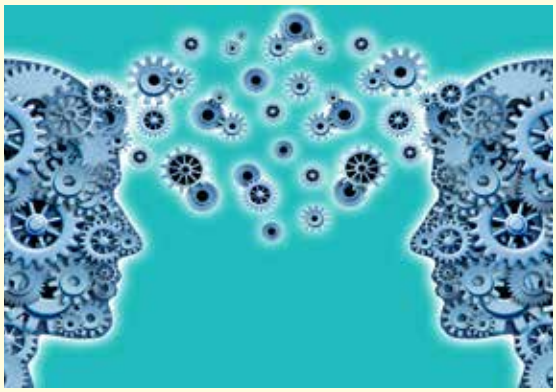
contents

CFO: Sustaining Excellence – Shifting Gears



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11th May, 2015

Editor's Letter

The business priority has changed…CFOs and businesses are pushing their feet on the accelerator. CFOs who want to stay on top are reinventing their roles; they are visible and building trust with their organisation and extended stakeholders. There is no single career track that fits all, just the track of diversity itself. Today's CFOs are moving into a business partnering role and add value to the business.

The pendulum has swung towards the controllership role of the CFO. CFOs are now the elbow of the CEO, ready to support and challenge them in leading the business. As the role of the CFO has extended, the tools used by CFOs do not just focus on the traditional finance side of the organisation.

CFOs are ready to 'sustain excellence' and 'shift gears'. Having spent much of the past decade ensuring compliance with financial reporting and corporate governance requirements or cost reduction initiatives, they are eager to put a renewed focus on sustaining excellence in their ever changing roles.

CFOs want to redeploy resources towards the work that can help them and their colleagues in the C-suite and in the business units to make better and more informed business decisions that are based on the right information at the right time, and are made by the right decision makers.

CFOs are eager to renew their focus on providing high-value financial planning, information reporting, and analysis services to their finance organisation and their peers in the executive suite. In order to do so, they'll need to shift their enterprises toward becoming information-centric organisations—structured to sustain the information life cycle, where data becomes information, information becomes insight, and insight becomes intelligence.

The time for change has come. Over the past decade CFOs have increasingly become focused on internal controls and risk management, now they are more engaged in the business partnering role, spending much time on access to information versus analytics.

The appetite for change is apparent in the role of the CFO which is not solely being about signing off the business case. They have access to business performance that can help identify new ways to leverage mobility in an innovative way to drive top and bottom line value. The challenge is to see CFOs as joint owner of innovation vs. being the person who writes the checks for innovation. This will require different thinking and approaches, and a cultural change across the business.

M. Sharif Tabani, FCA

President's Page

The increasingly dynamic and competitive business environment today demands companies to continuously adapt to change to remain firm on the trajectory of success. This continuous process of transformation and innovation to sustain is certainly not an easy one. The challenges for CFOs and the functions they lead have compounded in this context, with ever increasing expectations. Way beyond from their traditional role, Boards and CEOs are now expecting CFOs to be co-pilots, helping businesses navigate through the treacherous roads of change. From supporting strategic decision making through to strong financial stewardship, there is a need for the CFO to demonstrate expertise in performance accounting, wider financial management and business leadership.

The growing expectations from CFOs are not without reason. Being the guardian of financial information and with the ability to put numbers across business processes, CFOs are uniquely placed to forecast, spot and make sense of subterranean shifts. They are the ones who can figure out where actually lies opportunity for the business, in the middle of a difficulty.

The CFO Conference 2015 was designed to highlight these evolving trends and the skill set required by finance professionals to face the challenges of their demanding roles. The Conference theme said it all – to sustain excellence, predicting and managing change is a must. The ICAP CFO Conference, which was initiated six years ago in 2010, has now become a signature event of the institute, where industry stalwarts and top notch professionals enrich participants with their learning and experiences. The distinctive themes, relevant topics, eminent speakers and panelists as well as an enthusiastic participation are the main ingredients for continued success of the CFO conferences.

The CFO Conference 2015 set new trends and new records of participation. With vibrant social media activity, mobile application and live streaming, the conference fully embraced with the realities of digital media platforms. I am confident that PAIB Committee will continue to raise the bar and make ICAP CFO Conference the most sought after industry event, not just in Pakistan but across the globe, where ICAP members are serving and proving their mettle.

Yacoob Suttar, FCA

Join the Discourse

This issue's topic:

Accountants becoming a more integral part of the decision-making process, changing the way accounting is viewed today... Do you agree?

Abdul Rahim Suriya, FCA
Karachi

Yes, I agree with the above statement. Accountants are exposed to more decision making than the traditional task of recording and communicating. Accountants contribute more effectively in making business models and strategy along with, to a certain level, in improving production, effecient supply chain, marketing, sales and HR functions.

Mudassir Iqbal, ACA
Karachi

Today accountants are more in tune with the business and its challenges than ever before. They have more understanding with the key people who are involved in driving the business strategy. They are more proactive and talk about the future of the business and related issues and opportunities. They are responsible for the flow of good accounting information that supports the planning, control, and evaluation work that take place within the organisation. Today's accountants allow management to track performance information that goes beyond the cost-based information of historic general ledger systems. The nature of their work continues to expand as new industries develop and computer technology grows in importance for the decision makers in gathering information.

Ahmad Sana, FCA
Dubai UAE

Decision making is a team effort in which every member of the management team has a role. Accountants have always provided information to the management team to predict the future impact either for budget preparation or forecast. Today, accountants have better knowledge of the corporate laws, taxation and reporting of transactions which helps the management to carefully decide the business decisions they are making.

Ahsan Rasheed, ACA
Faisalabad

Accounting and accountants were once regarded as part of the old school who had no say in the working of the organisation and were stationed somewhere in the corner of the administrative staff block, with piles of paper on the table and simply recording the 'historic' transactions. Today, things have changed, though accounting is still related to the historical transactions but, accountants are now more proactive in their approach, submitting information, analysis and decision making tools. No decision is made unless the accountant provides the insight of the business. No production decision is complete until the company has the costing input from the accountant. No HR decision can be taken unless the accountant lets you know the quantitative performance of the exisiting HR policies and the costing side. No capital investment is made unless the feasibility has been provided by the accountant. Hence, you name the section of the organisation, and you find the accountant being an integral part of it.

> 'Today accounting is still related to the historical transactions but, accountants are now more proactive in their approach.'

Syed Rahat Hussain Naqvi, CFA, FCA
Karachi

I cannot find suitable words to agree to the statement. Accountants are playing a significant role in decision making processes. Whether it is the role of CFO or Chief Risk Officer (CRO), accountants' help is actively being sought by the management and the board to facilitate in their day-to-day as well key strategic decisions. Increasing emphasis is being placed on risk informed decisions as companies are moving towards becoming Risk Intelligent Enterprises. Board members are being held accountable for Risk Management of a company and practical application of risk management can only be seen, if it is exercised at the time of each critical decision making. Performance of a company, both at the broad level, as well as, down to the level of each important decision maker should be evaluated with reference to its compliance with the company's Risk Bearing Capacity. Thus, the critical balance that needs to be created while making decisions between value creation and value protection lies in the hands of CFO/ CRO – an accountant by profession.

Adnan Haroon, FCA
Muscat Oman

An accountant's role has evolved. The role of finance in strategic planning, decision making, formulation, implementation, and monitoring is a key for the success of an organisation.

Muhammad Mudasser, ACA
Saudi Arabia

Accounting has always been considered a crucial function of any business; be it on a notepad with a shopkeeper or complex enterprise solutions for a large organisation. The key is to get accurate and timely information for any stakeholder. In this information technology era, the management is making decisions on information gathered on a real-time basis. The accounting tools have also been upgraded to be presented online as well as streamlined in various business processes. All of this is happening due to the fast paced nature of the world we are living in currently. Various accounting tools are available to executives that make it easy for them to grasp the information and then make a decision. A very simple example is information available on the stock exchanges. These figures are calculated in real-time by softwares that have accounting rules incorporated into them. The bottom line is that no individual or entity will know where it stands in terms of profitability, cash flows or wealth unless they have accounting information available.

Rehan Nazir, ACA
Islamabad

I totally agree with the topic. Being part of a manufacturing concern, I have witnessed that accountants are integral part of decision making process. All core decisions like how much to produce, what should be stock levels of raw materials, spares and how to remain focused on high retention areas from sales point of view are being taken with active participation of accountants. Due to accountant's strategic role and key value addition, they are no more viewed as Munshis.

Farhan Ilyas, ACA

Accounting can be defined as the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information (Hogget and Edwards, 1987). The information in accounting systems relates mainly to

financial data about business transactions, which is presented in monetary terms. In addition, to presenting financial information about past transactions, the accounting system enables to generate forecasts and predictions as an aid to decision making. Accounting is sometimes referred to as the language of business. It offers a medium through which the marketing, production, human resources and other impacts of a decision may be reflected in monetary terms. Accountant provides necessary information to assist management in decision making and management control. The accountant's role in the decision making process is to provide data relevant to the decision. Managers can then use these data in preparing a quantitative analysis of the decision. Qualitative factors are considered also in making the final decision. In order to be relevant to a decision, a cost or benefit must: (1) bear on the future, and (2) differ under the various decision alternatives. Accountants are not participants in the decision-making process but provide the information that can highly affect the decision within the organisation because they are the keepers of financial records. The role of an accountant is diverse and critical. They can affect the decisions that the business leaders are going to make. They can also keep their eyes tracked to any changes that might take place while the decision has been in the process of assimilation.

Muahmmad Ahmad Qureshi, ACA, APFA
Kingdom of Saudi Arabia

Good and effective decisions can only be made when the right information is made available at the right time to the right recipient. Accountants identify, measure, record and communicate economic information to permit informed judgments and economic decisions. Accountants have skills to prepare relevant and reliable information with the quality of comparability, consistency and understandability. Such quality information is needed by those who have interest in the organisation (both internal and external) to make effective decisions. Whether the decision is related to investments, financing of the operations, mergers and acquisitions, increase in the entity's market capitalisation, dividend distributions, etc. accountants have remained the primary providers of financial data and analytical reports to facilitate the decision making process. They are involved in explanation of financial statements, preparations of budgets, identification of measurable outcomes and use of tools to assist decision making such as ratio analysis, forecast (cash flows and variances, etc.). As business proceeds, accountants monitor how well the business actually performs in comparison with the estimates, how and when to replace assets, and how income tax and goods and services tax (GST) will impact on the business. Let's take an example of mergers and acquisition decisions which is one of the most important strategic decisions undertaken by the board. Accountants are in a very good position to contribute their expertise in the analysis of acquisition strategy. They provide insight into the determination of an appropriate strategy during the various stages of analysis from the defining of objectives to the integration of the companies, if a merger is consummated. An important aspect of merger and acquisition strategy focuses on strengths and goals before taking actions. Managers and accountants, as partners in the strategic planning process, take a cautious view of potential activity, to observe a basic compatibility between the two companies, to determine whether the product mix makes sense, and to determine if the companies' core beliefs are the same. Whatever the rationale of combining businesses, the success or failure of the merger is based largely upon financial considerations. Because success or failure is ultimately measured in currency or monetary terms, the target company's financial position must be measured carefully so as to quantify as many expected benefits and costs as possible. This process provides the framework wherein an accountant can make an important contribution. Many accountants are also asked by top management and the clients about Business Intelligence and analytics. Business Intelligence (BI) is a technology-driven process for analysing and presenting actionable information to help corporate executives, business managers and other end users to make more informed business decisions. Accountants have clear understanding of financial figures and ability of extracting and measuring key performance indicators within the business. The analytical skill possessed by accountants is paramount to the successful implementation of a Business Intelligence strategy. It is clear that accountants in organisations are becoming an integral part of strategic decision making process as core team members and key players at the board table.

> 'Accountants have remained the primary providers of financial data and analytical reports to facilitate the decision making process.'

Muhammad Asad Ali, ACA
Islamabad

Mirage what we are trying to achieve, a dilemma to balance out between stewardship and facilitator, a myth hard to come true, change in DNA that it will cost. Being steward of the company's asset, accountability punched in and when presumed, you have all the answers about the transparency of everything on each forum, you inevitably get critical. As an integral partner, facilitation toward organisational goals is the utmost priority for accountants. Accountants often fail to realise that it will take two to tango, and unable to generate desired results by bringing the parties on same page. Einstein simplified the phenomena "Strive not to be a success, but rather to be of Value". For me it will take a while before the accountant start sacrificing the basic purpose of their existence.

Adil Ashraf, ACA
Karachi

Today accountants wear many hats, including that of compliance steward, pragmatic strategist and business partner, no longer a number pegged book keeper or at

max a tax savvy person. It is evident that recently emerging positions of chief financial officers, chief investment officers, chief compliance officers and financial analysts in the organisations, all are of the accounting profession. The necessity for qualified accountants to participate in the business at a broad and strategic level has never been greater. Successful organisations require their senior accountants mainly the CFOs to have vision and the ability to look beyond the core functions of finance and accounts, and use their financial acumen and insights to drive new value and elevated levels of business transformation and performance.

Abdul Hayee, FCA
Lahore

I agree with the above statement.

Mohsin Inayatullah Malhi, ACA
Dubai

Nowadays, organisations don't just want accountants with the technical skills to produce accounts. They want accountants who can apply financial expertise in support of the business and contribute to leadership. The domain of accountancy has expanded in line with this general trend in organisations' emphasis from technical skills and financial reporting to management skills and decision support through to impact. Unlike most other modern professions, accounting has a history that is usually discussed in terms of one seminal event the invention and dissemination of the double entry bookkeeping processes. Historically, accountants' position was alienated from the core activities of the company and had little or no face-to-face interaction with clients. In connection to this, they were separated by physical boundaries within the organisational operations. At the end of the twentieth century, with the beginning of the twenty-first century globalisation began to affect local and global economic. This led to influence the accounting craft. With the pressure of globalisation, that is, increase in competition, advancement in technology and pressure to get information fast, accountants now play bigger roles in organisations. Accountants not only play the role of information provider but participate in decision making and help managers to make better decisions. Accountants add value to their organisations by helping the top management in decision making and planning. Additionally, accountants participate as an important part in the management team in decision making and processes. In addition to their significant role in providing information, accountants have become an integral part in the management team that they take proactive role players when it comes to strategic business planning and day to day needs to be made decisions. The global business environment is characterised by intense competition globally and the need for making strategic decisions is inevitable in order to upbeat rivals in the industry. As strategists, accountants are involved in taking and negotiating appropriate strategic moves and also helping managers determine their most important customers, substitute products in the market, critical capability, adequacy of cash to fund to a strategy and the like.

Jawad Ahmad Khan ACA, APFA, CFC
Karachi

I agree that accountants are useful for effective decision making process. According to Aurbrey Mc Clenden, "I just wanted to be a businessman, and to me, the best way to understand business was to be an accountant". Decisions have to be made by all individuals every day. Decision making arises because of the need to choose between alternatives. Careful consideration must be given to all available information. Useful information/data must be identified, measured, recorded, classified, summarised and presented properly. All narrated foregoing are the critical elements of accounting. Accounting is a service activity and an accountant uses words and symbols to communicate financial and economic information useful for decision making. Basically, as a profession, accounting has evolved in response to society's need for accurate information to help people (inside and outside of organisation) make economic and investment decision. Just because of services provided by accountants in society, accounting is often called the 'language of business'. Accountants are the custodian of financial

information of any company and all economic entities (e.g. business, government agencies, families, charitable entities, etc.) need such information as these are the backbone effective and objective oriented decision making. The ultimate and major objective/function of an accountant is to provide financial and other relevant information in the form of a report to the organisation as well as it is also helpful for all levels of management on need basis. In all their capacities CAs utilise their practical and theoretical knowledge and experience to ensure timely provision of effective and SMART information for decision making process in relevant organisation. To summarise establishment of implicit goals, the collection of information about the proposed business and consideration of future consequences all are very well dependent upon the information recorded and presented by the accountant.

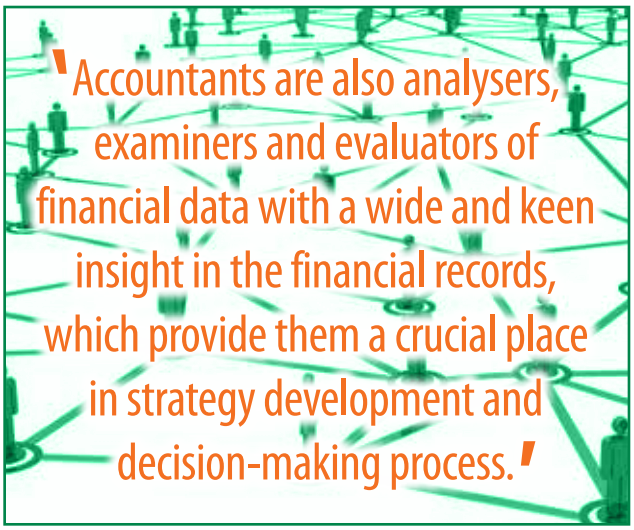
Aamir Jan Muhammad, FCA
Karachi

Accountants not an integral part of the decision making process is not a rational choice under the current dynamic

changing business environment. To make a correct business decision, you need correct/reliable/accurate/timely information, which is not quite possible without the assistance of accountants. Nowadays, by default, if not by design, accountants' expertise is required by entrepreneurs/business managers to make strategic business decisions as they hold the key to convert plans into numbers. As they say "this world is nothing but 'words' and 'numbers'," and business managers play the words part and accountants play with numbers.

Atif Riaz, ACA
Lahore

Accountants are a lot more than just traditional record keepers. They are also analysers, examiners and evaluators of financial data with a wide and keen insight in the financial records, which provide them a crucial place in strategy development and decision-making process. Investors are now obsessively interested in the financial information produced on the basis of rules and principles of financial accounting. The information reported by financial accounting is similar to a giant, complex portrait painted of the organisation. There are hundreds of aspects that can be examined, analysed and evaluated for assessing the financial health and future prospects of the model. It is imperative on the part of accountants to produce this information in a way which benefits the decision makers. So, the way accounting is viewed today has been changed in the following manner. There are cash flow forecasts which look at likely future flows of costs and revenues. There are budgets which are future financial plans and help business to see where it will incur costs and where revenue will come from. There are variance analyses which show difference between what was forecast to happen and what actually happened and how business can build on a positive variances or avoid negative ones in the future. There are investment appraisals which help to decide whether a particular investment is worthwhile or not. There are many analytical tools including activity and efficiency ratios, liquidity ratios, gearing, profitability and performance ratios, trend analyses, vertical and horizontal ratio analyses, etc. These ways of accounting insights help to evaluate the strategic position of the business which leads to setting goals and formulating strategies to achieve those goals.



Mohammad Omar Shahab, ACA
Dubai

In today's dynamic and challenging economic environment, being precise and accurate plays a vital role in the success of any organisation. In this regards, accountants lead the bookkeeping responsibilities. However, despite providing the bulk of the information to the management and executives, accountants are still not an integral part of the decision making process. Decision making is still heavily reliant on information from other sources such as market research for consumer preferences and trends and strength of the business relationship maintained by the selling departments. In addition, consultants and advisors play a crucial role in influencing the decision making process in an organisation. Hence, despite the evolution of the accounting profession as a whole, accountants are not critical parts of the decision making process.

Adil Farooq Qureshi, ACA
Kot Addu

Accountants have traditionally been charged with the responsibility of financial management and book keeping. But this has long changed. Now they are not only required to comment on financial viability of a project, but also have business acumen to analyse the commercial sense of management policies and decisions. This has put them under pressure and this is how they are going to thrive and progress. They have to attain and maintain excellence in the field of their traditional obligations and also play a vital role in strategic decision making of the organisations. And with financial insight, this makes a winning combination. They are now handling contract management and making deals with customers and consultants. They are involved in giving financial and commercial input for decision making. They are also responsible for sound internal control systems, compliance of related laws and policies and proactively evaluating impact of changes in external and internal environments of the organisations. All of this along with maintaining relationships with the business heads, internal and external auditors. In short, they are an integral part of corporate decision making and a key pillar in good governance.

Bushra Aslam, FCA

I agree with this statement. When I joined the profession as a student in 1991, accountants were considered to be number crunchers, book keepers or even munshis. They never had any significant role in the business decisions of an organisation as the accounting profession was deemed to be a support function. This perception has changed over time. Now-a-days accountants play a key role in management of an organisation. Their input is required from setting of strategic objectives and targets to actual accomplishment against those. This is the beginning of transformation of the accounting profession. Still a long way to go. Accountants should be equipped with adequate management skills. The current deficiency witnessed in leadership, communication and presentation skills are an impediment in growth of individuals as well as the profession. The curriculum needs to be revisited on holistic basis to address the deficient areas.

CFO Sustainability

Craig Arnold

Sustainability is vital to the future success of business. For years, the chief executive officer was seen as the key individual responsible for viewing a company through the lens of sustainability. Today, the chief financial officer who reigns supreme in sustainability in some companies is the one who manages risk, compensation, disclosure, and financial performance and will more or less set the stage for how a company addresses its environmental and social impacts.

CFOs, by definition, are primarily focused on the company's financial wellbeing. But not everything related to sustainability can fit onto a conventional balance sheet or profit-and-loss statement.

CFOs are concerned about the performance of their company and anything that could either bolster or impact that over recent years. This has made sustainability a growing consideration for them. There are various serious risks from a reputational and operational standpoint that should not be overlooked, including from a compliance perspective. More important is the CFO's finding that sustainability can be means for making better investment decisions, creating improved performance metrics, reducing cost and capturing more valuable data about the business.

Beyond these core issues, it is also clear that both customers' and investors' expectations are shifting on the topic of sustainability, which raises clear point of interest for CFOs. The CFO's holds sway over the key investment decisions, while also acting as a guardian of the business, with responsibility for identifying potential risks on the horizon. In all these aspects of the job, CFOs should be realising that sustainable business practices are key to the long-term viability of their business and that they have a clear role to play in promoting these.

The CFO is ideally placed to drive business value from sustainability. The finance team has visibility into every part of the enterprise and understands how it all fits together.

One key responsibility of the CFO is to understand, forecast and derive the improved future value of the business. Sustainability can have strong impact on long-term outlook for business, either through deteriorating market conditions for an organisation or by changing the competitive environment.

CFOs are key players in delivering the value because their skills bring robustness to sustainability performance

management and because they are well placed to support the integration of sustainability across the business. CFO must be influential. They can commit to sustainability not only by providing assurance and proof that it can be measured and monitored but also by advising that sustainability can be and should be taken into account clearly and consistently in day to day decision making.

The CFO is ideally placed to drive business value from sustainability. The finance team has visibility into every part of the enterprise and understands how it all fits together. CFOs usually fulfil key compliance and risk management roles; they are the board member most directly responsible for efficiency and cost control.

For CFOs to create value in this market, they need to focus on business model transformation rather than solely cost management.

CFOs who nurture the cross-functional skills of both sustainability and finance professionals and find ways for them to work seamlessly together will see more opportunities to grow value for stakeholders. It is this marriage of rigour and reporting on the one hand, and understanding the key attributes of sustainable practices on the other – that ensures a business is able to deliver shareholder value over the long-term. But making it happen requires clarity, vision, leadership and a willingness to act.

It goes without saying that CFOs pay a lot of attention to the financial performance of their companies, in particular, anything that could impact the bottom line in a positive or negative sense. Sustainability is increasingly on the minds of CFOs because it highlights various reputational and operational risks that should not be overlooked, including compliance issues.

The CFO plays an important role in key investment decisions because of the responsibility to evaluate new opportunities such as sustainability-focused product offerings and to identify and analyse any potential risks. Primarily, not all CFOs are embracing the transition now underway. More and more investors are using sustainability as an investment criterion. Forward-thinking CFOs need to reassess how they allocate shareholder capital and act strategically to keep their business models focused on managing these new issues.

According to Ernst & Young[1], there are three key areas where CFOs play a role in sustainability:

1. Investor relations:

CFO describes this as the art of storytelling, given investors' interest in numbers, not stories. But sustainability, can be viewed as a new character introduced into a familiar plotline. It is about financial promise, but with a new twist: increasingly, a company's sustainability story is being heard and read by the same people who read its annual financial reports.

2. External reporting and assurance:

Transparent reporting of sustainability performance is important, and not just to investors and ratings agencies. Business customers are requesting information about a company's environmental footprint — witness the growing number of supply-chain initiatives centered around a company's sustainability commitments and performance.

3. Operational controllership and financial risk management:

A CFO must certify that the company has installed controls and procedures enabling it to discharge its climate change disclosure responsibilities. In other words, sustainability has found its way into the realm of controllership and financial risk management.

Shifting Gears

In an increasingly uncertain and competitive business environment, Asia–Pacific's[2] CFOs are taking on a far more strategic role in steering their organisations safely through tight credit markets, complex regulation and dynamic trading conditions.

For CFOs to create value in this market, they need to focus on business model transformation rather than solely cost management. Having an impact on corporate strategy, operating model optimisation and other major

[1 2] Ernst & Young's 2011 report, How sustainability has expanded the CFO's role.

business initiatives is increasingly demanded by boards and chief executives.

This is providing greater job satisfaction with CFOs measuring their personal success through their contribution to major business initiatives, rather than through traditional focus on improvements in financial metrics.

This shift in role is not only being demanded by executives and boards; it is increasingly becoming the expectation of the market as peers begin to deliver clear results in this regard. It is also leading to more satisfying careers in the long term as CFOs align their personal success to the success of the organisation.

The global economic downturn has ramped up expectations of CFOs and the finance functions over which they preside. Historically, CFOs have themselves tended to drive the direction of their role. But with greater internal demand, they are now in the spotlight providing financial and strategic insights to boards and executive teams keen for clarity amid the economic uncertainty.

Most CFOs believe this is the future state of their role. However, in current volatile and complex markets, it is even more of an imperative to have a laser focus on cost management and working capital. This highlights the complexity of the CFO role with financial performance remaining central to the role while at the same time providing executives with strategic insight.

The diversity of the role means that it is imperative for CFOs to surround themselves with a high performing finance team.

As organisations continue to adjust to ongoing volatility, CFOs not only own the cost reduction agenda, but are increasingly being drawn into providing expert advice to support boardroom decisions. Helping a leadership team to steer a course in times of uncertainty requires CFOs to think and act beyond the financials.

It is clear that the CFO role is evolving to an enabler of strategic business initiatives.

CFOs measure their own performance through a variety of metrics and performance indicators. Supporting the notion of a value-creating role, their top measure of success is their personal contribution to business initiatives. This was seen as an even more important achievement than improving the organisation's financial metrics. Other qualitative measures cited by participants across the region include improving their organisation's ethical standing and market reputation.

It is clear that the CFO role is evolving to an enabler of strategic business initiatives. It is how they are measuring their own personal success. The interesting question is that, what their specific contributions to these business initiatives and transformation programs should be and whether their role could evolve to take a leading part. The fact that their personal success is also measured by their contribution to the organisation's ethical standing and market reputation demonstrates that CFOs take seriously their role in stakeholder management.

The CFOs also rate good leadership as highly important, believing that their own ability to attract, retain and develop talent contributes to a well-functioning and valued finance function. As leaders of the function, CFOs measure themselves against this and are also concerned with the quality of their personal reputation as a financial manager, both within their organisations and across the market.

CFO Role

Paradigm is 'Shifting'

M. Asad Mirza, ACA

Chief financial officer (CFO), as the name depicts, is the one who leads the finance function of the organisation. His main functions, among other things, include accuracy and reliability of financial reporting, effective financial planning, safeguarding of assets, risk management, strengthening control environment, enrichment of governance structure, ensuring high-quality financial health of the organisation, etc. As the time is passing by and we are witnessing tremendous changes in almost all spheres of our lives, CFO Role is not an exception.

The traditional image of a CFO is considered to be numbers steward or financial gatekeeper, whose primary responsibility is restricted to the financial statements, sound governance and compliance only. However, rapid globalisation of businesses, the impact of technological advancements, changing business and organisational structures, and a new focus on value creation has challenged this traditional role. They are expected to participate in driving the organisation towards achieving its objectives. It is now part of their responsibility to read and anticipate market trends, lead the quest for business innovation, identify commercial opportunities and create efficiency.

Today CFOs are expected to shoulder much greater responsibility for value addition in business and for this they have to work beyond traditional parameters and take on a role that is more proactive towards sustainable value creation. Their role as business leaders have been rewritten in the context of constantly evolving business environments, which demand continuous adjustments and adaptations in the way organisations are managed. They have to position themselves as primary drivers of corporate strategy along with CEOs and play a vital role in ensuring inexorable business growth. As part of the leadership, they are expected to increase their support in strategic and operational decision making in a business partnering capacity in addition to fulfilling traditional stewardship responsibilities. They have to use their financial acumen and insights to drive business strategic decisions and elevated levels of business.

This transformation of role demands distinctive qualities in order to meet changed stakeholders expectations who look forward to enormous things from him. The following are the additional skills set that CFOs of today are expected to be equipped with in order to be more competitive and congregate augmented expectations:

Strategic Advisor

CFO role in supporting strategic growth is increasingly valued. Strategy formulation and execution is identified as the most important area in which they have to gain more expertise. They need to take the holistic view in order to understand the implications of problems and opportunities in different parts of the business. They need to have the ability to form and execute organisational strategies. CFOs have to operate as strategists rather than tacticians to ensure the financial health and sustainability of their organisations.

Increased Customer Focus

The customer is the most important stakeholder for any business and needs special attention and care. Traditionally, the sales team or the front end people only are assumed to take care of customer and its needs. But time has changed and increased emphasis is being placed on customer care across all the departments including finance. The finance people will need to be attuned to the needs of different consumers and develop a culture which is customer centric. This will be important in achieving transition from back to front office for them. CFO needs to be more knowledgeable about customer and taking roles which provide greater customer understanding.

Translator

The CEO is an organisation's chief visionary and lead strategist. It is critical for the CFO to translate the capabilities and performance measures of the organisation into useful information for the CEO and, in turn, translate the CEO's strategy into a measurable action plan. Once the translation is complete, the CFO continues to communicate the strategy throughout the

organisation and the results back to the CEO and other members of the leadership team.

Leadership Skills

The CFOs, like CEOs, must motivate the people in the organisation to achieve its mission. CFO must motivate people to execute the company's strategy against stiff deadlines while maintaining quality standards and anticipating the company's future financial needs. People's attitudes, fears and preparedness are critical variables that must be predicted and managed. As an effective leader and key member of senior management, the CFO needs to facilitate the delivery of sustainable value creation and preservation.

Human Capital Development

The CFO uses key individuals within their organisation as transformation champions, and equips those with the training and tools needed to understand the agenda and rally support across the business. They require highly skilled, engaged finance team, and as such they need to keep staff, specifically top talent, in mind at all times; doing what it takes to acquire, develop, retain and build a cohesive, informed and engaged finance organisation.

Innovative

A CFO needs to be more creative and innovative. Innovation is an essential driver of excellence. They must play a leading role in accelerating strategic growth across the enterprise. They need to provide meaningful insights to their organisation's current and future investments plans and participate in the broader corporate vision and advocate and produce strategic transformation.

Communication Proficiency

Interpersonal communications are extremely important. The finance people are normally considered less proficient in skills like communication, managing people, thinking outside the box, big picture thinking etc. The CFO should be a good communicator to the board on the performance of the business and the issues it is facing, to his peers in getting across key information and concepts to facilitate discussion and decision making and to his subordinates so that they are both efficient and motivated. These skills are very important in today's dynamic working environment and they should be very proficient in them in order to enable them to manage their changed role effectively and efficiently.

a. Accurate Financial Reporting	a. Strategic Capabilities	a. Strategic Advisor
b. Financial Planning	b. Customer Focus	b. Monitoring Business Performance
c. Governance	c. Leadership Skills	c. Nurturing Talent etc
d. Risk Management etc	d. Communication Skills etc	-

The importance for the CFO in performing a more integrated and proactive 'strategic' and 'value creation' role is widely accepted. However, the transformation in role requires a considerable shift of capabilities in areas that may seem itchy for many. The ability to demonstrate leadership beyond finance is not something in which most are well versed. The key insight is the need for CFOs to expand their non-technical skills (i.e. soft skills) to build a stronger level of trust with the stakeholders. With their broad perspective of the organisation and the environment in which it operates, they need to help their organisation navigate through the processes and challenges of strategy development, management, and execution.

These are challenging times in which to be a **CFO** at any company. But those CFOs who reap true, meaningful, personal and professional satisfaction from this role undoubtedly will be the ones who lead the business in adapting to whatever changes lie ahead. The CFO role will primarily be focused on finance but the context and environment will continue to **shift**.

CFOs Bringing Excellence into Corporate Culture

Martin Reeves

The CFO is now juggling more balls in the air than ever before, in front of an audience that is more demanding and knowledgeable. Once the foundation stones are in place, you can now use them as a platform from which to juggle the areas of focus. Increasingly CFOs will have to deliver on a wide range of fronts, driving a more competitive finance function, establishing ever more robust risk management strategies and supporting their businesses to develop effective strategies for growth while remaining cost competitive.

More than ever before, finance leaders and the businesses they represent will operate in a global economy that is significantly more volatile, presenting future CFOs not only with new challenges, but also new opportunities.

With opportunity comes challenges, and vice versa. Today's CFO is expected to add value well beyond the traditional roles of cost management, controls and act as the conscience of the organisation. These roles are challenging enough, but today's CFO is expected to work in collaboration, by serving as the integration hub for key business processes, as a catalyst for change including business transformation, and as a consultant or trusted business advisor in helping to create sustainable growth.

CFOs now have an increasing personal stake in, and accountability for, regulatory adherence and compliance. They invest more personal resource dealing with regulatory matters and in engaging policy makers to ensure new regulatory requirements provide benefits to business. Tomorrow's CFOs will need to play a role in preventing overly onerous and burdensome regulation. They will need to lobby on behalf of the business, put in place business processes and protocols that negate the need for more regulation, and influence relevant policy development. They will also need to ensure that the finance function has specialist expertise to resolve regulatory challenges.

Organisational expansion places new strains on the business and the finance function will need to be adaptable as it streamlines different rules and regulations into business as usual finance activity and CFOs will need to establish how business expansion into new markets can be best be supported by the finance function.

For tomorrow's CFO, there will be greater scrutiny of the effectiveness of risk management processes, and much higher expectations on the adequacy of longer-term financial plans from the board. Increasingly the CFO will need to be involved in investment decisions with social and environmental as well as financial outcomes.

Vision & Insights – The Evolving and Changing Role of CFO

The changing role of the CFO also has profound implications for the global accounting profession and the skills that will be needed in the future; we can

expect the traditional career paths of CFOs to evolve in new directions. The changing structure of global finance operations and the changing demands placed on the role will simply necessitate different types of experiences and skills and behavioral capabilities; in short, a much broader finance outlook and capability. This future environment presents enormous challenges for CFOs. The nature of the risks that organisations face is changing, requiring more effective risk management approaches and increasingly CFOs have a role to play in ensuring an appropriate corporate ethos.

There is a clear sense from CFOs that all these growing pressures and issues are keenly felt. This brings the question of how CFOs can best allocate their resources and time in the face of the huge and increasing responsibilities. The challenges include prioritisation and balancing short-term/long-term tradeoffs as businesses seek to reduce cost and also plan for longer term growth.

Today's CFO role at the leading companies is evolving. Alongside their traditional mandate to provide financial insights and analysis and insights, CFOs describe a greater involvement in supporting and even developing strategy, guiding key business initiatives. CFOs must be the versatile individuals with the talent to meet the continually changing business scenario.

The CFO brings diverse backgrounds to their roles; correspondingly, there are differences in attitude, relative affinity for certain roles and tasks and approach. CFOs increasingly contribute to organisational strategy, and are meeting unprecedented demand for their unique perspective and discipline.

The CFO remains an objective voice on financial performance but contributes to operational decision-making as well. CFOs manage or materially support information technology, investor relations, and real estate and some are involved in commercial activities. With their changing roles, CFOs are still attending closely to cash flows, controls, costs and risk, they are increasingly contributing towards corporate strategy. In order to meet these requirements, today's CFO must be versatile, with the talent to meet a continually changing set of circumstances. While the CFO ensures that business decisions are grounded in solid financial criteria, they also provide insight and analysis to support the chief executive officer (CEO) and other senior managers. The CFO now also helps to develop and define the overall strategy for the organisation. Here, solid communication skills are also paramount, as the CFO must be able to convey complex financial results and the organisation's progress on strategic goals to external stakeholders. Further, now that CFOs contribute significantly to organisational strategy and operational success, these top-level executives rely not only on financial analytics but also on a degree of reflection and insight, so they understand the organisation's background and the direction in which they would like to take it forward.

CFOs of today are engaged, focused, strategic and versatile. But with the financial climate a long way from full recovery and with companies having to seek new and innovative methods to drive growth, interviewees told E&Y that, with room for debate and latitude for differences by industry and size, going forward, finance executives must follow these guidelines to increase productivity as the role evolves.

Six principal activities fairly represent the contribution of CFO:

1. Ensuring business decisions are grounded in solid financial criteria.
2. Providing insight and analysis to support the CEO and other senior managers.
3. Leading key initiatives in finance that support overall strategic goals.
4. Funding, enabling and executing the strategy set by the CEO.
5. Developing and defining the overall strategy for the organisation.
6. Representing the organisation's progress on strategic goals to external stakeholders.

CFO - Competent and Versatile

The expectations of CFOs change over time and are influenced by various external and internal drivers that affect organisational circumstances and requirements. The contemporary CFO is increasingly focused on being a key organisational leader and communicator, which requires a strong professional and ethical foundation. For larger organisations, four distinct profiles of the CFO role have been identified—the finance expert, the generalist, the performance leader, and the growth champion. As an effective leader and key member of senior management, the CFO needs to facilitate the delivery of sustainable value creation and preservation.

The CFO has a pivotal role in facilitating all organisational parts to reach common performance objectives. The CFO role requires an appreciation of the importance of the dual aspects of conformance and performance. Conformance includes providing stewardship of organisational assets and ensuring that the organisation conducts itself in accordance with relevant legal and regulatory requirements. Performance includes helping the organisation develop strategy, obtain resources, and deliver its strategic objectives sustainably.

The CFO is the key person in supporting management teams to make strategic decisions on how the organisation will sustainably create value. Although providing financial and non-financial information and analysis is part of the role, and plays to the traditional strength of professional accountants, a CFO is expected to contribute to strategic and management thinking as the partner to the business unit heads. At the end of the day, the organisation and CFO are judged on the success or failure of the strategic choices made.

ICAP CFO '15 CONFERENCE 2015

Sustaining Excellence –Shifting Gears

Six years ago, the Institute of Chartered Accountants of Pakistan (ICAP) Professional Accountants in Business (PAIB) Committee took the initiative to reach out to its members in industry and provide them with a platform to discuss, debate and seek pragmatic solutions of emerging business and finance issues. The event also involves recognising the outstanding contributions of ICAP members for corporate sector through Professional Excellence Awards. Over the years, the annual CFO Conferences and Professional Excellence Awards have emerged as the most anticipated calendar events of the Institute.

The CFO Conference 2015 on the theme **Sustaining Excellence – Shifting Gears** held on March 17 and 19 at Pearl Continental Hotel Karachi and Serena Islamabad respectively. This year the PAIB Committee of ICAP made special efforts for engagement of participants through vibrant social media campaign, entailing a CFO conference website, a tailor-made conference Mobile App and presence on Facebook, Twitter and LinkedIn. In addition, the first ever, live streaming of the conferences for both professionals within Pakistan and abroad was conducted successfully with more than over 1,700 persons across the globe from North America to Sidney, to UK and Middle East joining in the Conference.

The ICAP president Yacoob Suttar delivered his welcome address at both locations and appreciated

the efforts of the PAIB committee under the leadership of Khalilullah Shaikh and the ICAP management team for putting together this event. Expressing his views on the Conference, topic **Sustaining Excellence - Shifting Gears** mentioned that CFO's across the globe are now facing new realities and challenges. He appreciated the use of technology in the shape of Mobile Apps, aggressive presence in the social media and live streaming of the event for the overseas members. The president also welcomed the chairman PAIB committee of International Federation of Accountants (IFAC) Charles Tilley who is also the chief executive of Chartered Institute of Management Accountants (CIMA) and informed the audience about

the signing of an MOU between ICAP and CIMA for mutual recognition of qualifications. ICAP members can now obtain the CIMA qualification by taking exam in one paper only. This step will facilitate ICAP members to settle down in various parts of the world.

Fakir Syed Aijazuddin OBE, FCA delivered his keynote address **Once a Finance Leader, Next the Leader of the Enterprise – Skills and Steps** at Karachi and Islamabad. He highlighted the decisive roles played by the CFOs in an organisation that are crucial in their professional development as future leaders. He was of the view that CFOs do not exist merely as regulators but also as facilitators, serving the best interests of their organisations, profession and other allied stakeholders.
The chairman PAIB Committee (IFAC) and CEO CIMA Charles Tilley in his keynote presentation on **How Financial Leaders Pre-empt and Face Future Challenges** stressed on the importance of good governance and elaborated on risk issues, big data and analytics as being crucial elements in their responsibility as finance heads.

The world's public-speaking champion 2014, Dananjaya J. Hettiarachchi of the Toastmasters International gave an inspirational talk in both the events on **I see something in you** and eloquently engaged the CFOs in an interactive session. In a latter afternoon session on Communication with Impact, Hettiarachchi elaborated on how communication strategies can lead to better relationships, increasing the power to influence and building leadership brands.

Continuing the tradition, the chairman PAIB ICAP Khalilullah Shaikh announced the fifth Professional Excellence Awards in Karachi during his presentation and acknowledged the support of the presidentand the organising committee in putting together this event. He also shared the upcoming PAIB Committee projects with the audience. The first prize was awarded to MTBC Pakistan for their project **Initial Public Offering (IPO)** and second prize was awarded to K–Electric Limited for **KE AZM SUKUK**. The chief accounting officer MTBC Pakistan Muneeb Mufti and GM Treasury K-Electirc Limited Danyaal Jamal received the awards and gave their presentations. The awards are adjudged by an independent jury chaired by Zafar Iqbal Sobani, Feroze Jehangir Cawasji and Ruhail Muhammad.

The dean of Indus Institute of Management Rizwan Amin Shaikh, at both locations, while speaking on **Talent Management – No Longer Just an HR Issue** informed the participants that the strategy for talented resource was to keep pace with business change and that top-performers remain engaged in management process.

A special interactive one-on-one dialogue **Success Journey of a Visionary** was arranged in both the cities. In Karachi, the interview session featured past president ICAP and former country managing partner and CEO Ernst & Young Ford Rhodes Sidat Hyder Ebrahim Sidat, FCA was conducted by chairman Shehzad Chamdia Securities Private Limited Shehzad Chamdia, FCA. In Islamabad, the interview session featured past president ICAP Imran Afzal, FCA and was conducted by senior partner Naveed Zafar Ashfaq Jaffery & Co. Mukhtar Hussain Jaffery, FCA. Both the luminaries highlighted milestones, professionalism and commitments tales which enabled the rise to glory.

In Karachi, the session on **Family Enterprise** covered structured discussions on empowerment through delegation, sustaining growth through diversification and decentralisation, and myths and realities of succession planning, included prominent panelists from family-owned businesses: CEO National Foods Limited Abrar Hasan, chairperson Executive Management Board English Biscuits Manufacturers (Pvt) Limited Zeelaf Munir, CEO Dawood Hercules Corporation Limited Samad Dawood, and businessman Amin Hashwani. The session was chaired by CEO Family Office House of Habib, Roshan Mehri, FCA.

A similar session on Family Enterprise held in Islamabad included panelists from family-owned businesses: executive director Ittehad Steel Mohsin Khalid, CEO Saif Textile Mills Ltd Osman Saifullah Khan and chairman Rastgar Group Imtiaz Rastgar. The session was chaired by deputy MD Finance & Admin Airblue Asif Anwar Karim FCA.

In Karachi, the panel session on **Enabling Regulatory Regime** focused on issues of overcoming regulatory barriers and enhancing partnerships to attain optimum performance, included experts such as CFO, K-Electric Limited Syed Moonis Abdullah Alvi, FCA, CFO and CIO Lucky Cement Limited Muhammad Faisal, FCA, partner Taxation and Legal Services A. F. Ferguson & Co. Asif Haroon FCA, MD Eli Lilly Pakistan Kazim Hasnain, ACA. The session was moderated by partner BDO Ebrahim & Co. Zulfikar Ali Causer, FCA.

A similar panel session conducted in Islamabad comprising of experts such as managing director Airblue Junaid Khan, CFO Askari Bank Ltd Saleem Anwar, FCA, MD/CEO Oil and Gas Development Company (OGDCL) Muhammad Rafi, and CEO Kot Addu Power Company Ltd (KAPCO) Aftab Mahmood Butt, FCA. The session was moderated by director Audit Assurance and Advisory NZAJ & Co Aftab Ahmad, FCA.

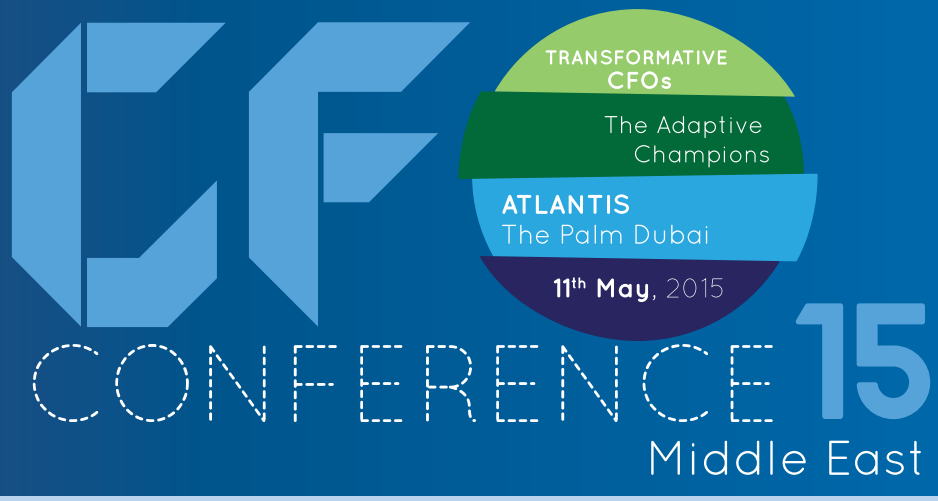
An interesting feature of both the conferences was an enjoyable session on **Strategic Humour** conducted by Danish Ali, Pakistan's renowned professional stand-up comedian and writer.

Till now, 12 CFO conferences have been held across the country with participation of more than 6,500 professionals. More than 1500 business and finance leaders from over 400 organisations across the country attended the CFO Conference 2015 in both cities. The new features of this year include dedicated conference website, mobile app, live streaming for overseas members and vibrant presence on social media platforms.

Glimpses of CFO Conference

Karachi

Islamabad



The Institute of Chartered Accountants of Pakistan (ICAP) UAE Chapter organised the CFO Conference at Atlantis The Palm Dubai on May 11, 2015. The theme of the Conference was **Transformative CFOs – The Adaption Champions.** The Conference was attended by more than 450 finance and business professionals from Gulf Cooperation Council (GCC) and Pakistan.

Desley Humphrey, presenter **Business Breakfast Dubai Eye** was the master of ceremony. The president ICAP Yacoob Suttar welcomed all the worthy participants who made it possible to make the CFO Conference a success and appreciated the efforts of the ICAP UAE Chapter Committee members. He stated that this event is a milestone in providing a knowledge sharing platform for finance professionals in UAE. Moreover, ICAP's professionals constitute an integral part of the UAE industry and it is incumbent for the Institute to cater to their need and expectation to increase the members in UAE. He said that this CFO Conference is focused to highlight management and technical areas and it will be a continued event where professionals will explore, confront and thrash out solutions to meet the recent challenges and issues.

Yacoob Suttar thanked the ICAP UAE Chapter for its effort under the leadership of the Chapter president Khalid Mehmood. He also thanked Lynchpin for managing the Conference through the inevitable challenges.

Khalid Mehmood, president ICAP UAE Chapter, shared the activities and events planned for the whole year to engage the finance professionals. He said that it is important for the Pakistani Chartered Accountants to network with other nationalities and that this Conference was only the beginning of events to follow in the future. He also announced that this will be an annual event and the next one is planned for May 2016.

The keynote speaker Ziad Makhzoumi, Group CEO Fakih IVF, highlighted the **Strategic Leaders - Are CFOs Ready to Drive Business** and shared his experience of transition from CFOs to CEOs. He said that the expectations from the CFO is not only to drive the finance function but to contribute to the overall strategy of an organisation. In today's organisational challenges CFO's role is transformational - leadership of change that is creating synergy and building teams. The second keynote speaker was Dirk Backhaus, Group Director Finance (CFO) Al Batha Group. He emphasised on **Changing Game for Finance** in which he highlighted that finance leadership now has to think forward rather than looking backward and must focus on the non-financial elements for critical decision making. The CFOs must drive firm values by focusing more explicitly on free cash flow generation and reallocation rather than on income. He further stated that transparency is imperative and data is turned into intelligence. The strategic CFO offers insights and practically useful help to all P&L leaders. He is perceived as a reliable and trustworthy partner who is welcome to collegially and constructively challenge all fellow senior executives.

Mir Mohammad Ali, CEO UBL Funds discussed the **Investment Opportunities in Pakistan** along with the comparison of regional investment markets. Gary Dugan, managing director – GW CIO and head of strategy National Bank Abu Dhabi shared his experience on the **Economic Overview of GCC Markets.**

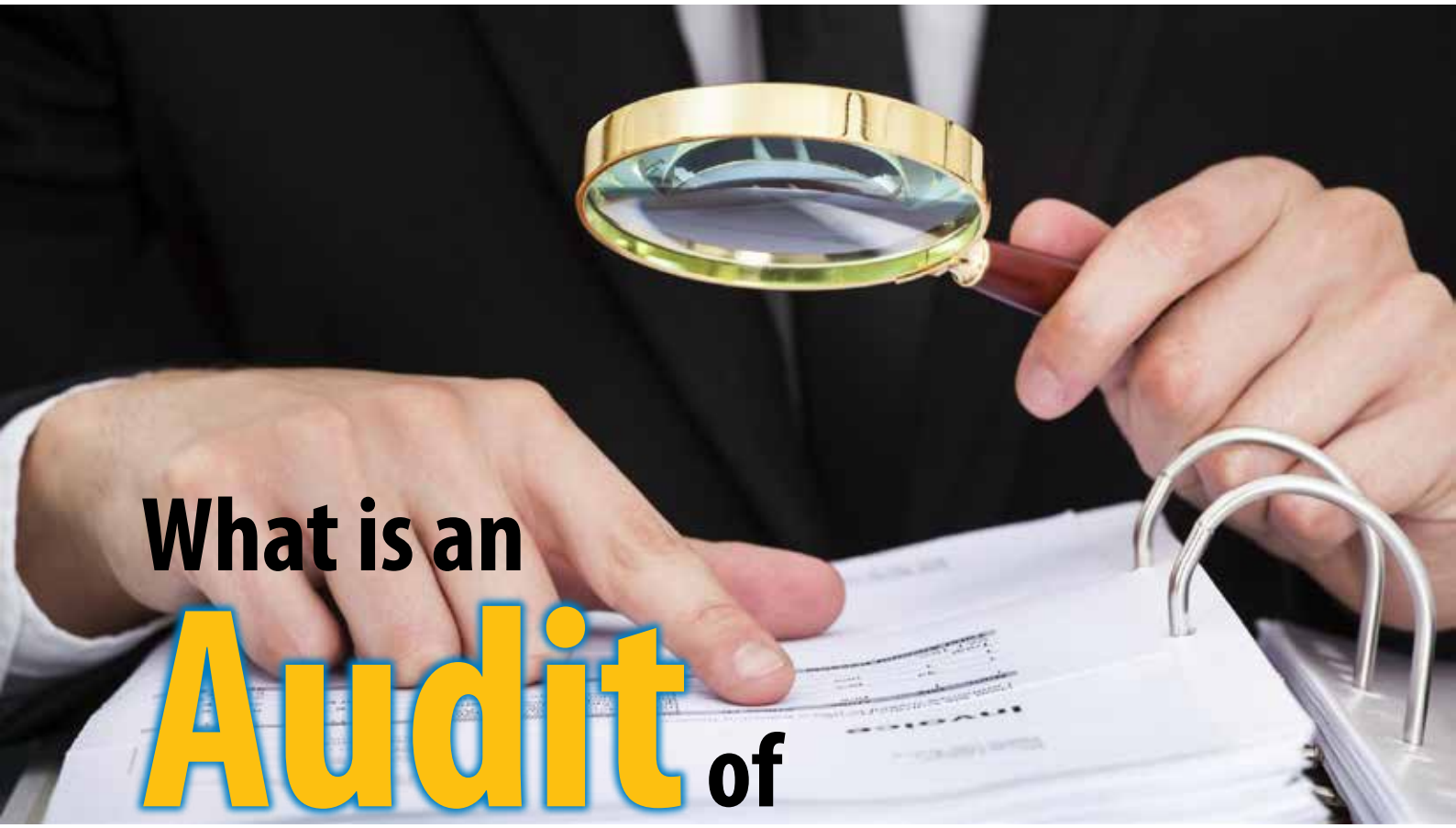
An expert panel comprising of Sanjay Manchanda CEO Nakheel, Hazem Galal, partner PWC and Fasahat Beg, SVP consumer business division Agthia Group participated in the discussion of **Expectations and Perceptions for 2020**. Another feature of the Conference was the speech from top motivational speaker Carol Talbot on **Leading … from the Inside Out** for the financial gurus. It was a fire starter session to energise the audience in which they performed certain activities to keep them charged and highly motivated.

Neil Hargreaves and Ghazanfar Shah from Deloitte discussed the **Fraud Risk Management** and major concerns of organisations for fraud awareness and prevention. Moderator Asher Noor, Al Touq Group, Saudi Arabia spent an hour with his panel members Adnan Anwar, CFO National Bank Fujairah, Rana Saeed, Cluster CFO ACWA Holding KSA, Christopher Taylor, CEO Abu Dhabi Finance, Umar Saleem, group CFO Depa and Kamran Hafeez, group managing director Jang Group. They discussed the financial performance management and best practices for organisation excellence. The Conference concluded on an appreciative note with the participants looking forward to the next CFO Conference to enrich their experience. The Conference was organised by Event Partner Lynchpin Dubai.

CF CONFERENCE 15 Middle East

TRANSFORMATIVE CFOs
The Adaptive Champions
ATLANTIS The Palm Dubai
11th May, 2015

Glimpses of CFO Conference Dubai



What is an Audit of Financial Statements

Farrukh Rehman, FCA
Chairman, Auditing Standards Committee, ICAP

Background

What is an audit? A simple question, which but requires not so simple an answer. The response need to encompass not only the explanation of the term but also the process and outcome.

An audit is a subset of an 'assurance'. An 'assurance' is viewed variedly by different people. For example, it is easy to think that words such as 'assurance', 'audit' and even 'comfort' mean the same thing. However, for a Chartered Accountant, 'assurance' is a term defined in the **International Framework for Assurance Engagements** (the Framework), issued by International Auditing and Assurance Standards Board (IAASB), to mean:

'An engagement in which a practitioner (i) expresses a conclusion (ii) designed to enhance the degree of confidence of the intended users (iii) other than the responsible party (iv) about the outcome of the evaluation or measurement of a subject matter (v) against criteria.'

By comparison an 'audit' is defined as a service that gives a reasonable assurance over historical financial information and is performed in accordance with International Standards on Auditing (ISAs). The provision of an external audit service is in the field for a very long period of time and the need for an entity's financial statements to be audited by an independent auditor has been a cornerstone of confidence in the world's financial systems. With this significance, the users of financial statements and the independent auditors are also conscious of the expectations gap that may remain therefrom. In the broadest terms, the "expectations gap" is the difference between what users expect from the audit of the financial statements, and the reality of what an audit is.

In this background and given the importance of its role, queries are often raised by the stakeholders about the audit. This publication is part of a series of awareness on auditing and aims to provide useful background information on what a financial statement audit is and the role of the auditor and is written principally in the context of financial statement audits of listed or public interest companies—what most people have in mind when discussing 'audit'.

This publication does not provide detailed explanation of all aspects of a financial statement audit and readers

should refer to other sources for further information. However, the narrative in the document will be a useful source of guidance for audit stakeholders and help in addressing the expectation and information gaps.

What is an audit of financial statements is based on the current applicable law and generally accepted accounting and auditing practices the future of which is currently under debate around the world and is open to change.

What is an Audit of Financial Statements?

The audit of listed companies is a statutory and regulatory requirement in order to enhance the reliability of financial statements, safeguard the interest of stakeholders and cater to the various decision making needs of the user groups and also rendering the management accountable for their responsibility of managing the entity on behalf of the shareholders; hence the appointment of auditors and the audit life cycle is an ensuing process.

There's a general perception that the auditors are appointed to detect fraud, however, the responsibility of the auditor is to express an opinion on the financial statements (including the related disclosures), whether they are presented fairly in all material respects and to ascertain during the course of audit, whether proper books of accounts have been maintained in accordance with the law, applicable financial reporting standards in Pakistan, and pronouncements of the relevant professional bodies. It needs to be understood that the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. An auditor conducting audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatements, whether caused by fraud or error.

Auditors are appointed by the shareholders and report to them directly after having gone through the audit committee and board of directors. This reporting is in the form of an audit opinion.

An effective and efficient audit process will, almost invariably, also identify insights about some areas where management may improve their controls or processes. In case of significant control deficiencies the auditor is required to communicate control deficiencies to management and board of directors. These communications add value to the company and enhance the overall quality of business processes. This reporting is in the form of a management letter.

In undertaking an audit, auditors apply relevant International Standards on Auditing (ISAs) which are adopted in Pakistan that provides specific requirements and guidance on performing audit engagements. The paragraphs below provide details of key matters relevant for the understanding of audit and the audit process itself.

1. Auditor provides Audit Opinion on the true and fair view of financial statements prepared by Company Management

1.1 Audit Opinion

The management of a company is responsible for preparing the financial statements. The auditor is responsible for expressing an opinion indicating that reasonable assurance has been obtained that the financial statements as a whole are free from material misstatement, whether due to fraud or error, and that these are fairly presented in accordance with the approved accounting standards as applicable in Pakistan. The ISAs provide clear requirements and application and other explanatory material for how an audit shall be carried out and the level of assurance obtained. It is the auditor's responsibility to plan and conduct the audit in such a way that it meets the applicable auditing standards and sufficient appropriate evidence is obtained to support the audit opinion. However, what constitutes sufficient appropriate evidence is ultimately a matter of professional judgment. Sufficiency relates to quantum of audit evidence and appropriateness relates to the relevance and reliability of audit evidence.

An auditor conducting audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatements, whether caused by fraud or error.

The auditor considers a number of factors in determining whether financial statements are free of material misstatement, and in evaluating any misstatements identified. These factors require professional judgment, where auditors use their skill and experience to form a view based upon the evidence gathered on the financial statements taken as a whole. The audit opinion is clearly stated as a separate paragraph in the audit report. The auditor issues a 'clean' opinion when it concludes that the financial statements are free from material misstatement.

There may still be some matters which are not related or have an impact on the financial statements which either because of certain provisions in the ISAs or for some other reason require reference in the audit opinion. For example, if the engagement is an initial engagement and the auditor opts to make reference that corresponding figures were audited by the previous auditor in the audit opinion, such a matter is placed under the heading 'Other matters'. The audit report would still be a 'clean' opinion.

1.2 Modified Audit Opinion

An audit opinion that is not considered 'clean' is one that has been modified. Auditors issue a modified audit opinion:

- If they disagree with management about the financial statements.

In practice this may be unusual as the company will typically make the necessary amendments to the financial statements and disclosures rather than receive a modified opinion.

The auditors may also issue a modified opinion:

- If they have not been able to carry out all the work they feel is necessary, or
- If they have been unable to gather all the evidence they need.

Auditors can also modify the audit report without modifying the opinion by adding additional paragraphs to draw users' attention to specific significant matters. For example, if the auditors believe that there is some aspect of the financial statements that is subject to a material degree of uncertainty—even if fully disclosed in the notes to the financial statements —then they may draw attention to and emphasise this in the audit report. This is known as an emphasis of matter paragraph. A common uncertainty is an uncertainty regarding the validity of the going concern assumption used by the management in the preparation and presentation of the financial statements.

1.3 Going Concern Assumption

The fundamental principle underlying the preparation of financial statements is going concern assumption. Under the going concern assumption, a company is viewed as continuing in business for the foreseeable future. That is to say whether the entity would be able to continue in business for the foreseeable period from the end of the financial statements period which is at least one year. Financial statements are prepared on a going concern basis, unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. When the use of the going concern assumption is appropriate, assets and liabilities are recorded on the basis that the company will be able to realise its assets and discharge its liabilities in the normal course of business.

If management considers that the company will not continue to operate for the foreseeable future, the financial statements must be prepared on a 'liquidation' (or 'realisable value') basis—meaning that the value of their assets must take account of potential forced sales which will likely be significantly lower and their liabilities may be significantly higher.

Whether or not the going concern assumption is appropriate is therefore fundamental to the values at which the assets and liabilities are recognised in the company's balance sheet. Thus, going concern refers to the basis on which the financial statements are prepared. It is not a guarantee of the company's solvency.

In order to determine whether the going concern assumption is appropriate, management must consider the prospects for the business in the light of what the foreseeable future might bring. This requires significant judgment as no statement about the future can be guaranteed. It is management's responsibility to make a judgment on going concern. It is the auditor's responsibility to consider whether there are any material uncertainties affecting management's assessment and whether or not management's judgment is appropriate. These judgments can be made only on the basis of what is known at the time, and facts and circumstances can quickly change in the current business and economic environment. What may be a reasonable assumption today, particularly in a fast-changing environment, may no longer be so a short time later.

The most common form of such uncertainty is where additional financing is needed to continue to develop a company's business and fully fund its working capital. While management may be confident of obtaining additional funding in order to meet these needs, if there is no firm agreement with potential suppliers of finance, there is inherent

uncertainty as to whether such funding will be raised. To verify the intention of the management to close down the business is more difficult to verify than the necessity. The auditor has to largely depend on evidences which could come from other than the routine audit which includes examination of minutes of board meetings and committees and the media or the sole reliance on the representation of the management obtained in this respect. If the auditors consider that there are any material uncertainties, even if clearly disclosed in the financial statements, then they must include an emphasis of matter paragraph in their audit report.

If the auditors disagree with management's assessment that the going concern assumption is appropriate for the company's financial statements, the auditor shall discuss the matter with those charged with the governance and if the issue remains unresolved, the auditor shall express an adverse opinion which means that the financial statement do not present true and fair view. Where adequate disclosure of material uncertainties is not made, then their auditor shall express qualified opinion.

1.4 Group Audits

In many cases, a business comprises several legal entities (which may be located in different countries), whose results are consolidated into a single set of financial statements that present the financial position and performance of the consolidated group. Audits of such companies many times involve other auditors. In Pakistan a division of responsibility exists in relation to the auditor of consolidated financial statements and auditors of subsidiaries. Such division of responsibility is mentioned in the audit opinion on consolidated financial statements.

2. The narrative part of annual report containing audited financial statements is not audited

A company's annual report is typically made up of the audited financial statements and a narrative, containing management's description of the company's performance and activities. The narrative part of the annual report is not audited. However, the auditors read the narrative statements in the annual report to identify any material inconsistencies with the audited information in the financial statements. If they find any such inconsistencies, they will communicate them to management and those charged with governance and shall determine whether the audited financial statements or other information needs to be revised. The financial statements, annual report and other documents all enable shareholders to understand how management has performed over the periods presented.

3. In forming the opinion an auditor exercises professional judgment and skepticism

In undertaking an audit, the auditors consider the mandatory and detailed requirements of approved accounting standards as applicable in Pakistan that set out how a company should account for and disclose even the most complex transactions.

However, many of the issues that arise in an audit—particularly those involving valuations or assumptions about the future—involve estimates to which the auditor must bring their professional judgment and experience to bear. Indeed, many accounting measures can only ever be estimates that are inevitably based on imperfect knowledge or dependent upon future events.

For example, if a company was involved in legal action, it would need to estimate the amount at which the case would be resolved; or if it was planning to sell an office building it owns, it would have to estimate the sale price. In such cases, the auditor may determine the reasonable range of possible values, and consider whether the company's estimates lie within that range. The uncertainties that affect this judgment need to be disclosed and—if they could have a material effect—the auditors may include an emphasis of matter paragraph

Auditing standards also require auditors to maintain professional skepticism—an attitude that includes a questioning mind and a critical assessment of audit evidence.

in their report. These are areas where the auditors must use their experience and skill to reach an opinion on the financial statements.

The words 'opinion' and 'true and fair' are deliberately chosen to make clear that judgment is involved. They underline the fact that the auditor's report is not a guarantee but rather reflects the auditor's professional judgment based on work performed in accordance with established standards.

Auditing standards also require auditors to maintain professional skepticism—an attitude that includes a questioning mind and a critical assessment of audit evidence. The ability to think in a critical manner about how the current economic environment may affect the company's financial statements, to identify significant risks of material misstatement, to develop appropriate audit responses, to obtain and assess the sufficiency and appropriateness of audit evidence and to reach well-informed professional judgments is integral to performing a quality audit.

4. There are inherent limitations of an audit

An opinion is not a guarantee of an outcome, but rather a statement of professional judgment. The auditor cannot obtain absolute assurance that financial statements are free from material misstatement because of the inherent limitations of an audit. These are caused by a number of factors.

For example, many financial statement items involve subjective decisions of management or a degree of uncertainty (e.g., accounting estimates). Consequently, such items are subject to an inherent level of uncertainty which cannot be eliminated by the application of auditing procedures. In view of voluminous records, it would be impracticable that every single fact and detail in a set of audited financial statements has been checked and verified by the auditors, and is therefore guaranteed to be 100 percent accurate. The auditor obtains reasonable assurance by gathering evidence through selective testing of financial records based on materiality used in the context of the overall financial statements.

5. Audit is directed towards forming an opinon and not detecting fraud

Fraud has a major effect on the trust necessary for companies to do business. Management is responsible for running the company and preventing and detecting fraud. Preventing and detecting fraud is difficult because fraud is intentionally hidden and may involve collusion by multiple participants. Even though audits are properly performed in accordance with relevant auditing standards, they may not detect material fraud. However, auditors are responsible for obtaining reasonable assurance that the financial statements are not materially misstated as a result of fraud.

Importantly however, if the auditors form suspicions of fraud in the course of their work a number of things will change, including their risk assessment (see below), the nature and extent of communications with board of directors, the nature and extent of audit procedures, and the evaluation of the effectiveness of the relevant internal controls and processes. The knowledge that an independent external audit will be conducted generally has a deterrent effect against fraud.

6. Agreeing the terms of audit engagement are mandatory

The formal start of an audit is through an agreement of terms and conditions (called the engagement letter) between the auditor and company. The engagement letter broadly covers areas such as objective and scope of audit, the responsibilities of the auditor and the management, identification of underlying financial reporting framework and expected form and content of any reports to be delivered.

7. Audit is normally carried out in five phases

7.1 Planning

Initial planning activities include formal acceptance of the client by the audit firm, verifying compliance with independence requirements, building the audit team and performing other procedures to determine the nature, timing and extent of procedures to be performed in order to conduct the audit in an effective manner.

7.2 Risk Assessment

Auditors use their knowledge of the business, the industry and the environment in which the company operates to identify and assess the risks that could lead to a material misstatement in the financial statements. Those risks often involve a high degree of judgment and require a significant level of knowledge and experience by the auditor, particularly on large and complex engagements. This requires a good understanding of the business and its risks, which is typically built up over a number of years as part of the audit firm's and auditor's knowledge. It also means that the auditors need to be well informed about the industry and wider environment in which the company operates, and about what its competitors, customers, suppliers and, where relevant, regulators are doing.

7.3 Audit Strategy and Detailed Audit Plan

Once the risks have been assessed, auditors develop an overall audit strategy and a detailed audit plan to address the risks of material misstatement in the financial statements. Among other things, this includes designing a testing approach to various financial statement items, deciding whether and how much to rely on the company's internal controls, developing a detailed timetable, and allocating tasks to the audit team members. The audit strategy and plan is continually reassessed throughout the audit and adjusted to respond to new information obtained about the business and its environment.

7.4 Gathering Evidence

Auditors apply professional skepticism and judgment when gathering and evaluating evidence through a combination of testing the company's internal controls, tracing the amounts and disclosures included in the financial statements to the company's supporting books and records, and obtaining external third party documentation. As stated, audit is a combination of innumerable procedures, a few are stated below that are used to gather audit evidence:

- Physical count/verification of the inventory, cash and fixed assets.
- Obtaining list of banks, legal advisors, related parties, debtors and creditors and sending confirmations to banks, lawyers, tax consultants, third party, debtors, creditors, etc.
- Tracking down copies of significant agreements.
- Obtaining bank statements, procuring party-wise breakup of advances, deposits, prepayments and accruals and verifying them via supporting documents.

- Verifying sales, purchases, sales returns, purchases returns and other expenses on sample basis.
- Verifying all the fixed assets additions and disposals made during the period against relevant supporting documents.
- Carry out the test of impairment.
- Investigating the reasons of major variation in the account balances or transaction (in terms of value and volume both) as compared to previous quarter, prior years and general industry norm.
- If it's the first year audit, the nature and extent of audit procedures would be vast, if compared with procedures applied in case of recurring audit, in order to gain comfort over the opening balances and to apprehend the entity over a broader spectrum and to mitigate the audit risk to the utmost level.
- The auditor uses Computer Assisted Audit Techniques (CAAT) to facilitate them with the audit so that extensive work can be performed within minimal time.

The sufficiency of the audit evidence for relevant assertion depends upon the auditors' professional judgment. It's their duty to scrutinise the evidences critically and independently. In addition to the application of technical knowledge, the auditors are required to use their analytical skills to derive the appropriate conclusion.

7.5 Finalisation

Finally, the auditors exercise professional judgment and form their overall conclusion, based on the tests they have carried out, the evidence they have obtained and the other work they have done. This conclusion forms the basis of the audit opinion. Auditors interact with the management of the company during all the phases of the audit process listed above. There will be continuing discussions and meetings with management, both at operational and senior executive levels, and with those charged with governance. Using their professional skepticism and judgment, auditors challenge management's assertions regarding the numbers and disclosures in the financial statements.

8. Audit is carried out with the concept of 'Materiality'

The concept of materiality is applied in both planning and performing the audit, evaluating the effect of identified misstatements on the audit and the uncorrected misstatement, if any, on the financial statements and in forming the opinion in the auditor's report. Materiality is calculated using the auditor's professional judgment and skepticism on over all basis as well as for particular classes of transactions, account balances or disclosures (also known as performance materiality). Usually the overall materiality for profit oriented companies is 5% to10% of profit before tax; however there can be other basis of selection of materiality also. Performance materiality is set at a value less than the overall materiality. Materiality differs based on the nature of the operations and expectations of the stakeholders of the audit client rather than on legal structure of the same. When determining whether, a matter is material, the auditor also evaluates qualitative considerations, such as the impact of misstatements on debt covenants, key ratios etc. The materiality may be revised during the course of audit, hence leading to a subsequent revision in the nature, timing and extent of the audit procedure. Financial statement line items that are below the materiality level are usually treated out of the scope of audit and no audit procedures are performed upon those items.

9. Auditor applies specific approach on particular matters

9.1 Related Parties and Related Part Transactions

Related parties and related party transactions exist in almost every company. A related party is someone having control over or significant influence on the entity. Because related parties are not independent of each other there remains difficulties in verifying related party transactions compared to situations where there is no related party relationship. The approved accounting standards in Pakistan require disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. Accordingly, the auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the company's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

It may be noted that the approved accounting standards in Pakistan require companies to disclose in the financial statements that the transactions with related parties are carried out on an arm's length basis only when this can be substantiated. The auditor responsibility follows accordingly.

9.2 Auditors' Expert

While planning the audit strategy, the auditor decides whether to involve an expert (a person who possesses skills, knowledge and experience in a field other than accounting and auditing) and if affirmative, decide the

nature and extent of the work to be used and whether such work is adequate for the verification of relevant financial statement assertion, using his professional judgment and professional skepticism.

In order to evaluate the adequacy of the work of expert the auditor analyses the following:

- relevance, completeness, and accuracy of source data that is significant to the expert's work
- relevance and reasonableness of significant assumptions and methods in the circumstances, if used in the expert's work
- relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence.

If the auditor is satisfied with the findings and conclusion of the expert, the auditor can use the work as part of substantive testing. Moreover, the auditor can apply additional procedures to derive a conclusion with respect to such work.

The audit report does not make reference to the involvement, use of work and findings of such expert because it might be misunderstood as the modification of the audit opinion by the users of the financial statement. Despite the involvement of expert and reliance on his work for forming the audit opinion, the auditor is solely responsible for the opinion.

10. The Appointment of Auditor

The auditor's appointment is generally and ultimately approved by the shareholders but the auditors are paid by the company itself. The audit committee takes responsibility for overseeing the auditor's independence and performance, and for recommending to the company's highest governing body (the board) whether their reappointment should be put to the shareholders at an annual general meeting. The audit committee also reviews the audit fee to satisfy itself that it is competitive yet sufficient to ensure a proper quality audit can be performed. If a company is considering changing its auditors, the audit committee will take the central role, recommending to the board of directors whether the auditor's appointment should be reassessed, and if so, which other firm(s) should be considered for the role. This is typically conducted through a competitive process with multiple firms being considered. In addition to the audit committee responsibility for reviewing the auditor's performance, there are a number of bodies such as regulators (SECP and ICAP) who play a key role in the oversight of the audit profession and the monitoring of audit quality.

11. Auditors must be Independent

Stakeholders need to have confidence that the auditors have assessed relevant information objectively, and that they have scrutinised evidence critically and independently. Stakeholders also want to be sure that the auditors have undertaken their work and made their judgments free from any bias, and without being influenced unduly by management who prepared the financial statements.

There are many detailed regulations and professional standards to which audit firms and all their staff must adhere, and which support both the fact and perception of auditor independence. In simple terms, auditors may not do anything that should be the role of management or that creates a mutual interest.

Specific requirements include:

- Prohibiting the auditors from holding an interest in (whether financial or through close relationship with) the company they are auditing;
- Prohibiting the auditors from providing the company with certain services (such as implementation of accounting IT systems or hiring employees) that could compromise their objectivity; and
- Requiring key personnel on the audit to be changed from to time to time, so that fresh pairs of eyes are brought to bear including regular rotation of the lead audit partner.

The most important factor underpinning auditor independence is the attitude of mind that is instilled through audit training, practice, and the culture of the audit firm, and which auditors exhibit through professional skepticism in their work. The discipline of independence is core to an auditor's approach and mindset.

12. Auditor Qualifications and Skills

Auditors are qualified accountants who are members of ICAP. Qualified accountants meet certain educational requirements, take several years of studying and professional exams and have sufficient practical experience. Becoming an auditor is a challenging process that requires a combination of significant academic study and a large amount of learning on-the-job. This means the people who qualify as auditors benefit both from an understanding of the principles of auditing, accounting, finance, law, business management, among other topics, and hands on experience. In addition to the technical knowledge, auditors need to have good analytical skills to be able to effectively analyse the company's information, properly interpret the analysis, apply professional judgment and arrive at appropriate conclusions.

Auditors must also possess broad communication skills (both verbal and written). As auditors communicate to the company's senior management and those charged with governance, it is very important that they do so in a clear and professional manner.

Auditors possess the analytical and logical skills needed to evaluate the relevance and reliability of the systems and processes responsible for recording and summarising financial information. These skills enable auditors to understand how to gather and assess evidence to evaluate representations made by others.

Throughout their careers all auditors must undertake continuing professional development to maintain their qualifications. Most audit firms invest significant resources in training and professional development of their staff which go beyond the requirements of the professional regulations. Overall, the training that auditors receive provides them with a significant array of skills, which form the foundation for a wide range of careers in various fields and contribute to the overall recognition and high regard for audit professionals.

13. Audit documentation to be completed in specific time period

As per the requirements of International Auditing Standards applicable in Pakistan, all the audit evidences corroborated during the course of the audit, should be documented as soon as the audit is concluded but not later than 60 days from the signing of the audit report. The work is mainly compilation and finalisation of audit documents. Only administrative nature changes can be made to the evidences after the signing of the report. Usually the audit firms use auditing software to document soft copy of their work. The hard files of audit evidences are indexed and properly referred. The client is requested to incorporate the audit adjustments in their systems and working papers.

14. The auditor is required to communicate with those charged with governance (board of directors)

The following is required to be communicated to the board of directors:

- The auditor's responsibilities in relation to the financial statement audit
- Planned scope and timing of the audit
- Significant findings from the audit including significant observations on qualitative aspects of the financial statements
- Significant difficulties, if any, encountered during the audit;
- Written representations the auditor is requesting;
- Any proposed modification of audit report and
- Other matters, if any, arising from the audit that, in the auditor's professional judgment is significant to the oversight of the financial reporting process.

The mode of relevant communication is in the form of engagement letter, management representation letter, cover letter accompanying the draft financial statements or management letter, meetings with audit committee etc.

15. Reporting of significant deficiencies in the system of internal control

In case of listed companies, the auditor is required to issue Management Letter (ML) within 45 days of the signing of the audit report. ML is considered to be the by-product of the audit while providing value addition to the services offered by the audit firm and enhancing the business operations of the client. It is a summary of internal control weaknesses and deficiencies identified during the process of audit and the recommendations to overcome those flaws. The auditor does not perform specific procedures to identify these weaknesses and deficiencies; instead they are identified while audit of the financial statements is performed. The issue of ML marks the end of the audit cycle.

IAS 11 Construction Contracts

Yasir Khan, ACA

The interpretation and application of an accounting standard could be a complex task especially in those cases where a slightly different interpretation could lead to materially different financial results. The most difficult part of an accountant's work life is to accurately apply the accounting standards without compromising on the fair presentation of financial data and that's a skill which needs a lot of patience and practice. The general guidance provided by IFRSs in all such cases is to follow an approach which is more **principle based** rather than **rule based**. The same is the case with IAS 11 which seems quite brief and straight forward when you study it for your accountancy exams, however, later you realised that to implement it in more tender and intelligible way, it becomes necessary to discuss more general questions which your mind had never broached earlier. Here, we shall not discuss each and everything IAS 11 is all about, instead, we shall look at a few matters covered therein, which are trickier and require agile accounting approach.

Implementing IAS 11 requires an entity to establish and maintain an internal cost and budgeting department, as the recognition of earning is highly dependent on the percentage completion of work, contrary to any other type of business, where, business cycle completes in a fairly short period of time. The construction contracts are usually long term spanning over multiple years and periodic recognition of revenue and cost becomes mandatory in order to conform with the very fundamental accounting concept of accrual. IAS 11 suggests different methods of estimating the stage of completion which include the following:

a. the proportion that cost incurred for work performed to date bear to the estimated total contracts cost (commonly called cost-to-cost method);

b. survey of work performed; or

c. completion of a physical proportion of the contract work.

Where IAS 11 suggests a variety of methods to choose from, it's very important to have an insight into the pattern of the flow of economic benefits of each specific contract, in order to choose the most appropriate method. The economic benefit could generally be defined as a quantifiable benefit in the form of revenue, net cash flow or earnings. The pattern of economic benefits for each individual project usually suggests the most appropriate method for estimating stage of completion. Let's looks at the following scenarios.

1. XYZ Company enters into a contract with a property developer for the provision of project management services from pre-construction design phase to final completion and handing over of building to buyer. The contract stipulates a tentative fixed fee for the

provision of project management services over a period of three years, which would be billed to the client, per actual labour hours spent by XYZ Company staff on the project every month. The actual management fee might be marginally different from the fixed fee agreed at the signing of contract pursuant to changing circumstances, which are not accurately predictable at the inception.

In this case, the project management fee is not dependent on the physical completion of different parts of building, but on the labour-hours of service provided by XYZ company to the client. The invoice for the provision of services is raised every month, per the actual labour hours worked. The pattern of economic benefits suggests calculating the stage of completion either on cost-to-cost method or on the basis of proportion that progress billings to date bear to the total contract fee.

2. The XYZ Company enters into a contract with a property developer for the provision of project management services for building a residential tower which is expected to complete in five years. The total fee agreed is US$ 5 million. The XYZ company shall invoice the project management as per the following progress billing plan:

   a. Completion of planning phase – US$ 0.5 m
   b. Completion of design and government permitting phase – US$ 0.5 m
   c. Completion of construction phase – US$ 3.5 m
   d. After the provision of post completion services - US$ 0.5 m

The terms of contracts have made it mandatory to meet some KPIs (key performance indicators) that are non-financial metrics in this case in order to measure the progress of contract and the economic benefit associated therewith. The completion of physical phases would more appropriately measure the stage of completion and the same should be used in order to recognise cost and revenue over five year period. It's important to note that whatever might be the pattern of cost, the earning and receipt of project management fee is dependent on meeting specific KPIs and the method to calculate the stage of completion should reflect this fact.

Moreover, In order to accurately estimate the stage of completion at a time, it's very important to count the beans accurately as the earning recognition depends on it. IAS 11 provides guideline as to what to include in the contract cost:

a. Costs that related directly to the specific contracts;
b. Costs that are attributable to contract activity in general and can be allocated to the contract; and
c. Such other costs those are specifically chargeable to customer under the terms of the contract. This may include some general administrative costs and development costs for which reimbursement is specified in the terms of the contract.

The business involved in the construction and construction related services usually have an internal budgeting department and it's not uncommon with these business to assess the overall profitability of each contract individually where a share of general and administrative cost and taxes payable are also budgeted and included in the total cost of a project in order to calculate and manage the overall projected EAT (earnings after taxes) on each individual project. These budgets are reviewed and revised at regular intervals and the past performances are translated into future estimates. It is also a common practice in construction industry to charge the customer an additional fee in order to cover general and administration costs. As the projects are controlled and managed on the premise of overall profitability, the cost incurred to date must include a share of general and administrative costs and taxes in order to estimate the stage of completion while using cost-to-cost method. The general and administration costs and taxes may later be presented separately on the face of the statement of comprehensive income.

It's also very interesting to know that in construction contract accounting the attributes of revenue are inverse to conventional revenue. Okay not quite like that, just the way how we account for it is a bit different. The earnings equation for any business other than construction works out as follows:

Revenue – Cost = Earning/ (Loss)

However, the estimation of stage of completion, especially cost-to-cost method, usually makes this equation to work other way round and it takes the following form:

Cost ± Earning/ (Loss) = Revenue

The equations mentioned above, look alike with the only difference of transposition of its ingredients across the equation sign, but it poses some complexity in applying a few accounting concepts, a good judgment and a good command over interpretation of financial figures is required while looking at the financial statements.

Let's consider the following example:

On April 1, 20X5 XYZ Ltd entered into a fixed price contract of US$ 300,000 to construct an office building for ABC Ltd. At the contract date, XYZ Ltd estimated that it would take two years to complete the project. Assume that XYZ Ltd judges that project outcomes can be estimated reliably and that cost-to-cost method is used to estimate the stage of completion. During the year 20X5, XYZ Ltd incurred costs on the project of US$ 100,000 and estimated cost at December 31, 20X5 (the end of the company's reporting period) to complete the project was US$ 100,000. ABC Ltd was billed US$ 190,000m against which XYZ recovered US$ 125,000.

The application of IAS 11 shall produce the following financials as of December 31, 20X5.

Statement of comprehensive income	
Revenue (US$ 300,000 x 50%)	US$ 150,000
Cost (US$ 200,000 x 50%)	US$ 100,000
Profit (US$ 100,000 x 50%)	US$ 50,000

Statement of financial position	
Cash (125,000– 100,000)	US$ 25,000
Receivables (190,000– 125,000)	US$ 65,000
Total assets	US$ 90,000
Due to customer (190,000 – 150,000)	US$ 40,000
Earnings	US$ 50,000
Total liabilities and equity	US$ 90,000

The amount **due to customer** represents the unrecognised revenue that has been billed to the client but not recognised in the statement of comprehensive income as the revenue recognition is the function of cost and recognised earnings with reference to the stage of completion. IAS 11 requires an entity to disclose the amount due to/from the customer depending on the status of project as of the end of reporting period. This amount is shown either among the assets or liabilities depending on its debit or credit balance. This amount has to be calculated as follows:

Cost incurred to date	US$ 100,000*
Add/(Less): Profit / (Loss) recognised to date	US$ 50,000
Total revenue recognised to date (Cost + Profit)	US$ 150,000
Less: Progress billings to date	US$ 190,000
Amount due to customer	US$ 40,000

*Cost incurred to date shall be equal to cost recognised to date, whenever, Cost-to-Cost method is used for estimated stage of completion.

Alternatively we can infer that:
Cost ± Profit (Loss) = Revenue; and
Progress billings – Revenue = Amount due to/from customer

Hence:
Cost ± Profit (Loss) – Progress billings = Amount due to/ from customer

Now let's assume, there arises a disputed before the year-end close of accounts over the outstanding receivables of US$ 65,000 and ABC Ltd doesn't seem likely to make any payment over US$ 20,000. Consequently the recoverability of US$ 45,000 becomes very unlikely and the management of XYZ Ltd decides to write off this amount.

The fundamental accounting principle is that recognised revenue cannot be reversed on the premise of its uncollectibility; rather the uncollectible amount should be taken as an expense against the recognised revenue. This fundamental principle is quite logical and doesn't pose any complexity in normal business accounting, where profit is usually a function of revenue and expenses. However, construction contract accounting is a bit different as the revenue is the function of cost and profit.

Let's summarise this scenario in a more understandable way:

Amount billed to customer	US$ 190,000
Revenue recognised	US$ 150,000
Unrecognised revenue/ progress billings	US$ 40,000
Receivable amount	US$ 65,000
Uncollectible amount	US$ 45,000

The unrecognised revenue is US$ 40,000 where

outstanding receivables are US$ 65,000. We can safely assume that total receivable balance of US$ 65,000 comprises of the following:

a. Progress billings recognised as revenue and still outstanding (US$ 65K – US$ 40K)	US$ 25,000
b. Progress billings not yet recognised as revenue and still outstanding	US$ 40,000
a. + b. Progress billings receivable	US$ 65,000

A rule of thumb, for this bifurcation is to compare the balance sheet amounts of receivables with the unrecognised revenue. The amount by which receivable balance exceeds the unrecognised revenue (if any) can be termed as recognised revenue that has not been recovered in cash as yet.

IAS 11 provides guidance about dealing with such a situation in the paragraph # 28:

"When an uncertainty arises about the collectability of an amount included in contract revenue, and already recognised in profit or loss, the uncollectible amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense rather than adjustment of the amount of contract revenue".

In the above scenario, we have to write off an amount of US$ 45,000 as customer is likely to pay only US$ 20,000 out of the receivable amount of US$ 65,000. It's also evident that we do have an unrecognised revenue of US$ 40,000 which has not been yet recognised in the statement of comprehensive income and forms part of unrecognised revenue/ amount due to customer in the statement of financial position at the end of reporting period. By following the guidance provided by IAS 11 in paragraph # 28, we should write off US$ 25,000 which has become uncollectible and has already been recognised in the profit.

However, writing off this amount doesn't provide a complete solution as the account receivables and unrecognised revenue/amount due to customer on the balance sheet are still overstated by an amount of US$ 20,000 (US$ 45K – US$ 25K). IAS 11 is completely silent on this matter and doesn't provide any guidance. However, the only way out and that too endorsed by the Industry practice is to write off the remaining balance of US$ 20,000 through unrecognised revenue/amount due from customer. Consequently, the receivable account and unrecognised revenue/ amount due from customer need to be reduced by US$ 20,000 in order to fairly present the financial position of business. In the language of debit and credit we can say:

Bad debts	US$ 25,000
Amount due to customer	US$ 20,000
Account receivables	US$ 45,000

The statement of comprehensive income and the statement of financial position should now be presented as follows:

Statement of comprehensive income	
Revenue (US$ 300,000 x 50%)	US$ 150,000
Cost (US$ 200,000 x 50%)	US$ 100,000
Gross profit (US$ 100,000 x 50%)	US$ 50,000
Bad debts	US$ 25,000
Net profit	US$ 25,000

Statement of financial position	
Cash (125,000– 100,000)	US$ 25,000
Receivables (190,000– 125,000 – 45,000)	US$ 20,000
Total assets	US$ 45,000
Due to customer (190,000 – 150,000 – 20,000)	US$ 20,000
Earnings	US$ 25,000
Total liabilities and equity	US$ 45,000

As we move to year 20X6 and see if this accounting goes well, we assume that further cost of US$ 100,000 was incurred and the project was successfully completed. XYZ Ltd billed the remaining balance of US$ 110,000 to ABC Ltd and recovered it in full along with the outstanding balance as of December 31, 20X5.

The financial statements shall be presented as follows:

Statement of comprehensive income	
Revenue (US$ 280,000 x 100% - US$ 150,000)	US$ 130,000
Cost (US$ 200,000 x 100% - 100,000)	US$ 100,000
Profit	US$ 30,000

Statement of financial position	
Cash (25,000 + 20,000 + 110,000 – 100,000)	US$ 55,000
Receivables	-
Total assets	US$ 55,000
Due to customer	-
Earnings (25,000 + 30,000)	US$ 55,000
Total liabilities and equity	US$ 55,000

It might again be a good idea to do a little mathematics here.

Contract price	US$ 300,000
Less: unrecovered amount	US$ 45,000
Total amount recovered	US$ 255,000
Less: Total cost incurred to complete the project	US$ 200,000
Total profit	US$ 55,000

The interpretation and implementation of IAS 11 requires extensive number crunching to ensure that figures in the financial statements present what they ought to as the financial reporting of construction contract is pretty different from what you would expect for 'normal' business.

Finding Commonality between Cultures

Western and Islamic Finance

Eli R. Khazzam, Editor-in-Chief, IFAC Global Knowledge Gateway

Islamic finance is seen by many as an island existing in a vast global system of financial institutions and regulations. Much of the international dialogue today is focused on finding common approaches for financial regulations, standards, and ethical codes so that the global economy can operate more reliably and efficiently. How does Islamic finance fit into this process? Must it fit in?

A Telescopic Perspective of Societies

I use the phrase 'telescopic perspective' to refer to the idea that when we look at things from afar, we can find many commonalities among them that otherwise appear different up-close. Of course there are many differences between Sharia Law and the principles that drive modern capitalism, but it seems there are some underlying commonalities:

- The importance of reducing exploitative behavior from institutions, consumers, and all those involved in transactions;
- The importance of reducing economic uncertainty and the dangers it creates for all of society; and
- A sensitivity to social responsibility to ethical behavior and the cultural values that impact positively upon society (for many western societies this is only just beginning to emerge with corporate social responsibility [CSR], sustainable business practices, and other movements).

How the different systems attempt to arrive at these ends varies, but ultimately, both are constructive in nature. They concern the necessity of mitigating negative consequences. And in the modern sense, both seem to facilitate wealth and to some degree, the diffusion of its benefits to society. In both systems, people seek to conduct themselves along principled frameworks based on societal values and ideals. Where they do differ is through the lenses of culture, religion, and perhaps the experience of history.

The Evolution of Different Financial Systems

The modern principles and frameworks that underpin the financial industries encompass everything from economic theory to ethics. Many take origin from practices established in medieval trading centers, such as Florence and Venice. They have evolved over time from thinkers such as Adam Smith, Jean Baptiste Sey, and John Maynard Keynes, whose theories provided explanations for everything from supply and demand to valuation and state/regulatory intervention. The rationale for how and why such principles conform to human nature was supported by Christian theologians, such as John Calvin, and political theorists, such as John Locke. The point here is that the financial principles common to most societies today have evolved across many disciplines and are caught between many strands of debate.

Islamic finance too is routed in a long tradition of theory and practice. In the Medieval Period, traders from the Islamic world engaged with the same European societies (e.g., Venice and Florence) that gave rise to the financial principles many of us utilise today. These societies were concurrently formulating a rationale to address concepts such as economic uncertainty, valuation, investment, money-lending, and contracts. Much of this rationale was based on Sharia Law and the moral codes of the Quran.

The body of ideas we regard today as 'Islamic finance' represents a reformation of these principles that took place in the 1970s and 80s as investment and banking activities between western societies and the Middle East significantly increased. They have enabled the growth of the Islamic banking industry and the facilitation of trade for a variety of other industries, not necessarily because different modern societies are conforming to the same financial systems, but rather because a broader set of principles are able to co-exist All societies seek the soundness of transactions, reliable agreements between parties, and the creation of wealth. And perhaps at a more intuitive level, all humans are averse to exploitation, deceptive practices, and any form of system that cannot protect property and the norms and conventions we use to exchange goods and services.

Universalism: Are We Speaking the Right Language Yet?

It can be argued that a key feature of globalisation is the notion that the practices and systems of different societies (whether they are financial, technological, or based on human rights) should become increasingly similar. Ideally, this would allow different societies to interact on common terms with universal conventions. In the end, most of us have the same objectives; however, we use different "languages" to arrive at them. Some may use the language of religion, others may use the languages of the social sciences (e.g., economics, sociology, and political theory) to explain the principles to which we aspire.

Perhaps before we think about globalisation about how different practices such as Islamic finance are to be integrated with the mainstream we need to consider the ends and not the means. The "right" language of globalisation may ultimately be just that: a simple understanding of what all or most societies ultimately seek. If we can all agree upon such overarching objectives, we may find it easier to achieve them. In this regard, trying to converge the complex systems and financial principles that currently distinguish our societies may actually be holding us back from developing more effective conventions. Perhaps someday, a truly global financial system will exist: one that is far simpler and far more accessible than anything we know today.

International Developments in Public Sector Accounting & Challenges of an IPSAS Conversion

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It is not only that the recent sovereign debt crisis has underlined the need for transparency on government finances. The ageing of the population and the rising citizen expectations on the scope and quality of government services have further increased the demand for transparent public finances. In addition, governments around the world are facing pressure from investors and other resource providers to ensure that their financial statements are as complete and reliable as possible.

I. International Developments in Public Sector Accounting

The accountancy profession has long argued that within the private as well as the public sector, today's complex and interconnected world demands a global, harmonised set of accounting standards – to support the comparability that citizens, politicians, cross-border investors, other government entities and global capital markets need in today's globalised environment. It is within this context that the initiative **Accountability Now!** of the International Federation of Accountants (IFAC) aims to raise awareness of the benefits of sound financial reporting by governments and to recognise its role as the cornerstone of good financial management.

The International Monetary Fund (IMF) paper Fiscal Transparency, Accountability, and Risk of August 2012 has underlined that there is a positive relationship between the degree of fiscal transparency and measures of fiscal sustainability (such as government deficits and debts). With regards to refinancing conditions, research has identified a positive relationship between the degree of fiscal transparency and market perceptions of fiscal solvency (expressed in credit default swap spreads on sovereign debt, credit ratings, and foreign equity investment). These views and findings underscore the vital importance of credible and robust financial statements, prepared on the basis of internationally accepted accounting standards.

In this context, the International Public Sector Accounting Standards (IPSAS) are the only globally accepted set of accounting standards specifically tailored to the needs of the public sector. More and more governments in the world adopt IPSAS for accounting and financial reporting in the public sector, like Brazil, China, Russia or South Africa, just to mention a few.

A global study on public sector accounting which Ernst & Young (EY) conducted in 2011 showed that cash-basis accounting is still common in the public sector, especially in Asia and Africa. However, these regions currently show the most dynamic development and reform plans as indicated by the respondents from that region. Other countries in Europe, Oceania and the Americas have already moved toward accrual accounting. Currently, the European Union is discussing the harmonisation of

public sector accounting within its Member States. The report of the European Commission which was published in March 2013 summarised that IPSASs are considered as the only internationally recognised set of public sector accounting standards. Albeit IPSASs represent an indisputable reference framework for potential EU harmonised accruals-based public sector accounts. The European Commission concluded that IPSASs cannot be simply implemented in EU Member States in their current status. Therefore, the report recommends the development of a single set of accruals-based accounting standards at all levels of government throughout the EU, so-called European Public Sector Accounting Standards (EPSASs). Currently, the European Commission is working on the Commission Communication which will outline the way forward.

II. Challenges of an Accrual Basis IPSAS Conversion

The challenges of an accrual basis IPSAS conversion depend significantly on the starting position of an entity. Entities which already apply a (modified) accrual basis will likely face fewer challenges than an entity applying pure or modified cash basis accounting (e.g. cameral accounting). On the one hand, where an entity already applies the accrual basis it will consequently face considerably less conversion costs when implementing accrual basis IPSAS. On the other hand, where an entity applies a pure or a modified cash basis of accounting and converting to IPSAS it has different ways for moving to an IPSAS compliant accrual basis. As an intermediate step, it is possible to apply the IPSAS Cash Basis (as for example foreseen in Malaysia or Nigeria). Another way of implementing accrual basis IPSAS is to move straight from the cash basis to accrual basis IPSAS. This is clearly the more challenging approach and entails considerable changes in the areas of IT, processes, organisation and accounting/financial reporting.

One of the main challenges public sector entities face when converting to the accrual basis IPSAS is to secure adequate support from the political and executive level. IPSAS reforms are often complex, lengthy and involve significant parts of the organisation. In the course of the project, reform resistance, and also reform fatigue may occur. In these situations it is essential that project leaders have adequate support from politicians as well as senior executives. Thus, politicians and senior executives themselves need to be convinced about the benefits and the outcomes of the reforms. If this is not the case, it may happen that such reforms fail or get delayed.

An important part of an IPSAS conversion is the legal framework. We observe that IPSAS are often not applied directly but indirectly, i.e. they are taken as a basis for transforming the IPSAS regulations into national law. But transforming IPSAS into national law is not sufficient to get the conversion done. Subordinated guidance, like accounting manuals or valuation guidelines, is needed.

An area which is often underestimated is the area of capacity building. Providing staff, executives as well as politicians with the adequate knowledge and skills in areas of accrual accounting, double entry book-keeping or IPSAS is a key element for such reforms. Such training measures need to be adapted to the needs of the respective target groups. Training for staff in the public sector will look different than training for politicians or senior executives. But not only having the right skills in place is essential. Having access to sufficient staff capacities throughout the reform project is of utmost importance. Staff dedicated to the project often has to fulfil their day-to-day job, in addition to the project work. In this case project leadership has to evaluate how resources can be freed up for the project work and/or how additional project capacities can be provided.

Another crucial area in an IPSAS reform is the IT/ERP system implementation phase. The selection of an adequate ERP system based on predefined functional and user requirement is an essential first step. The definition of functional and technical requirements of the IT system is necessary to ensure its compliance with

One of the main challenges public sector entities face when converting to the accrual basis IPSAS is to secure adequate support from the political and executive level.

identified organisation needs, legal requirements and designed models. One of the issues in this context is the management and transition of IT interfaces. Public administrations often have a large amount of pre-processing systems which need to be connected to the new ERP-system (e.g. for tax calculation and collection purposes). The complexity of these interfaces is often underestimated. Any significant IT transformation project requires dedicated resources, good understanding of leading practices, ability to transform business requirements to specific functional requirements, change and project management capabilities. Given the criticality of existing IT systems, design and planning of the implementation approach is crucial for a smooth transition. A proven approach for example is that the old and the new systems are run in parallel during the transition period.

Given the wide scope of accrual accounting reforms, departments and organisational units throughout the organisation are affected. It is not only the accounting function which will be impacted by the reform. As outlined before, existing processes need to be redesigned, new processes may need to be implemented (e.g. a process for asset bookkeeping) and where necessary processes need to be adapted to the new IT environment.

Where governments have not yet registered their assets and non-financial liabilities, an essential reform step of an accrual IPSAS implementation is the registration and measurement of all those assets and liabilities. Depending on the underlying data basis the scope of

work in this area can be significant. In addition, entities often do not have readily available the data required for the valuation of assets and liabilities. In this case, entities need to come up with a practicable approach for determining amounts for the opening balance sheet. In its project on first-time adoption the IPSASB for example foresees the use of the so-called deemed cost approach. In that case it is allowed to use fair value at first time adoption and use that fair value as a cost basis for subsequent measurement/depreciation.

Crucial for the success of such a reform is also the required mind change for public officials. In an accrual accounting regime, cash is not the only king anymore. Accounting for revenues and expenses follow a different accounting logic than accounting for cash inflows and outflows. And finally, change management should be an essential part of such reforms. Having a change management strategy and providing comprehensive communication (about purpose, progress, timeline of the project etc.) can help in overcoming organisational barriers and in convincing staff, executives and politicians from the benefits of the reforms.

III. Dos and Don'ts in an IPSAS conversion

a) Dos in an IPSAS conversion

The following suggestions are based on EY's practical experiences with large scale accrual accounting reform projects. As outlined before, it is essential that the benefits of the reform are understood and supported by key decision makers. Especially having the commitment for the reforms by the political level is essential.

- **Identify your starting point thoroughly**
  It is essential to identify the starting point for your reforms thoroughly. An entity needs to be aware of and familiar with the gaps between its current system and the future IPSAS system. Questions such as: Which information is available where? What know-how is available within the organisation? What capacities are available and what additional resources are needed? have to be answered before the actual conversion takes place.

- **Project management**
  Reforms of that size also need to be supported by strong project management. It is therefore recommendable to set up a project steering committee that determines objectives, project milestones or performance metrics, timelines and regular communication protocols. In the course of the project this body would be in charge of controlling the progress of the project and in taking adequate actions in case that there are any deviations from the intended plan.

- **Define appropriate scope of reform**
  Prominent examples in the past have also shown that the scope of the reform needs to be planned carefully, as the scope determines acceptance and cost significantly. A crucial question in this context, for example, is how the budget would be affected by the accrual accounting reform. We have seen cases where next to the implementation of accrual accounting accrual budgeting was also implemented (e.g. in Germany, at the local government level) but also cases where accrual accounting was implemented first and the introduction of an accrual budgeting system followed suite (e.g. in Australia). If a government decides to implement accrual budgeting or programme/output-based budgeting also then the scope and the complexity of the reform increases significantly. This should be reflected when structuring and organising the conversion project.

Sufficient training on IPSAS and accrual accounting of staff is also an essential element of every IPSAS conversion.

- **Embed accrual information in decision-making**
  With the implementation of IPSAS there is also much more information available than with cash accounting, e.g. information on depreciation or impairment. But the best information available is useless when it is not included in political and senior executive decision making processes. For example, by this information it will get obvious whether an entity has invested sufficiently for covering the resource consumption in a reporting period. As a general guideline, one can say that entities need to be clear how these information can and will support decision-making.

- **Provide sufficient capacity building for staff**
  Sufficient training on IPSAS and accrual accounting of staff is also an essential element of every IPSAS conversion. Accounting personnel needs to acquire background knowledge, be familiar with the objectives of the project, gain sufficient accounting and financial reporting knowledge and finally get the skills to be able to cope with such a large scale project.

- **Focus attention and resources to key areas of the conversion**
  From an accounting perspective, infrastructures assets (roads, bridges or tunnels), non-exchange revenues (taxes or transfers) or pension liabilities are significant financial areas and need to be treated with appropriate care. Dedicated project groups need to

be built to take care of these issues. Also those entities should be identified that significantly determine the values in the government's consolidated balance sheet. Often a small amount of entities determine large parts of the consolidated balance sheet. Technical accounting expertise is essential throughout the conversion.

- **Involve auditors and statisticians**
  Typically, the auditor general has an important role to play in an IPSAS conversion. The auditors should be involved in technical discussions around complex assets, liabilities or transactions from the very beginning of the project. From a preparer's perspective it is essential to know the audit documentation requirements right from the start. A lot of work during the audit of the opening balance sheet/first IPSAS financial statement can be saved by clarifying those requirements. But it is not only the reporting requirements. The involvement of auditors can help in getting assurance on major steps and decisions in the project, e.g. in the selection of a valuation method where historic cost is not available.

  Next to the auditor general the statistical offices involved in government financial reporting should take part in the conversion project. For example, in the Czech Republic it was essential that the Ministry of Finance and the statistical office developed a common understanding and approach towards government financial reporting based on accrual basis IPSAS.

- **Define appropriate transitional provisions**
  In selected areas IPSAS offers transitional provisions so that preparers have some relief when transitioning to IPSASs. Depending on the circumstances it is beneficial to make use of the transitional provisions for certain areas, e.g. for the accounting for property, plant and equipment because of their large amount and volume. But it is obvious that transition periods should not be extended too long, otherwise it will take too long that a full financial picture is available. In addition, one can also run into the risk of reform fatigue and staff get demotivated. The challenge here is to find the right balance between making use of relief and keeping deadlines tight. In this context, it is important to note that in its December 2014 meeting the IPSASB has approved IPSAS 33 on First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs).

b) Don'ts in an IPSAS conversion

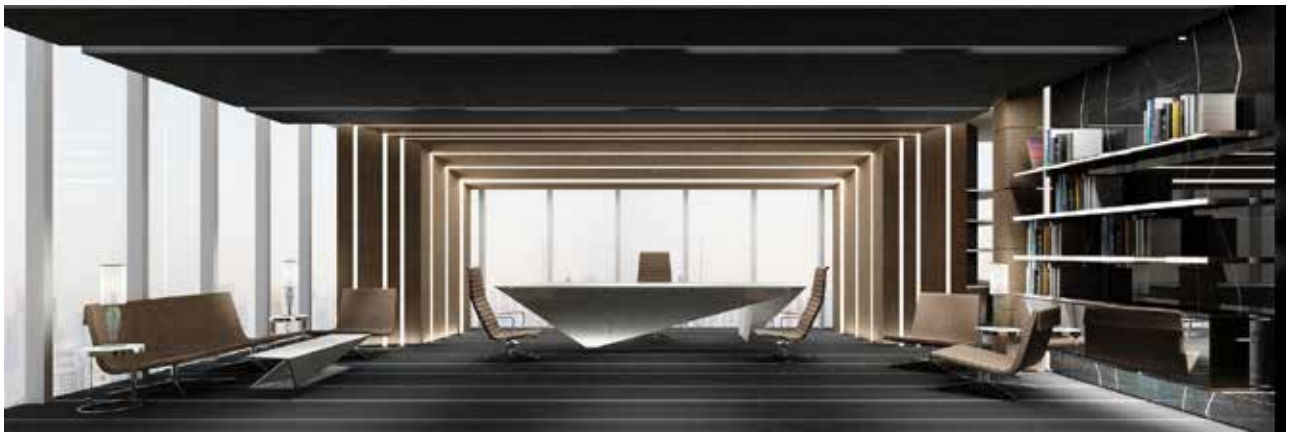
- **Do not only have a strategy in place for the accounting reform**
  When implementing IPSAS, governments should not only have a strategy in place for their accounting/ financial reporting. Given the close relationship between governmental budgeting and accounting, entities should be clear on how the budget vs. actual expenditure variance reporting will be made in the future before the effective cash to accrual conversion will take place.

- **Don't see it just as an accounting reform**
  In this context it is advisable to not limit the project to just a change in your accounting function. Accrual accounting conversion projects offer possibilities to strengthen asset management, budget formulation, internal controls, financial reporting and auditing. Finally, organisational improvements and restructurings which are due for a long time can be realised by such a reform. These benefits involved with an IPSAS conversion should be addressed right from the beginning of the project and realised during the course of the project.

- **Don't underestimate complexity**
  Accrual accounting reforms, such as an IPSAS conversion, should not be underestimated by their complexity; they are not just a desktop exercise. Such conversions require a thorough analysis of the underlying transactions and processes to ensure that the correct accounting treatment is determined. Sometimes it can even happen that transactions are not covered by IPSASs. In such a case, the IPSAS hierarchy in IPSAS 3 has to be followed and an accounting treatment has to be developed based on other sources (e.g. IPSASB's Conceptual Framework); and this typically needs time.

- **Don't set overambitious goals**
  In practice we often see that project goals are defined overly ambitiously. In our view it is not conducive to be overly ambitious with timing. The transition periods as defined by the transitional provisions in IPSAS are often not the sufficient time frame to look at. In many cases a preparation phase is required before the actual (IPSAS) transition period starts. But it is also clear that certain timing pressure is important but staff milestones need to be realistic and achievable.

- **Don't aspire to be 100% IPSAS compliant**
  And finally, don't aspire to be 100% IPSAS compliant from the very beginning. There will be a learning curve throughout the conversion and financial statements and the information produced with IPSAS will improve over time. Many countries started with qualifications in the audit opinion but reduced them over time.



Directors' Training Program

ClassyBoard is a Necessity, Not an Option

Abdul Rahim Suriya, FCA

This article talks about need of Directors Training as well as it summarises what the law requires in different jurisdictions, and at the end it distinguishes for each country whether these requirements are mandatory or voluntary.

In a world of instant communication and ever changing business models, the traditional task of the professionals in business is evolving. The mounting drift focus on:

- Increased governance requirements
- More regulations
- More emphasis on documentation
- More intervention from governments

Introduction

Together with guiding corporate strategy, the board is chiefly responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the corporation. Now more than ever, directors need to understand their fiduciary, legal, and ethical oversight responsibilities hence the bar has been hoisted. Board of directors must focus more on economic performance, not conformance. Public confidence in corporations has reached an all-time low and the role of directors has become even more challenging and demanding.

Besides, governance-related policy changes introduced in recent years have increased the focus on the experience and qualifications of corporate directors. Accompanying these changes is an increased expectation that companies and boards take affirmative steps to ensure directors are prepared to address emerging opportunities and challenges. The board of directors has had often the business shrewdness, but lack a deep grasp of corporate governance or the leadership skills required to reform policies, practices, and behaviours that can undermine a company's performance.

Today's boards of directors are facing an unprecedented level of scrutiny and pressure from regulators, investors, media, institutional investors, and other stakeholders. Besides, directors' training and development is fundamental element in enhancing board effectiveness and can help board members be better prepared to tackle misgiving. An effective board education program offers ongoing educational opportunities that help board members continuously cultivate skills that heighten the overall effectiveness and performance of the board.

Boards today can be a competitive advantage for companies. They can provide an outside view, overcome blind spots in strategy, raise awareness of external risks, connect with governments, society and other stakeholders, give credibility and build trust in ways that executive teams cannot. But most board education programs today add little value and instead either focus on the regulatory environment or copy existing managerial education for senior executives. But boards need more than this to become effective. For example, the board's strategic role is different from the strategic role of executives. It ranges from supervision to co-creation of supporting the executives.

The board of directors not only monitor the company's innovation performance, they actively contribute to it. Board diversity is key in this regard as board members

from other industries are faster to foresee sudden industry shifts or disruptive moves. Employee representatives can also be an excellent source of innovative thinking. Board education is failing to address many other important questions, such as which structures enable boards to add real value, as opposed to mere regulatory compliance. And, most importantly, what makes an individual a good board member.

Besides, board development and training are important because today's chief executive officers (CEOs) are overstretched and confronted with an incredible rise in complexity of society, governments, alternative business models, global changes, new risks and opportunities and shifts in economic conditions. Even the best executives cannot be expected to respond consistently to all these challenges.

As organisations strive to compete in the global economy, differentiation on the basis of the skills, knowledge, and motivation of their workforce takes on increasing importance. According to a recent industry report, the American Society for Training and Development, alone spend more than $126 billion annually on training and development. Undoubtedly, education is important, but people learn from their practical experiences much better as compared to bookish knowledge. Nowadays training and development has been the most important factor in the business world because it increases the efficiency and the effectiveness of both directors and the organisation.

OECD in 2004 avowed that in order to improve board practices and the performance of its members, an increasing number of jurisdictions are now encouraging companies to engage in board training and voluntary self-evaluation that meets the needs of the individual company. (Principle VI.E.3)

Training and development refers to the practice of providing training, workshops, coaching, mentoring, or other learning opportunities to inspire, challenge, and motivate directors to perform the functions of their position to the best of their ability and within standards set by local, state, tribal, federal government or society.

According to the Cambridge dictionary training and development means: "The activity of teaching employees new skills and knowledge through training, mentoring, (support and advice given by those with more experience), etc."

If one wishes to make a distinction between training and development, it would be that training is directed at helping employees perform better at their current jobs, whereas development represents a future-oriented investment in employees. In short, training provides the skill and development maximises it.

Before we elaborate the needs of training of directors in different countries, let's first sort out what is education, training and development, and how they differ with each other. Though their meanings are closely interrelated, it can be misleading to simply use these terms synonymously. There is much confusion surrounding the term 'training', 'education', 'development' and 'learning,' to the point where they are often used interchangeably, but they can have different, if overlapping, meanings in different contexts. However, it is often difficult to learn whether a specific research study addresses training, development, or both. In the rest of this review, we use the term 'training' to refer to both training and development efforts.

Education

- Education is systematic instruction and it is seen as relating to a more formal academic background.
- It is defined as a more general, less specialised or hands-on approach to enhancing knowledge.

Training

- Training is teaching new skills, knowledge, competencies and it is associated with on-the-job skills acquired for a particular role.
- Training refers to a systematic approach to learning and development to improve individual, team, and organisational effectiveness.
- Training is a systematic process through which an organisation's human resource gain knowledge and develop skills by instruction and practical activities that result in improved corporate performance.
- Training is characterised as an instructor-led, content-based intervention leading to desired changes in behaviour.
- Training is an activity or course, either formal or informal which has helped you to acquire the knowledge and skills to do your job.
- Training could simply be defined as the process of ensuring that employees acquire relevant and necessary skills, behaviours and knowledge for better on-the-job performance in their interest and that of the organisation.

Patrick[1] (1992), in one of the best books available on psychology of training, starts his discussion of the definition of training by referring to its aims - to develop new skills, knowledge or expertise. According to the United States Department of Employment, "Training is the systematic development of the attitudes/ knowledge/skill, behavior patterns required by an individual in order to perform adequately a given task or job." The renowned scholar of psychology Goldstein, also defines training as:

"The acquisition of skills, concepts or attitudes that result in improved performance in an on-job situation."

This term is often interpreted as the activity when an expert and a learner work together to effectively transfer

[1] Patrick, J. (1992). Training Research and Practice. London: Academic Press.

information from the expert to the learner so the learner can better perform a current task or job.

Development

Development is a long-term process designed to enhance potential and effectiveness. It is also defined as the growth or realisation of a person's ability, through learning, often from planned study and experience. It is for perfecting existing skills.

- According to Oxford dictionary the term development means:
  - A specified state of growth or advancement.
- According to Business Dictionary the term development means:
  - The systematic use of scientific and technical knowledge to meet specific objectives or requirements.
  - An extension of the theoretical or practical aspects of a concept, design, discovery, or invention.
  - The process of economic and social transformation that is based on complex cultural and environmental factors and their interactions.
  - The process of adding improvements to a parcel of land, such as grading, subdivisions, drainage, access, roads, utilities.
- Development refers to activities leading to the acquisition of new knowledge or skills for purposes of personal growth and perfecting existing skills.
- Development is associated with continuous learning with existing knowledge.
- Development can encompass a wide range of activities, including coaching and more formal educational commitments and experiences, and is generally used to encompass a wider scope than 'learning' or 'training'—which may, in fact, be included in the concept of development.
- Development is 'a learning activity that is designed for future impact, for a role or job one will do in the future.'
- Development is preparing a person for his future expected role through skill improvement and grooming.
- Development teaches how to become more productive and effective at work and at the company.

Development describes the growth of humans throughout the lifespan, from conception to death. The scientific study of human development seeks to understand and explain how and why people change throughout life. This includes all aspects of human growth, including physical, emotional, intellectual, social, perceptual, and personality development.

According to the HRD Guru Thomas, 'Development' is a concept which is contested both theoretically and politically, and is inherently both complex and

ambiguous… it has taken on the limited meaning of the practice of development agencies and achieve the goals.

Training and Development for Accounting Experts

Code of corporate governance prominence the necessity to accounting and finance expert in audit committee, so the modernised expertise of their specialisation is unavoidable. International Accounting Education Standards Board of IFAC emphasis this requirement for the professional accountants by issuing an International Education Standard (IES) 7, **Continuing Professional Development.**

IES-7 fosters a lifelong commitment to learning and prescribes the continuing professional development required for professional accountants to develop and maintain the professional competence, necessary to provide high quality services to strengthen public trust in the profession. Continuing Professional Development provides a career passport because of the portable skills developed and is extremely worthwhile for recession proofing individuals.

Orientation of Director on Board

The move from being a manager to a directorship or from director to chairman is more than a change in responsibilities; it is a major change in behavior and identity. Directors becoming more experts in a narrow field, or focusing only on the interests of a single department. Suddenly, a need to have equal responsibility for all departments scanning the external environment for opportunities and developments and joining a new, elite, group at the top. Their need and requirement is different from the seasoned and full time director working with other board of similar or different product line.

Numerous companies are faced with the need to make a step change in the way they operate, perhaps when the business has grown from small, informal beginnings to a point where a more structured organisation is appropriate.

Company directors understand that directing the organisation is much more than managing it. They aim to maximise their contribution to the work of the board and ensure that they achieve high performance in all aspects of their role as company director. The difficulty is for the newly-appointed company directors to manage their

transition to the board effectively, by explaining both the theory and the practice of corporate governance and by building on their existing competencies.

Why is it Important to Welcome and Train new Board Members?

A proper welcome and training will help new members:

- Take on their roles in the organisation quickly and comfortably;
- Feel more connected to one another;
- Feel more connected to the organisation;
- Better understand their role on the board;
- Operate from the same "script" that is, to understand the vision, mission, and their roles in the organisation;
- Feel more motivated to do a better job.

Ideal Training Objectives

The training objectives of the new director(s) must be:

- A knowledge of the law relating to company directors' liabilities;
- A better appreciation of how to apply the principles of corporate governance to building an effective organisation;
- An insight into how to balance the different aspects of the company director role – governance, entrepreneurship and management;
- A clear understanding of the leadership and organisational issues involved in stakeholder management and performance delivery;
- A sharper focus on their own competencies and how they can be further enhanced in order to maximise the effectiveness of their dealings with the rest of the board as well as with the organisation as a whole.

Discussion Questions during Director's Training

The unique and ideal discussion questions must be:

1. Who has oversight and direct supervision of all the staff?
2. Why board and board committee meetings are important?
3. What does "adequate resources" mean?
4. What are the three most challenging things for you in understanding a financial report?
5. What is the performance of the firm and how to measure it?
6. In what ways have you had to address difficult or challenging issues in an organisation? How were they resolved and what role did you play?
7. Who is responsible for setting the agenda for board meetings?
8. Who is responsible for setting overall strategic policy?
9. Are you able to discuss openly with the CEO issues that are difficult as well as positive?
10. Why is strategic planning the most important role of the board?
11. Is your CEO paid a salary/and benefits that are in line with other CEOs of similar sized firms in your business area? If not, what might the board do to move towards a fair rate?
12. Do you have respect for the leadership of your CEO? Why is it important?

DIRECTOR'S TRAINING PROGRAMS

While we discuss the subject it is very important to know what Code of Corporate Governance requires in different jurisdictions of the world.

Code of Corporate Governance in Pakistan

1. Code of Corporate Governance - March, 2002

In December 1998, ICAP developed a framework to foster good governance practices in Pakistan. This had brought to the establishment of a committee made up of the SECP, ICAP, ICMAP and representatives from all three stock exchanges. Meanwhile, a sub-committee was formed to take note of all recommendations given to draft the corporate governance code. The Code of Corporate Governance in Pakistan (2002) was finally published by SECP to regulate the KSE, LSE, and ISE as an extension of the Companies Ordinance, 1984, on 28 March 2002.

Orientation Courses/ Directors' Educational Program

For the first time in Pakistan Securities and Exchange Commision of Pakistan (SECP) introduced the concept of 'Training Development Program' by the following para of the Code of Corporate Governance, 2002.

(xiv) All listed companies shall make appropriate arrangements to carry out orientation courses for their directors to acquaint them with their duties and responsibilities and enable them to effectively manage the affairs of the listed companies backed shareholders.

It will be compulsory for all the directors of the listed companies to have certification under any director training/education program offered by any organisation, which meets the criteria or benchmark specified by the Securities and Exchange Commission of Pakistan.

Provided that at least one director on the board shall be required to have such certification up to June 30, 2011 and thereafter, every following year minimum one

director on the board shall acquire the said certification under this program.

2. Code of Corporate Governance – May, 2012

Directors' Training Program

The revised code 2012 also emphasis the requirements of the DTP by the following para.

(xi) All listed companies shall make appropriate arrangements to carry out orientation courses for their directors to acquaint them with this code, applicable laws, their duties and responsibilities to enable them to effectively manage the affairs of the listed companies for and on behalf of shareholders.

It shall be mandatory for all the directors of the listed companies to have certification under any directors' training program offered by institutions—local or foreign—that meet the criteria specified by the SECP.

Provided that from June 30, 2012 to June 30, 2016 every year, a minimum of one director on the board shall acquire the said certification under this program each year and thereafter all directors shall obtain it.

Provided further that individuals with a minimum of 14 years of education and 15 years of experience on the board of a listed company—local and/or foreign—shall be exempted from the directors' training program.

3. SBP's Prudential Regulations - Regulation G-1 for Corporate /Commercial Banking

All the members of the Board should undertake and fulfill their duties & responsibilities keeping in view their legal obligations under all the applicable laws and regulations. All Board members should preferably attend at least 1-2 weeks training program(s) which will enable them to play effective role as a director of bank/DFI, at an institution like Pakistan Institute of Corporate Governance or other similar institution within first year of their directorship on the Board of bank/DFI.

4. Public Sector Companies Rules - 2013

Board Orientation and Learning

Para 11(i) Orientation courses shall be held by a Public Sector Company, to enable directors to better comprehend the specific context in which it operates, including its operations and environment, awareness of Public Sector Company's values and standards of probity and accountability as well as their duties as directors.

Para 11(ii) In order to ensure that the directors are well conversant with the corporate laws and practices, they are encouraged to have certification under an appropriate training or education program offered by any institution, local or foreign.

Para 11(iii) In order to enlighten the board members with the wider scope of responsibilities concerning the use of public resources, to act in good faith and in the best interests of the public sector company, at least one orientation course shall be arranged annually for the directors and the following information in writing, inter-alia, shall be provided, namely;

a. Control environment and control activities
b. Key policies and procedures
c. Risk management and internal control framework
d. Background of key personnel, including their job description
e. Delegation of financial and administrative powers
f. Board and staff structure
g. Budget, planning and performance evaluation system

Malaysian Code of Corporate Governance 2012

Recommendation 4.2: The board should ensure its members have access to appropriate continuing education programmes.

Commentary: In a dynamic and complex business environment, it is imperative that directors devote sufficient time to update their knowledge and strengthen their skills through appropriate continuing education programs and life-long learning. This will enable directors to sustain their active participation in board deliberations.

Director(s) recommend to notify the chairman of board about the planned and estimated time that will be spend on the training and development of new directorship appointment before accepting any new directorship. Nominating committee is responsible for the review of director's training program.

The Kuala Lumpur Stock Exchange (KLSE) issued Practice Note 15/2003 on Continuing Education Programme (CEP) for directors of public listed companies which came into effect on Tuesday, 1 July 2003, relates to paragraph 15.09 of the Listing Requirements which states that directors must attend training programmes prescribed by KLSE.

Until July 2014 over 5,870 directors has attended the Mandatory Accreditation Program (MAP) in Malaysia.

All directors of the listed companies are required to attend the training programmes prescribed by the Kuala Lumpur Stock Exchange (KLSE). These programmes comprise two parts: the Mandatory Accreditation Programme (MAP), which is to be attended once by every director of a listed company and the Continuing Education Programme, which must be attended on a yearly basis by each director.

Singapore Code of Corporate Governance 2012

Guideline 1.6: Incoming directors should receive comprehensive and tailored induction on joining the board. This should include his duties as a director and how to relieve those duties, and an orientation program to ensure that they are familiar with the company's business and governance practices. The company should provide training for first-time director in areas such as accounting, legal and industry-specific knowledge as appropriate.

It is equally important that all directors should receive regular training, particularly on relevant new laws, regulations and changing commercial risks, from time to time.

The Monetary Authority of Singapore (MAS) recommended that companies should be responsible for arranging and funding the training of directors, and the board should disclose in the annual report the induction, orientation and training provided to new and existing directors. In addition, the nominating committee should make recommendations to the board on matters relating to the review of training and professional development programmes for the board.

According to the Singapore Stock Exchange (SGX) rule 210(5)(a) on July 2006, as a pre-quotation disclosure requirement that issuers must release a statement identifying for each director, whether the person has prior experience (and what) or, if the director has no prior experience as a director of a listed company, whether the person has undertaken training in the roles and responsibilities of a director of a listed company.

Training for directors is not mandatory under Singapore's legislation. Directors are encouraged to receive further relevant training, particularly on relevant new laws, regulations and changing commercial risks, from time to time. Singapore Institute of Director organises and conducts professional training courses and seminars to meet the needs of its members and company directors generally.

Hong Kong's Code of Corporate Governance 2011

The first Code of Corporate Governance (2004) did not provide anything about director's training, but Consultation Conclusions on Review of the Corporate Governance Code and Associated Listing Rules 28 October 2011 recommended the following proposals.

Directors are proposed annually the eight-hour minimum training; directors should receive regular training to keep informed developments in law, regulations and other areas relevant to their role and responsibilities. A vast majority of respondents supported the proposal that the company secretary should uphold a record of directors' training.

Rule 3.29 requiring company secretaries to attend 15 hours of professional training per financial year. The suggestion about the implementation require company secretaries to start accumulating training hours from August 1, 2011.

Listing regulation, appendix 14, Hong Kong Stock Exchange Listing Rules, January 2012, All directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The issuer should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director. Directors should provide a record of the training they received to the issuer.

England's Code of Corporate Governance 2012

Main Principle (B.4): All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

Supporting Principles: The chairman should ensure that the directors continually update their skills and the knowledge and familiarity with the company required to fulfil their role both on the board and on board committees. The company should provide the necessary resources for developing and updating its directors' knowledge and abilities.

To function effectively all directors need appropriate knowledge of the company and access to its operations and staff.

Code Provisions (B.4.1.): The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board. As part of this, directors should avail themselves of opportunities to meet major shareholders.

B.4.2. The chairman should regularly review and agree with each director their training and development needs. According to the London Stock Exchange Rule 2005 (A.1.6): "The company ensures that it recruits to the board only individuals of sufficient caliber, knowledge and experience to fill the duties of a director suitably. There is no formal training program for directors."

Chinese Code of Corporate Governance 2002

Chapter 3 (37) - Directors shall earnestly attend relevant trainings to learn about the rights, obligations and duties of a director, to familiarise themselves with relevant laws and regulations and to master relevant knowledge necessary for acting as directors.

The Canadian Code of Corporate Governance 2013

(Sec. 3 – Board Skills and Competencies): While, Office of the Superintendent of Financial Institutions (OSFI) expects all directors to play an effective role, it is recognised that the contribution of individual directors will vary based on their particular qualifications and experience. However, the Board should, collectively, bring a balance of expertise, skills, experience and perspectives, taking into consideration the Federally-Regulated Financial Institutions (FRFI) strategy, risk profile and overall operations.

In order to assess the skills and competencies required to oversee the FRFI's strategy, products, and risks, boards should have a skills and competency evaluation process, which should be reviewed annually and updated by the appropriate board committee. The skills and competency evaluation process should be integrated with the overall Board succession or Board renewal plans, with particular attention to the positions of the chair of the board and chairs of the board committees.

Directors should seek internal or external educational opportunities in order to fully understand the risks undertaken by the FRFI, as well as developments in corporate and risk governance practices.

German Code of Corporate Governance 2013

(Sec. 5.4.5): The members of the supervisory board shall on their own take on the necessary training and further education measures required for their tasks. They shall be supported by the company appropriately.

Kings' Code of Corporate Governance South Africa 2009

(Sec. 2.20): The induction of and continuing training and development of directors should be conducted through formal processes.

The board should ensure that:

2.20.1. A formal induction programme is established for new directors;

2.20.2. Inexperienced directors are developed through mentorship programmes;

2.20.3. Continuing professional development programmes are implemented; and

2.20.4. Directors receive regular briefings on changes in risks, laws and the environment.

Russian Code of Corporate Governance 2014

(Sec. 186.7): Nominating committee preparing an educational and training programme for board members which takes account of their individual needs, as well as exercising control over practical implementation of the programme.

(Sec. 209): The chairman of the board of directors and the nominating committee shall, if necessary, develop proposals on how to improve the work of the board of directors and its committees, taking account of the results of such evaluation. Based on the results of evaluation of individual members of the board of directors, recommendations may be given regarding training/education of such members. Should this be necessary, individual educational (training) programmes should be developed and implemented. The chairman of the board of directors and the nominating committee shall exercise control over implementation of such programmes.

New Zealand's Code of Corporate Governance 2004

(Article 2.9): The board should allocate time and resources to encourage directors to acquire and retain a sound understanding of their responsibilities, and this should include appropriate induction training for new appointees.

(Article 2.11): Annual reports of all entities should include information about each director, identify which directors are independent, and include information on the board's appointment, training and evaluation processes.

To be individually effective, directors need to make themselves familiar with both the activities of the entity and their responsibilities as a director. Induction training and opportunities to attend directors' professional education can greatly assist this process.

Sri Lankan Code of Corporate Governance 2008

(Sec. A. 1.7): Every director should receive appropriate training when first appointed to the board of a company, and subsequently as necessary. Training curricula should encompass both general aspects of directorship and matters specific to the particular industry/company concerned. A director must recognise that there is a need for continuous training and an expansion of the knowledge and skills required to effectively perform his duties as a director.

Bangladesh's Code of Corporate Governance 2004

Principle V: Companies should recognise that a directorship is a professional appointment and therefore they should provide opportunities and funds for training of individual directors and the development of the board.

Guidelines: New and continuing directors would benefit

from director training programmes that increase their skills and knowledge on directors' liabilities, best board practices, and strategic planning. New directors should be required to attend a corporate governance orientation or training offered by a reputed institution or trainer.

III (E). Any director appointed to the board for their non-financial specialist knowledge should undergo intensive training in financial analysis for non-financial directors.

III. (F). Orientation and Training

1. All members on taking office shall receive orientation on the operation of the organisation and training on their fiduciary roles, responsibilities and liabilities as board members.
2. The board should possess the core competencies necessary for effective governance. Board members should work to achieve these competencies through relevant board training and development.
3. Board development sessions should be conducted at least once a year with a certificate awarded to show participation.

Indian Code of Corporate Governance 2009

According to the rule, II. (A):

i- The companies should ensure that directors are inducted through a suitable familiarisation process covering, inter-alia, their roles, responsibilities and liabilities. Efforts should be made to ensure that every director has the ability to understand basic financial statements and information and related documents/papers. There should be a statement to this effect by the board in the annual report.

ii- Besides this, the board should also adopt suitable methods to enrich the skills of directors from time to time.

Companies Act 2013 (Sec. 149) deal with the training & development of independent director as, "Though the Act provides one year period for companies to implement the provision, it would still be a difficult task until sufficient persons with requisite skill sets are developed in India. Accordingly, it will become necessary to conduct and organise appropriate training sessions by recognising organisations/associations for suitable persons to develop the required skill sets for performing their entrusted responsibilities".

US Corporate Governance and Director's Development

In the USA, training and development program for the Board is voluntary but Stock Exchanges (NYSE and NASDAQ) are only required audit committee members to satisfy certain educational or experience requirements so listed companies are required to address continuing education and training of directors in their corporate governance guidelines. The NYSE Corporate Governance Rules (303A) require listed companies to publicly disclose their policy on continuing education and orientation for directors. While the NASDAQ does not currently have a similar mandate, it does suggest as a recommended practice a comprehensive orientation and continuing education of board members.

According to CII, directors should receive training from independent sources on their fiduciary responsibilities and liabilities. Directors have an affirmative obligation to become and remain independently familiar with company operations; they should not rely exclusively on information provided to them by the CEO to do their jobs. (§ 2.12a)

Australian Codes and Principles of Corporate Governance 2014

Recommendation 2.6: A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

Commentary: The board or the nomination committee of a listed entity should regularly review whether the directors as a group have the skills, knowledge and familiarity with the entity and its operating environment required to fulfil their role on the board and on board committees effectively and, where any gaps are identified, consider what training or development could be undertaken to fill those gaps.

Where necessary, the entity should provide resources to help develop and maintain its directors' skills and knowledge. This includes, in the case of a director who does not have specialist accounting skills or knowledge, ensuring that he or she has sufficient understanding of accounting matters to fulfil his or her responsibilities in relation to the entity's financial statements. It also includes, for all directors, ensuring that they receive ongoing briefings on developments in accounting standards:

Table 1: List of Country's Regulation Status

Country	Most Recent Code	Status
Australia	2014	Mandatory
Bangladesh	2004	Mandatory
Canada	2013	Mandatory
China	2002	Voluntary
England	2012	Mandatory
Germany	2013	Voluntary
Hong Kong	2011	Voluntary
India	2009	Mandatory
Malaysia	2012	Mandatory
New Zealand	2004	Voluntary
Pakistan	May 2012	Mandatory on June 30, 2016
Russia	2014	Mandatory
Singapore	2012	Voluntary
South Africa	2009	Mandatory
Sri Lanka	2008	Mandatory
United State	2002	Voluntary

STATUS OF DIRECTORS' TRAINING PROGRAM IN PAKISTAN

a) List of approved Director Training Programs by SECP

- Pakistan Institute of Corporate Governance (PICG) www.picg.org.pk
- The Institute of Chartered Accountants of Pakistan (ICAP)www.icap.org.pk/web/dtp_program.php
- Institute of Cost and Management Accountants of Pakistan www.icmap.com.pk
- University of Lahore, Lahore www.uolcc.com
- IBA Karachi – has been approved by SECP, so far no DTP program is launched

b) No. of Directors trained as required by SECP from:

- PICG: 603 persons by March 2015
- ICAP: 240 persons in 13 programs since January 2013
- ICMAP: 97 persons in seven programs since March 2013
- University of Lahore: 140 persons by March 2015

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From Welfare State to NGO State

Waqas Latif, ACA

Introduction

Reconnecting to the pages of history of our beloved country, one finds many reasons for its formation. Some argue it was made to promote Islamic ideology, others say the dream was to establish a secular state with equal rights for all. Although the debate is controversial, but one fact stands no matter what sort of Pakistan was wanted - and that is the formation of a state which could provide to all its citizens basic amenities of live including education, health, justice, economic opportunities to a better living, rule of law, freedom of speech and practice without offending any community and more than anything, self-respect for all its citizens, a state where the term minority exists only in literal sense and where difference between the rich and the poor exit only as a natural phenomenon. To summarise, it was the formation of a welfare state for the people of the sub-continent.

What is Welfare State?

A welfare state is defined as the concept of government in which the state plays a key role in protecting and promoting the economic and social well-being of its citizens. It is based on the principles of equality of opportunity, equitable distribution of wealth, and public responsibility for those who lack the minimal provisions of a good life. A basic feature of the welfare state is of social insurance, intended to provide benefits during periods of greatest need (e.g. old age, illness, unemployment). The welfare state also usually includes public provision of education, health services, and housing[1].

Non Profit/Government Organisations (NGOs)

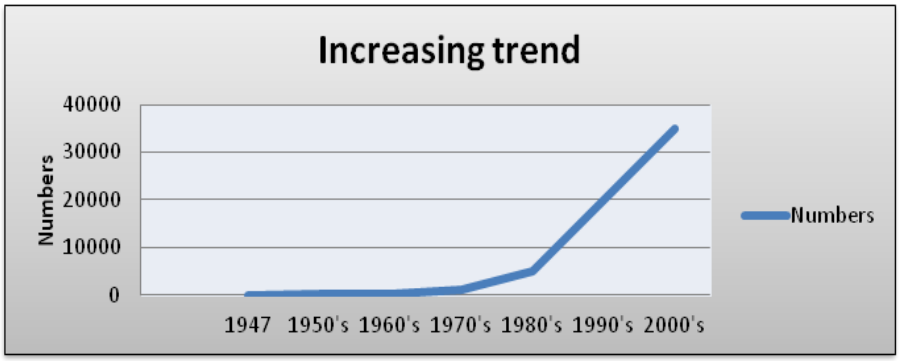
The dream of Pakistan as a welfare state started evaporating, when after so much struggle and sacrifice, people at the helm of the affairs and society as a whole, overlooked their responsibilities for personal gains and satisfactions. The official office bearers started to think and practice as public masters instead of being public servants and the society also start blaming instead of practicing good. This paradigm in affairs and thinking brought a huge gap between different sectors of society which barred the process of progress as a nation in every sphere of life. It is said that necessity is the mother of invention, and this time this mother invented donor funded organisations in our society popularly known as NGOs.

[1] Britannica encyclopedia

Today, one finds numerous NGOs registered or unregistered working in our country for different causes and objectives ranging from education to health facilities, from creating awareness to helping weak segments of the society, from ambulance services to providing interest free loans on favorable terms and conditions, etc. NGOs are doing this to provide merits of a welfare state to the citizens. This rapid increase in NGOs in the country over the past few years has raised a new debate: Whether we are moving from wanted to be welfare state to an NGO state.

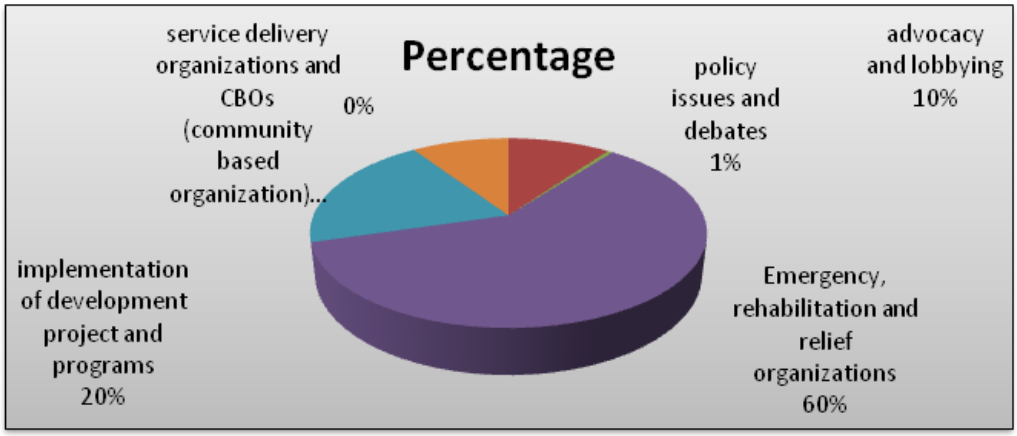
Statistics of NGO Sector in Pakistan

A graphic representation of the increase in NGOs in Pakistan as per the Asian Development Bank (ADBP) report on NGOs of Pakistan:



The history of Pakistani NGOs has its roots back in time of Partition. Although not directed to as NGOs at that time, many voluntary organisations were contrived to provide humanitarian aids to refugees pouring into the country and to help victims of communal riots. The upsurge in the formation of NGOs took place in 1970s, when the martial law government explicated its philosophy of social/ welfare work. During 1980s, many new NGOs emerged to avail funding set aside for development through local bodies.

It is difficult to estimate the number of NGOs in Pakistan. Only rough estimates are possible. In a publication of UNDP in 2001, the number was suggested to be between 8000 to 16000. If non-registered NGOs are added to registered ones, the number of Pakistani NGOs could be anywhere in between 25000 to 35000. Composition of NGOs in various sectors:



As per the ADBP report, NGOs in Pakistan can be divided into several broad categories, like: (1. those involved in advocacy and lobbying; 2. those involved in policy issues and debates; 3. emergency, rehabilitation and relief organisations; 4. those involved in implementation of development project and programs; and 5. service delivery organisations and CBOs (community based organisations).

Discussion with Members of NGO

Ahmed, a member of an NGO, running a small clinic and dispensary in the suburb area of Karachi, is of the view that "Good health is a prime need of every human being; and being not physically or mentally fit, one is unable to lead a proper life. Providing good health care facilities should be one of the priorities of the state, and we as a society should not forget our responsibilities in providing what is not available to our fellow citizens only this way, the society as a whole can flourish."

Another NGO runner Sarfraz tells us that their NGO provides technical trainings in various fields to young people and afterwards provide them with interest free loans to start up their own work. According to him, "Youth is a time period which entails lot of energy and urge to do something. It is a restless time for most. Therefore, if they are not provided with better opportunities to utilise their energy, either it gets wasted or used negatively as is happening in our society. Explore the crime statistics, more than 80 % are committed by the youth and we may be their next target. So, a collective effort is required from the society to do whatever it can, both at an individual and a collective level to provide a better and positive platform to our youth to properly channelise their energies.

Conclusion

There are numerous examples in our society where a person at an individual or a collective level performs various welfare activities but this does not relieve the government on other segments of society. Therefore, there is a dire need for the government and society to understand its responsibilities and move forward to provide the merits of welfare state as was promised to the citizens of Pakistan by its creators.