The Pakistan
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Oct - Dec 2015
Magazine of The Institute of Chartered Accountants of Pakistan

Corporate Social Responsibility and the Accounting Profession

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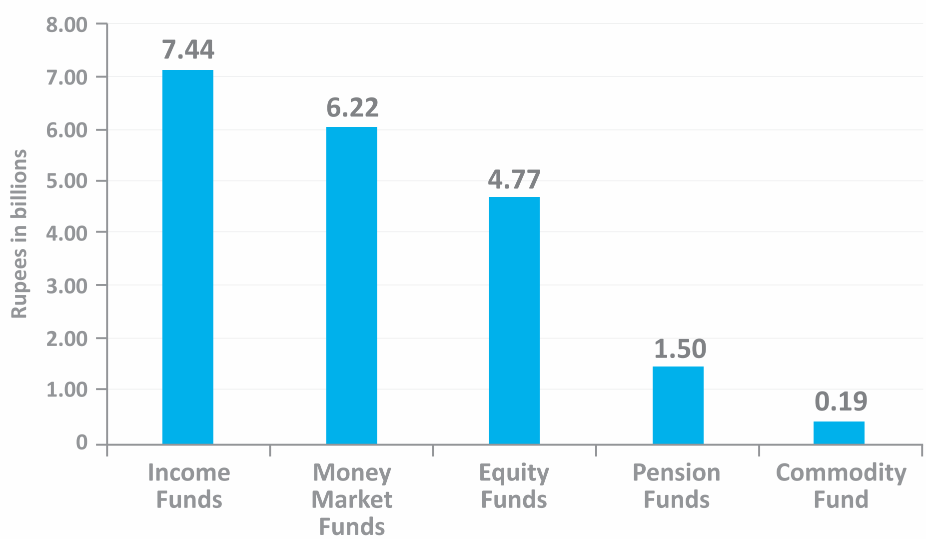

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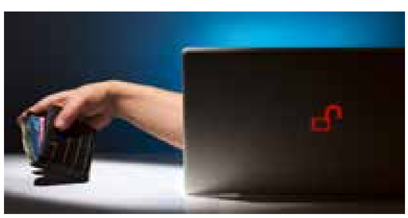

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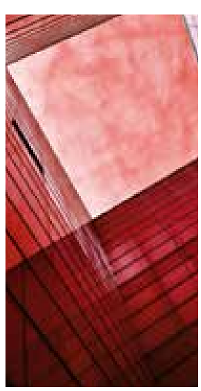

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Editor's Letter

Corporate Social Responsibility (CSR) and sustainability are key issues in the current business environment. Accountants play a crucial role in organisations in areas closely related to CSR such as reporting, transparency, ethics, legal compliance, communication with stakeholders, and resource consumption. They measure, control, and communicate inside and outside organisations. In this line, conducting research on accountants is important in order to understand the modern society, as they have become a major economic and social force.

The present business environment creates opportunities and threats to both accounting and accountants. With the increasing importance attached to environmental issues and social responsibility, risk management and reporting, the accounting profession has to change. Professional bodies align their actions to the trends identified in the local and international economic environment. Moreover, companies adjust their demands regarding the roles and activities of accountants in the light of these evolutions.

Nowadays, there is an increased interest towards researching the accounting profession. There has been a limited but increased interest in the region with studying the accounting profession; research has been however conducted on the impact of different economic and social phenomena on accounting education and profession.

Several concepts related to CSR apply to the accounting domain. Environmental Management Accounting, Social Environmental Accounting, Corporate Social and Environmental Reporting or Social Responsibility Accounting are such examples. These concepts link CSR to the accounting system, arguing for the importance of such aspects in the work of accountants. In this context, the aim of this issue is to analyse the role of accountants within CSR.

Global accounting professional bodies like IFAC, ICAEW etc. have turned their attention during the last decade to bringing into attention the implications of CSR on the accounting profession. Through their strategies and actions, professional bodies influence the way in which accountants are educated, act and are expected to act in their activities.

The Framework developed by IFAC addresses four perspectives in bringing together all the critical areas required to manage successfully a sustainable organisation: business strategy, internal management, financial investors, and other stakeholders. Accountants act in these areas in order to increase the CSR, in their respective domains of action. In this light, we may conclude that CSR is not a distinct topic or competence, but a new perspective, or enrichment, of the previous responsibilities of accountants. Although accountants maintain their core areas of action, they have to expand such issues as corporate governance, risk management, and strategic management.

Yacoob Suttar

President's Page

The increasing emphasis on corporate reporting has greatly broadened the role of the accounting professionals. Although the profession has continuously undergone transformations, the latest reporting trend has added additional responsibility on us; ensuring accountability for the future generation.

In the backdrop of tough competition and liberalisation, privatisation and globalisation waves sweeping through countries and continents, more and more corporations are realising that growth without social face cannot be sustained for long. Companies are gradually heeding concepts like inclusive growth, responsible business enterprise, convergence of accounting standards and to cap it all – good corporate governance practices. They are successfully intertwining their Corporate Social Responsibility (CSR) with their business strategies to the benefit of all.

The CSR is no longer a cliché but a popular benevolent thinking in action. As such, corporate activities today extend to almost every sphere of life, from manufacturing to service, education, hospitality, environment and even spirituality. But much more is still required to be done to make a real difference at the ground level at large, particularly in rural part of the country.

It is time that governments encourage corporations in their civic activities through supportive legislations. It is time that there is greater corporate accountability, and full implementation of accounting standards to ensure transparency, efficacy and user-friendliness of corporate financial statements.

The need of the hour is the business model where profits and social environmental good go hand in hand. This background not only offers a plethora of professional opportunities for the chartered accountants but also puts important social responsibility on them. They can play a crucial role with respect to both statutory and voluntary aspects of CSR. They are already proving to be an effective facilitator and implementer of the modern approaches like transparency in corporate financial disclosure, restructuring and tax compliance. Further, they can help corporations devise such strategies, policies and projects that serve both their business as well as social goals. They can ensure that the corporate values and social values never come in conflict.

When associated with the corporate-aided community projects, the Chartered accountants can ensure that the projects benefit the intended lot and their social objective is not lost in corporate exercise of profit maximisation or building brand equity. Chartered accountants have the potential to be the most effective tool of good corporate governance involving CSR. It is high time that professionals help create responsible enterprises.

With more and more companies embracing entire world as their workplace and market place, corporate governance backed by the concept of corporate social responsibility has become the key to business success. CSR-based policies are fast emerging as the corner stone of corporate governance. This presents a great challenge and opportunity for the professionals who can be of great help in creating an enabling environment for better CSR and corporate governance.

Hafiz Mohammad Yousaf

From Fringe to Mainstream: Companies Integrate CSR Initiatives into Everyday Business

"For companies to take CSR seriously, it has to be integrated into the DNA of the enterprise. Companies need to say: 'We want to make money, sure, but we also care about our effect on society and the environment. And that comes through in the kind of jobs we provide, the kind of products we make and the ways in which we use resources."

In 1970, the economist and Nobel laureate Milton Friedman published an article in The New York Times Magazine titled, **The Social Responsibility of Business is to Increase its Profits.** In the article, he referred to Corporate Social Responsibility (CSR) programs as "hypocritical window-dressing," and said that businesspeople inclined toward such programs "reveal a suicidal impulse." Even four decades ago, at a time of growing public concern for the environment, his views represented the general skepticism and contempt with which many in Corporate America viewed CSR.

Times have changed. There remain company chieftains who take a Friedman-esque view, of course, but many more have made CSR a priority. Ten years ago, for instance, only about a dozen Fortune 500 companies issued a CSR or sustainability report. Now the majority does. More than 8,000 businesses around the world have signed the UN Global Compact pledging to show good global citizenship in the areas of human rights, labour standards and environmental protection. The next generation of business leaders is even more likely to prioritise CSR. According to data released this month by Net Impact, the nonprofit that aims to help businesses promote sustainability, 65% of MBAs surveyed say they want to make a social or environmental difference through their jobs.

Today, amid a lingering recession that has dented corporate profits and intensified pressure from shareholders, companies are devising new CSR models. Rather than staffing a modest CSR department – and slapping it on the org chart as a small offshoot of the public relations (PR) or philanthropy division – many companies are instead trying to embed CSR into their operations. Some blue-chip companies, such as Visa, are creating new markets in the developing world by closely aligning social causes with their overarching corporate strategies. Others, such as Walmart, have made ambitious commitments to sustainability as a way to save money and tighten their supply chain.

"CSR is an old-fashioned idea that needs to be upgraded," says Eric Orts, professor of legal studies and business ethics at Wharton and director of the school's Initiative for Global Environmental

Leadership. “For companies to take CSR seriously, it has to be integrated into the DNA of the enterprise. Companies need to say: ‘We want to make money, sure, but we also care about our effect on society and the environment. And that comes through in the kinds of jobs we provide, the kinds of products we make and the ways in which we use resources.'”

Ignore CSR at Your Peril

One of the biggest criticisms leveled against CSR is that companies only care about it for marketing purposes. CSR is merely a buzzword embraced by corporations because they 'should.' “For most companies, CSR is PR,” according to Ian C. MacMillan, professor of innovation and entrepreneurship at Wharton. “It looks good. It sounds good. It’s the ‘right’ thing to do – and it gets the media out of their face.”

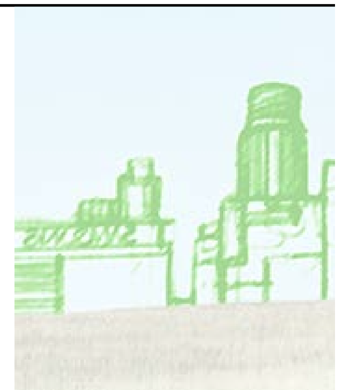
> One of the biggest criticisms leveled against CSR is that companies only care about it for marketing purposes. CSR is merely a buzzword embraced by corporations because they “should.” For most companies, CSR is PR.

These days, corporate motivation seems almost beside the point because of the significant business risks to ignoring CSR. Consumers and other companies are likely to shun firms that develop unethical reputations. And arguably, companies that don’t pay attention to their ethical responsibilities are more likely to stumble into legal troubles, such as mass corruption or accounting fraud scandals.

Quite simply, companies care about CSR because their customers do. Consumers, by and large, are a self-motivated and self-interested lot. But numerous studies indicate that a company’s CSR policies increasingly factor into their decisions. For example, a survey by Landor Associates, the branding company, found that 77% of consumers say it is important for companies to be socially responsible. “There’s a heightened awareness of the need to be, and to be seen as, a good corporate citizen,” says Robert Grosshandler, CEO of iGive.com, which helps consumers direct a percentage of their online purchases to support charities.

And in the Electronic Age, where information about a given company’s environmental record and labour practices is readily available – and readily tweeted and retweeted – companies must pay careful attention to what their customers do and say. “In the Information Age, customers have more access to information,” says Grosshandler. “They’re more educated. They’re no longer hidden from how their food is produced or how their iPods are made. And, because of things like social media, like-minded people more easily find each other, have their say and effect change. There’s a level of transparency that wasn’t there before.”

CSR is also a way to attract and retain talent. In a global workforce study by Towers Perrin, the professional services firm, CSR is the third most important driver of employee engagement overall. For companies in the U.S., an organisation’s stature in the community is the second most important driver of employee engagement, and a company’s



reputation for social responsibility is also among the top 10. According to a Deloitte survey conducted last year, 70% of young Millennials, those ages 18 to 26, say a company's commitment to the community has an influence on their decision to work there.

"The Millennial generation has seen a lot of natural disasters, political disasters and corporate disasters. They think the world is screwed up," says Kellie McElhaney, who is the faculty director of Haas' Center for Responsible Business. "They feel personally responsible, and they feel empowered to create change."

Bottom of the Pyramid

The global financial crisis has not been kind to CSR departments. While data on precise numbers of CSR positions is hard to come by, sustainability practitioners say that many companies have scaled back in recent years (although CSR has not been cut disproportionately to other cost centers).

Partly as a result of the crisis, some companies have refined their approach to CSR by more closely relating social causes to their core businesses. This approach, according to Jerry (Yoram) Wind, a Wharton marketing professor, interprets CSR as "socially responsible capitalism… At the company level, the business objectives need to be to both maximise shareholder value in the long term and to address society's biggest

At the entrepreneurial level, some smaller, niche companies are experimenting with CSR as a mission of the triple bottom line: people, planet and profits.

problems," says Wind, also the director of the school's SEI Center for Advanced Studies in Management. " This requires having any CSR initiative be an integral part of the business strategy and not a separate department."

Take the Coca-Cola Company, which recently started a program to empower young women entrepreneurs. The 5×20 program aims to bring five million women in the developing world into its business by 2020 as local bottlers and distributors of Coca-Cola products. Research suggests that such an investment in women can have a multiplier effect that leads not only to increased revenues and more workers for businesses, but also to better-educated, healthier families and eventually more prosperous communities.

Visa is another example. The company has built partnerships with local governments and non-profits focused on financial inclusion. These alliances are already transforming the economic architecture in parts of the developing world by giving financially underserved people a way to pay, get paid and save money, sometimes through electronic and mobile payment systems. Research by the Gates Foundation and others has shown that the usage of these kinds of services enables poor people to better withstand blows to their personal finances, build assets and connect into the wider economy.

Does Coca-Cola benefit from more bottlers? Yes. Does Visa benefit from more

people using its services? Absolutely. But these CSR efforts seek to capitalise on "the fortune at the bottom of the pyramid," an idea that C.K. Prahalad popularised in his 2006 book of the same name. Prahalad referred to the largest, but poorest, socio-economic group in emerging economies as seeds for future growth markets.

"There are large numbers of people in the world who have no jobs and who have no hope. They need jobs and more education, better healthcare and food. They need to be self-sufficient, not dependent because some do-gooder gave them a handout," says Wharton's MacMillan. "Companies need to start creating markets in these places."

These new markets represent a long-term investment, he adds. "It's a pattern of enlightened self-interest: The company ends up better off with customers they have seeded who are healthier, better nourished and have more education. And (the company) has residual loyalty because (it) was there first."

Saving Money, Saving the Planet

Other companies are taking a slightly different approach: viewing CSR as a cost-saver. "The downturn has refocused CSR practitioners," says Marcus Chung, vice president of the CSR and sustainability practice at Fleishman-Hillard and former head of CSR at Talbots, the women's apparel chain. "There are more CSR practitioners today whose main job is to find ways to support business strategy and save the company money."

Many CSR professionals serve as internal consultants providing counsel to colleagues and acting as a resource for decisions concerning real estate, supply chain or operations, he adds. "They are helping other departments understand the financial rewards of more sustainable operations. This approach to CSR has become more key in the last few years."

Climate Corps, the Environmental Defense Fund's summer internship for business school students, follows this model. The fellowship places MBA students in Fortune 500 companies, cities and universities to build the business case for energy efficiency. Since 2008, the program has helped organisations cut 1.6 billion kilowatt hours of electricity use and avoid more than one million metric tons of CO_2 emissions annually, and has saved \$1 billion in net operational costs.

Walmart is another example. Its social responsibility policy is encompassed by three goals: to be fully supplied by renewable energy, to create zero waste and to sell products that sustain people and the environment. These are lofty targets – and if achieved, ones that ultimately save the company a great deal of money. "The company is not perfect, but it is dealing with sustainability squarely as a business imperative," says Haas' McElhaney, adding

> The pressure on companies to maximise shareholder returns makes it very difficult for them to undertake long-term investments for the social good if these decisions will drive down their short-term stock prices.

that "These are hard-core measurable and reportable goals. The main criticism is that the company is shoving this down the supply chain's throat, but if you're Walmart, that is your leverage."

Nien-hê Hsieh, co-director of the Wharton Ethics Program and a visiting professor at Harvard Business School this year, describes Walmart as a company that complicates the CSR picture. "On one hand, it has been challenged on its labour practices and the Mexican bribery scandal," he says. "But on the other hand, it has had an aggressive sustainability policy. If Walmart does alter its global footprint, it would make a difference in the world."

At the entrepreneurial level, some smaller, niche companies are experimenting with CSR as a mission of the triple bottom line: people, planet and profits. Take, for instance, the advent and gradual spread of so-called B Corporations, which are recognised in seven states, including California and New York. B Corps, as they are known – the "B" stands for beneficial – are a new kind of business entity that by law are required to generate social and environmental advantages.

The designation is only a few years old, but already there are more than 500 certified B Corps across 60 different industries. Companies include Seventh Generation, the maker of natural household and personal care products; Pura Vida, which sells organic, fair trade coffee; Etsy, the online market for handmade goods; and King Arthur Flour. Wharton's Orts calls B Corps "interesting experiments for a more fundamental merging of the goals of traditional profit-making and social responsibility."

In the Information Age, customers have more access to information. They're more educated. They're no longer hidden from how their food is produced or how their iPods are made.

The B Corps model of integrating CSR concerns into normal business practices may hold a key for how large publicly traded firms ought to reset their corporate vision and objectives, he says, adding that a "major rethinking of the relationship between Wall Street investors and business management" is in order. The pressure on companies to maximise shareholder returns makes it very difficult for them to undertake long-term investments for the social good if these decisions will drive down their short-term stock prices.

"If there is one thing that the financial crisis and stock market crash of 2008 should have taught us, it is that short-run share prices are an unreliable indicator of long-run business sustainability," says Orts. "The idea that companies don't have any independent ethical responsibility for the consequences of their actions on the environment and society just doesn't make sense. It is an outmoded view to say that one must rely only on the government and regulation to police business responsibilities. What we need is re-conception of what the purpose of business is."

Courtesy: International Federation of Accounts (IFAC) Global Knowledge Gateway (GKG)

Corporate Social Responsibility and the Accounting Profession A MYTH

by Muhammad Asad Ali

Corporate Social Responsibility (CSR) can be elaborated as corporation's social responsibilities towards its society, i.e. to protect the interest of society at large. To further elaborate the concept the international organisation for standardisation has developed a standard "ISO 26000" on social responsibility. The standard highlights seven core principles of social responsibility on an organisation.

- **Accountability:** Accountable for its impacts on society, the economy and the environment.
- **Transparency:** Transparent in its decisions and activities that impact on society and the environment.
- **Ethical behaviour:** Organisation should behave ethically.
- **Respect for stakeholder interests:** Respect, consider and respond to the interests of its stakeholders.
- **Respect for the rule of law:** Respect for the rule of law is mandatory.
- **Respect for international norms of behaviour:** Adherence to the International norms of behaviour is mandatory.
- **Respect for human rights:** Recognise both their importance and universality.

To define the scope of its social responsibility standard enlisted seven core subjects, an organization should address to identify relevant issues and set its priorities:

1. Organisational governance
2. Human rights
3. Labour practices
4. The environment
5. Fair operating practices
6. Consumer issues
7. Community involvement and development

The concept find its roots back to the evolution of East India Company but emerged more prominently during 1960s and 1970s due to aggressive civil right movements advocating labour rights, consumer protection and environmental preservation.

CSR was evolved to make businesses' responsible to strike a balance between economy and its ecosystem, by introducing transparent business practices based on ethical values, compliance with legal requirements, and respect for people, communities and the environment.

As elaborated the concept was flawed as a bedtime bed story: "Once there was a brave king, ruling over a great and glorious kingdom. His dream was to rule over the land that has no boundaries, that starts in the east and ends where the sun sets. His lust for the power was so intense that he was ready to pay any cost to make his dream come true. He trampled civilizations, squashed nations and crushed enemies to make his dream a reality. But since he acknowledges his social responsibility, shares his bounties and contributes heavily towards his community history remembers him as a kind and just ruler. Really!

Similarly, the mere purpose of establishing a business is to earn money; The driving force behind any business is to generate profits for the stakeholders. The results are measured in monetary terms and if there are no profits there will be no motive from workplace to marketplace. And this is applicable to any business working in any sector from accounting to tobacco. To achieve sole motive of its existence, businesses invest heavily to make that dream a reality as soon as possible. If unconsciously, that may fall under the ambit of CSR, anybody can take it, will definitely use as publicity campaign to earn more loyalties and will surely disclose to show their respect for the regulations.

CSR in Pakistan

CSR is an evolving concept in Pakistan. In 2009, SECP issued general order namely, Companies Corporate Social Responsibilities applicable on all public companies. According to this order, every company shall provide descriptive and monetary disclosures of CSR activities undertaken by it during each financial year starting July 1, 2009. These disclosures shall be made in directors' report to the shareholders annexed to the annual audited accounts.

According to the SCEP order, the disclosures, wherever required, shall include, but shall not be limited to the following:

(i) Corporate philanthropy
(ii) Energy conservation
(iii) Environmental protection measures
(iv) Community investment and welfare schemes
(v) Consumer protection measures
(vi) Welfare spending for under-privileged classes
(vii) Industrial relations
(viii) Employment of special persons
(ix) Occupational safety and health
(x) Business ethics and anti-corruption measures
(xi) National-cause donations
(xii) Contribution to national exchequer
(xiii) Rural development programs

Today, every public company publish the CSR activities undertaken by it on their websites.

Accounting Profession

Accounting as a profession can be diversified from financial accounting, management accounting, auditing and tax accounting. A new concept associated with disclosure reporting of corporate social responsibility is introduced in 1970s termed as sustainability accounting or corporate social reporting. The activities covered in the reports may fall under following areas prescribed under Business in the Community's (BitC) Corporate Responsibility (CR) Index:

1. Environment (the environmental impact the business has);
2. Workplace (human resource management processes that ensure the firm's people work in an environment which promotes health, safety, equality of opportunity, training and development, and the management of performance);
3. Market place (how the firm interacts with its external stakeholders suppliers, customers and investors); and

4. Community (the impact the firm and its people have on the communities in which they live and work).

Benefits and their Critical Assessment

- **Provision of independent and transparent services:** The complete independence as highlighted earlier due to monetary dependence is just another dream that is hard to accomplish.

- **Improved work place and satisfied work force:** In Pakistan's accounting profession the professional human resource department mostly does'nt exist and it exists, it doesn't pursue the standard practices – long working hours is a norm, career path and career development are missing. Training sessions conducted for the staff is either enforced under some regulation or to promote the purpose of the business rather than for the development of the staff.

- **Supporting our communities:** The matters covered under this head are enhancing public perception regarding the provision of transparent services. Provision of charities in the form of scholarship or donations generally in the field of education and health. Provision of professional support to the medium and small sized business. Regarding the provision of educational scholarships or health donations to the general communities concept is never heard of or if provided are generally on the occasion of natural calamities. In case provided, to the selected individuals, the selection criteria is neither disclosed nor presented adequately for the appropriate application.

Conclusion

Although there are many barriers to the implementation of CSR in Pakisan such as lack of public awareness of CSR activities, political instability, etc, the CSR is an important concept for betterment of society at large. Public companies operating within Pakistan are required to undertake CSR activities and also to publish them in their annual accounts along with monetary disclosures.

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Corporate Social Responsibility and the Accounting Profession

by Kim Jackling

Introduction

The history of world economic crises show an accelerated pace during the last half century:

World economic history experienced the fact that economic-financial crises were caused by the excess of confidence due to the economic growth, when old economic laws did not apply anymore and there was a new innovational impulse required that would create a new cycle of economic development.

Technological innovations are those restarting the economic mechanisms in a new cycle of development based on technological mutations. The growth phase is explained by the emergence of fundamental technological innovations, bringing about significant production gains as well as new products. As long as the new products are available to a growing number of people from many countries, the cycle will continue its expansive phase. When markets become saturated, investments are stopped, companies shut down and recess emerges, until the next technological wave. A specific role in the emergence of scientific revolutions is held by those contractors assuming the risk of putting into practice revolutionary scientific inventions – a major risk taking into account the fact that their purpose is obtaining and selling innovating products.

The beginning of the 21st century was an agitated one as far as world economic-financial life is concerned. There were many financial scandals caused by the bankruptcy of great corporations.

Weaknesses of the accounting system in the context of economic crisis

All these scandals actually demonstrated the fragility of the entire plied of procedures and methodologies, regulations and supervision organisations under the circumstances in which financial data were "adjusted" for showing a more appealing image to shareholders, the main beneficiaries of financial information. The situation is serious, as these "adjusted" figures were backed up by worldwide renowned audit companies. This proves the quasi general character of the problem.

These financial scandals question the ability of society and public authority to naturally limit or reduce unethical or dangerous behaviour of certain participants to the economic life. A possible answer to this question would be the putting into practice of the concept of corporate social responsibility (CSR). The European Commission already makes an effort to integrate CSR in the strategy for growth and occupation.

The financial scandals also confirm the crisis of distrust in the correctness of accounting financial information, which do not present of the sides of performance and showed the dissociation between accounting, ethics and managers' responsibility.

Due to the causes of the financial failures investors lost their confidence even in the case of audited financial statements. Regaining their trust in financial statements remains a goal to be reached by the present system of corporate governing. In this sense, it is relevant to quote the study by Nugent (2007), a distinguished member of ICAEW (Institute of Chartered Accountants in England and Wales), referring to the existence or lack of a significant trust of investors in financial statements. His conclusions, several years from Enron and post-Enron bankruptcies, are as follows:

- In the United States of America, only 28% of investors have a great trust in the reality of audited financial statements, while a majority of 64% has a reasonable trust and 8% of the investors have little or no trust in audited financial statements;
- In Great Britain, the trust in financial statements is a little higher. Thus, more than half of the investors in Great Britain (51%) have high trust in financial statements, while 43% have reasonable trust and 6% have little or no trust in audited financial statements.

According to this study, we may say that, despite the financial scandals from the beginning of the 21st century, financial statements as informational instrument on companies' activity are considered as fundamental components for evaluating the company's performance. Even if the confidence in their veracity was dramatically reduced, it still holds a significant position. Nevertheless, we should take into account the fact that this study was performed just before the great financial crisis begun and, under these new circumstances, it is most likely that its results would not be the same today.

Corporate governance and the need of corporate social responsibility

Adopting social responsibility in business appears as an answer to the strong economic, social and legislative pressures on companies' activity, an answer to the industrial revolutions that marked world economy, culminating with

CSR is a very broad concept, which begun changing the world we live in. The nowadays society is interested both in the financial results of companies, as well as in the way in which they conduct their business.

the economic crises. In order to find solutions for overcoming crisis, economic life should be rearranged on new values. It was required a process of remodeling action behaviour and modalities. Companies started to understand and to accept the idea that, in order for a business to succeed, companies should offer and provide adequate work conditions, should ensure collective rights to their employees and should cooperate with unions, non-governmental organisations and governmental institutions.

Corporate responsibility is actually a complementary and effective agreement between the company and the society where it unfolds its activity. CSR is defined by the way in which business milieu aligns its values and expectancies with society's needs and requirements. This includes not only clients and investors, but also its employees, suppliers, community, the state, groups of special interest. In other words, this is society as a whole. CSR is, in fact, the way in which business milieu commits to align itself to the expectations of society.

More and more organisations begin to be aware of the fact that they can contribute to a sustainable development, managing their operations so that they would achieve economic growth and fair play and at the same time ensuring environmental protection and promoting social responsibility, including protection of the consumers' interests.

On an international level, United Nations Organisation, European Union and the Organisation for Economic Cooperation and Development are three of the most important institutions that became involved in drawing up a framework that would define CSR and would determine indicators through which this could be evaluated in a transparent way. CSR is a very broad concept, which begun changing the world we live in. The nowadays society is interested both in the financial results of companies, as well as in the way in which they conduct their business.

From the point of view of the extent to which corporate social responsibility can be applied, this can refer to:

- Fair commercial practices: according to the written and unwritten rules of market economy, towards business partners, suppliers and consumers;
- Observing laws: without respecting the legality of actions, including through the prompt and qualified intervention of supervision instruments for solving conflicts and enforcing justice, the corporate system loses its security and legitimacy for all social layers;
- Adequate work conditions and observing the rights of the employees; according to the new management approaches regarding the safety of human capital;
- Rational ecological administration, as major objective of durable development, through actions for environment protection, using different methods and instruments for:
  - evaluating the impact on the environment of the used production procedures and technologies;
  - adopting the necessary precautions and establishing emergency plans if required;
  - participating to the elaboration of environment policies;
  - including ecologist objectives in commercial strategies and current activities;
  - organising ecological trainings;
  - informing the population; participating to the life of the community – "company as citizen", using different forms of support and help in solving community problems.

It is important that corporate governance should focus on the maximisation of the global

Professional accountants need to adapt to a world in which sustainability is the key to long-term business performance, and need to understand how, in their diverse roles in organisations, they play a significant role.

performances of the company, acting responsibly through the maximisation of performances focused on satisfying the three categories of needs: economic needs (for shareholders), social needs (for stakeholders), environmental needs (protecting the environment). At the same time, it is important that the accounting professional should be aware of the fact that his/her attitude and behaviour, or when these services have a decisive impact on communication, is to adopt a responsible attitude.

The time of the paradigm 'we are separated and competing' is gone and its place is gradually taken by the new paradigm "we are connected, we cooperate and we compete", while the impulse of the American saying "if you can't beat them, join them" becomes the current orientation in world economy. The new paradigm focuses on the long term objective achievement, under circumstances of durable development, but only if the corporate governing adopts social responsibility in relation to all the participants to the economic life.

Role of Accountants in promoting corporate social responsibility

Professional accountants need to adapt to a world in which sustainability is the key to long-term business performance, and need to understand how, in their diverse roles in organisations, they play a significant role. The professional accountancy associations are an integral component of the operation of the accounting profession. They represent a link between business enterprise, the state and the (increasingly global) society. Traditionally, professional accountancy associations have been promoters of regulation and codification of practices. Additionally, the objective which legitimises them consists in satisfying the 'public interest'. As such, it is justifiable to assume that the professional accountancy associations could have an interest in the social and environmental reporting field.

The management accountant has a important part to play in both the ex-ante area of integrating strategic corporate responsibility thinking in organisations and the ex-post role of generating the corporate responsibility reports. Management accounting professionals are also trained in evaluating investment decisions regarding the future, and thus would be ideal professionals to support the independent assurance process.

Accountants are required to understand the regulatory and voluntary reporting environment in which businesses operate and respond to new demands, to advise on risk management and the implications of entering into voluntary reporting mechanisms, to develop frameworks which allow the efficient measurement of financial and non-financial information and either maintain or assure the collection of information, to advise on the development of policies for determining the "necessity to report" decisions (where they exist), to help identify what to include in the report, to provide clear, reliable information and, where required, assurance of it, to advise organisations on the limitations of corporate decisions based on economic grounds, and suggest how externalities can be internalised. Because accountants have a role to play in this field their educational curricula should be developed with environment and sustainability related issues.

Courtesy: European Research Studies Journal

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Accountants are required to understand the regulatory and voluntary reporting environment in which businesses operate and respond to new demands.

"I'm not a thing, but an act"

by Aamir Jan Mohammad

In the corporate world, we have heard this word Corporate Social Responsibility (CSR) quite often, but very few of us understand the essence of social responsibility at the individual level, collective level and at the corporate level.

Generally speaking, the perception of most people about CSR is that, its scope confines only to monetary contribution by a company to under privileged people of the society in the form of philanthropy activities like establishment of medical centers, schools and so on and so forth. However, in essence the real scope of CSR is much vast, which applies to all members of the society at large, but very few have a clear understanding of the subject.

Let's begin the quest with the social responsibility of an individual to himself, his family, friends, neighbours, people around him and society as a whole. A wise man said, "I'm not a thing, but an act." Quite true, we are an accumulation of acts/deeds and our personalities are reflection of these acts/deeds, which we do in the usual course of active life. These acts may be good or evil, moral or unethical and so on.

To understand what is good and evil, or in corporate terminology, ethical or unethical, we need to seek guidance from the philosophical teaching, which defines virtue as knowledge i.e. true knowledge to differentiate good/ethical and evil/unethical. As corporate professionals, we are lucky to have access to this knowledge, though it is another debate whether or not we are applying this true knowledge in practical life as an individual or at the corporate level. This is the crux of the story. To understand more clearly the concept of the corporate responsibility, a few definitions are outlined as follows:

Corporate social responsibilty is the continuing commitment by businessess to behave ethically and contribute to the economic development while improving the quality of life of the workforce, their families and the local community and society at large[1].

Corporate responsibility is the commitment of businesses to behave ethically and to contribute to sustainable economic development by working with all relevant stakeholders to improve their lives in ways that are good for business, the sustainable development agenda and society at large[2].

Now, coming to the subject, **Corporate Social Responsibility and the Accounting Profession,** history is a witness to the fact that, accountants or finance people are considered to be the most reliable and trustworthy employees, and that is one of the

Corporate social responsibilty is the continuing commitment by businessess to behave ethically and contribute to the economic development while improving the quality of life of the workforce, their families and the local community and society at large.

reasons why in olden days most intelligent and near/dear ones were bestowed with the responsibility of managing financial affairs of the kingdom/country. However, it does not mean that people of other professions are of less virtuous, but the onus of more trustworthiness and in turn expectation is relatively more from accountants. They are expected to behave ethically due to the nature of their job and responsibilities. Specifically speaking, below are the key corporate social responsibilities of the accounting profession to the stakeholders:

- **Preparation, keeping and reporting accurate financial information of business:**

The foremost responsibility of accountants is to record and report accurate financial information of the business. In other words, to record and report financial statements of the business in line with the local laws and regulations and relevant accounting standards and guidelines. These laws/standards are the benchmarks and in philosophical terms provide "true knowledge" that guide us to what is the right way of treating financial transaction to represent transparency and accuracy to the relevant users of the information.

- **Assets and data protection:**

Besides being the custodian of assets of the company, accountants are also responsible for the financial data protection of the business. Data protection in this era of fast pace dynamic technological world is now becoming a great challenge. With an email, or a tweet, masses can be reached out. Accountants need to ensure that controls are in place to protect data/information from getting into the hands of people not entitled or to entitled people before the time it is due for them to use it. As we are aware, the financial data leakage can lead to insider trading or can be used for any personal vested interest.

Accountants are also a vital part of the business and besides specific corporate responsibilities mentioned above; there are general corporate responsibilities, which they are expected to adhere to while performing their duties. Respected societies demand from its citizens, no matter from which profession he/she belongs, that they act with integrity in all situations and at all times. Man is greedy and selfish by nature and at times pressures force them to deviate from the right path. Here, the person's inner self plays the key role, provided, it is not in deep slumber. Whenever you are in doubt, ask your inner self the following questions, I bet, if you listen and follow the answers with honesty, you will never lose a course:

- Is it ethical?
- Is it legal?
- Is it acceptable to my inner self?

Respected societies demand from its citizens, no matter from which profession he/she belongs, that they act with integrity in all situations and at all times. Man is greedy and selfish by nature and at times pressures force them to deviate from the right path.

- If I am not forced to do this, would I do this by my own free will?
- Am I doing the right thing?
- Will it reflect well on me?
- Am I satisfied by doing this?
- How my family will feel when they know about it?

Corporate Social Responsibility and work ethics are interconnected wider subjects in scope. Good companies have their code of conducts/general ethics principles, which define dos and don'ts and they rigorously follow these principles in business as good corporate socially responsible entities. Code of corporate governance also carries principles for companies to carry out business in an efficient and ethical manner, which is legally mandatory to adopt for listed companies in Pakistan. However, it is a different debate that despite these code of conducts, on-ground unethical practices are still being followed, especially in this part of the world to get short term benefits.

Corporate Social Responsibility is a behaviour of an entity, owners and employees. Ethical code of conducts and code of corporate governance encompass minimum standards of corporate behaviour. On the other hand, if we look at religion, ethical standards are much higher and demands application of these acts in the life of an individual to reach perfection in all facets of life. In other words, it demands perfection of soul.

As mentioned earlier, accountants are privileged with the label of most trustworthy and reliable employees of the business and hence deemed to be more accountable – responsibility and accountability are correlated. It is high time for the accounting profession and accountants as the drivers of this profession that through leadership at all levels they inculcate the culture where ethical conduct is recognised, valued and exemplified by all stakeholders. When you see anything not in conformity or consistent with the ethical behaviour, speak up at the right/appropriate forum to bring about the positive change.

If accounting professionals step out with resolve to act with integrity under all situations, be open, honest and ethical in all corporate dealings and force other stakeholders to deal in the same ethical manner, I am confident that all businesses will adopt the ethical culture in the long run and in essence fulfill their corporate social responsibility for which they are accountable to the society. As they say, "honesty is the best policy" and that "charity begins at home."

Let's just do it…

[1] The World Business Council for Sustainable Development
[2] World Bank

About the author: The writer is a member of the ICAP and also an author of the book, **In Search of Perfection.**

The Increased Magnitude of Sustainability Reporting

by Asad Mirza

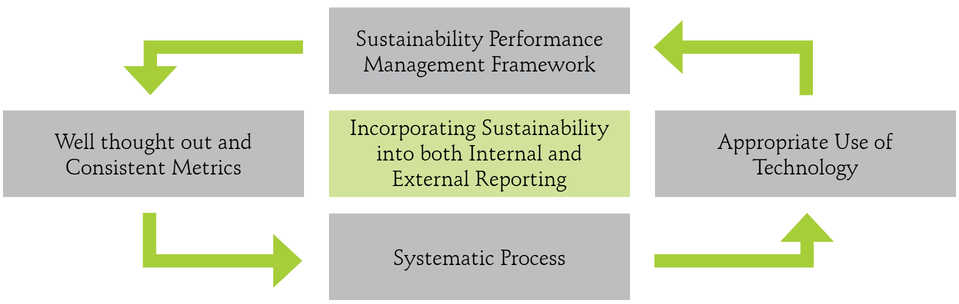
> Corporate sustainability is defined as 'adopting business strategies that meet the needs of the enterprise and its stakeholders today while sustaining the resources, both human and natural, that will be needed in the future.' Sustainability is a term that is used to describe the social and environmental movement and perception that is gaining noteworthy consideration in boardrooms.

Sustainability is generally referred by different names i.e corporate citizenship, social responsibility, climate change initiatives, or 'green' movement. In essence, sustainability includes anything from environmental awareness, industrial environmental protection, occupational health and safety management, intelligent infrastructure solutions, social investments, measuring & reporting green house gas (GHG) emissions data, to modify company business processes to reduce the operational use of natural resources and energy (i.e energy efficiency), etc.

Corporate sustainability is defined as 'adopting business strategies that meet the needs of the enterprise and its stakeholders today while sustaining the resources, both human and natural, that will be needed in the future.' Sustainability is a term that is used to describe the social and environmental movement and perception that is gaining noteworthy consideration in boardrooms. Organisations are beginning to acknowledge the importance of finding the right balance between financial, social and environmental priorities. Businesses are seeking ways to understand and respond to societal and environmental impacts, influence government regulation, manage risk, identify new goods and services, and manage external relationships to build trust and credibility.

Preservation of natural resources, climate change, clean technology, 'going green', are topics high on the agenda of boards and management of most major companies. Many are doing much than talking about it. They are taking large scale initiatives to improve their business performance, manage costs, respond to stakeholders demands, and prepare for regulatory requirements. Moreover, leading companies are recognising the need to integrate their sustainability strategy to their fundamental operational strategy for strengthening their brand value and maximisation of profits.

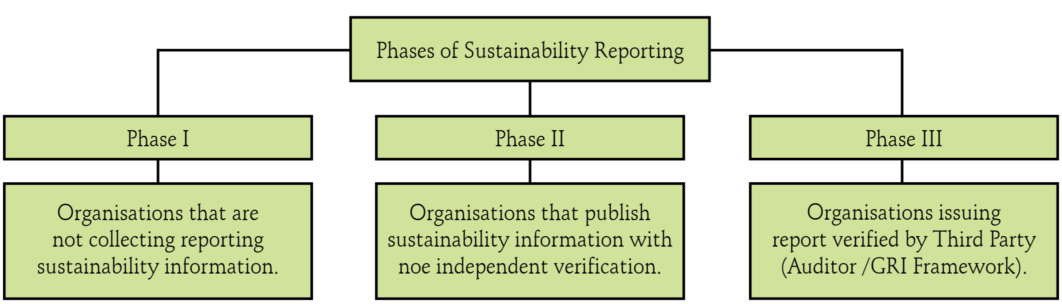
Sustainability Performance Management Framework



Sustainability reporting is a method to internalise and improve an organisation's commitment to corporate sustainability in a way that can be demonstrated to all interest groups. In order to enhance corporate image and address regulatory concerns, sustainability reporting has reached a tipping point to become a core management issue. The role of accountants can be instrumental in unlocking the value sustainability can bring to the business. They can identify value drivers within the business and advise on its integration with business strategy and objectives.

Stakeholders (investors, employees, customers, vendors, the public, etc.) and the capital markets are increasingly demanding improved, more transparent communication of non financial sustainability data. Sustainability report (also called Corporate Social Responsibility (CSR), Environmental Social Governance (ESG) or Triple Bottom Line (TBL) reports), that convey information about an organisations's economic, environmental and social impacts are increasingly being issued with financial statements and stakeholders are using them more often in evaluating the long term viability of a company. The basic objective of such reporting is to provide a balanced and reasonable representation of the organisation's performance in an economic, environmental and social context as well as reporting financial information.

There are different levels in sustainability reporting. Understanding where the organisation is in the process and the significant considerations at each phase can help ensure that sustainability initiatives accurately reflect the objectives. The phases are enumerated below:



The organisations which integrate sustainability into their business strategies and processes have realised the importance of appropriate and accurate sustainability related information in order to ensure compliance with laws and regulations as well as meeting the expectations of various interest groups. Therefore, senior management requires and expect the same level of control over these matters as they have over other financial information. Yet, in many instances such control is not 'prevalent'. Independent assurance whether for internal or external use of an organisation's processes, controls, and data helps make sure that it's sustainability information is reliable and accurate, thereby supporting the integrity of information used in decision making.

The Securities & Exchange Commission (SECP) in Pakistan has issued Voluntary CSR guidelines to promote the development of a framework for sustainability (CSR related) initiatives by all companies. The guidelines also suggests that companies may obtain assurance over their CSR/sustainability reports by an independent third party (Auditor/ GRI). CSR policy primarily includes the following:

- Investments for community (i.e earthquake relief initiatives, workshops for disabled, energy efficiency projects (i.e solar energy), support for any other disaster victims, environmental protection program, research & development, 'green' initiatives, etc).
- Governance (human rights, transparency, compliance, etc).
- Products designed especially keeping in view 'sustainability into focus.'
- Product accountability (non hazardous products, no environmental damage, etc).
- Occupational health and safety management.
- Environmental footprint data.
- Sustainability index.

International Standards on Assurance Engagements (ISAE) 3000 applies to sustainability related engagements. An engagement on sustainability involves obtaining assurance on a report prepared by management or management's expert (the measurer or evaluator) on the sustainability performance of the company. Global Reporting Initiative (GRI) is a network based organisation that has pioneered the development of the world's most widely used substantially reporting framework and is committed to its continuous improvement and application worldwide. GRI aims to develop precision, accountability, reporting and sustainable development. The GRI guidelines set out the principles and indicators that organisations can use to measure and report their economic, environmental, and social performance. Its vision is that reporting on economic, ecological and community topics should become as customary and analogous as financial reporting.

Sustainability has evolved considerably over the last number of years. The organisations have recognised the importance of quality sustainability reporting and the managements are taking this as an opportunity to increase their bottom line with 'revenue increase, costs reduction and margins improvements.' Finance leaders also are recognising that they need to play a vital role in these initiatives and are increasingly viewing their role through a sustainability lens to ensure that the long term business growth is assured. Further, investors of the company wants to see that their company adopts practices that are environmetally sustainble. Organisations, therefore, are required to go an extra mile for sustainability related initiatives due to its increased significance for corporate social responsibility, increased stakeholder expectations as well as compliance with laws and regulations perspective. The magnitude of sustainability reporting, consequently, is on a rise and likely to go further as time progresses and the organisation's needs to put in place a translucent mechanism for assuring accuracy and dependability of information for 'sustainability' related initiatives that in effect will increase shareholders wealth.

Sustainability has evolved considerably over the last number of years. The organisations have recognised the importance of quality sustainability reporting and the managements are taking this as an opportunity to increase their bottom line with 'revenue increase, costs reduction and margins improvements.'

Join the Discourse

IS YOUR FIRM CHANGING WITH TIME?

Muhammad Ali, ACA
Faisalabad

If you want to take your firm to the next level and beyond, then your firm must be an ever-evolving enterprise by creating an environment that encourages people to embrace change rather than resist it. What worked well yesterday will be less effective today, ineffective tomorrow and obsolete the day after tomorrow. Being proactive, our company senses customers' needs and our ability to develop products, services, competencies and processes that will be accepted by them. In order to have world's leading and innovative customers on our customer list, our company has become an ever-evolving enterprise by creating an environment that encourages people to embrace change rather than resist it. Change does not guarantee success or even survival. For a firm to thrive in the years ahead, it must initiate right changes, at the right time and in the right way. Changes should never be just for the sake of change. Changes that are not in sync with prevailing realities will fail. Changes that are not timed and implemented well will also fail.

Nasir Gulzar, FCA
Lahore

In this competitive and dynamically updating world, it is impossible for any organisation to survive without adapting itself to the changes in the business environment. There has been a paradigm shift in the corporate world because of the emerging information technology, complexity involved in corporate structure and governance and regulatory requirements.

We are well aware about the changing requirements in the accountancy profession. The top most agenda of our firm is to cope up with changes through induction of experienced personal and motivated trainees and imparting quality training to the trainees, which in turn end up in the quality of work. An extensive research work in the field of auditing and accountancy for the betterment of the staff is equally important as well as being equipped with the right tools and competencies. In order to attain the leading position, new tools and methodologies collectively with expertise and accumulated knowledge are adopted as an effective strategic element. Training seminars, professional development programs and conferences play a vital role in enhancing skills and competencies. Our firm encourages participation in these activities along with training of the trainees up to the benchmark standards as deemed appropriate for the professionalism required by a chartered accountant. The trainees are given a certain degree of independence to explore their skills, innovate new solutions to traditional problems. On job training is supported with off job training methodologies to enhance the capabilities in the trainees. Trainees are encouraged to participate and propose suggestions in the decision making process in areas of their assigned tasks. This not only increases their understanding of the task but also enables them to attain sufficient knowledge and understanding to be attained for the required job. A periodic evaluation of the trainees is done. Timely feedbacks are provided to motivate them and raise their moral. A pro-active approach is adopted for the activities of the firm. State of the art equipment and latest softwares are being used by the firm to enable trainees to stay updated with the market. Our firm believes that trainees are our asset, so we invest on them to have an optimum combination of skills, techniques, and coaching to have a complete package. Why are we changing with time? Well, we believe that it is always better to be pro-active rather than re-active. Learn with time, else time will teach you. You have to learn either way.

What worked well yesterday will be less effective today, ineffective tomorrow and obsolete the day after tomorrow.

Muhammad Asad Ali, ACA
Islamabad

Change, the meanest reality, inevitable to avoid, makes you vulnerable, puts you at start and gives no option but to finish, so as to remain relevant. Otherwise, you exist as a mere zombie. My firm has come a long way since its beginning, and has made significant changes to remain relevant and updated. It holds its competitive edge by making harsh decisions – replaced old loyal work force with highly qualified professionals, swapped old school desktops with high quality advance laptops supporting tools and gadgets, adapted to technologically advance softwares to deliver timely and efficient output. However, the dilemma is that as the majority of changes are imposed from outside, therefore, there is no opportunity to plan, identify critical success factors, communicate the objectives, manage the consequences and gauge the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outcomes. Outcome evaluation is another uphill battle, as the success drivers may often vary among different tiers of the firm. To make a successful evolution, the desire for change should be generated from inside, owned by the management, communicated to each employee, supported by sufficient resources and assessed against the set targets.

Dala Ram Mulwani, ACA

Abu Dhabi, UAE

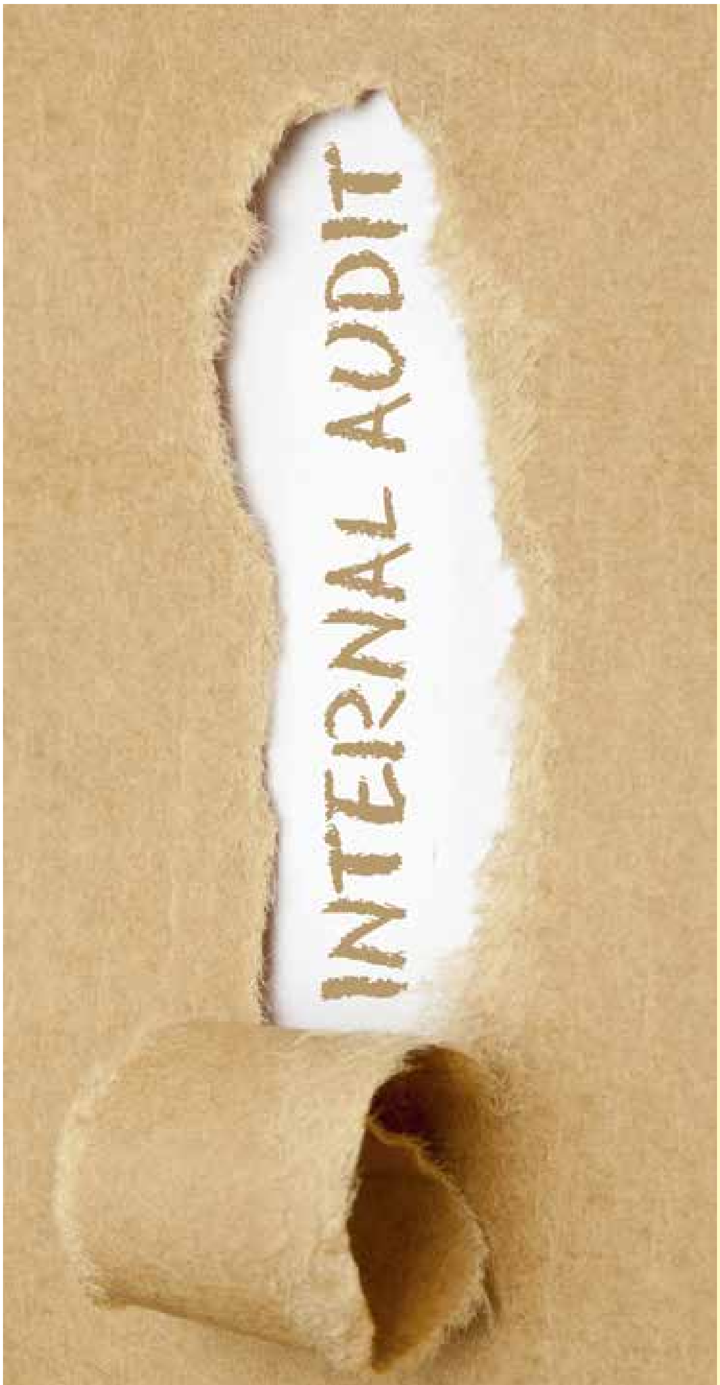
When we talk about change, we mostly talk about policies, procedures, technology, etc. but it is important to consider what to change and whether only external change will suffice to compete with today's world? Though the change of these resources over time is an unavoidable requirement to sustain the business, special attention is required towards the attitude, culture, behaviour, way of thinking, accountability matrix, and the leadership style being followed. Without the cultural change, it's almost impossible to retain high caliber human resource and also to achieve efficiency and effectiveness from the use of other resources.

Today, the world is moving towards diversity and open-mindedness where opinions and views of all level employees are being given importance and the seniors cannot expect to be respected if they are hesitant to respect their subordinates. The old culture, where in the organisations (most common in south Asian entities) seniors and managers feel having full authority to speak with subordinates rudely, subordinates showing disrespect to follow orders, or where employees need to take an appointment to enter their bosses rooms for some specific time and issues only should be obsolete. The world has moved towards equality and open door policies (though now I would say no door policies as in most of the international organisations with the exception of top management, all employees sit side by side on similar desks and interact openly with each other irrespective of their roles and positions) to encourage and motivate young blood and encourage latest ideas which can bring changes in the firm over time. Since the world has opened its doors to international talent, retention of good human resource is becoming more challenging than management of any other resource and if that is managed effectively and appropriate authority is provided, all other resources can be managed by them. Today, world renowned organisations are competing to get Best Employer Award and in this era, if we retain our focus only on external changes, then we may have all those tools and equipments but no effective human resource to get work out of it. So the question is, are we changing? Or, are we trying to retain the same attitude, behaviour and way of thinking which we have experienced without realising current changes.

Though it may be late but my firm has finally reaslised the fact that with changing management and people the overall culture and attitude has started to change. In order to implement that change, some key steps is being taken which mainly includes eliminating long cabins and segregated rooms, implementing quarterly one-to-one meeting by head of department with each employee, employee get together events and activities to provide informal networking opportunities, anonymous surveys to get employee feedbacks, innovation forums with rewards to encourage and appreciate new ideas, independent HR business partners and other channels to report improper behaviour and any grievance and lastly, creating increased classroom and online training opportunities on topics like organisation values, corporate behaviour, leadership styles, human resource management, change management and teamwork etc. This all reflects changes in the tone at the top, which will surely flow down to all employees through these steps being taken and it will influence all employees to bring change in the organisation. It's not surprise to see resistance from some of the employees who mainly fear from change or consider this change as dilution of their powers, however this is the need of the time and cannot be avoided. Everyone who wants to survive and succeed will have to adopt this change.

When we talk about change, we mostly talk about policies, procedures, technology, etc. but it is important to consider what to change and whether only external change will suffice to compete with today's world?

My firm is changing, is your firm also changing? And most importantly are You changing? as firm or organisations are made by us and if we can bring change in ourselves our organisations will automatically change. Remember, as an organisation to progress or as an individual to achieve our career objectives, now competition is not within a city or a country, but with people and organisations around the Globe!



Role of an internal audit has changed drastically in the last decade. Internal auditors are more into the shoes of consultants, advisors and business process re-engineers.

A Value Addition or a Formality

by Sheikh Bilal Shams

As per The Institute of Internal Auditors (IIA), internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

From the definition, it's clear that an Internal Auditor(IA) is a value addition job and there is no room for a formality. However, as per various companies' laws and Code of Corporate Governance (CCG) applicable in different countries, certain classes of companies are required to appoint internal auditors, which does give room for formality.

Now what exactly an internal auditing does?

Looking at the definition, it recognises two roles for internal audit:

1. To provide an independent assurance service to the board, audit committee and management, focusing on reviewing the effectiveness of the governance, risk management and control processes that management has put into place.
2. To provide advice to management on governance risks and controls, for example, the controls that will be needed when undertaking new business ventures.

Now before going forward, the first thing independent assurance needs to be answered: Do internal auditors give independent assurance or are

Currently, no corporate law caters to the requirement of the internal audit profession to be independent, or define parameters to ensure independence.

they allowed to give independent assurance?

In corporate laws, the definition of independent assurance or the parameters which could be followed to maintain independent assurance is usually not provided, hence, this is the biggest dilemma of internal audit profession which regulators still needs to address.

Answering this to some extent would be easy, if you exactly know in which kind of organisation you work in. In our corporates, mainly there are three types of entities:

1. A company which could be private, public or listed
2. A multinational corporation (MNC)
3. A public sector companies/ Nonprofit organisations/Non-governmental organisation (NGOs)

In the first category, independence to some extent is somehow compromised leading the profession to a formality only. Strongest independence could be ensured in MNC due to its internal regulatory requirements and which has nothing to do with local regulatory requirements. Independence which needs to be established at its best, due to public rights, shows the lowest in public sector companies.

Measurers to shift gears from formality to value addition

Independence is usually impaired when the observation is directly pointing the management which is somehow not preferred and what are preferred are earnings and growth rates – the internal audit profession needs to work on this. Observations should not be drafted to thicken the report. For observations which are not a binding by some law or regulation, a cost benefit analysis should be provided which could be based on the following factors:

1. A process re-engineered gaining a certain operational cost cut.
2. Effective turnaround times gaining more profitability, customer and after sales service.
3. Cutting down the potential rate of errors and mistakes, incorporating more corrective controls.
4. Cutting down potential frauds, reducing fraud risk management and investigations cost.

There could be hundreds of these factors ranging from cleaning the office to delivering the final product to the customer. Now this cost benefit analysis can make the difference as management is always interested to grow the figures. The management usually treats the observation as a criticism, hence, the word observation should be replaced with value addition with the budgetary target cost saving or profit. Seeing the figures will not only make the internal audit reports interesting, but also encourage the management to make the profession more independent and stronger.

Laws to cater independence

Currently, no corporate law caters to the requirement of the internal audit profession to be independent, or define parameters to ensure independence. Regulators should work on this requirement by defining the parameters which could test independence. Some of the parameters could be as follows:

1. Appraisal of internal audit to be conducted by board/audit committee (B/AC).
2. Internal audit reports to be shared simultaneously with B/AC.
3. Independence parameters to be reviewed by external auditors and to provide report on the same- to be part of annual financial statement.
4. Exit interviews of chief audit executives to be conducted by the regulatory bodies to gain understanding of reasons for leaving an organisation.

Internal auditor's role in today's world

Role of an internal audit has changed drastically in the last decade. Internal auditors are more into the shoes of consultants, advisors and business process re-engineers. They need to understand the business environment in which an organisation is operating.

A small example could better illustrate this: A pre-dormancy letter needs to be sent to an account holder at least 30 days before the account becomes dormant. As per the operations manual, a system generated letter is printed and sent to the customer at his postal address. An internal auditor reviews this process and advises management to send an SMS/email to the customer for dormancy of their account in addition to the letter for pre dormancy of their account. This particular advice comes under the ambit of value addition to customer service.

Thus, there could be thousands of other examples where internal auditors can create value addition.

Branchless Banking

by Syed Najmus Sahar Subzwari

1. Definition

Branchless Banking (BB) is one of the marvels of innovation in the fields of Information Communication Technology (ICT) and BPR (Business Process Re-engineering). It is the mode of rendering financial services through distribution network without having conventional branch brick and mortar set-up.

Branchless Banking (BB) is one of the marvels of innovation in the fields of Information Communication Technology (ICT) and BPR (Business Process Re-engineering).

2. Distribution Network

The success of BB model is primarily dependent upon the efficient management of distribution network. Distribution network is the back bone of BB. The network includes two segments, i.e. **Agent** and **Technology**. The agent may take the form of retailers, shopkeepers, petrol pumps, supermarket chain, street vendors, couriers, post offices, etc. You can imagine the variety of distribution channels to widen the outreach of financial services for the masses. While each agent is equipped with adequate technology infrastructure to support the processing of financial transactions. Most frequent technologies include mobile phone, Point of Sale (POS) terminal, Automated Teller Machine (ATM), Biometric Verification Terminal, Internet, etc.

3. Financial Inclusion

Financial Inclusion refers to provision of financial services to unbanked/low income segment of society at an affordable cost. The ratios of financial inclusion are one of the prominent factors of economic growth and prosperity. Acquisition of financial services by the unbaked/low income segment could improve the standard of living, stabilise earnings, evolve opportunities, promise better returns on savings, enhance literacy/education ratio, ensure availability of cheap credits, raise government revenues, etc.

The following are some major factors which limit the process of financial inclusion:

a. Non-availability of requisite financial services
b. Low literacy ratio
c. Inefficient product distribution channel
d. Lack of awareness
e. Lack of customised financial products for low income segment, i.e. savings, insurance, advances, etc.
f. Strict regulatory compliance requirements, i.e. KYC (Know Your Customer), CDD (Customer Due Diligence), etc.
g. Lofty transactional cost

The success of BB model is primarily dependent upon the efficient management of distribution network.

4. Financial Inclusion through BB

BB provides a solid platform to address limitations of conventional banking network to empower low income/unbanked segment of society. BB carries the following advantages in quest of financial inclusion:

a. Availability of admissible financial services at lower cost
b. Robust roll out of branchless banking delivery channel
c. Potential to tap unbanked/low income segment of society due to minimum regulatory requirements regarding CDD, KYC, etc.
d. Pledge seamless outreach of financial services

5. Statistics

The level of financial inclusion in Pakistan specifically and in the region generally is depicted in an extract from **The World Bank Financial Inclusion Data** indicated following comparison of total population of Pakistan/region for the year 2014:

Parameters	Pakistan	South Asia	High Income OECD countries
	% of total population: 15 to 15+ years		
Bank Account	13 %	46 %	94 %
Formal Saving	3 %	13 %	52 %
Formal Borrowing	2 %	6 %	18 %
*Organisation for Economic Cooperation & Development (OECD)			

6. BB Model

As per the policy of State Bank of Pakistan only bank led model of Branchless Banking is allowed for the establishment of a BB setup. Bank led model may take the following forms:

a. **One-to-one (1-1) Model:** In this model one bank offers mobile phone banking services in collaboration with a specific telco. As a consequence, the services may only be offered to customers using mobile connection of that specific telco.

b. **One-to-many (1-∞) Model:** In this model a bank offers mobile phone banking services to customers using mobile connection of any telco. This model offers the possibility to reach any bankable customer who has a mobile phone connection.

c. **Many-to-many (∞-∞) Model:** In this model many banks and many telcos join hands to offer services to virtually all bankable customers.

d. **Alternate Channels:** Branchless Banking can also be done using agents other than telcos and using technologies not limited to mobile phone (like GPRS, POS terminals, etc.).

7. Types of BB Transactions

SBP has allowed the following types of BB transactions:

a. **Opening and maintaining a BB Account:** A BB account can be opened and operated by a customer with a bank through the use of BB channels. Account capabilities/ limits are commensurate with the level of customer due diligence (CDD) and KYC procedures the customer has undergone.

b. **Account-to-Account Fund Transfer:** Customers can transfer funds to/from their BB account from/to their other pre-registered/regular accounts (current/saving bank accounts, loan limit accounts, credit card accounts, etc.)

c. **Account-to-Person Fund Transfer:** Customers can transfer funds from their BB account to other non-BB account holders. The transaction limits and KYC requirements are explained in relevant section of these regulations.

d. **Person-to-Person Fund Transfer:** Any person without a BB account can also transfer funds to any other non BB account holder. The transaction limits and KYC requirements are explained in the relevant section of these regulations.

e. **Cash-in & Cash-out:** Customers can deposit and withdraw funds to/from their BB account using a variety of options including bank-branch counters, ATM machines and authorised agent locations.

f. **Bill Payments:** A BB account can also be used to pay utility bills (e.g. gas, electricity, phone, etc.) However, the amount of payment of utility bills shall not be counted as part of existing transaction limits allowed to BB account holders.

g. **Merchant Payments:** Customers can use a BB account to make payments for purchases of goods and/or services.

h. **Loan Disbursement/Repayment:** FIs, particularly MFBs may use BB accounts as a means to disburse loan amounts to their borrowers having BB accounts. The same accounts may be used by customers to repay their loan installments.

i. **Remittances:** BB accounts may be used to send/receive remittances subject to existing regulations.

Customers can transfer funds from their BB account to other non-BB account holders.

8. Types of Branchless Banking Accounts

The State Bank of Pakistan has allowed the following accounts under branchless banking ambit:

Account Type	Description	Transaction Limits	Maximum Balance Limit
Level 0	Basic BB account with low KYC requirements and low transaction limits.	Rs. 15,000 per day Rs. 25,000 per month Rs.120,000 per year	Rs. 100,000

Level 1	Entry level account with adequate KYC requirements commensurate with transaction limits.	Rs. 25,000 per day Rs. 60,000 per month Rs. 500,000 per year	No Limit
Level 2	Top level account for individuals as well as businesses offering all BB facilities and subject to full KYC requirements.	FI must set limits commensurate with each customer's profile and FI's own capacity to monitor activities in such accounts.	
Level 3	Account specific for merchants, businesses, banking agents, technology service providers and corporations. These accounts may also be utilised for various disbursements like salaries/payrolls, pensions, grants, donations, etc.	FI must set limits commensurate with each customer's profile and FI's own capacity to monitor activities in such accounts.	

Customers can deposit and withdraw funds to/ from their BB account using a variety of options.

In addition to account-to-account funds transfers, the following two categories are being introduced for domestic fund transfers:

Types	Description	Limits
Account to Person	Fund transfers by BB account holder to other persons (non-account holders).	Rs. 25,000 per month (For transactions up to Rs.15,000 requirements of person-to-person funds transfer shall apply).
Person to Person	Person-to-Person fund transfers (non-account holders). Persons availing this service shall be registered by the FI after due verification process for subsequent transactions.	Rs. 15,000 per month.

9. Typical Branchless Banking Mechanics

a. BB license form issued by SBP to the FI.
b. FI entered into super agency agreement with the telco.
c. Deployment of BB core system.
d. Telco entered into sub agency agreement with franchise/retailer network for BB transactions.
e. Registration of franchise/retailers in the BB core system.
f. Establishment of cash management procedure to enrich franchise wallets (BB accounts).
g. Retailers enrich their wallets through purchase from franchise.
h. Walking customers approach sub-agents for remittances/other payments.
i. Each remittance/other payment charge according to schedule of charges.
j. The beneficiary receive remittance from sub-agent.
k. Registration of individuals BB account to be used for remittance/other payments.
l. Commission on BB transactions to be divided among telco, franchise, retailer and FI.
m. The BB transaction may also be initiated through POS, ATM, other electronic channels.

10. G2P

The terminology **G2P** stands for government to person. It signifies social payments made by the government to masses. The social disbursement usually involves large number of people requiring immediate/ timely disbursement of funds. The recent examples of such payments are made under BISP, IDPs, EOBI, pensions, bait-ul-mal payments, etc. The BB infrastructure provides the government to remit funds to different social segments with transparency along with efficiency.

11. Branchless Banking Indicators/Players

A review of BB transactions/indicators in Pakistan, for the last two years, indicated promising and steady growth.

Indicators	2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of agents	64,716	93,862	110,214	125,027	148,324	168,615	186,618	204,073
Number of accounts	2,398,888	2,642,941	2,966,306	3,475,458	3,831,868	4,238,178	4,713,145	5,414,655
Deposit as of date (Rs. in million)	1,391	2,391	2,320	2,639	4,911	6,219	5,652	6,668
Number of transactions during quarter (No. in 000)	41,130	44,760	51,914	54,100	68,535	71,194	66,806	71,818
Value of transactions during quarter (Rs. in million)	170,796	173,231	224,024	234,646	278,348	326,131	375,945	372,093
Average size of transaction (Rs.)	4,153	3,870	4,315	4,337	4,061	4,581	5,627	5,181
Average number of transactions per day	457,005	497,333	576,822	601,113	761,501	791,041	742,293	797,980
(Source: SBP Quarterly Branchless Banking Newsletter)								

Major players in BB are as follows:

Product	Bank	Telco
Easypaisa	Tameer Microfinance Bank Ltd.	Telenor
Omni	United Bank Ltd.	Multiple
Timepey	Askari Bank Ltd.	Zong
MobiCash	Waseela Microfinance Bank Ltd.	Mobilink
HBL-Express	Habib Bank Ltd.	Multiple
Upaisa	U Microfinance Bank Ltd.	U-Phone
Mobile Paisa	Bank Alfalah Ltd.	Warid

12. Branchless Banking – Challenges

a. Development of new product/services.
b. Alignment the existing Branchless Banking regulatory framework with the customer requirements of new product and services.
c. Ensure compliance to the regulatory/operational requirements at sub-agents level having wide span of geographical dispersion.
d. Impart awareness and training to sub-agents on regular basis at a massive scale.
e. Reduction in BB transaction cost in order to attract un-bankable segments.
f. Development of secured information technology infrastructure.
g. Synchronisation of management of both FI and telco.
h. Development of technology based innovative solutions.
i. Establishment of public confidence in BB transactions.

The BB infrastructure provides the government to remit funds to different social segments with transparency along with efficiency.

FRAUD

by Affan Sajjad

"Corruption, embezzlement, fraud, these are all characteristics which exist everywhere. It is regrettably the way human nature functions, whether we like it or not. What successful economies do is keep it to a minimum. No one has ever eliminated any of that stuff."
– Alan Greenspan

The number of fraud cases has increased sharply over the past few years. For many companies, meeting or beating set targets for earnings estimates means more than anything else. Big cash bonuses tied to short term earnings or stock price targets causes executives to focus extremely on showing favorable financial targets. In the worst cases; this can drive companies to creative accounting, or even fraud. There are so many fraud scenarios one comes across while working comes for corporate entities.

Fraud is an intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or – illegal advantage.

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.

There are two broad categories of fraud:

1. Fraudulent financial reporting: This involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users. It is not the result of incompetence but intelligence through "error" which is often used as a defense. It can be caused by the efforts of management to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.

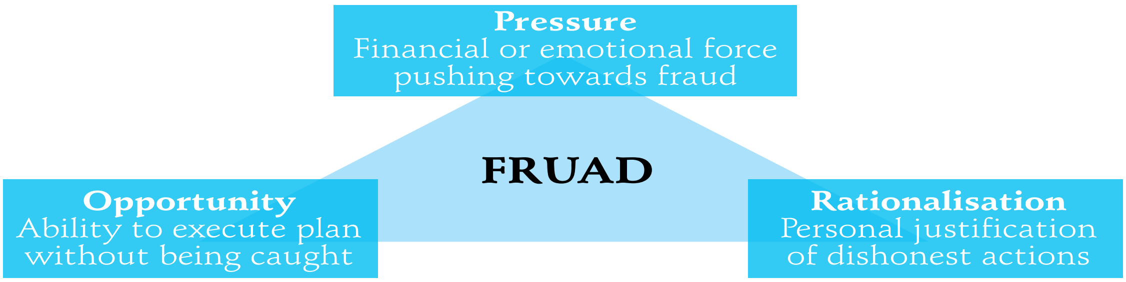
2. Misappropriation of assets: This is the second category of fraud which involves the theft of an entity's assets and is often perpetrated by employees entrusted with access/management of those assets in relatively small and immaterial amounts.

Fraud Triangle

Fraud, whether fraudulent financial reporting or misappropriation of assets, involves **incentive or pressure to commit fraud, a perceived opportunity to do so** and **some rationalisation of the act** which is often referred to as Fraud Triangle.

The Fraud Triangle:

A framework for spotting high-risk fraud situations



Incentive or pressure to commit fraudulent financial reporting may exist when management is under pressure, from sources outside (such as a competitor or, a regulator) or inside the entity (such as shareholders, board of directors and those charged with governance), to achieve an expected (and perhaps unrealistic) earnings target or financial outcome.

Similarly, individuals may have an incentive to misappropriate assets, for example, because the individuals are living beyond their means.

A **perceived opportunity** to commit fraud may exist when an individual believes internal control can be overridden, for example, because the individual is in a position of trust, or is entrusted with the access and management of the assets, or has knowledge of specific deficiencies in internal control.

Individuals may be able to **rationalise** committing a fraudulent act. Some individuals possess an attitude, character or a set of unethical values that allow them knowingly and intentionally commit a dishonest act. However, even otherwise, honest individuals can commit fraud in an environment that imposes sufficient pressure on them.

Fraudulent Financial Reporting

Fraudulent financial reporting may be accomplished by the following:

- Manipulation, falsification (including forgery), or alteration of accounting records or supporting documentation from which the financial statements are prepared.
- Misrepresentation in, or intentional omission from the financial statements of events, transactions or other significant information.
- Intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosure.

At the employee meeting of Qwest Communications International, the chairman & CEO Mr. Nacchio once stated that: "The most important thing we do is meet our numbers. It's more important than any individual product; it's more important than any individual philosophy; it's more important than any individual cultural change we're making. We stop everything else when we don't make the numbers." Congratulations to management! They may have made its numbers, but it did so via methods that eventually cost shareholders billions.

Earnings: Easy to Manipulate having Highest Impact on Stakeholders

Earnings are at the very bottom of the income statement (hence the term bottom line). They're the end result after all expenses such as raw material costs, salaries, marketing expenses, research and development, interest, and taxes, etc., are taken out of revenue. Unfortunately, that also makes earnings the figure most susceptible to manipulation.

Shift some expenses around, some capitalisation, change of policies, change in management representation, draw down some reserves, and presto! That earnings per share (EPS) result suddenly goes from a miss to a beat.

Fraud is an intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or – illegal advantage.

Fraud Risk Factors Relating to Fraudulent Financial Reporting

According to auditing standards of American Institute of Certified Public Accountants (AICPA), **AU Section 316 – Consideration of Fraud in a Financial Statement Audit,** following are some of the examples of risk factors relating to misstatements arising from fraudulent financial reporting:

Incentives/Pressure

A. Financial stability or profitability is th reatened by economic, industry, or entity operating conditions, such as:
- High degree of competition or market saturation, accompanied by declining margins
- High vulnerability to rapid changes, such as changes in technology, product obsolescence, or interest rates
- Significant declines in customer demand and increasing business failures in either the industry or overall economy
- Operating losses making the threat of bankruptcy, foreclosure, or hostile takeover imminent
- Recurring negative cash flows from operations and an inability to generate cash flows from operations while reporting earnings and earnings growth
- Rapid growth or unusual profitability, especially compared to that of other companies in the same industry
- New accounting, statutory, or regulatory requirements

B. Excessive pressure exists for management to meet the requirements or expectations of third parties due to the following:
- Profitability or trend level expectations of investment analysts, institutional investors, significant creditors, or other external parties (particularly expectations that are unduly aggressive or unrealistic), including expectations created by management in, for example, overly optimistic press releases or annual report messages
- Need to obtain additional debt or equity financing to stay competitive – including financing of major research and development or capital expenditures
- Marginal ability to meet exchange listing requirements or debt repayment or other debt covenant requirements
- Perceived or real adverse effects of reporting poor financial results on significant pending transactions, such as business combinations or contract awards

C. Information available indicates that management's or those charged with governance's personal financial situation is threatened by the entity's financial performance arising from the following:
- Significant financial interests in the entity
- Significant portions of their compensation (for example, bonuses, stock options, and earn-out arrangements) being contingent upon achieving aggressive targets for stock price, operating results, financial position, or cash flow
- Personal guarantees of debts of the entity

D. There is excessive pressure on management or operating personnel to meet financial targets set up by those charged with governance or management, including sales or profitability incentive goals.

Opportunities

A. The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the following:
- Significant related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm
- A strong financial presence or ability to dominate a certain industry sector that allows the entity to dictate terms or conditions to suppliers or customers that may result in inappropriate or non-arm's-length transactions
- Assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgments or uncertainties that are difficult to corroborate
- Significant, unusual, or highly complex transactions, especially those close to period end that pose difficult 'substance over form' questions

The risk of fraud can be reduced through a combination of prevention, deterrence and detection measures. However, fraud can be difficult to detect because it often involves concealment through falsification of documents or collusion among management, employees, or third parties.

- Significant operations located or conducted across international borders in jurisdictions where differing business environments and cultures exist
- Significant bank accounts or subsidiary or branch operations in tax-haven jurisdictions for which there appears to be no clear business justification

B. There is ineffective monitoring of management as a result of the following:

- Domination of management by a single person or small group (in a non owner-managed business) without compensating controls
- Ineffective oversight over the financial reporting process and internal control by those charged with governance

C. There is a complex or unstable organisational structure, as evidenced by the following:

- Difficulty in determining the organisation or individuals that have controlling interest in the entity
- Overly complex organisational structure involving unusual legal entities or managerial lines of authority
- High turnover of senior management, counsel, or board members

D. Internal control components are deficient as a result of the following:

- Inadequate monitoring of controls, including automated controls and controls over interim financial reporting (where external reporting is required)
- High turnover rates
- Ineffective accounting and information systems, including situations involving significant deficiencies or material weaknesses in internal control

Attitudes/Rationalisations

- Ineffective communication, implementation, support, or enforcement of the entity's values or ethical standards by management or the communication of inappropriate values or ethical standards
- Non-financial management's excessive participation in or preoccupation with the selection of accounting principles or the determination of significant estimates
- Known history of violations of securities laws or other laws and regulations, or claims against the entity, its senior management, or board members alleging fraud or violations of laws and regulations
- Excessive interest by management in maintaining or increasing the entity's stock price or earnings trend
- A practice by management of committing to analysts, creditors, and other third parties to achieve aggressive or unrealistic forecasts
- Management failing to correct known significant deficiencies or material weaknesses in internal control on a timely basis
- An interest by management in employing inappropriate means to minimise reported earnings for tax-motivated reasons
- Recurring attempts by management to justify marginal or inappropriate accounting on the basis of materiality.

Misappropriation of Assets

Misappropriation of assets can be accomplished in a variety of ways including:

- Embezzling receipts (for example, misappropriating collections on accounts receivable or diverting receipts in respect of written-off accounts to personal bank accounts).
- Stealing physical assets or intellectual property (for example, stealing inventory for personal use or for sale, stealing scrap for resale, colluding with a competitor by disclosing technological data in return for payment).
- Causing an entity to pay for goods and services not received (for example, payments to fictitious vendors, kickbacks paid by vendors to the entity's purchasing agents in return for inflating prices, payments to fictitious employees).
- Using an entity's assets for personal use (for example, using the entity's assets as collateral for a personal loan or a loan to a related party).

In order to deter fraud, we need to reduce pressures, opportunities and rationalisations to commit fraud. Corruption is the enemy of development, and of good governance.

Fraud Risk Factors Relating to Misappropriation of Assets

According to auditing standards of American Institute of CPAs (AICPA), AU Section 316 – Consideration of Fraud in a Financial Statement Audit.

Following are some of the examples of risk factors relating to misappropriation of assets:

Incentives/Pressures

A. Personal financial obligations may create pressure on management or employees with access to cash or other assets susceptible to theft to misappropriate those assets.

B. Adverse relationships between the entity and employees with access to cash or other assets susceptible to theft may motivate those employees to misappropriate those assets. For example, adverse relationships may be created by the following:

- Known or anticipated future employee layoffs
- Recent or anticipated changes to employee compensation or benefit plans
- Promotions, compensation, or other rewards inconsistent with expectations

Opportunities

A. Certain characteristics or circumstances may increase the susceptibility of assets to misappropriation. For example, opportunities to misappropriate assets increase when there are the following:

- Large amounts of cash on hand or processed
- Inventory items that are small in size, of high value, or in high demand
- Easily convertible assets, such as bearer bonds, diamonds, or computer chips
- Fixed assets that are small in size, marketable, or lacking observable identification of ownership

B Inadequate internal control over assets may increase the susceptibility of misappropriation of those assets. For example, misappropriation of assets may occur because there is the following:

- Inadequate segregation of duties or independent checks
- Inadequate management oversight of employees responsible for assets, for example, inadequate supervision or monitoring of remote locations
- Inadequate job applicant screening of employees with access to assets
- Inadequate record keeping with respect to assets
- Inadequate system of authorisation and approval of transactions
- Inadequate physical safeguards over cash, investments, inventory, or fixed assets
- Lack of complete and timely reconciliations of assets
- Lack of timely and appropriate documentation of transactions
- Lack of mandatory vacations for employees performing key control functions
- Inadequate management understanding of information technology, which enables information technology employees to perpetrate a misappropriation
- Inadequate access controls over automated records, including controls over and review of computer systems event logs.

Attitudes/Rationalisations

- Disregard for the need for monitoring or reducing risks related to misappropriations of assets
- Disregard for internal control over misappropriation of assets by overriding existing controls or by failing to correct known internal control deficiencies
- Behavior indicating displeasure or dissatisfaction with the company or its treatment of the employee
- Changes in behaviour or lifestyle that may indicate assets have been misappropriated

Circumstances that indicate the possibility of fraud

- Unsupported or unauthorised balances or transactions.
- Last-minute adjustments that significantly affect financial results.
- Evidence of employees' access to systems and records

inconsistent with that necessary to perform their authorised duties.

- Missing documents.
- Documents that appear to have been altered.
- Significant unexplained items on reconciliations.
- Large numbers of credit entries and other adjustments made to accounts receivable records.
- Missing inventory or physical assets of significant magnitude.
- Unavailable or missing electronic evidence, inconsistent with the entity's record retention practices or policies.
- Undue time pressures imposed by management to resolve complex or contentious issues.
- Unwillingness by management to permit the auditor to meet privately with those charged with governance.
- Accounting policies that appear to be at variance with industry norms.
- Frequent changes in accounting estimates that do not appear to result from changed circumstances.
- Tolerance of violations of the entity's code of conduct.

Fraud Deterrence

The risk of fraud can be reduced through a combination of prevention, deterrence and detection measures. However, fraud can be difficult to detect because it often involves concealment through falsification of documents or collusion among management, employees, or third parties. According to AICPA, following are the measures that can be adopted in order to deter fraud;

A. Creating a culture of honesty and high ethics
- Setting the tone at the top
- Creating a positive workplace environment
- Hiring and promoting appropriate employees
- Training
- Obtaining written confirmation of organisation code of conduct and ethics policy from employees
- Establishing disciplinary action committee

B. Evaluating anti-fraud processes and controls
- Identifying and measuring fraud risks
- Mitigating fraud risks
- Implementing and monitoring appropriate internal controls

C. Developing an appropriate oversight process
- Oversight can take many forms and can be performed by many within and outside the entity, such as:
  - Audit committee or those charged with governance
  - Senior management
  - Internal auditors
  - Independent (external) auditors
  - Certified fraud examiners

Preventing Fraud in Workplace

There are many ways that can help an organisation to detect fraud before it happens. This may include, but not limited to, the following:
- Annual & half yearly independent audits
- Internal audits and compliance reviews
- Segregation of duties
- Effective internal control
- Checking employee references before hiring
- Staff rotation
- Mandatory staff annual leave
- Regular monitoring and supervision

In order to deter fraud, we need to reduce pressures, opportunities and rationalisations to commit fraud. Corruption is the enemy of development, and of good governance. It should be eliminated. Both the government and the people at large must come together to achieve this objective.

Forensic Accounting: Perspectives and Prospects

by Dr. Madan Bhasin

Abstract: Accounting scandals and frauds are perennial; they have occurred in all eras and in all countries. Forensic accounting has come into limelight due to rapid increase in financial frauds. The integration of accounting, auditing and investigative skills yields the specialty known as Forensic Accounting. The opportunities for the Forensic Accountants (FAs) are growing at the rapid speed. They are being engaged in public practice, or employed by insurance companies, banks, police forces, government agencies and several other organisations. The FAs typically put together a puzzle by piecing together a situation, reconstructing financial records, and following a trail of evidence. This article seeks to examine different perspectives and prospects of forensic accounting, and recommend that there is a future in it as a separate niche consulting.

Fraud is a worldwide phenomenon that affects all continents and all sectors of the economy, which has reduced the credibility of financial information that investors use in decision-making. Innumerable instances of scandals and frauds have plagued our society since before the Industrial Revolution. The extent of fraud reported in the media, since the new century began, has been phenomenal. Until recently, detecting fraud or white-collar crime was thought to be part of the conventional accounting function. Fraud was something the internal or external auditors were supposed to guard against by their periodic audits. Now, we as accountants know that auditors can only check for the compliance of a company's books to generally accepted accounting principles, auditing standards, and company policies. Fraud, by its very nature, is hidden in the accounting systems of organisations and therefore, Forensic

The integration of accounting, auditing and investigative skills yields the speciality known as Forensic Accounting.

Accountants are usually required to unravel the transaction history and reveal what has actually occurred.

In the 21st century, the wave of corporate fraudulent financial reporting and accounting frauds have prompted global actions for reforms by the governments, and accounting and auditing standard-setting bodies, in order to restore investors' confidence in financial reporting, accounting profession, and financial markets. Surprisingly, even with the enactment of several legislations, across the world, many experts are still perplexed as to how to solve the problem of detecting and preventing rising magnitude of frauds within business environment. Thus, a new category of accounting was needed to substantiate the fraud in companies that suspected fraudulent transactions, which is popularly known as **Forensic Accounting**.

Worldwide, we consider Sherlock Holmes to be the first forensic accountant (hereafter, FA). FAs do not carry guns or engage in car chases, but they are among this century's greatest' crime-fighters. The US News & World Report listed these financial watchdogs as one of top eight careers to count on. Recently, all of the larger global accounting firms have established specialist forensic accounting departments. Nearly 40 per cent of the top 100 US accounting firms are expanding their forensic and fraud-related services. If we accept this data as an eye-opener, then the day is not far away when forensic accounting practice will contribute significantly to the total revenue of the Asian accounting firms. Forensic accounting services are in great demand, and also rendered at a high premium in the current context of flourishing business and rising instances of frauds and litigations.

Perspectives of Forensic Accounting

The Forensic Accountants utilise an understanding of business information and financial reporting systems, accounting and auditing standards, evidence gathering and investigative techniques, and litigation processes and procedure to perform their work. They are also increasingly playing more proactive risk-reduction roles by designing and performing extended procedures, as part of the statutory audit, acting as advisors to audit committees, and assisting in investment analyst research. Prominent examples of forensic accounting objectives include: assessment of damages caused by an auditor's negligence; fact-finding to see whether embezzlement has taken place (in what amount, and whether criminal proceedings are to be initiated); collection of evidence in criminal proceedings; computation of asset values in a divorce proceeding, etc. The primary orientation of FAs is explanatory analysis (cause and effect) of phenomena – including the discovery of deception (if any), and its effects – introduced into an accounting system domain. The primary methodology employed by FAs is objective verification and they are trained to look beyond the numbers and deal with the business reality of a situation.

Forensic accounting is the specialty practice area of accounting that describes engagements, which result from actual or anticipated disputes or litigation. The FAs usually have to give, as an expert, evidence at the eventual trial in a court of law. The opportunities for the FAs are growing at a rapid speed all around the globe. Collapse of the Enron Corporation and World Trade Center's twin towers have blessed the American FAs with lots of new work opportunities. However, similar is the situation in most of the Asian countries, as well as all developed, developing and emerging nations. Moreover, with the growing number of regulatory and administrative agencies across the globe, the demand for the services of forensic experts will grow very fast.

It is most unfortunate that forensic accounting is, by and large, an unexplored area. Most of the Forensic Chartered Accountants (FCAs) sporadically handle some of the aforesaid forensic cases. Globally, there are very few full-fledged forensic CAs. At present, lawyers, police force, insurance companies, government and regulatory bodies, banks, courts and business community are increasingly utilising the services of FAs in the Asian countries. Because of its newness and intimate relationship to the accountancy profession, this paper attempts to

Fraud is a worldwide phenomenon that affects all continents and all sectors of the economy, which has reduced the credibility of financial information that investors use in decision-making.

discuss the nature and concepts behind the new 'fad' and attempt to link it to the usual procedures and paradigms demanded of auditors. Undoubtedly, the CAs possess the skills to venture into Forensic Accounting and Auditing (FAA) arena, but we must have the 'correct' mindset to venture into the 'emerging' field.

Meaning and Scope of Forensic Accounting

Bologna and Lindquist, for example, have defined forensic accounting as "the application of financial skills, and an investigative mentality to unresolved issues, conducted within the context of rules of evidence. As an emerging discipline, it encompasses financial expertise, fraud knowledge, and a sound knowledge and understanding of business reality and the working of the legal system." Notice that forensic accounting is not only limited to the use of financial investigations that result in legal prosecution; it is broader than fraud examinations. Forensic accounting also includes services related to the purchase of business, valuation of divorce assets, determination of money value of damages to business property, calculation of lost profits, etc. This implies that the FAs should be "skilled not only in financial accounting, but also in internal control systems, the law, other institutional requirements, investigative proficiency, and interpersonal skills."

According to the American Institute of Chartered Public Accountants (AICPA), "Forensic accounting is the application of accounting principles, theories, and discipline to facts or hypotheses at issues in a legal dispute and encompasses every branch of accounting knowledge." They classify forensic accounting into two categories: (a) investigative services that may or may not lead to courtroom testimony; and (b) litigation services that recognise the role of the accountant as an expert, consultant, or other role. The first of these services encompasses those of the fraud examiner/auditor in which those knowledgeable in accounting detect, prevent and control fraud, defalcation, and misrepresentation. The second service represents testimony of a fraud examiner and to resolve valuation issues, such as those experienced in divorce cases. In legal matters, however, FAs are often engaged to assist in investigations of theft and defalcation of corporate/individual assets using their education and experience to discuss the fact, patterns of the theft, or misappropriation. FAs are also frequently called upon to review business accounting systems, and make recommendations as to how the system of internal control and internal check can be improved to prevent theft and fraud.

The FAs do not win or lose cases but seek only the truth in conducting their evaluations, examinations and inquiries; they merely report the "true" result of their findings in an "unbiased" and objective manner. To be effective FAs, you need legal training in addition to education and extensive experience in the fields of finance, accounting, taxes, law and auditing. Since the work of the FAs will be used in a court of law many times, expertise in litigation support and testimony in courts of law are also prerequisites. The knowledge of business "valuation" theory is most helpful because many times FAs are called upon to determine the damages, which have resulted from the criminal or civil wrong-doing.

Activities Performed by Forensic Accountants

The FAs are trained "to look beyond the numbers and deal with the business realities of situations." Thus, analysis, interpretation, summarisation and presentation of complex financial and business-related issues are prominent features of their profession. A FA must also be familiar with the legal concepts and procedures. Public practice, insurance companies, banks, police forces and some government agencies are the major employers of FAs. Activities usually carried out by FAs involve:

- Investigating and analysing financial evidence.
- Developing computerised applications to assist in the analysis and presentation of financial evidence.
- Communicating their findings in the form of reports, exhibits and collections of documents.
- Assisting in legal proceedings, including testifying in courts, as an expert witness and preparing visual aids to support trial evidence.

The FAs have to analyse, interpret, summarise and present complex financial and business-related issues for investigation. FAs also carry on 'investigative'

The FAs do not win or lose cases but seek only the truth in conducting their evaluations, examinations and inquiries; they merely report the "true" result of their findings in an "unbiased" and objective manner.

accounting and provides 'litigation' support. The services of FAs are in great demand in the following areas: (a) detection of fraud committed by employees; (b) criminal investigation; (c) settlement for outgoing partner; (d) cases relating to professional negligence; (e) arbitration service; (f) facilitating settlement of issues regarding motor vehicle accident, insurance claims, dispute settlement, matrimonial dispute cases, etc.

Skills Required by Forensic Accountants

The FAs are expected to be a specialist in accounting and financial systems. Yet, as companies continue to grow in size and complexity, uncovering fraud requires FAs to become proficient in an ever-increasing number of professional skills and competencies. Here are some of the broad areas of useful expertise for the FAs:

- An in-depth knowledge of financial statements and the ability to critically analyse them
- A thorough understanding of various types of fraud schemes
- Competent to design and monitor internal control systems
- Proficiency in computer and knowledge of network systems
- Knowledge of psychology, ethics and human behavior
- Sharp interpersonal and communication skills
- Professional knowledge of governance laws and its policies
- Command of criminal and civil law, legal system, and court procedures.

Personal Skills Required by a Forensic Accountant

In addition to the 'specialised' knowledge about the techniques of finding out the frauds, a FA needs 'tons' of patience and an 'analytical' mindset. He has to look beyond the numbers and grasp the substance of the total situation: basically the work of the 'intelligent' accountant. There is a need for the same 'basic' accounting skills that it takes to become a 'good' auditor plus the ability to pay attention to the 'smallest' detail, analyse data 'thoroughly', think 'creatively', possess 'common' business sense, be proficient with a computer, and have excellent communication skills. A 'sixth-sense' that can be used to reconstruct details of past accounting transactions is also beneficial; a 'photographic' memory helps when trying to visualise and reconstruct these past events. The FAs also needs the ability to maintain his composure when detailing these events on the witness stand. Finally, a FA should be 'insensitive' to personal attacks on his professional credibility. A fraud accountant (as forensic accountant are sometimes called) should also observe and listen carefully and by this, you can improve your ability to detect lies whether they involve fraud or not.

Prospects of FA: Niche Consulting Arena

To help practitioners move into niche consulting, some professional organisations in the US have concluded that "future success for the profession depends, in part, on how the public perceives the ability of CPAs. New efforts in consultation, specialisation and understanding global business practices and strategies are considered crucial. We go out into the niche market, examining our strengths first. We go where the action is, only then we know we can adequately service our clients and make money doing it." The need to specialise, otherwise known as Niche Consulting, is imperative to CAs because of the fast-paced developments in business, thereby demanding specialised knowledge and skills. They need to move into specialised areas, becoming more like management consultants. Very often, you will have to reinvent yourself, from time to time. People want to know more about what is going to happen tomorrow than what happened yesterday; who along with the AICPA, wants to go from a defensive strategy to an offensive strategy and prepare for the future," (chairman, AICPA).

Indeed, there is a future in FA as a separate "niche" consulting area across the globe. Certainly, the growth in anti-fraud services has exploded recently. Similarly, business valuation and forensic

As companies continue to grow in size and complexity, uncovering fraud requires FAs to become proficient in an ever-increasing number of professional skills and competencies.

and litigation services are also the fastest growing niche markets in the accountancy profession. One area where niche consulting is becoming the global trend is in Forensic Accounting and Auditing (FAA). But the challenging question facing the global accountancy profession is: "Are we ready to plunge to where the challenging action is?" The increasing demands in the current regulatory, legal, and business environments should stimulate accounting programs to emphasise forensic accounting. According to Hafeez Ahmed, "The Institute of Forensic Accounting of Pakistan (IFAP) has introduced new dimensions of forensic accounting and conducting forensic audit in Pakistan, which was direly needed for transparency and fraud examination."

Conclusion

The job of FAs is to catch the perpetrators of the estimated $600 billion theft and fraud occurring in the US companies every year. This includes tracing money laundering and identity theft activities, as well as, tax evasions. KPMG, a large global accounting firm believes "the market is sufficiently large to support an independent unit devoted strictly to forensic accounting." All of the larger accounting firms, as well as, many medium-sized and boutique firms have recently created separate "forensic accounting and auditing" departments. Moreover, forensic accounting is also listed among the top-20 careers of the future.

Taking the steps to become a Certified Forensic Accountant (CFA) on your part "will position you as a leader in the anti-fraud community and a specialist in the prevention and detection of fraud." The fraud examination course is now offered to over 400 universities in US alone and is taught as a major course in many educational institutions in various countries. Some of the accounting firms in Pakistan have increased their focus on forensic accounting but still much more is needed to be done in the coming years. May I take the opportunity to recommend to the Council of the Institute of Chartered Accountants of Pakistan (ICAP), and prominent universities in Pakistan "to consider incorporating forensic accounting and auditing in their professional courses curriculum, as well as, organise national level seminars, disseminate the real-life corporate experiences and nuances of the new area."

Recently, Bruce Dubinsky, director of forensic accounting and dispute analysis emphasised that: "Although forensic accounting is currently on the "hot" list of client services, there are plenty of accountants getting involved who should not be because they do not understand the ins and outs of the niche... Many accountants think it is simply fraud investigation, and it is not. It is really much more than dealing with the numbers. It is no longer just basic fraud work." Thus, a broad-based knowledge is very crucial to the success of entry-level FAs. Due to heightened awareness and growing intolerance of fraudulent activity, demand for the FAs is increasing very rapidly. Thus, there is plenty of future in forensic accounting as a separate "niche" consulting. By-and-large, the CAs possess the skills to venture into forensic accounting and auditing arena, but we must have the correct mindset and courage to venture into this new emerging field.

While FAA practice had commenced in the US as early as 1995, the seed of this specialisation has yet to take off in majority of the developing Asian countries. On account of global competition, the accounting profession must convince the market-place that it has the "best-equipped" professionals to perform such services. While majority of CAs have "excellent analytical skills, they still need to acknowledge that forensic services requires 'specialised' training, as well as, real-life practical corporate experience." Thus, it is of utmost importance to plan and conduct an honest self-assessment of your knowledge, skills and abilities. Moreover, it is also vital that CAs must identify and plan for the 'specialised' training needs in advance, acquire the necessary training, and practice to develop proficiencies in the forensic accounting. Indeed, you as a true professional have to reinvent yourself from time to time. Finally, we recommend to all the CAs "to consider forensic accounting and auditing as their niche consulting area of specialisation."

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Role of a CFO in Today's Organisation

by Adnan Haroon

Over the past few years, there have been many articles, seminars and discussions on the evolution of finance. Local and international organisations recognise finance as a vital function for decision making in any organisation. The responsibility for formulation of business strategy typically rests with the broader executive team; however, CFOs do play their role as key members of the board.

CFOs act as the perfect partner to the CEO. On the one hand, they must support them in bringing strategic decision, whilst also demonstrating great finance leadership and controllership. They need to keep an eye on their traditional gatekeeper responsibilities, acting as a voice of caution in the face of poor investment strategies and business decisions that are short term and can be detrimental to the shareholder value in the long run. CFO is the only person in the organisation who is in a position to see all the connections and the bigger picture across the company. In addition, there are expected to work in collaboration with other stakeholders, 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 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. CFOs play a role in lobbying on behalf of the business, putting in place business processes and protocols that negate the need for more regulations, and influence relevant policy developments. They also need to ensure that the finance function has the expertise to resolve regulatory challenges.

Good CFOs need to be great at managing external relationships that matter to the business. Although they already fill this role with investors, they need to have a broader circle of business relationships, from their traditional partners - the banks, tax authorities, regulators, external auditors - to customers, suppliers, supply chain partners and so on.

The challenge faced by CFOs today is having access to the right talent. The changing role of a CFO makes it tough to hire the right people that can take on the position in future. CFOs are expected to add value well beyond the traditional roles of cost management controls. Hence, it is important for CFOs to have a hands-on role in developing future finance leaders and be involved in mentoring or coaching these individuals in order to develop the skills necessary to master the role.

Since the inception of capitalism, there is one rule — "If you want to become rich, you would have to take risk. People then started the quest to find the mathematical formula that could manage risk and become wealthy without taking risk. If it worked, it could bring order in volatile financial world and challenge the role of one group of people called traders, who believe that experience, judgment and intuition are the qualities that could never be reduced to concrete mathematical formula. Some argued that success in financial markets is a matter of luck.

During 1930s mathematicians tried to find whether or not traders could predict the stock price movements, but all in vain. Then they picked up the share prices of different listed companies on New York Stock Exchange at random. This random choice outperformed the prediction of seasoned traders. This was revelation and meant that stock prices moved at random. This discovery galvanised the mathematicians. They knew that random phenomenon had already been successfully applied in different fields of studies. Then they seriously began the quest to tame the financial markets' randomness and used the power of mathematics to conquer the risk.

In 1955, Paul Samuelson, Nobel Prize winner in economics during 1970 discovered that someone had already found the mathematical formula which could be used as hedge against risk. He rediscovered Bachelier's[1] ideas and proposed geometric Brownian motion as a model for stock prices. In an interview he stated:

"I was able to locate by chance an unknown book in French, written by a Ph. D student named Louis Bachelier, rotting in the library of the University of Paris, and when I opened it up, it was as if a whole new world was laid out before me."

Option: Way to Reduce

In 1900, Louis Bachelier found a magical financial contract called Option, a wonderful way to reduce risk. He believed that if someone could find the formula for valuation of option, he could tame the stock market.

by Siddique Awan

Dynamic hedging means the ability to eliminate uncertainty of movements in stocks.

In 1900, Louis Bachelier found a magical financial contract called Option, a wonderful way to reduce risk. He believed that if someone could find the formula for valuation of option, he could tame the stock market. Unfortunately, he died before he could find it. On the basis of discovery of work of Bacheleir by Paul Samuelson, academics again entered in the world of financial markets with new enthusiasm. They began to investigate this strange contract. They reached to the conclusion that options were a complete hedge against risk, but still, they were far away to find option valuation formula.

Option gives the buyer the right, but not the obligation, to buy or sell stock at a set price on or before a given date. Investors who purchase call options bet that the stock will be worth more than the price set by the option (the strike price), plus the price they paid for the option itself. Buyers of put options bet the stock's price will go down below the price set by the option.

During 1960s most of the work on valuation of options was expressed in terms of investor expectations. Researchers added symbols in mathematical models to define the satisfaction level of investors, reasonableness, aggressiveness, guesses, safety, etc. For example, Sprenkle (1961), Ayres (1963), Bones (1964), Samuelsson (1965), Baumol, Malekeil, Quandt (1966) and Chen (1970), all produced valuation formulae of general form. Their formulae were incomplete since they all involved one or more arbitrary parameters.

But all this was later revised. In 1968, Fischer Black and Myron Scholes set the platform to solve the problem of valuation of options called **European call options.** They knew that stock prices fluctuate continuously and so does the prices of options. They wanted to find option price formula that could provide value of option at any moment of time by just knowing the current price of stock. But they could not see the way through the existing literature on this topic. They decided to approach this problem differently. One by one, they dropped any symbol that was immeasurable and loss of these symbols did not affect calculation at all. All of the unnecessary symbols were eliminated from previous models. Now, for the first time, Black and Scholes were left with the elements which were bed rock for option pricing. According to them, the stock price, its volatility, duration of the contract, the interest rate and the level of risk were the final components of mathematical model for option pricing. They could measure all components of this wonderful model of option pricing except the level of risk.

Now, that was the final hurdle for them to implement the option pricing model. They decided to use the old idea of hedging in which gamblers hedged their bets by betting in opposite directions. By doing so, they locked themselves in profit zone or more accurately small amount of loss.

The method they devised for risk measurement was the most significant discovery in economics in the 20th century. They created a theoretical portfolio of stocks and options, and used dynamic hedging technique to balance out risk movements. According to Black and Scholes, dynamic hedging means the ability to eliminate uncertainty of movements in stocks. In this way, they were able to remove the last immeasurable element, the level of risk. Finally, they had a mathematical formula which could give price of any option without risk. That was a marvelous achievement.

But there was a practical problem with this formula. It could not take into account instant movements in stocks. There was a need to eliminate risk continuously. Unnoticed to Black and Scholes, Robert Merton, a third team member who shared the Noble prize with them, had found the way. He followed the Itô calculus which was used in finding the exact position of missile second by second at all times. Using the notion of continuous time, the value of option could be continuously recalculated and risk eliminated.

The formula for valuation of options, unleashed in 1973 by Black Scholes and Merton, was a result of more than fifty years of quest to conquer the risk. Finally, **Option** could be used to reduce the impact of risk.

[1] French mathematician Louis Jean Baptiste Alphonse Bachelier

Tonight with Mr. Tax

by Muzammil Ahmed

Majid: Hello, everyone! This is your host Majid Ahmed.

Waris: And I am Waris Shah.

Majid: Today we are going to interview the not-so-favourite with most of us, But since people have loads of queries about this personality, we decided to invite him for an interview. Welcome, with a big round of applause, Mr. Tax. Hello, Mr. Tax! How are you?

Tax: Well, I cannot say that I am fine as you know that my current position in Pakistan is not good enough. But I hope I shall be good soon.

Waris: From how long have you been in this country, sir? What is your birthday?

Tax: Honestly speaking, Waris, I myself don't remember my origin in Pakistan, but I would say that my existence in this subcontinent is for many centuries. Before partition, the British government used to collect me, now the Pakistani government does. And as related to my birthday, it is celebrated every year. I should say every tax year, i.e. from every July to June. But for some, on their request, their tax years are changed accordingly.

Majid: Usually people don't have a clear idea about you. Will you please tell our audience about yourself?

Tax: Well, I am well-known for my two major forms, i.e. **Direct Tax** and **Indirect Tax**. Direct tax is a kind of tax in which the burden of payment is directly on the payee and cannot be transferred, an example is **Income Tax**; however, on the other hand, the burden is transferred to the general public in case of indirect tax. **Sales Tax** is the best example of indirect tax as the burden to pay tax is borne by the person making the expenditure for any goods or services. That's why it is also called **Tax on Expenditure**.

Waris: I didn't understand, Sir. How can the burden be transferred to someone else, once it is paid?

Tax: It is included in the price of the goods and services bought by people. Have you ever noticed how much of your paid amount for any good is going to the government as sales tax? You haven't, for sure. People usually don't notice but they have been paying some money to the shopkeeper as sales tax. The producers collect sales tax from shop (assuming shopkeepers are the only intermediary between the producer and

the general public) and deposit the collection to the government. The shopkeepers collect sales tax from general public and deposit the amount (net of sales tax deducted by producers) to the government. In this way, the collectability of sales tax becomes easy for the government. You can say that these producers/ shopkeepers act as an agent between the government and the general public.

Waris: So what about income tax? How is it collected then?

Tax: Through tax returns! Under Income Tax Ordinance, 2001, the people who are capable of paying tax are required to submit tax return every year, in which, they, declare their respective income and their tax liability on the declared income which shall be computed as per the said ordinance.

Majid: How is the tax liability determined? Our audience wants to know that.

Tax: Income Tax Ordinance has divided one's income under five heads namely salary, income from property, income from business, capital gains and income from other sources. Rules for determining income under each head is obviously different and will require plenty of time, so we will discuss it someday later. But I would say that these heads cover a wide area of income and one cannot deny paying tax by saying that his income doesn't fall under any of these heads.

Waris: It means there are no agents for income tax, right?

Tax: I didn't say that. There are agents but unlike sales tax, they have different methods to collect tax. In the Income Tax Ordinance, there is a term used as **Withholding Tax** and the agents collecting the said tax are named as **Withholding Tax Agents**. Let me explain it through an example. When Mr. A has to pay any amount to Mr. B against any goods or services, Mr. A will not pay the total amount but withhold a certain defined percentage from that payment and deposit that with the tax department with a **Withholding Tax Statement,** describing the details of transaction with Mr. B and the amount withheld. At the end of tax year, when Mr. B will compute his tax liability, he will deduct the above withheld amount from his liability in his tax return and will pay the net amount.

Majid: What is the benefit of withholding the said amount of tax?

Tax: Well, Majid, it is a very good question. I would highlight two major benefits. The first benefit is that the government gets security about the transactions being held under this country because the tax payer cannot hide or misguide about any transaction made by him as the withholding agent would submit the details of transaction with the taxpayer and the amount of tax deposited. In this way, all the transactions can be cross-checked and this will lead to a documented economy. Secondly, the working capital of the tax payer is not hit by a single payment of cash at the end of tax year. Gradually deducted tax from his receipts from others throughout the year will not burden the tax payer while filing his return.

Majid: What would you say about both types of taxes, Sir?

Tax: I would just say that the burden of tax should only be on those who can bear it and not on everybody, because equality in the distribution of income in the society assures a healthy and a prospering society. Now, will both of you just excuse me as I have to go?

Waris: Sure, and thank you very much for joining us and letting us know about you. Thank you, once again.

Tax: You're welcome, dear.

Majid: Today's discussion was quite different Waris. Hope our audience enjoyed it.

Waris: Yeah, me too. Dear audience, that's all for today. We'll meet soon with some new celebrities. Till then, goodbye!

How Good Governance Can Resolve Bad Behaviour

by Vincent Tophoff

In most organisations there are people that you *want* to work with and people that you have to work with. Of course, there can be many reasons for not wanting to work with someone – for example, personalities that don't mesh – but, frequently, people find it difficult to work with colleagues who display bad behaviour, such as bullying, currying favour, following personal agendas, criticising or accusing people, badmouthing, yelling, claiming credit, displaying great disinterest in others' activities, double-crossing, harassing, etc. Truly a very long list!

Bad behaviour that goes unchecked seriously affects peoples' efficiency and effectiveness and, through that, their organisation's performance. It is, therefore, essential that everyone in the organisation, and management in particular, needs to identify and address bad behaviour in a timely manner.

The flip side of this is that people who enjoy working together typically perform better and, thus, create sustainable value for their organisation. Good governance transforms bad behaviour into a positive spiral and professional accountants in business can support their organisations in this respect.

In an interview with IFAC, South African Governance icon Mervyn King said: "You all have heard of 'the tone at the top.' I talk about 'the tone at the top, the tune in the middle, and the beat of the feet at the bottom.' The board and top management have to make sure that the whole company has bought into the strategy and is facing in the same direction. I know from my executive days that if you get your strategy right and you get buy-in, you get ordinary people to achieve the most extraordinary things! But if you don't get it right and it doesn't fit in with the milieu of the day, you can have the most extraordinary people, but you won't even achieve ordinary things."

So, the tone at the top, the tune in the middle, and the beat of the feet at the bottom need to be in sync with each other, and any dissonant voices need to be corrected. This is especially true today as a growing body of research shows that bad behaviour ruins much more than good behaviour can heal.

But knowing this doesn't solve the question of what to do about it. A good place to start is usually individual communication – getting people to communicate with the person concerned, as he or she might not be aware how his or her behaviour comes across or affects the working relationship. This gives the offender the opportunity to improve, and perhaps a method to do so. This also gives the person objecting to the behaviour a stronger position down the road if they have tried to resolve the issue themselves as a first step. Many people might not realise it, but being able to reasonably speak your mind and address these kinds of issues is also a sign of good governance in an organisation.

If this individual, personal approach does not improve the situation, or makes it worse, it becomes time to

Bad behaviour that goes unchecked seriously affects peoples' efficiency and effectiveness and, through that, their organisation's performance.

consult others. People that come to mind first are the direct supervisor of the person or persons that persist in their bad behaviour. Other options include the human resources department or specially designated counsellors. The challenge is that many people perceive such steps as detrimental to their own position or career and instead suffer in silence, underperform or, worse, deliberately frustrate the achievement of the organisation's objectives, or resign. So, bad behaviour does not always come to the surface easily or readily.

For that reason, everyone in an organisation, especially management at all levels, need to be aware of signs of bad behaviour, even ambiguous ones, and act on them. Some gifted managers have almost a sixth sense for identifying these issues but most don't. Managers often interpret a lack of complaints or issues as a sign that everything is fine. They also need to be aware that the behaviour they see and experience may not be the same as what lower-level staff members see and experience, which can make things worse. What is more of a motivation killer in an organisation than seeing bad behaviour rewarded?

So, as managers cannot trust what they see and hear themselves, they should establish and enforce top-down, formal governance mechanisms that are capable of timely detection of bad behaviour and, subsequently, take action to resolve any surfacing issues. Examples of suitable detection mechanisms include open discussion, periodic staff surveys, 360 degree reviews, designated counsellors, whistleblower policies, and exit interviews. Possible corrective measures include communication and consultation, setting good examples and ensuring they are followed, and having the difficult conversations with those involved and, in some cases, removing them from the functions or duties, or even the organisation if necessary.

Once people see that issues are addressed, the organisation will find itself in a positive spiral where people are less reluctant to come forward. This, in turn, enables the organisation to better resolve any remaining issues and create an atmosphere in which people truly *want* to work together and, doing so, achieve extraordinary results.

Professional accountants in business are typically in a position of cross-functional leadership to plan, implement, monitor, evaluate, and improve the governance arrangements in their organisation. Therefore, they should also be aware of the importance of these "soft" or cultural governance issues and ensure that they are appropriately addressed as well.

In recent years, the IFAC Professional Accountants in Business Committee has developed a number of resources that support professional accountants in these processes. **Evaluating and Improving Governance in Organisations,** part of the International Good Practice Guidance (IGPG) series, for example, provides a framework and principles-based guidance for professional accountants in business and their organisations. Recognising that varied organisations and cultures take different approaches to governance, the guidance is based on the premise that certain factors and behaviors can lead to better outcomes and increased stakeholder value across all entities.

Defining and Developing an Effective Code of Conduct for Organisations, which is designed to assist professional accountants and their organisations in the development and implementation of a code of conduct in a values-based culture is also helpful and relevant for these issues.

Through support for their organisations in these delicate matters, professional accountants in business can greatly contribute to the creation and preservation of value in their organisation! How do you contribute to resolving bad behaviour in your organisation?

Courtesy: International Federation of Accountants (IFAC) Global Knowledge Gateway (GKG).

Vincent Tophoff is senior technical manager with the Professional Accountants in Business (PAIB) Committee of IFAC.

The Right Approach towards ICAP Exams

by Hamza Bilal

Being a member of The Institute of Chartered Accountants of Pakistan (ICAP), I understand the emotions and challenges one faces while preparing and trying to pass ICAP exams. But post qualification self-confidence, respect from others and career progression are worth the pre-qualification emotions and challenges. Positive approach and energy is the key towards success and the differentiating point between being successful or unsuccessful.

My article is aimed towards motivating students and shifting the plan of action from defensive and negative approach towards the **Right Approach (positivity).** Your emotions send energy towards external environment which in turn affects your performance and the target that you achieve. Hence negative approach and thoughts are going to impair your performance in the exams while, a positive thought and approach will improve your performance. While there are students who fail to pass, there are those who score distinctions in the same exam. A positive approach is what differentiates failures from those who are successful.

Being a student, you need to take a couple of steps that will guide you towards the right path and assist you to manage the **fear** of exams which can affect you negatively.

You need to be very clear that nothing is impossible. In fact, the word impossible itself says that I am possible.

While preparing for exams, you should set higher targets for yourself.

Before starting to prepare for your exams, you are going to need a mentor and a guide.

The steps that will take you towards **the Right Approach** are listed below:

- **Nothing is impossible:** You need to be very clear that nothing is impossible. In fact, the word impossible itself says that I am possible. Surround yourself with positive people, discuss your concerns with those who have succeeded in their exams, and read the success stories of those students who scored distinctions. This activity will create positive energy in you and will guide you towards designing the right approach to attempt your exams.

- **Setting higher targets:** While preparing for exams, you should set higher targets for yourself. This will motivate you to work harder and hence will increase chances of you succeeding your exams. So as a starting point, you should always aim to perform better than your class mates and your friends, and aim at scoring distinction in the exams you are preparing for.

- **Selection of the right mentor:** Before starting to prepare for your exams, you are going to need a mentor and a guide. The selection of the right mentor is going to matter a lot in the end. That mentor can be a senior who has passed the relevant exam, your teacher, your parents or your elder siblings if they are also in the same field. While selecting your mentor, the key to remember is that your mentor should be one who motivates you or creates self-confidence and self-belief in you.

- **Selection of the study material:** You need to be focused while selecting the study material. ICAP syllabus indicates recommended resources, so you should always focus on the study material recommended by ICAP, as only the right and relevant study material is going to help you achieve your objective. Going through irrelevant details is going to be waste time and is not likely to be much helpful in achieving your ultimate objective. You should be fully aware of what is included in the syllabus and to what extent.

  My style was to go through the syllabus of ICAP thoroughly and discuss with my instructors about relevant and useful study material. I also used to discuss with students who had recently passed their exams and followed their suggestions about the selection of study material.

- **Plan your success:** Planning has a fundamental part in directing the efforts towards success. You should manage your time and plan how to tackle the final exams. There are certain areas in a subject that are more relevant and more important and have more weightage in the final exams. Others are less important and have less weightage. Hence a structured effort should spend more time on areas with more weightage as compared to less important areas.

  Students should discuss with their mentors about the weightage and structure of exams. This activity will enable them to plan about their exams and carry out controlled efforts towards enabling them to be successful. I used to prepare a timetable and updated it on a frequent basis after attempting past papers as that enabled me to understand the subject more deeply and carry out a structured effort towards exams. You should never rely on guess work and always cover full content of the syllabus.

- **Time management:** Time management is of fundamental importance in carrying out a structured effort. A six month gap between exams is good time if well spent. Students should manage their time between family, friends, professional commitments, classes and studying for exams. This is very important as while appearing for final exams, students are also engaged in either articles or post article jobs and hence it is very difficult for them to manage their time and at the end, they may not be able to carry out structured and required efforts towards exams. I used to give at least one or two hours on daily basis to my exam preparation while I was engaged in articleship and post article job.

You need to be focused while selecting the study material.

Time management is of fundamental importance in carrying out a structured effort.

Students should practice past papers before attempting the actual exam.

- **Practice, practice and practice:** I always recommend students to practice ICAP past papers before attempting the actual exam. Students should carry out time based written practice of past papers and then compare their answers with the answers of the examiner and then go through the examiners' comments. This activity will induce self-evaluation and enable students to identify weak areas that need improvement. I used to practice past papers of past 10 attempts at least three to four times before my exams.

- **Attempt mock exams:** Students should try to give mock exams held by various teachers and then discuss their performance with instructors, as this will enable them to work on their weaker areas before the actual exams. I always tried to give as many mock exams as possible and discuss my answers with my instructor as that enabled me to identify areas on which I had to put in more effort.

- **Manage exam stress and negative feelings that surround you ahead of exams:** Almost everyone feels nervous or experiences some anxiety when faced with a test or an exam. In fact, it is unusual to find a student who doesn't approach a big test without a degree of anxiety. Many students experience some nervousness or apprehension before, during, or even after an exam. It is perfectly natural to feel some anxiety when preparing for and taking a test.

Too much anxiety about a test is commonly referred to as test anxiety. Test anxiety is very common among students. It can interfere with your studies, and you may have difficulty learning and remembering what you need to know for the test. Further, too much anxiety may block your performance, and you may face difficulty demonstrating what you know during the test.

Here are a few tips for students that will enable them to manage exam stress:

Step 1: Pay attention to your self-talk

Thoughts are what we say to ourselves without speaking out loud (self-talk). We all have our own way of thinking about things, and how we think has a big effect on how we feel. When we think that something bad will happen – such as failing a test – we feel anxious. For example, imagine you have a math test in class. If you think you are going to fail, you will feel scared and anxious. But, if you think you can pass, you will feel calm.

Often, we are unaware of our thoughts, but because they have such a big impact on how we feel, it is important to start paying attention to what we are saying to ourselves.

Step 2: Identify thoughts that lead to feelings of anxiety

It can take some time and practice to identify the specific thoughts that make you anxious, so here are some tips. Pay attention to your shifts in anxiety, no matter how small. When you notice yourself getting more anxious, that is the time to ask yourself:

- What am I thinking right now?
- What is making me feel anxious?
- What am I worried will happen?
- What bad thing do I expect to happen?

Step 3: Challenge your anxious thinking

Thinking something doesn't mean it's true or that it will happen. For example, thinking that you will fail a test doesn't mean you will actually fail. Often, our thoughts are just guesses and not actual facts. Therefore, it is helpful to challenge your anxious thoughts because they can make you feel like something bad will definitely happen, even when it is highly unlikely. Sometimes, our anxiety is the result of falling into thinking traps. Thinking traps are unfair or overly negative ways of seeing things. You should challenge the negative thoughts that come to your mind and cope them with positive thoughts and self-belief. A mentor can be of help in some matters.

Here's an example to help you challenging your negative thinking:

You have an important test tomorrow and have been feeling quite anxious about it. You may think: **I'm going to fail the test tomorrow.** To challenge this thought, you can ask yourself the following questions:

Almost everyone feels nervous or experiences some anxiety when faced with a test or an exam.

Thinking something doesn't mean it's true or that it will happen. For example, thinking that you will fail a test doesn't mean you will actually fail.

Offer your prayers five times a day and seek help and blessing of Allah as that is important in all phases of life.

- Am I falling into a thinking trap? Yes, I have fallen into the trap of fortune-telling, predicting things will turn out badly before the event even takes place. But I still think I'm going to fail.

- Am I basing my judgment on the way I 'feel' instead of the 'facts'? I might feel like I'm going to fail, but there is no evidence to support it. I'm prepared for the test, and I have passed other tests at school before.

- Am I 100% sure that I will fail? No, but what if I do this time? Well, what's the worst that could happen? If the worst did happen, what could I do to cope with it? The worst that could happen is that I fail the test. It'll be disappointing, but it won't be the end of the world. I can go for extra help to find out what went wrong, and ask my teacher if there is anything I can do to improve my mark.

Hence, being alert and anxious to some extent is good because it is required to be alert and perform well but at the same time, it is important that you do not let negative feelings, thoughts, fear of exams and your anxiety overcome you as that will affect your performance negatively.

- **Prayers:** Well, to be successful in all phases of life you need luck and a lot of prayers. So, request your parents, teachers, family and friends to pray for your success.

  Offer your prayers five times a day and seek help and blessing of Allah as that is important in all phases of life.

- **Always attempt full paper:** Time management during three hours exam is of significant importance. Chances of scoring pass marks from attempting 100% of the paper are more than that from attempting 60% or 70% of the total questions.

- **Writing does matters:** If your examiner is not able to read what you have written you are unlikely to score any marks. My advice to students is to try and attempt the paper in neat and readable writing. For numerical questions students are advised to always show workings as the examiner is keen to see how you arrived at a solution. For theoritical questions, the examiner is keen to know the thought process behind your conclusion. Students should answer theoretical answers in small paragaraphs and for questions carrying more than 8 marks, the answer should contain the introduction, subject matter and conclusion paragaraphs.

  Relax after exams: Once you have made all the efforts and done your best, you need to relax. Give yourself a break and start planning and preparing for the next stage of your exams. As a student, try to forget about your previous attempt and always plan for the future.

  Students tend to discuss answers with each other, but that only puts them under pressure and affects their performance in the exam the next day. So try to forget your previous exam as you have done what you could have, and now it is time to plan for the future.

- **Never lose hope:** As a student you should do what is in your hands and leave the rest on Allah. Continue to work hard and one day you will succeed. Hard work always pays off.

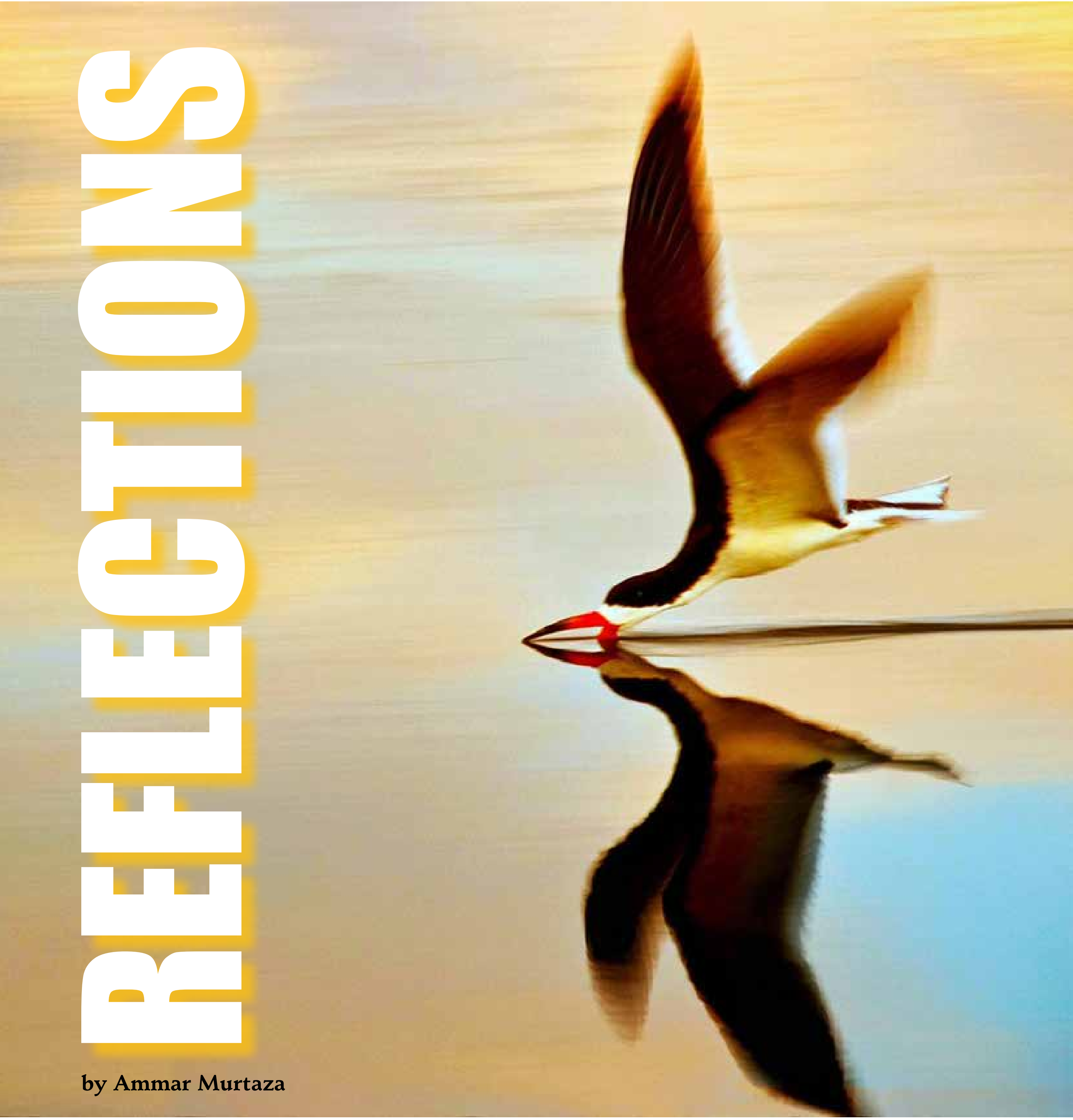
  If unfortunately you fail in any attempt, read ICAP's suggested solution and examiners comments. This will enable you to identify your mistakes that caused your failure.

  Every time I failed, I read examiners answer and comments and the answer was always there for me to why I failed. Try, try and try and I guarantee you success provided you remain motivated and consistent.

Conclusion

In the end, I wish you best of luck for your exams. Remember, nothing is impossible and hard work always pays back. One day you can and you will become a qualified and respected chartered accountant. Thumbs up!

REFLECTIONS



by Ammar Murtaza

Entitlement does not always determine your Worthiness. Your destiny will be reflection of yourself beliefs; soon you will become what you believe about yourself. Whether we tend to learn from failures or brush them aside, the response is rooted in repairing our self-esteem. Failure is never fun, but our Creator requires that we learn to fight through our frustration and find the upside of errors, He wants you to be restored to Him and get back into the game.

“Nobody cleared a path for themselves by giving up” – Alacia Bessette

Hard work: a state or persistence

The story we tell ourselves and the stories we tell our children matter far more than we imagine. There's a huge difference between: "You got an A because you're smart," vs "You got an A because you studied hard." Or: "I succeeded in getting what I wanted because I'm pretty," vs "I succeeded in getting what I wanted because I worked hard to be in sync with the people I'm working with (charisma)".

Don't forget the way we process luck, good and bad, as well as bias and persistence. Smart, pretty and lucky are relatively fixed states, mostly out of our control, and they let us off the hook; no longer responsible for our successes and certainly out of control for our failures. On the other hand, hard work and persistence are ideas we can expand and invest in productively.

Keep moving

Life events (some that we are not proud of) happen all the time. We are human and we make mistakes. The single worst thing we can do is to sit around and dwell on it, wondering why me or what if. I have not had any one single event happen in my life where I sat back and thought my world had been turned upside down. So what, I got in a little car accident. Sure, I’m mad at myself for it and even madder at the situation that followed. However, there are people out there with much bigger issues to face.

“What’s the point of pointing the finger, other than to stall your own progress in moving on?” – Lisa Steadman

Although I am not speaking from personal experience, when these big issues come around we have to decide what to do. We can dwell on it, but that won’t get us anywhere. We can focus on what went wrong, but that will only prohibit us from moving on. Or we can take what we’ve learned and focus on the future. You never hear about the person who went through something terrible and spent his whole life in regret. The strongest and most incredible people I know have had some sort of life-altering event happen to them and overcame it. I never wish anything bad upon myself or others, but I hope that if that time approaches any of us, we can look our problems right in the eye and make the choice to move on.

Every leader fails. Every leader becomes discouraged at some time. Every leader becomes disappointed and wants to run away or quit. Often other people look at a leader's failure and think, "They've blown it," or "They are disqualified from leading ever again." But that's not how God thinks.

Leaders: giants or humans?

Imagine you could spend a day being mentored by some of the giants of the faith, the men and women of the Old Testament who fought and won great battles, served kings, endured great hardship for God, and came out on the other side transformed. What if they could sit down in a chair across from you, and you had the privilege of spending a few precious minutes with each of them? What would that be like?

It's very easy for us to read the Quran and believe that the great leaders whose stories we read were somehow beyond life's normal trials, temptations, and failures. We want to see these giants of the faith as superhuman, but they were not. Their gifts were greater than they were. And they were asked to do things beyond their own capacity. They were in many ways ordinary men and women, but they served an extraordinary God!

As obvious as it may sound, leaders must remember that they make a positive difference when they lead. As leaders, we can get caught up in many things that aren't the main thing. Elias was at his best when he was leading on Mount Carmel. Good leaders remain focused on what God has called them to do.

Every leader fails. Every leader becomes discouraged at some time. Every leader becomes disappointed and wants to run away or quit. Often other people look at a leader's failure and think, "They've blown it," or "They are disqualified from leading ever again." But that's not how God thinks. When these things happen, what is God's desire for these leaders? He wants them to be restored to Him and to get back into the game. After God connected with Elias and restored their relationship, He told Elias to go back the way he came, because He still had things for him to do. We should continue to serve God in whatever way He asks. We're not finished until He says so!

Success depends on what you do everyday

How would you describe your life? Are you achieving what you desire? Are you accomplishing the things that are important to you? Do you consider yourself a success? How do your prospects look for the future?

The secret of your success is determined by your daily agenda. If you make a few key decisions and then manage them well in your daily agenda, you will succeed. You will never change your life until you change something you do daily. You see, success, doesn't just occur suddenly one day in someone's life. For that matter, neither does failure. Each is a process. Every day of your life is merely preparation for the next. What you become is the result of what you do today. In other words, you are preparing for something.

The question is, What are you preparing for? Are you grooming yourself for success or failure? As my father used to tell me when I was growing up, "You can pay now, and play later, or you can play now and pay later. But either way, you are going to pay." The idea was that you can play and take it easy and do what you want today, but if you do, your life will be harder later. However, if you work hard now, on the front end, then you will reap rewards in the future.

Think about it: What are you preparing for today? Success or failure? Does your daily agenda indicate that you make a habit of paying before you play? Answering these questions is a good predictor of what you will become tomorrow and in the future.

Take the leap

As soon as you realise that you probably will be able to identify the answer by the time you're asked, BUZZ! Yes, You need to press the buzzer before you know the answer. Between the time you buzz and the time you're supposed to speak, the answer will come to you. And if it doesn't, the penalty for being wrong is smaller compared to the opportunity to get it right.

This feels wrong in so many ways. It feels reckless, careless and selfish. Of course, we're supposed to wait until we're sure before we buzz. But the waiting leads to a pattern of not buzzing. No musician is sure his/her album is going to be a hit. No entrepreneur is certain that every hire is going to be a good one. No parent can know that every decision they make is going to be correct. What separates this approach from mere recklessness is the experience

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of discovering (in the right situation) that

- buzzing makes your work better;
- buzzing helps you dig deeper; and
- buzzing inspires you.

The habit is simple: buzz first, buzz when you're confident that you've got a shot. Buzz, buzz, buzz. If it gets out of hand, well, you'll know. The act of buzzing leads to leaping, and leaping leads to great work. Not the other way around.

When a ball has to drop, make sure it's the right one!

Have you ever felt like you spend your life juggling? Family, work, friendships, health, and simple daily commitments all demand our attention. It seems that the only way to satisfy all the demands is to frantically juggle them, hoping that nothing important gets dropped. But how do you determine what's important? How do you prioritise?

Imagine life as a game in which you are juggling five balls in the air. You name them – work, family, health, friends and spirit – and you're keeping all of these in the air. You will soon understand that work is a rubber ball. If you drop it, it will bounce back. [Brian Dyson, CEO Coca-Cola]

But the other four balls – family, health, friends and spirit – are made of glass. If you drop one of these, they will be irrevocably scuffed, marked, nicked, damaged, or even shattered. They will never be the same.

A glass ball is not only more fragile than a rubber ball; it's also more valuable. Family, health, friends and spirit are much more valuable than work. It's important to give them higher priority so that they don't get damaged or destroyed. No one goes to his grave wishing that he had worked more.

Keep your priorities straight. Taking care of your family, your health, your relationships and your spirit is not a selfish act. It's a sustaining one.

Who earns more money

When you consider the factors that hold people back from wealth, you might think about a lack of motivation or business savvy. But new research suggests there's another reason why some people earn less money than others – they're too cynical.

The study was led by researchers at the Institute of Sociology and Social Psychology, University of Cologne, Germany. They looked at survey data from thousands of people in the US and Germany and found that cynics tend to earn less than their more optimistic counterparts.

For example, among German participants, the least cynical people saw their monthly income increase by about 230 euros (or around $250) between 2003 and 2012. Meanwhile, the most cynical people didn't see any significant increase in their monthly income.

Cynicism was assessed at the start of the nine-year period and was measured by answers to questions such as, "Do you believe that most people would exploit you if they had the opportunity?"

The researchers suggest that cynical people are less willing to rely on others, to collaborate, and to ask for help when they need it because they assume malevolent motives behind people's behaviour. That resistance may serve to undermine their chances of financial success, given that most of us work in social settings.

There is, however, one caveat: The link between cynicism and income is strongest in countries with high rates of helpful behavior and low levels of antisocial behavior (like crime). In other words, cynics are only at an economic disadvantage when they live in countries where their beliefs aren't justified.

So how can you go about adopting a more optimistic outlook without losing your sense of realism? Start by acknowledging one person or experience to be thankful for every day. You can also try thinking about yourself as in control of your life instead of the victim of external forces. Chances are, you'll not only improve your financial life – you'll be healthier overall.

About the author: The writer is based in Iraq and works for a cement factory, which is a member of LafargeHolcim Group. He is an associate member of ICAP, also a management lecturer at LafargeHolcim Academy (previously Lafarge University).

Alice's first day of spring in summer and winter

by Altaf Noor Ali

Almost 30 years after I did my first physical observation of stock, I now realise how fundamental it is for an audit trainee to learn what are known as a part of year end "cut-off" procedures.

The auditor's first day of spring in summer is when he/she goes out to a client for a physical observation of inventory. This statement was meant to be a jolly statement the trainee auditors wished each other on June 30; more tolerable is the auditors first day of spring in winter on December 31 every year – when entities close their accounts annually. Almost 30 years after I did my first physical observation of stock, I now realise how fundamental it is for an audit trainee to learn what are known as a part of year end "cut-off" procedures. When I was assigned to my first client, I was forewarned that this is not going to be a pleasant experience. It involved standing in the shed and observing the inventory count of many metric tons of steel bars. Normally, in the summer, the trainee auditors start finding that their legs stop working once they move in an air-conditioned office. So, what motivates a trainee auditor to spend the full day in full blazing sun?

It's the joy of learning; discovering; being where you would hardly be otherwise. To see, to learn something new, something different, something much better. Being the junior most member of the team, I was assigned to carry the previous and current year stock file to the factory. That gave me some discreet time to review the previous years' file thoroughly, which was not much anyway. What I found interesting was a standard audit program and by the time I was through with it, I remembered every line by heart.

Next day, when we started, I was given inventory sheets and assigned to observe a section where inventory count was in progress. The sun boiled and my head rolled. I didn't understanding much that was going on. Labourers carrying bars to the weighing bridge and back, shouting constantly to motivate each other. But I kept on standing with the company official and we were marking the sheet simultaneously. This went on till late after lunch.

Next day, when the team assembled, it exchanged notes on how well it all went. That was real education – sharing of a mission and experience. Sometime later, when I was assigned to the same client to do the inventory and expenses, again as the most junior member of the team, it then transpired what a sloppy job we as a team did at the time of stock take. In fact, it appeared that we pushed the maximum stuff thinking it will be taken care of at the final audit stage. That day I swore that I will do my work so responsibly that at the final audit stage, it will be a cool breeze at the final audit.

Next year, when I was again assigned to do a stock take, this time at a slightly higher level than a junior, I told my job senior to rely on me and he did – blindly because he had no interest in sizzling under the burning sun. This gave me the leeway to do it my way. I coordinated with the client as to what we will be expecting and with some reservations it was done reluctantly. Not only we conducted the inventory count but thoroughly filled the audit program with my notes. Sure, that took me a long time and hard work, but it paid when one of our managers had a chance to look at the file and he was impressed. He had hardly ever seen anybody putting up additional lines of audit program unique to the client. My senior got a pat, and me too. Thereafter, on at least two occasions in a year our manager assigned me the toughest of the inventory counts in the entire clientele. Those where valuation of inventory and its counting is a significant audit risk; those requiring tricky and special measurements; those outside the city; those in the villages; those right at the boundary of the country.

With every stock take, we kept on improving our technique and audit program so much so that our last searching question: "Why we do the stocks only and not the fixed assets as well" made it importance to be in the spotlight.

To this day, I take the Alice's first day of spring in summer…and winter, quite seriously. We initiate our preparations a month before, which involves visiting the client, relevant facilities, coordinating with the client on the measures to make our observations reliable. Its scope now includes not only stock but all tangible long-term assets (including capital work in progress). We do most of the job on the spot and on the location and follow-up the loose ends too within a month.

A thank you letter to the client for inviting us to the count, and the good and not-so-good that we observed with some fresh ideas for the next year go on to add to the effectiveness of the task.

Alice may still like to call it "stock count" for its familiar ring, but the more professional of us know and treat you honourably as a mini-audit, or even better, half-audit.

RECRUITMENT Our Biggest Problem

by Ijaz Akber

> **The biggest challenge is recruiting high quality globally thinking staff who are vital to help any CA firm to face the challenges of the profession.**

Every profession, to produce quality, needs quality staff. Same is true for the CA profession, which is focusing on various challenges, each presenting opportunities for those CA firms staying head of pack. The global economic situation, a challenge to both CA firms and their clients, saw well-prepared CA firms extending recession proof service lines to assist clients in dealing with economic pressures. It does not matter what economic climate we are in, recruiting the best candidates is always going to be a struggle, especially in CA firm recruitment.

The CA firms operating in northern areas, especially from Lahore upwards, are facing immense problem in quality recruitment. The feed area imparting basic education in those northern areas needs highly concentrated efforts to produce quality candidates. Mostly, the candidates lack proper career planning. They prefer other professions initially and on failure opt for the CA profession without giving consideration to the efforts and caliber required for this profession. The candidates with quality education prefer the Big 4 or move down to Lahore.

The biggest challenge of all in general, however, is recruiting high quality globally thinking staff who are vital to help any CA firm to face the challenges of the profession. Each CA firm needs to attract and retain those staff to meet the profession's increasing quality standards and global involvement with outside and inside hiring pressure and aggressive recruiting practices.

It is the profession's obligation to make accounting profession a top choice and making it interesting for young staff. The CA firms need to show them how they can really make a difference in the profession and have a very rewarding career. Many CA firms offer tremendous opportunities to contribute at high-level on a faster track, with an international reach.

The CA firms should have in place students' exchange programs within their firms' different offices supplemented by internal training. CA firms should encourage their staff members to take active part in continuous professional development programs introduced by different professional accounting bodies.

Beyond technical capabilities, the CA firms seek the following attributes in prospective candidates:

- Questioning skills
- Ability to solve problems
- Persuading and influencing skills
- Demonstrate listening skills
- Generate ideas
- Help in creation of end product
- Focus on clients' needs and excellent professional services
- Flexible and adaptable
- Bright and inquisitive

And last but not least, thinking outside the box as innovation is the key to future growth. A candidate's knowledge of accounting and auditing standards and tax regulations certainly matters when hiring.

The success of any CA firm and the profession rely on the inspired talents of the next generation of professionals.

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