The Pakistan
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NOCLAR
Non-Compliance with Laws and Regulations

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Editorial Office: Chartered Accountants Avenue
Clifton, Karachi-75600 (Pakistan).
Ph: 99251648, 99251636-39
Email: publications@icap.org.pk Website: www.icap.org.pk

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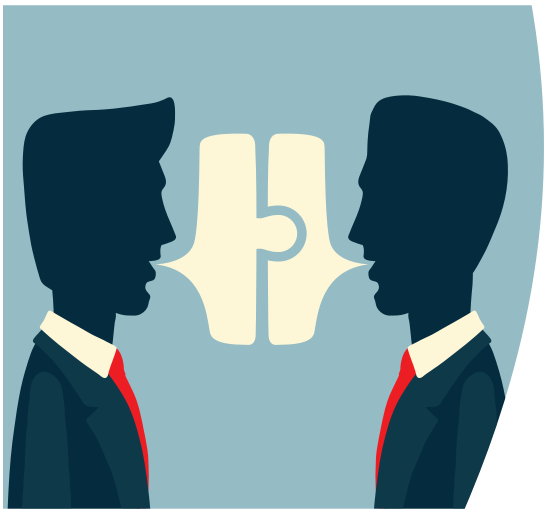

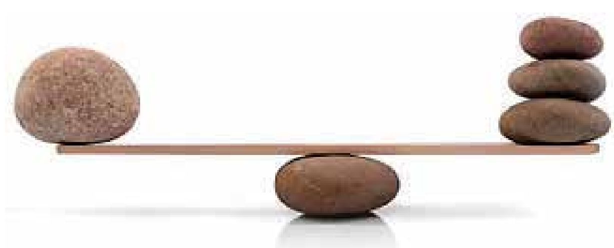

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Editor's Letter

In line with the changes to the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (IESBA Code), The Institute of Chartered Accountants of Pakistan's (ICAP) Auditing Standards & Ethics Committee is considering the IESBA Code changes brought in after July 2014 for adoption. These changes include the introduction of new requirements to respond to Non-Compliance with Laws and Regulations (NOCLAR), **effective from July 15, 2017.**

The NOCLAR provisions affect all members and associates (generically referred to as professional accountants) whether in public practice providing (any) professional services to clients or are in business carrying out professional activities for an employing organisation.

The NOCLAR provisions establish a comprehensive response framework that guides the professional accountant in terms of the factors to consider and the steps to be taken when he/she becomes aware of NOCLAR or suspected NOCLAR. The NOCLAR provisions now allow professional accountants to set aside the principle of confidentiality and report client non-compliances/suspected non-compliances to an appropriate authority, provided that it is in the public interest and compliant with their legal obligations.

The proactive role of professional accountants in relation to NOCLAR can lead to an earlier response by management or those charged with governance (TCWG) thereby mitigating any adverse consequences for stakeholders, or deterring potential NOCLAR for the greater benefit of business as well as the society.

ICAP has been informing its members about NOCLAR through its newsletter, Audit Bulletin and NOCLAR webpage. Further, ICAP has been organising a series of awareness seminars on NOCLAR in Karachi, Lahore and Islamabad to get membership feedback. Also, various international accountancy institutes have been approached to get information about NOCLAR adoption and the noted challenges in their jurisdictions. Moreover, members as well as audit firms have been requested to respond to NOCLAR and its adoption is Pakistan.

Information with respect to NOCLAR is available on the ICAP website
http://www.icap.net.pk/noclar-non-compliance-with-laws-and-regulations

Muhammad Awais, FCA

President's Page

"Progress is impossible without change, and those who cannot change their minds cannot change anything." – George Bernard Shaw, Irish playwright and political activist

In its pursuit to combat money laundering, corruption and fraud, the International Ethics Standards Board for Accountants (IESBA) issued a new standard, i.e. Non-Compliance with Laws and Regulations (NOCLAR) which sets out a framework to guide auditors and accountants on what actions to take in the public interest when they become aware of a potential illegal act, or NOCLAR, committed by a client or employer.

The future of the accountancy profession lies in its ability to change, evolve and adapt to market demands and in its commitment to high values and ethical behaviour. The release of a new global standard on NOCLAR is a welcome and timely initiative. This standard redefines the accountants' role when laws or regulations are broken and establishes a pathway that enables accountants to disclose NOCLAR to a public authority.

NOCLAR has become effective from July 15, 2017 and many professional accounting bodies are in process of its adoption. The Institute of Chartered Accountants of Pakistan (ICAP) has always been vocal on inculcating professional norms and ethics in the accounting and finance profession. The Institute's Auditing Standards & Ethics Committee is considering the Code changes for adoption and in this context, the Institute has been organising a series of awareness seminars in Karachi, Lahore and Islamabad and has launched a survey to get membership feedback.

NOCLAR is still under consideration for adoption in Pakistan. One of the major challenges hindering the adoption is the weak whistleblowing or reporting process existing in the organisations. Organisations need to look for new ways to effectively address the growing challenges of NOCLAR. An appropriate and sophisticated internal whistleblowing mechanism needs to be implemented whereby the professional accountants are encouraged to raise voice if they come across NOCLAR.

NOCLAR will build trust and enhance the robustness of the global financial system. The new standard aims to raise the ethical bar for the global accountancy profession and to increase the emphasis on professional accountants' duties and responsibilities in this area.

Riaz A. Rehman Chamdia, FCA

NOCLAR THE NEW ETHICS STANDARD

by Hina Kazi

NOCLAR (Non-Compliance with Laws and Regulations), an international ethics standard, is a game-changer not only for professional accountants in public practice but also for professional accountants in business and industry. The International Ethics Standard Board for Accountants (IESBA), an independent standard setting body governed by the International Federation of Accountants (IFAC) adopted NOCLAR in July 2017. With the emergence of this new standard, a formal guidance and direction is provided to the professional accountants whereby they are now expected to take timely and proper action in the public interest when any non-compliance or potential non-compliance committed by a client or employer comes to their knowledge. In other words, it has enhanced the moral and ethical responsibilities of professional accountants who are now required by law to set aside the tradition of keeping confidentiality and report NOCLAR to an appropriate authority on timely basis.

What is NOCLAR?

NOCLAR comprises 'acts of omission or commission, intentional or unintentional, committed by a client or employer, including by management or by those charged with governance, or by other individuals working for or under the direction of the client or employer, which is contrary to prevailing laws or regulations.'

Why is NOCLAR required?

It was felt for a longer time, especially after the global financial crisis of 2008, that the duty of confidentiality under the Code followed by the professional accountants both in public practice and business is acting as an obstacle in the way of reporting the most serious and harmful non-compliances of laws and regulations:

- That may have a direct effect on the determination of material amounts and disclosures in the financial statements; and
- That may not have a direct effect on the determination of amounts and disclosures in the financial statements but which might be fundamental to the operational aspects of the entity's business, or to avoid material penalties, the violations of which may result in heavy fines/penalties, lawsuits or other kind of adverse consequences for the entity as well as senior management and employees.

This standard has made it clear that without any prejudice, confidentiality is one of the most essential principles that a professional accountant is expected to comply with in all circumstances in respect of the information acquired as a result of providing professional services like, audit or other non-audit or related assurance service or as an employee of the entity. However, it is also a duty of the professional accountant to abide by the principles of integrity and professional behaviour which makes it mandatory to consider a broader picture and assess the consequences in the larger public interest if NOCLAR is not reported and appropriate action not taken on timely basis in order to protect the interests of regulators, stakeholders like creditors, investors, employees and other general public.

Scope of NOCLAR

Examples of the laws and regulations that are being addressed in this standard are: 1. fraud, corruption and bribery, 2. money laundering, terrorist financing and proceeds of crime, 3. securities markets and trading, 4. banking and other financial products and services, 5. data protection, 6. environmental protection, 7. tax and pension liabilities and payments, and 8. public health and safety. However, NOCLAR scoped out inconsequential matters, matters of personal misconduct unrelated to the business activities of the entity or

employer and non-compliance committed by a party not controlled by the entity or employer.

Who is affected by the Standard?

The Standard covers the following categories of professional accountants:

- Professional accountants in public practice as auditors.
- Professional accountants in public practice providing non-audit services.
- Senior professional accountants in business (such as directors, officers or senior employees).
- Other than senior professional accountants in business.

Along with the above-mentioned ones, those professional accountants are also affected with whom the NOCLAR matters are raised and reported to including, but not limited to, those in management positions, board of directors, regulators and other public authorities.

Requirements of NOCLAR Standard

This ethical framework has provided a clear and established pathway to report identified or possible NOCLAR for the various roles played by professional accountants keeping in view the domain of authority exercised by each:

Professional accountants in public practice as auditors

- Obtain an understanding of the matter and raise the identified or suspected NOCLAR with the appropriate level of management. If the auditor suspects that management is involved, then, discuss with those charged with governance which will clarify the auditors' understanding of the issue and will enable management and those charged with governance to investigate the matter.
- Advice management and those charged with governance to rectify, remediate or mitigate the consequences, deter any action where it has not yet occurred and disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.
- Fulfill professional responsibilities with respect to understanding and complying with applicable laws and regulations and relevant auditing standards.
- Communicate the matter appropriately in the context of group.
- Assess the appropriateness of the response of management and those charged with governance; accordingly, determine if further action is required in the public interest. Further action is dependent on factors such as any law barring disclosure of confidential information to an outside party or existence of reliable evidence of considerable harm to the entity or stakeholders.

- Further action may include disclosure of the matter to an appropriate authority even if not required by law and/or withdrawing from the engagement and client relationship and in case of withdrawal, inform the proposed auditor of the NOCLAR.
- Document the matter, results of discussion with management and those charged with governance and their responses, courses of action considered, judgements made and decisions undertaken and conclusions on the matter.

Professional accountants in public practice providing non-audit services

- Obtain an understanding of the matter and discuss with the appropriate level of management and, if access and where appropriate, those charged with governance. This will clarify the professional accountants' understanding of the issue and will enable management and those charged with governance to investigate the matter.
- If the entity is also an audit client or a component of an audit client of the firm, communicate the matter within the firm, unless prohibited from doing so by law or regulation.
- If the entity is an audit client or a component of an audit client of a network firm, communicate the matter to the network firm.
- For any other client, communicate the matter to the firm, that is, an external auditor.
- Consider whether further action is needed in the public interest.
- Further action may include disclosure of the matter to an appropriate authority even if not required by law and/or withdrawing from the engagement and client relationship.
- Documentation is encouraged with respect to the matter, results of discussion with management or those charged with governance and their responses, courses of action considered, judgements made and decisions undertaken and conclusions on the matter.

Senior professional accountants in business (such as directors, officers or senior employees)

- Implement proper policies and procedures to prevent NOCLAR within the entity including whistleblowing policies and procedures.
- Obtain an understanding of the matter and raise the identified or suspected NOCLAR with the immediate superior. If the senior professional accountant suspects that the immediate superior is involved, then, discuss with the next higher level of authority within the entity or those charged with governance.
- Advice management and those charged with governance to rectify, remediate or mitigate the consequences, reduce the risk of re-occurrences and deter any action if it has not yet occurred.
- Fulfill professional responsibilities with respect to understanding and complying with applicable laws and regulations and relevant auditing standards.
- Determine whether disclosure to external auditor is required.
- Assess the appropriateness of the response of superiors and those charged with governance; accordingly, determine if further action is required in the public interest. Further action is dependent on factors such as any law barring disclosure of confidential information to an outside party or existence of reliable evidence of considerable harm to the entity or stakeholders.
- Further action may include informing management of the parent entity in case of a member of a group, disclosure of the matter to an appropriate authority even if not required by law and/or resigning from the employment relationship.
- Documentation is encouraged with respect to the matter, results of discussion with superior and those charged with governance and their responses, courses of action considered, judgements made and decisions undertaken and conclusions on the matter.

Other than senior professional accountants in business

- Seek to obtain an understanding of the matter and raise the identified or suspected NOCLAR to the immediate superior. If the professional accountant suspects that the immediate superior is involved, then, discuss with the next higher level of authority within the entity.
- Use established internal whistleblowing mechanisms.
- Documentation is encouraged with respect to the matter, results of discussion with superior or the next higher level of authority and their responses, courses of action considered, judgements made and decisions undertaken.

Implementation challenges

NOCLAR is still under consideration for adoption in Pakistan. One of the major challenges hindering the adoption is the weak whistleblowing or reporting process existing in the organisations. An appropriate and sophisticated internal whistleblowing mechanism should be implemented within the organisations whereby the professional accountants are encouraged to raise voice if they come across NOCLAR. They should also be provided legal protection which would assure them safety at workplace and job security. The ethical policies and procedures in the orgnisations may allow for NOCLAR to be reported anonymously, in which case, they are guaranteed fearless and protected environment to report.

When professional accountants are reporting NOCLAR, they are supposed to act in the public interest which is a very subjective term. Public interest means 'welfare of general public and society at large.' Many a times, they are not very well-informed of what issues will exactly lead to the loss of public interest. The professional accountants are not legal experts or specialists of operational laws; they are not expected to have a level of understanding of laws and regulations beyond that which is required for the services they are engaged. Thereby, they are to be properly educated and trained regarding the subject matters to be reported and the steps to be followed in a proper manner. Also, outside legal advice is to be obtained on confidential basis before reporting the matter. All of this results in increasing cost, effort and resources to the organisations.

In order to safeguard public interest, NOCLAR requires strict disclosure of serious non-compliances to the public authorities. Here, the professional accountant is bound to act extremely cautious and alert in following the entire process in a prescribed manner allowing the confidentiality clause to be breached, thus, guarding the interest of general public supersedes playing the conventional role of ensuring the principle of confidentiality.

The writer is a chartered accountant working as partner Audit and Assurance at Parker Randall-A.J.S. Chartered Accountants, a member firm of Parker Randall International.

NOCLAR

by Farheen Mirza

Members of The Institute of Chartered Accountants of Pakistan (ICAP) are required to comply with the ethical requirements contained in the Institute's Code of Ethics for Chartered Accountants (Institute Code). The Institute's Code was last revised in April 2015 and aligned with the Code of Ethics for Professional Accountants issued by International Ethics Standards Board for Accountants (IESBA) (IESBA Code), as of July 2014, subject to some changes which are more stringent and principally arising out of the requirements of the ICAP's Chartered Accountants Ordinance 1961 (CA Ordinance 1961).

The ethical responsibility not to turn a blind eye to non-compliance was always implied by the Code, however, there were no requirements or guidance on what to actually do in the event of encountering cases of non-compliances with laws and regulations.

In consideration of this matter, new ethics standard on Responding to Non-Compliance with Laws and Regulations (NOCLAR Standard) was issued by the IESBA of the International Federation of Accountants (IFAC). NOCLAR Standard is included in the 2016 edition of the Handbook of the Code of Ethics for Professional Accountants issued by IESBA through Section 225 and Section 360. These two new sections provide a framework and guidance to the Professional Accountants (PAs) which includes PAs in Public Practice (PAPPs) and PAs in Business (PAIBs) in deciding how best to act in the public interest when they become aware of non-compliance or suspected NOCLAR committed by a client or employer.

NOCLAR is a result of extensive consultation process with varied stakeholders with the objective to provide guidance on what to actually do in the event of encountering NOCLAR cases which is currently not available in the existing ICAP Code. In developing the standard, the IESBA also liaised closely with International Auditing and Assurance Standards Board (IAASB) so that the NOCLAR requirements and the IAASB's International Standards on Auditing (ISAs) are aligned.

NOCLAR standard has become effective from July 15, 2017 as per IESBA issued standard. In Pakistan, adoption of NOCLAR Standard is under consideration, and once adopted, would be applicable on all members.

What is NOCLAR?

"NOCLAR is any act of omission or commission, intentional or unintentional, committed by a client or employer, including by management or by others working for or under the direction of the client or employer, which is contrary to prevailing laws or regulations."

NOCLAR applies to all categories of PAs, including auditors, other PAs in public practice, and PAIBs. NOCLAR applies when accountants are providing a professional service to their clients or are carrying out their duties for their employer.

NOCLAR places renewed emphasis on the role of PAs in creating a culture of sound corporate governance and in global fight against NOCLAR, such as financial fraud, money laundering, and corruption. This is the first time PAs have been permitted to set aside the duty of confidentiality in order to disclose NOCLAR to the appropriate public authorities.

What is the scope of laws and regulations covered?

- Laws and regulations that have a direct effect on the financial statements.
- Other laws and regulations that may be fundamental to the entity's business or to avoid material penalties.

Examples of the range of laws and regulations given in NOCLAR standard are:

- Fraud, corruption and bribery
- Money laundering and terrorist financing
- Securities market trading
- Banking and financial products and services
- Environmental protection
- Public health and safety
- Data protection

Clearly inconsequential and other personal misconduct not related to the business are outside the scope of NOCLAR standard.

What will be the role of Professional Accountant?

Responsibilities to respond to NOCLAR vary with the role of Professional Accountant (PA). The standard applies to following four categories of PAs including:

- Auditors
- PAs in public practice other than auditors
- PAIBs who are at senior positions, e.g. directors, officers, or senior employees
- PAIBs other than senior PAIBs

All of the above persons are expected, after obtaining a thorough understanding of the matter, to discuss it with the appropriate level of management, or directors if necessary, to enable them to take appropriate action.

The PAs' objective is to alert management and, where applicable, those charged with governance (TCWG) about the matter to enable them to take appropriate action to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance, or deter the commission of the non-compliance where it has not yet occurred. It is important to note that it is, and remains, the responsibility of the audit client's or the employing organisation's management, with the oversight of TCWG, to ensure compliance with relevant laws and regulations. PAs cannot disclose NOCLAR to an appropriate authority if doing so would be contrary to law or regulation.

The PA is also required to determine, in the circumstances, whether further action is needed in the public interest. This is required where the response from management and TCWG is not appropriate. Further action could include, among other actions, the reporting of a matter to an appropriate authority under the appropriate circumstances, despite the absence of a legal obligation to do so, and without being limited by the ethical duty of confidentiality.

Disclosing a matter to an appropriate authority would be at the end stage of the process in relation to serious identified or suspected NOCLAR, after consideration of a range of factors, including the appropriateness of the response of management and, where applicable, TCWG.

If PA decides that disclosure of NOCLAR to an appropriate authority is the right course of action in the circumstances, then such a disclosure will not be considered a breach of confidentiality subject to the condition that he/she act in good faith and exercise caution.

How is NOCLAR linked with ISAs and Companies Act 2017?

ISA 240 'The Auditor's responsibilities relating to Fraud in an Audit of Financial Statements' requires the auditor to communicate identified or suspected fraud, on a timely basis to the appropriate level of management who has primary responsibility for the prevention and detection of fraud or to a party outside the entity in certain circumstances.

Further, in response to NOCLAR requirements in the IESBA Code, the IAASB has made limited amendments to ISA 250 (Revised) to align it with revised IESBA Code, effective for audits of financial statements for periods beginning on or after December 15, 2017.

These amendments particularly include the definition of non-compliance and the examples of laws and regulations. It clarifies the auditor's determination of whether to report identified or suspected NOCLAR to an appropriate authority outside the entity, auditor's duty of confidentiality, highlights auditor's additional responsibilities under law and regulation or relevant ethical requirements to enhance the consideration of the implications of NOCLAR on the audit.

With the revision of ISA 250, certain conforming amendments have been made in different ISAs including ISA 210, 'Agreeing the Terms of Audit Engagements,' ISA 240, 'Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements,' ISA 220, 'Quality Control for an Audit of Financial Statements,' ISAE 3000 (Revised), 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information,' ISRS 4410 (Revised), 'Compilation Engagements,' ISRE 2400 (Revised), 'Engagements to Review Historical Financial Statements,' ISAE 3402, 'Assurance Reports on Controls at a Service Organisation.'

Section 249 of Companies Act 2017 requires company's auditor to conduct audit and prepare auditor's report in compliance with the requirements of ISAs as adopted by ICAP. Accordingly, the compliance of ISA 250 (Revised), which is aligned with NOCLAR standard, is required for the auditors.

Are we ready to adopt NOCLAR Standard in Pakistan?

The Auditing Standards & Ethics Committee (AS&EC/the Committee) of ICAP is considering the IESBA Code changes brought in after July 2014 including the introduction of NOCLAR. Matter of adoption of NOCLAR in Pakistan is currently under active deliberation of the Committee. Internationally, few countries like South Africa, Sri Lanka, Hong Kong, Malaysia, Australia and New Zealand, etc. have adopted NOCLAR Standard and others are in the process of adopting it.

It is important to note that Schedule I & II of ICAP CA Ordinance 1961 prohibits practicing members and members in service for disclosure of confidential information of his/her client/employer without the consent of client/permission of employer or required by any law. Therefore, CA Ordinance 1961 disallows our members to report non-compliances outside their entity/firm.

To familiarise members about NOCLAR Standard, comments from general membership on NOCLAR Standard through ICAP Circular No. 9 of 2017 dated July 7, 2017 'Request for comments on adoption of changes in Code of Ethics relating to Sections 225 & 360 - Responding to Non-Compliance with Laws and Regulations' were requested. Response was again requested on NOCLAR adoption from general membership and practicing firms in the month of February 2018.

In addition to that, ICAP has also coordinated with the international accountancy institutes for NOCLAR adoption status in their jurisdictions and the implication in its implementation.

Awareness seminars on NOCLAR Standard have been organised by ASEC in coordination with Regional Committees of ICAP in Islamabad, Karachi and Lahore on March 19, 2018, April 3, 2018 and April 26, 2018 respectively.

ICAP has been informing members about the NOCLAR Standard through its Newsletters and Audit Bulletin. Further, there is a dedicated ICAP web page on NOCLAR and can be accessed at: http://www.icap.net.pk/noclar-non-compliance-with-laws-and-regulations

The complete text of NOCLAR standard along with additional supportive material can be accessed from the IESBA website at the following link: http://www.ethicsboard.org/responding-non-compliance-laws-and-regulations

The writer is a chartered accountant working as senior manager Technical Services, The Institute of Chartered Accountants of Pakistan (ICAP).

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Fact Sheet
July 2016

IESBA International Ethics Standards Board for Accountants®

WHAT IS IT?

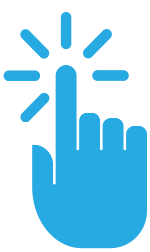
Responding to Non-compliance with Laws and Regulations is an international ethics standard for auditors and other professional accountants (PAs). It sets out a first-of-its-kind framework to guide PAs in what actions to take in the public interest when they become aware of a potential illegal act, known as *non-compliance with laws and regulations,* or *NOCLAR,* committed by a client or employer.

The standard includes a clear pathway to disclosure of NOCLAR to appropriate public authorities in certain circumstances.

THE STANDARD WILL BE EFFECTIVE JULY 15, 2017. EARLY ADOPTION IS PERMITTED.

WHY IS IT IMPORTANT?

As a set of ethical standards with global reach, the IESBA Code of Ethics for Professional Accountants (the Code) plays a unique role in supporting the accountancy profession in acting in the public interest.



The standard will stimulate greater accountability among organisations, help protect stakeholders and the general public from substantial harm resulting from violation of laws and regulations, and strengthen the reputation of the profession (see Outcomes on next page).

This is the first time accountants have been permitted to set aside the duty of confidentiality under the Code in order to disclose NOCLAR to appropriate public authorities in certain circumstances.

The standard positions the accountancy profession to play a greater role in the global fight against NOCLAR, such as financial fraud, money laundering, and corruption.

The standard is the result of over six years of extensive consultation, based on a multi-stakeholder approach and stringent due process.

WHY WAS THE STANDARD DEVELOPED?

The standard responds to the following key public interest concerns:

- The duty of confidentiality in the Code acting as a barrier to the disclosure by PAs of potential NOCLAR to public authorities in the appropriate circumstances
- Auditors simply resigning from client relationships without NOCLAR issues being appropriately addressed
- A lack of guidance to help PAs in working out how best to respond to potential NOCLAR, a situation that may often be difficult and stressful

WHAT OUTCOMES IS THE STANDARD SEEKING TO ACHIEVE?

ENHANCED ETHICAL CONDUCT

- Clarifies that turning a blind eye to potential NOCLAR is not an appropriate response from professional accountants, while placing renewed emphasis on the roles of management and those charged with governance in addressing the matter
- Increases awareness and understanding among PAs of their legal and regulatory responsibilities when they face NOCLAR, thereby helping to stimulate increased reporting of NOCLAR to public authorities pursuant to reporting requirements in law or regulation

PROTECTION FOR STAKEHOLDERS AND GENERAL PUBLIC

Stimulates PAs to take a proactive role in responding to NOCLAR, which can lead to:

- an earlier response by management or those charged with governance, thereby mitigating adverse consequences for stakeholders and the general public
- deterring potential NOCLAR, thereby helping to lower rates of NOCLAR for the greater benefit of business and society
- timelier intervention from public authorities on reports of potential NOCLAR from PAs in appropriate circumstances, thereby mitigating any adverse consequences for stakeholders and the general public

PROTECTION FOR STAKEHOLDERS AND GENERAL PUBLIC

- Enables the profession to play a greater role in the fight against significant NOCLAR, such as financial fraud, money laundering, and corruption
- Enhances the profession's reputation as a guardrail for trustworthy organisations and a healthy global financial system

WHEN DOES IT APPLY?

NOCLAR is defined as any act of omission or commission, intentional or unintentional, committed by a client or employer, including by management or by others working for or under the direction of the client or employer, which is contrary to prevailing laws or regulations.

The laws and regulations covered, violations of which are acts of NOCLAR, are those that directly affect the client's or the employing organisation's financial statements or its business in a material or fundamental way.

Examples of the range of laws and regulations covered include those that address:

MONEY LAUNDERING PUBLIC HEALTH AND SAFETY
SECURITIES MARKETS BRIBERY DATA PROTECTION
FRAUD CORRUPTION FINANCIAL PRODUCTS
FINANCIAL SERVICES BANKING PROCEEDS OF CRIME
SECURITIES TRADING ENVIRONMENTAL PROTECTION
TAX AND PENSION LIABILITIES TERRORIST FINANCING

WHO WILL BE AFFECTED BY THE STANDARD?

The standard applies to all PAs. However, it stipulates a different but proportionate approach for the following four categories of PAs:

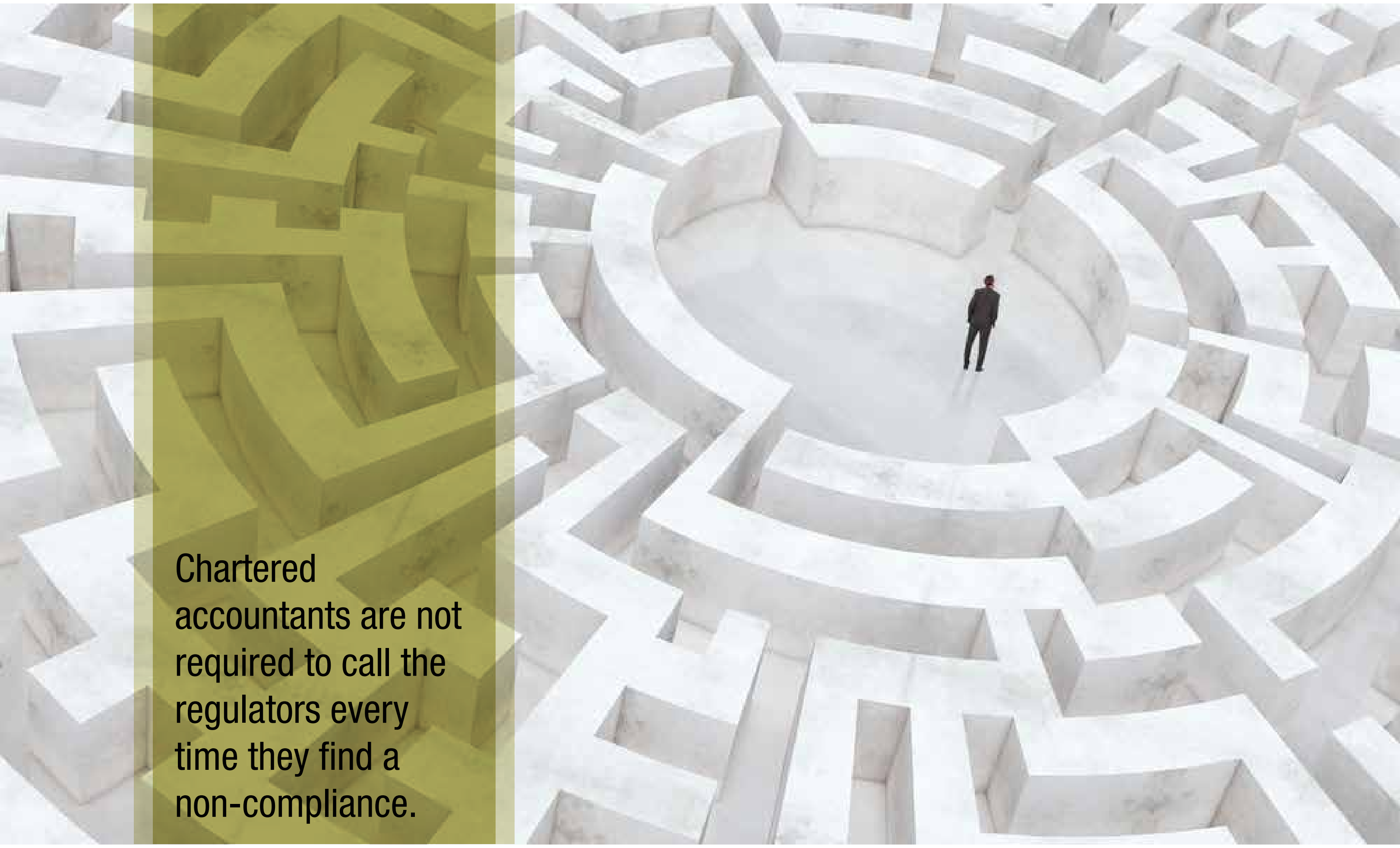
- Auditors
- Other PAs in public practice
- PAs in business who are in senior-level roles—directors, officers, or senior employees in their employing organisations
- Other PAs in business

Those with whom PAs may raise NOCLAR matters will also be directly affected—including those in management positions or on boards of directors, and regulators or other public authorities.

CALL FOR SUPPORT

- The IESBA alone cannot make a difference. **All links in the financial reporting supply chain, especially management and those charged with governance, have an important role to play** in preventing and bringing to light potential acts of NOCLAR.
- **Governments, legislators, and regulators** are uniquely placed to introduce or strengthen legislation or regulation governing the reporting of NOCLAR, appropriately tailored to their national circumstances, including establishing appropriate protections for whistle-blowers.
- **National standard setters and professional accountancy organisations** should review their national ethics standards or codes of ethics and consider actions to adopt or promulgate provisions that are at least as robust as the IESBA's NOCLAR standard.
- **Legislators, regulators, accounting firms, professional accountancy organisations, academic institutions, and other stakeholders** should work toward helping PAs become more aware of and better understand their legal, regulatory, and ethical responsibilities regarding responding to NOCLAR.
- **Regional and international organisations** with an interest or a role in ensuring that NOCLAR is addressed effectively can stimulate dialogue, coordination, and progress on the topic.
- The **IESBA encourages other professions** to reflect on this new standard of ethical conduct for the accountancy profession and consider working toward a similarly global standard of ethics for their members in the public interest.

IESBA® Find contacts, additional resources, and more about the standard and IESBA at **www.ethicsboard.org**



Key Benefits & Challenges in Adoption of NOCLAR Standards in Pakistan

by Ahmed Ali

The new ethics standard issued by the International Ethics Standards Board for Accountants (IESBA) on responding to Non-Compliance with Laws and Regulations (NOCLAR), is a first of its kind which gives ethics requirements and provides guidance to assist professional accountants in dealing with non-compliance with laws and regulations.

NOCLAR will affect all professional accountants whether in practice providing professional services to clients or are in business carrying out professional activities for an employing organisation.

Sections 225 and 360 of the IESBA Code of Ethics for professional accountants set out the professional accountant's responsibilities (in public practice or in business, respectively) in responding to NOCLAR or suspected NOCLAR. These Sections have been effective globally as of July 15, 2017.

In Pakistan, the adoption of NOCLAR is under consideration of The Institute of Chartered Accountants of Pakistan

SMPs may also face a challenge in their business development and building congenial working relationship with their clients if they report the non-compliances to the regulators.

NOCLAR standard will provide the opportunity to the chartered accountant to conduct effective communication and coordination with the client's management and board of directors before reporting the matter to the regulatory authorities.

(ICAP) and due process for member's awareness is being carried out. We will now analyse how NOCLAR will be beneficial for ICAP members in making them more responsible to fulfill their duties of safeguarding public interest and what could be the practical implications for them.

Key Benefits

Ethics is core to the accountancy profession. In recent years there has been an increased focus on business ethics, driven in part by the many high-profile business scandals that have caught global attention and responding to NOCLAR is one of the steps.

NOCLAR standard constitute a significant development in positioning the chartered accountancy profession to play a positive role in the fight against non-compliance and the adverse activities that often stem from it, such as financial fraud, corruption, money laundering, etc. The accountancy profession globally prides itself on its commitment to strong ethics requirements and ethical behaviour. The services provided by the profession engender trust and continues to be relevant and of value owing in a significant part to this commitment to ethical conduct.

The proactive role of professional accountants in relation to NOCLAR can lead to an earlier response by management or those charged with governance (TCWG) thereby mitigating any adverse consequences for stakeholders, or deterring potential NOCLAR for the greater benefit of business and society. Furthermore, there could be timely intervention from public authorities on reports of potential NOCLAR from professional accountants which will help in safeguarding public interest.

In Pakistan, the benefit of adopting NOCLAR standard will be available to the investors, regulators, national

A legally compliant company enjoys the benefits of reduced legal problems, improved operations, better public relations, high employee retention and ability to obtain required finance and business from the best available sources.

economy, general public, as well as for the relevant entity and professional accountants working for those entities either as an auditor or in its employment. Every beneficiary will avail its benefit in different ways.

The major benefit accrues to chartered accountants in practice or in business is that they are not required to report every non-compliance to regulators, neither are they expected to have an in-depth knowledge of all the laws and regulations affecting the entity. Moreover, non-compliance which is material, either quantitatively or qualitatively, is required to be reported only after adopting appropriate protocols. Chartered accountants are not required to call the regulators every time they find a non-compliance.

Practicing chartered accountants are required to report NOCLAR to the board of directors, and to report to their immediate supervisor in case of chartered accountants in business. If the non-compliance is of material nature and its continuity may have serious implications to the entity, its stakeholders, to the national economy or general public, only in such cases, the chartered accountant is required to report the matter to regulators.

NOCLAR standard will provide the opportunity to the chartered accountant to conduct effective communication and coordination with the client's management and board of directors before reporting the matter to the regulatory authorities. This will also make the chartered accountant well conversant with the relevant laws and regulations which s(he) may not have expertise in regular course of duties.

The relevant company will be having an opportunity to identify and rectify any non-compliance or mitigating any adverse consequences for stakeholders for the greater benefit of business (and society) on timely basis. This will also enable the company to perform root cause analysis of the non-compliance identified and prepare strategy to prevent the non-compliance in future. Moreover, a legally compliant company enjoys the benefits of reduced legal problems, improved operations, better public relations, high employee retention and ability to obtain required finance and business from the best available sources. It will also boost investor's confidence on the investee company resulting in building relationship, good governance culture and ultimately improved national economy. With the compliances adhered across the board, Foreign Direct Investment (FDI) can attract foreign investors' confidence in Pakistan's economy and add value to the national economy in the form of improvement in PSX index, appreciation of Pak rupee in the currency market, additional market capitalisation, possibility of reduction in imports due to the availability of highly demanding

Any whistleblower has to deal with the dilemma of wanting to do the right thing while fearing personal reprisal including risk of physical harm, unfair dismissal and being sued for reporting a matter that turns out not to be true.

technology in the local market and employment creation in the country.

Practical Implications in Implementation of NOCLAR Standard

Chartered accountants generally want to do the right thing, including escalating significant issues to TCWG and to an appropriate authority. However, in the real world, whistleblowing often creates a dilemma not just for an accountant but for any person – and their concerns are understandable. Firstly, any whistleblower has to deal with the dilemma of wanting to do the right thing while fearing personal reprisal including risk of physical harm, unfair dismissal and being sued for reporting a matter that turns out not to be true. Secondly, there is the concern about whether there exists an effective legal framework for the protection of whistleblowers. Lastly, there may also be the question of whether management or even the relevant law enforcement agency can be trusted.

NOCLAR does not impose an obligation on chartered accountants to disclose a non-compliance, or suspected non-compliance to an authority, when there is no legal obligation to do so. NOCLAR requires chartered accountants to comply with the relevant NOCLAR requirements and consider whether disclosure to an appropriate authority is an appropriate course of action in the circumstances. These vary, depending on the role and specific characteristics of each case, but there are requirements for chartered accountants to respond to NOCLAR and not turn a blind eye. Chartered accountants are required to act in good faith and exercise caution when reporting. Disclosure to an appropriate authority is not considered a breach of the duty of confidentiality under the Code of Ethics if the chartered accountant is acting in good faith.

The major challenge in adopting NOCLAR standards in Pakistan is the additional responsibility chartered accountants will be taking to report and document non-compliances/ suspected non-compliances.

Big audit and consultancy firms have a variety of clients, governed under different local and international laws and regulations. Firms will need additional resources for their members' training to ensure that they have adequate knowledge of the relevant laws and regulations relevant to their clients.

Small and Medium Practices (SMPs) may also be concerned about their limited resources and expertise to ensure that they have considered the compliance of laws and regulations in case of NOCLAR. SMPs may also face a challenge in their business development and building congenial working relationship with their clients if they report the non-compliances to the regulators.

The major challenge in adopting NOCLAR standards in Pakistan is the additional responsibility chartered accountants will be taking to report and document non-compliances/ suspected non-compliances.

Chartered accountants working in industry could be most affected because they are involved in day to day operations of the company and they will have a much better view of NOCLAR within the company and if they don't disclose it to the higher authorities/ regulators in public interest, they might face investigation from ICAP or regulators or if they disclose it to the appropriate authority, their career may be ruined and others may not be willing to hire them.

Further, members are more concerned on the availability of legal protection from regulator/reporting authority in the form of legislature when they decide that disclosure to regulator is an appropriate course of action in the circumstances to protect public interest.

ICAP has arranged NOCLAR awareness sessions across the country for its members to facilitate the members in learning the NOCLAR standards and for smooth adoption of NOCLAR standards in Pakistan. A session each is already conducted at Karachi, Lahore and Islamabad. Moreover, a brief on NOCLAR and its presentations are placed at ICAP's website.

With the adoption of NOCLAR, it is expected that a good governance culture would be promoted throughout the profession and in businesses, and resultantly, good governance will be inculcated in the system. Further, it will drive positive behaviour in chartered accountants, which in turn will impact the behaviour of their clients and employing organisations.

The writer is a CA finalist working as assistant manager Technical Services, The Institute of Chartered Accountants of Pakistan (ICAP).

NOCLAR and its Linkage with Auditing & Assurance Standards

by Farheen Mirza

In response to Non-Compliance with Laws and Regulations (NOCLAR) requirements in the International Ethics Standards Board for Accountants (IESBA) Code, the International Auditing and Assurance Standards Board (IAASB) has made limited amendments to ISA 250 (Revised), 'Consideration of Laws and Regulations in an Audit of Financial Statements,' to align it with revised IESBA Code.

ISA 250 (Revised) sets out specific expectations for auditors in relation to NOCLAR and explains the audit procedures that are required to be performed when NOCLAR is identified or suspected. ISA 250 (Revised) now specifically highlights possible scenarios that may exist under law, regulation or relevant ethical requirements in relation to reporting to an appropriate authority and addresses the confidentiality considerations.

With the revision of ISA 250, certain conforming amendments have been made in a number of IAASB's International Standards; the more pertinent amendments to the IAASB's International Standards are as follows:

Auditing & Assurance Standards	Amendments made by IAASB
ISA 210 **'Agreeing the Terms of Audit Engagements'**	Additional application material emphasises that the auditor should consider including in the audit engagement letter the auditor's responsibilities under law, regulation or relevant ethical requirements regarding reporting of NOCLAR to an appropriate authority.
ISA 220 **'Quality Control for an Audit of Financial Statements'**	New application material explains the communication between a predecessor and successor auditor, including with respect to NOCLAR, linking it to the provisions in the IESBA Code.
ISA 240 **'Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'**	Amendments to be consistent with those made to ISA 250 (Revised), in particular to address the additional responsibilities under law, regulation or relevant ethical requirements, the communication with management and those charged with governance, and reporting fraud to an appropriate authority outside the entity.
ISRE 2400 (Revised) **'Engagements to Review Historical Financial Statements'**	Amendments to be consistent with those made to ISA 250 (Revised), in particular to address the additional responsibilities under law, regulation or relevant ethical requirements, the communication with management and those charged with governance and reporting NOCLAR to an appropriate authority outside the entity.
ISAE 3000 (Revised) **'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'**	Amendments to be consistent with those made to ISA 250 (Revised), in particular to address the additional responsibilities under law, regulation or relevant ethical requirements, the communication with management and those charged with governance and reporting NOCLAR to an appropriate authority outside the entity.
ISAE 3402 **'Assurance Reports on Controls at a Service Organisation'**	New application material to highlight that the auditor may communicate with third parties when NOCLAR is identified.
ISRS 4410 (Revised) **'Compilation Engagements'**	Amendments also made to address the practitioner's expected level of understanding of laws and regulations beyond the scope of the standard.

ISA 250 (Revised) with other conforming amendments is effective for audits of financial statements for periods beginning on or after December 15, 2017.

The writer is a chartered accountant working as senior manager Technical Services, The Institute of Chartered Accountants of Pakistan (ICAP).

NOCLAR – Understanding & Myth-busting

by Khalilullah Shaikh

NOCLAR puts professional accountants in a disadvantageous position.

Why have they made it mandatory to report every non-compliance to public authorities?

NOCLAR is meant to make auditors life difficult.

Why is a professional accountant supposed to know all laws and regulations affecting his employer or client?

These, and many more myths and misperceptions about NOCLAR, are a common buzz these days.

While the recent NOCLAR Standard brings in a paradigm shift, allowing for the first time to set aside the age-old confidentiality requirement in case of non-compliance with laws and regulations, it has also brought some completely groundless perceptions and fears. To clear the myths and concerns and to increase awareness about NOCLAR, the Institute recently organised seminars in Karachi, Lahore and Islamabad. This article is an attempt in a similar direction, explaining the background and framework prescribed by the Standard in a simple way.

What is NOCLAR?

Responding to Non-Compliance with Laws and Regulations is a recent international ethics Standard that came into force in July 2017. It sets out a first-of-its-kind framework to guide Professional Accountants (PAs) about what actions to take in the public interest when they become aware of an illegal act, referred as Non-Compliance with Laws and Regulations, or NOCLAR, committed by PA's client or employer.

NOCLAR is defined by the new Standard as comprising acts of omission or commission, intentional or unintentional, committed by an organisation (employer or client of professional accountant), by its management, board, or by other individuals working for or under the direction of the organisation against the prevailing laws and regulations. For example, bribing a government official, tax evasion, non-compliance with labour laws, selling counterfeit products, etc.

Background and Objectives

International Ethics Standards Board for Accountants (IESBA) initiated the NOCLAR project in the backdrop of increasing concerns by regulators and other stakeholders about the confidentiality requirements of accountancy profession under the Code of Ethics. This duty of confidentiality was perceived as a veil, putting PAs in a conflicting position and preventing them from reporting legal violations of their clients or employers to public authorities. It was also felt that there was lack of guidance in the existing Code about the thought process and the relevant factors to consider in determining how best to respond to NOCLAR in the public interest.

At the heart of the debate was how PAs ought to balance public interest and employer confidentiality? When and under what circumstances should PAs override their duty of confidentiality in reporting NOCLAR?

The new Standard raises the bar for accountancy profession, increasing the emphasis on PA's duties and responsibilities in this area. For the first time, it categorically permits setting aside the duty of confidentiality to disclose NOCLAR to appropriate public authorities in the circumstances prescribed.

The Standard is the result of over six years of extensive consultation, involving three global round tables and two exposure drafts. After stringent due process, the Standard was approved by IESBA unanimously in April 2016, and made effective from July 15, 2017. As part of International Federation of Accountants (IFAC) Professional Accountants in Business (PAIB) Committee, I was engaged in sharing the business perspective on the Standard.

The NOCLAR Standard aims to ensure that PAs respond to identified or suspected NOCLAR on a timely basis in order to rectify, remediate or mitigate its potentially adverse impact on stakeholders and the general public.

Who falls within the domain of NOCLAR Standard?

The Standard applies to all PAs. However, it stipulates a proportionate approach for the following four categories of PAs:

1. Auditors
2. Other PAs in public practice
3. PAIBs with senior level roles: directors, C-level officers, or senior employees in organisations
4. Other PAIBs

While the basic ethical principles are same for all PAs, NOCLAR Standard recognises that the implementation differs according to the roles, seniority, sphere of influence and the different levels of public expectations. Accordingly, it distinguishes between auditors and other accountants in public practice. Similarly, it puts more onus on PAs working at senior levels in business.

Managing NOCLAR events is not a piece of cake. How to respond to such events is at times quite intriguing and stressful. This Standard helps PAs by providing a framework to follow when addressing an instance of non-compliance or suspected non-compliance. Infact, to me, it provides great relief by codifying the natural conduct of a true professional.

Scope of Laws and Regulations

The Standard focuses on non-compliance with those laws and regulations which have a direct effect on the determination of material amounts and disclosures in financial statements. It also addresses other laws and regulations that are important to the operating aspects of an organisation's business, its ability to continue its business or to avoid material penalties.

Against general perception, nothing in the NOCLAR Standard increases the range of laws and regulations, a PA is required to have knowledge of for performing an engagement at a client or PA's role as an employee. They are rather expected to respond appropriately when they become aware of NOCLAR.

The Standard expects a PA in practice to be able to recognise actual or suspected non-compliance in relation to laws and regulations that s(he) needs to know to perform a given engagement. The PA is not required to have specialised legal knowledge, but only to have a level of knowledge necessary to provide professional services to his/her client.

Managing NOCLAR events is not a piece of cake. How to respond to such events is at times quite intriguing and stressful. This Standard helps PAs by providing a framework to follow when addressing an instance of non-compliance or suspected non-compliance. Infact, to me, it provides great relief by codifying the natural conduct of a true professional.

Similarly, a PAIB is expected to recognise NOCLAR within the context of knowledge acquired by him/her as per his/her training and experience. PAs who work in a particular field in an organisation need to have an understanding of laws and regulations relevant to that particular field to an extent sufficient to competently carry out their job. **PAs have no additional responsibility to 'detect' NOCLAR at their employing organisations beyond any responsibility they may already have, even if they are in a management role or they are part of Board of Directors.** They are, however, expected to respond appropriately when they become aware of NOCLAR.

For example, a professional accountant working as a tax manager is expected to know the requirements of relevant income tax laws and rules applicable to the company, but is not required to learn about the granular details of Environmental Laws applicable to the company.

The Standard categorically excludes:

- Matters that are inconsequential/ insignificant by nature and their impact on the organisation, its stakeholders and the public. For example, delay in filing of a return by a few days.
- Matters that relate to personal misconduct, unrelated to the business activities of the client or employer.

Responding to NOCLAR

Unlike the general misperception, the Standard DOES NOT require a professional accountant to search for NOCLAR. There are no additional responsibilities prescribed by the Standard to detect NOCLAR.

The Standard applies when a professional accountant comes across NOCLAR or suspected NOCLAR in the course of normal work as auditor/employee or when s(he) is made aware of such an event by any party (irrespective of the source of information).

A PA may encounter NOCLAR irrespective of the objectives of an audit or any other professional service being provided. Similarly, a PAIB may encounter non-compliance irrespective of his/her job role in the organisation or the nature and scope of his/her function.

Once a PA encounters or is made aware of NOCLAR, the Standard prescribes following structured process to follow:

Step 1: Understanding the Matter

The first logical step for PA is to obtain full understanding of the matter. For example, if a PA working in payroll department notices that Employees Old-Age Benefits Institution (EOBI) payment is being made for less number of employees than what should be, then before jumping to any conclusion, s(he) first seek understanding of why is it so. Is it a partial payment or there are employees not eligible for EOBI deduction and contribution?

While the Standard expects an auditor and senior PAIB to get complete understanding of the matter, for a PAIB who is not at senior level, it recognises practical issues in seeking access to information and does not put any extra onus other than a reasonable effort. For example, if a PA working in business finance suspects tax non-compliance but is not able to access full information to substantiate or dispel it, the Standard does not require him/her to embark on a search mission.

In getting understanding on the matter, a PA is expected to apply knowledge, professional judgement and expertise. In doing so, a PA may consult on a confidential basis with other colleagues within the company or legal counsel. In my view, this is the most critical stage. Unless the non-compliance is very obvious or PA is confident of his/her understanding of law, taking next step on the basis of poor understanding or guess work may turn out to be counter-productive.

If at any time during the course of obtaining an understanding on the matter, the PA determines that the matter does not represent NOCLAR or suspected NOCLAR, the chapter is closed and no further action is required.

Step 2: Discussing the Matter & Taking Action

For an auditor or other PA in practice, the next logical step is to discuss the matter with client's management or board to clarify understanding on the matter and discuss potential consequences and remedial actions.

If the management has not already taken remedial actions, the auditor should advise them to take timely and appropriate actions in order to resolve the situation, to deter possible non-compliance or to disclose the matter to an appropriate authority where it is required by law or regulation. The auditor should also ensure his/her own compliance with laws and regulations together with the requirements under auditing Standards.

For a PAIB, the next logical step is to discuss the matter with his/her own supervisor (or skip level if the immediate superior appears to be involved in the matter) subject to organisation's internal Standard Operating Procedures (SOPs) and reporting structure. The discussion would help PAIB clear his/her understanding about the matter and determine how the matter should be addressed. Senior PAIB have an over-arching responsibility to set the right tone at the top and establish appropriate policies and procedures within the organisation to prevent NOCLAR. The Standard expects from a senior PAIB to:

- Inform his next level supervisor (if any) or Board, where necessary, to obtain their concurrence regarding appropriate remedial actions.
- Have the consequences of the NOCLAR rectified, remediated or mitigated.

> The PA is not required to have specialised legal knowledge, but only to have a level of knowledge necessary to provide professional services to his/her client.

- Reduce the risk of reoccurrence.
- Seek to deter the commission of the NOCLAR if it has not yet occurred.
- Determine whether disclosure of the matter to external auditor is needed pursuant to his/her obligation to provide all information necessary to auditor.

For other PAIB, who is not in a senior position, base line actions would be to speak to seniors and use internal whistle-blowing mechanism.

Step 3: Determination of Further Actions

Unlike general perception, the Standard DOES NOT make it mandatory for a PA to report every NOCLAR incident to public authority. In determining whether any further action is needed in public interest, an auditor is expected to consider various factors, including:

- Appropriateness of response of client management or Board – timeliness and adequacy of response to rectify or mitigate consequences and actions taken to prevent recurrence.
- Urgency and pervasiveness of the matter.
- Credible evidence of substantial harm to stakeholders (i.e. organisation, investors, creditors, employees or the general public). For example, perpetration of a fraud resulting in significant financial loss to investors, money laundering, tax evasion, selling of goods harmful to public etc.
- Legal and regulatory framework.

If the auditor assesses that further course of action is necessary, the auditor should consider:

- Disclosure of NOCLAR to appropriate authority (like Securities & Exchange Commission of Pakistan (SECP), State Bank of Pakistan (SBP), Sindh Environmental Protection Agency (SEPA), Federal Investigation Agency (FIA) etc., even if not required by

- law or regulation - provided it is not prohibited by law or regulation.
- Withdrawal from engagement and client relationship.

The Standard clarifies that withdrawal from engagement is not a substitute for disclosure of NOCLAR to public authority. Following withdrawal, the outgoing auditor is required to co-operate with the proposed successor auditor and on request, to provide all of the relevant facts and information concerning the identified or suspected non-compliance.

A PAIB (more importantly a senior PAIB) is also expected to assess the same factors as stated above in determining whether further action is required, which may include:

- If the entity is a subsidiary, informing parent entity about NOCLAR and its consequences.
- Disclosing NOCLAR to appropriate authority, even if not required by law or regulation - provided it is not prohibited by law or regulation.
- Resigning from the job. For example:
  - If a PA comes across violation of labour laws in payment of minimum salary to some employees and it is rectified on identification then probably no further action is required.
  - In case a PA in pharmaceutical industry identifies counterfeit drugs or a PA working in bank identifies instances of money laundering, then probably he/she should be evaluating all of the above further actions.

In determining what further course of action is required, the Standard encourages an auditor and senior PAIB to apply **third party test**. This would ensure objectivity by ascertaining how a reasonable and informed third party would likely evaluate PA's determination of the nature and extent of further action in public interest.

It is pertinent to mention here that our existing CA Ordinance restricts our members from sharing of confidential information. As per Part 3, Schedule I of CA Ordinance, a member of the Institute shall be deemed to be guilty of professional misconduct, if he, being an employee, discloses confidential information acquired in the course of his employment except as and when required by law or except as permitted by the employer. Similarly, as per Part 1, Schedule II, a member in practice shall be deemed to be guilty of professional misconduct, if he discloses information acquired in the course of his professional engagement to any person without the consent of his client or otherwise than as required by any law.

What is confidential information, and what is permitted under various laws or as per judgements of honourable courts to disclose, is a matter that requires deliberation from case to case. Whether, a PA in practice, should have specific NOCLAR disclosure clause in the client engagement letter, is also a subject of discussion currently. In this context, determination of any action above involves complex analysis and judgement, in addition to potentially severe consequences. So I feel in such cases, a PA should seek consultation from an expert/mentor and avoid knee-jerk emotional reaction. The Standard also encourages PA to consider consulting internally, obtaining legal or professional advice to understand options and all outcomes including legal or professional implications of taking any particular course of action.

Disclosing to a Public Authority: Factors to Consider

The Standard acknowledges that disclosing to a public authority may involve serious risks and consequences. So, in deciding whether to disclose to an appropriate authority, the Standard also encourages PA to evaluate following factors:

- Whether there is an effective public authority capable to investigate the matter and take appropriate action.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing laws, witness protection laws etc.
- Whether there are actual or potential threats to the physical safety of the PA or other individuals.

Considering the above, a PA may decide not to disclose the matter to public authority. However, if, after due consideration, the PA determines that disclosure is in public interest, such disclosure will not be considered a breach of the duty of confidentiality under the Code.

Documentation

The Standard makes it mandatory for auditors to maintain proper documentation of NOCLAR event, including how management or board responded to the matter, the auditor's assessment of the need for further actions, the actions taken and how the responsibility to act in public interest was met.

PAs have no additional responsibility to 'detect' NOCLAR at their employing organisations beyond any responsibility they may already have.

For other PAs, the Standard encourages but not mandates to maintain the documentation.

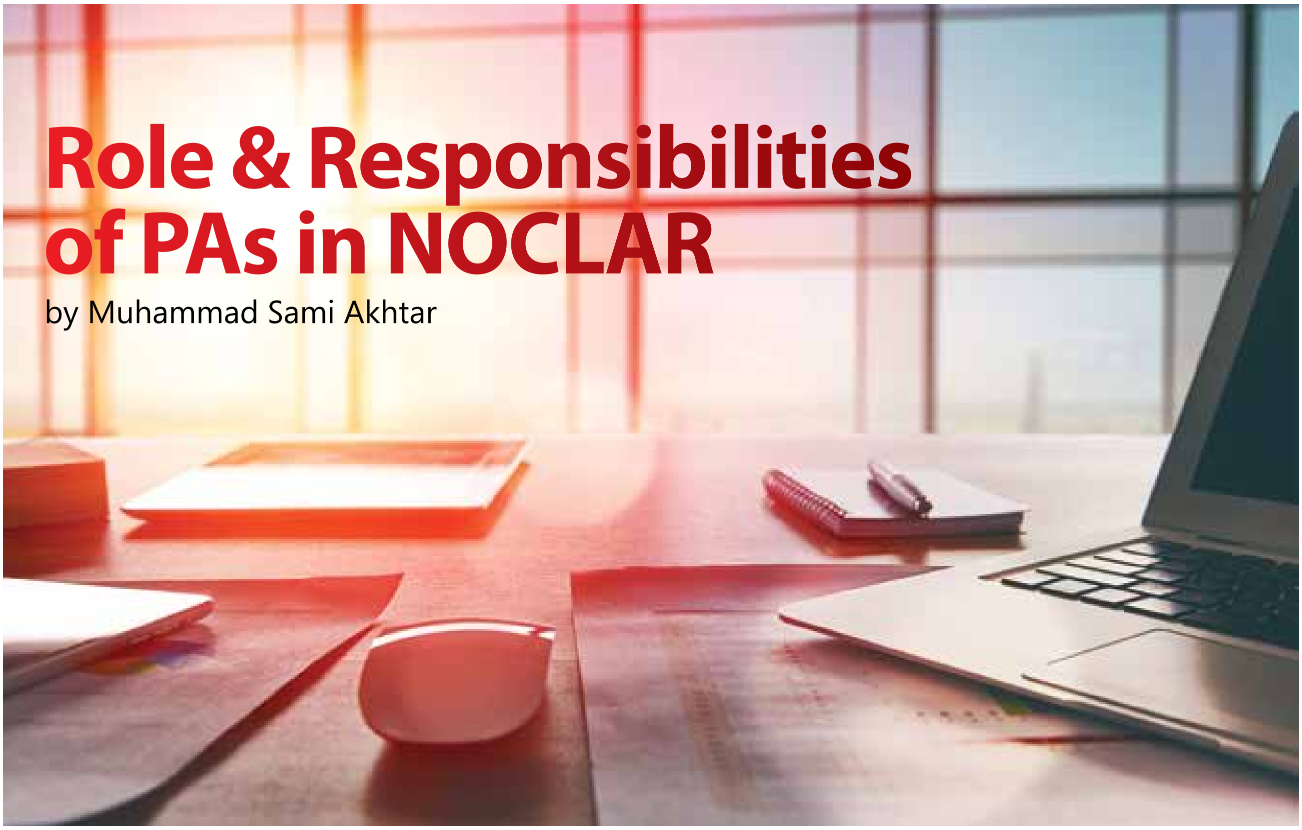
Concluding Remarks

The Standard positions the accountancy profession to play a greater role in the global fight against NOCLAR, such as financial fraud, tax evasion, money laundering and corruption. Yes, there are practical difficulties that PAs will face in dealing with NOCLAR, particularly in reporting NOCLAR to public authorities, and they require support from all stakeholders including government, legislators, public authorities, and professional bodies in introducing and strengthening legislation for reporting of NOCLAR and protection of whistle-blowers.

It will take PAs natural time to understand and adapt to the requirements of the Standard. For this, professional bodies such as ICAP will have to play greater role in making PAs become more aware of and better understand their legal, regulatory, and ethical responsibilities regarding responding to NOCLAR.

Having said that, I believe the Standard is a much-needed step in the right direction. It is bound to stimulate greater accountability among organisations, help protect stakeholders and the general public from substantial harm resulting from violation of laws and regulations, and strengthen the reputation of the profession.

The writer is Council member and Chairman PAIB Committee ICAP, member IFAC PAIB Committee, working as head of Supply Chain at K-Electric, Karachi.



Role & Responsibilities of PAs in NOCLAR

by Muhammad Sami Akhtar

"At his best, man is the noblest of all animals; separated from law and justice, he is the worst."
– Aristotle, Greek philosopher

So, this is compliance with law and fairness in dealings which keeps the society in order. This quote is equally applicable to the business world. On the other hand, Non-Compliance with Laws and Regulations (NOCLAR) may result in fines, litigation, loss of reputation and sometimes may endanger the existence of the organisation itself: more importantly, such non-compliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or general public. Below are a few examples of how non-compliance can cost an organisation:

- Habib Bank Limited (HBL), the largest bank in Pakistan, faced a litigation in USA over non-compliance with local banking regulations in its New York branch. In September 2017, HBL paid PKR 23.7 billion (almost 300% of the consolidated profit for the year 2017) as settlement payment. The New York branch has also been closed. This is first time in last many years that the bank did not pay dividend for September 2017 quarter. (Source: HBL annual report 2017)
- In 2013, Competition Commission of Pakistan (CCP) imposed a penalty of PKR 8.6 Billion on Fauji Fertilizer and Engro Fertilizer for violation of Competition Act of Pakistan. (CCP's order available on its website)
- NOCLAR is not only damaging the large organisations but small entities may also face the repercussions. Take the example of many restaurants which were recently fined or closed by Punjab Food Authority in Lahore due to violation of food safety regulations. (media news)

Role and Responsibilities of Professional Accountants in NOCLAR

Professional Accountants (PAs), either in practice or in business, can play a significant role in remediation, mitigation, deterrence or reporting of NOCLAR. A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a professional accountants' responsibility is not exclusively to satisfy the needs of an individual client or employer but to observe and comply with the fundamental principles of professional ethics and act in public interest.

However, there were certain concerns from the regulatory community and other stakeholders relating to the role of PAs in NOCLAR:

- Hiding behind 'client confidentiality.'
- Auditors were simply resigning from client relationships as a result of suspected or identified NOCLAR without the matter being appropriately addressed.
- While the existing Code implicitly required PAs not to turn a blind eye to potential NOCLAR, there were no clear and explicit requirements on how to respond.

So, to address these concerns, The International Ethics Standards Board (IESBA) issued, in July 2016, a framework for the PAs. Through this framework, Sections 225 and 360 were added to the existing Code of Ethics for PAs and some corresponding changes were also made in other Sections of the Code.

The framework defines NOCLAR as follows:
Acts of omission or commission, intentional or unintentional, committed by the entity, or by those charged with governance (TCWG), by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Non-compliance does not include personal misconduct (unrelated to the business activities of the entity).

The framework provides guidelines in the context of two types of law and regulations:

a. Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements. (category A)
b. Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties; non-compliance with such laws and regulations may therefore have a material effect on the financial statements. (category B)

These guidelines provided in the framework are not applicable in those cases where the instances of non-compliance are clearly inconsequential on the client, employing organisation and other stakeholders. For example, if an employing organisation was narrowly missing a deadline for filing its tax return, this could be clearly inconsequential matter.

Some examples of law and regulations which may fall in any of above two categories (depending upon the organisation and its regulatory framework) include:

- Corporate laws, securities markets and trading.
- Banking laws and other financial sector regulations including money laundering and terrorist financing.
- Taxation, pension funds and provident fund rules.
- Environment protection, public health and safety.

The guidelines provided in the framework apply to all Professional Accountants. However, it stipulates a different but proportionate approach for the two broad categories of PAs:

- Professional Accountants in practice: providing auditing and/or other professional services.
- Professional Accountants in business: as senior level employee, management personnel, directors with ability to make decision about acquisition, deployment and control of entity resources. Also includes those PAs who act regulators/public authority, etc.

The following table highlights the important responsibilities for two categories of Professional Accountants:

S. No.	Subject	PAs in Practice	PAs in Business
1.	**Mandatory requirements/ expectations**	▪ **PA as an auditor** For category (a) discussed above, the auditor is required to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations. For category (b), the auditor's responsibility is limited to undertake specified audit procedures to help identify non-compliance with those laws and regulations.	▪ **Senior PAs with decision making authority** They can play an important role within their organisation in promoting an ethics-based culture. So, they are expected to set the right tone at the top and establish appropriate framework within entity to prevent/rectify/remediate NOCLAR.

Professional Accountants (PAs) will often have to deal with instances of non-compliance with laws and regulations and the International Ethics Standards Board for Accountant's (IESBA) NOCLAR standard provides important additional guidance and clarification of their duties and responsibilities in this key area.

S. No.	Subject	PAs in Practice	PAs in Business
		▪ **PA providing other services** The basic ethical principles are the same for all PAs, i.e., they should respond to the issue and not turn a blind eye. However, there are no mandatory procedures. Again, it will depend on the nature and scope of services.	▪ **PAs other than Senior PAs** Understand and comply with laws and regulations.
2.	**Action when NOCLAR identified or suspected**	▪ Obtain an understanding of the nature of the act and the circumstances in which it has occurred to evaluate the possible effect on the financial statements. ▪ Discuss the matter with management and TCWG and obtain legal advice, if required. ▪ Evaluate the implications of NOCLAR in relation to other aspects of the audit/ engagement. ▪ Evaluate the impact of NOCLAR on the audit opinion. ▪ In case of non-audit engagement, consider communicating the matter to auditor, if any.	▪ Raise the identified or suspected NOCLAR with a superior/TCWG through the established internal whistleblowing mechanism. ▪ Rectify, remediate, or mitigate consequences. ▪ Reduce the risk of re-occurrence. ▪ Seek to deter the NOCLAR. ▪ Appropriate disclosure in financial statements, if required in the circumstances.
3.	**Further action required**	▪ Assess appropriateness of the response of management/TCWG. ▪ The nature and extent of further action needed will depend on various factors; credible evidence of substantial harm to the entity or stakeholders is available or not and any law prohibiting disclosure of confidential information to an outside party. ▪ Courses of further action may include: - disclosing the matter to an appropriate authority even if not required by law and/or withdrawing from the engagement and client relationship. ▪ If withdrawing, inform proposed successor of the NOCLAR.	▪ Assess appropriateness of the response of superiors, if any, and TCWG. ▪ Courses of further action may include: - informing management of the parent entity in the case of a member of a group. - disclosing the matter to an appropriate authority even if not required by law. - resigning from the employment relationship.
4.	**Documentation of instances and actions taken**	In case of audit client, documentation is mandatory. In case of other engagement, it is encouraged but not mandatory.	Documentation not mandatory but encouraged.

Way Forward for Professional Accountants

NOCLAR framework is an important step towards protecting and promoting public interest, stimulating greater accountant ability within organisations and strengthening reputation of the profession. In practice, PAs will often have to deal with instances of non-compliance with laws and regulations and the IESBA's NOCLAR standard provides important additional guidance and clarification of their duties and responsibilities in this key area.

However, at the same time, the IESBA acknowledges that the accountancy and auditing profession will not resolve the NOCLAR issue in isolation and that it requires the support and co-operation of other professions together with governments, legislators and regulators. In particular, it is hoped that governments will introduce and strengthen legislation addressing NOCLAR and will provide protection for whistleblowers and to auditors and other PAs who implement the standard. The ultimate success of NOCLAR is also dependent on governmental authorities acting appropriately in response to the NOCLAR reports which they will receive under the requirements of the Standard.

The ultimate success of NOCLAR is also dependent on governmental authorities acting appropriately in response to the NOCLAR reports which they will receive under the requirements of the Standard.

The writer is a chartered accountant working as finance manager in Bank Muscat, Oman.

Non-Compliance or Confidentiality?

by Muhammad Farrukh Siddiqui

Responding to Non-Compliance with Laws and Regulations (NOCLAR) is an international ethics standard applying to all categories of professional accountants including auditors and other professional accountants. This standard is effective from July 2017. It is first of its kind of standard for auditors and public accountants which provide guidance relating to course of actions that must be taken in public interest if the auditor or public accountant become aware of any illegal act and disclosure of the same to the appropriate public authorities.

NOCLAR is defined by the new standard which includes acts of omission or commission whether intentional or unintentional committed by a client or by those charged with governance or by management or by other individuals working for or under the direction of a client that are not in line with the prevailing laws and regulations.

The said standard addresses breaches of laws and regulation that may affect the clients financial statement or business in any way or has an indirect effect on the public at large. Examples of these breaches may be:

- Money laundering
- Terrorist financing
- Bribery
- Corruption
- Data protection

So what was the need for the introduction of such standard, since the ethical responsibility was always implied to identify such non-compliances with laws and regulations and not to turn a blind eye. But many accountants and auditors felt that the duty of confidentiality acted as barrier in reporting of such non-compliance and always put them in a tight spot in deciding whether to report/highlight the non-compliance or to ensure confidentiality. Most of the times auditors took the easy way out and resigned from such relationships instead of reporting such non-compliance.

In this connection, International Auditing and Assurance Standards Board (IAASB) has also amended the International Standards on Auditing (ISAs), more specifically 'ISA 250 Consideration of Laws and Regulations in an Audit of Financial Statements' which now directly references the Code.

So now look at what is included in this standard. First is the auditor understanding the overall environment in which the client operates, this requirement was always there as per the ISAs more specifically ISA 315. So what should an auditor do in case of identification of non-compliance? As per the standard, the auditor should consult with other members of the firm, other networking firms and the auditor may also take legal advice if there is a need. As per the standard, the matter should be discussed with the appropriate level of management, in order to determine the appropriate level of management the aspects of collusion and potential involvement.

As per the standard, the next step is advising the management to address the non-compliance depending upon the case or if the case requires, the matter should be disclosed directly to the regulatory requirement. The next step is determining whether further action is also required. This would depend upon the extent of the action taken by the management to deter/rectify the non-compliance, the level of investigation undertaken by the management, etc. This depends upon professional judgement.

As per the Code, if the auditor decide that further action is required, it might include disclosing the matter directly to the public authority, resigning from the engagement, but the standard emphasises that withdrawing from the engagement may not be substitute of further action but the standard also recognises that in some jurisdiction withdrawal may be the only option.

As per the Code, the auditor has to maintain certain documentation in this regard including the nature of the non-compliance, details of discussion with management, details of the action taken by the management, courses of the action considered keeping in view the responses and the ultimate decision taken.

In my humble opinion, addition of this standard is likely to stimulate greater accountability among the organisations, in addition to help protect the general public interest.

The writer is a chartered accountant working as assistant vice president at Habib Metropolitan Bank Ltd.

Follow Rules to Flourish

by Awais Khalid

Life is all about adopting a set of rules and regulations which we must follow if we are to thrive and flourish. These laws and regulations are meant to restore societal balance and provide free and fair opportunities for everyone in the absence of which our world would fall into anarchy and chaos where powerful groups of people would prey on weaker lot of society.

After our beloved state came into existence 74 years ago, there was a dire need to formulate new legal and regulatory framework for the Muslims of the Sub-continent where they would go on to live their lives to the fullest and practice their own faith without having fear of oppression and harassment. Although Pakistan has had a fair share of bad luck since its creation, e.g. government failures, Martial laws, wars, separation of the Eastern Pakistan, financial and economic sanctions and other regional and international geo-political issues, we nevertheless have been able to rise from this abyss and put in place legal and regulatory framework for our people.

With the world now focusing more and more on curbing terror financing and illicit money, strict anti-money laundering drive is being undertaken all over the world. Countries involved in terror or terror financing have been confronted with sanctions by the United Nations in a bid to turn them around in the right direction. Also, the recent Panama Papers issue involving unprecedented leak of approximately 11.5 million files showed myriad ways in which rich people around the globe have exploited secretive offshore tax regimes often using illicit money. The persons accused include current and former heads of state/government and their close relatives and acquaintances. This has caused uproar in regional and international communities around the world with a greater call for accountability and transparency of all public office bearers. Pakistan also suffered from major financial scandals in recent years due to non-compliance of applicable laws and regulations. A few recent scams are given below:

- **Habib Bank Limited:** Pakistan's premier banking group Habib Bank Limited (HBL) closed its operations in US after the US regulator Department of Financial Services (DFS) found that the bank's compliance function was in a bad state and lacked the most basic of controls on money laundering and customer screening. It slapped a fine of USD 225 Million on HBL and ordered to shut it down. (Reference https://www.ft.com/content/7389b858-93e8-11e7-a9e6-11d2f0ebb7f0)

- **Khanani and Kalia International:** Pakistan's premier foreign exchange company was shut down due to its involvement in money laundering activities involving billions of dollars all over the world including criminal groups and terrorist organisations. The owner got arrested and was fined of USD 250,000. (Reference https://www.dawn.com/news/1324717)

The onus of compliance with laws and regulations fall on all of us and it is our combined responsibility to ensure that we all act within the given regulatory framework and report deviations to the regulators.

- **The Axact Scandal:** Pakistan's corporate sector was stunned when allegations of fraud were hurled by the international community in 2015 on the world renowned Pakistan based IT Company Axact. Inquiries into affairs of the company were simultaneously launched in and out the country which revealed the staggering detail of the scam. It is alleged that Axact took money from over 200,000 people all over the globe to issue fake education degrees and used several shell companies in United States and other Caribbean countries to route illicit money. The prosecution of the owner of Axact is still underway.

- **Pakistan's placement on terror finance watch list:** Although Pakistan's laws and regulations mostly cater to our domestic needs, these regulations might not be acceptable to the internal community who since long have been pushing for complete overhaul of our entire anti-money laundering function. Recently Pakistan has been placed on the Financial Action Task Force grey list. This move shows seriousness of the issue and commitment of the international community to curb money laundering menace. (Reference https://www.bloomberg.com/news/articles/2018-02-23/pakistan-is-said-to-be-placed-on-terror-financing-list-from-june-jdztwvir)

The corporate world took to this challenge and devised its own set of laws, rules and regulations for adherence to prevailing ethical, moral and legal standards. Companies have gradually started setting up of a separate compliance function within the organisation to tap underlying risks and threats. The compliance function in an organisation usually starts with:

- the board of directors assuming responsibility for compliance and developing a comprehensive policy after taking into consideration interests of various stakeholders such as employees, customers, suppliers, shareholders, government, regulators, environment and society.
- A sub-committee of the board of directors making procedures and guidelines to ensure that the board's policy is fully observed and nonconformities if any, are fixed timely.
- A compliance department working under the supervision of sub-committee ensuring compliance of approved procedures and guidelines, also providing feedback on the applicable legal and regulatory framework governing the organisation and its stakeholders.

Various companies now opt to outsource the compliance function to a firm of professional chartered accountants, whereas, others have given additional role to the internal audit department. Whatever the case maybe, the corporate world now appreciates the significance of compliance with legal framework and are investing more time, effort and money towards achieving one hundred percent compliant status.

Board of Directors

- Develop compliance policy and align with organisation goals and objectives.
- Establishment of compliance committee and setting of the terms of reference.

Compliance Committee

- Develop procedures and guidelines for ensuring compliance of laws and regulations.
- Oversee the compliance management function.
- Make recommendations to the Board of Directors regarding scope and effectiveness of the compliance management systems.

Compliance Manager

- Deal with violations of guidelines and procedures.
- Evaluating control environment.
- Adopt procedures to identify risks.

Public interest companies engaged in providing essentials services to public at large have understood the need for higher moral duty of compliance with these laws and regulations. The regulators of these companies usually take additional precautions and measures to ensure transparency, competitiveness, and ethics in their daily operations and also ensure that malpractices, if any, are severely punished. Recent accountability drive undertaken by institutions and the honourable courts is also meant to ensure arrest of public office abuse, detention of corrupt office bearers and recovery of graft, bribes and money earned using unfair means/illegal practices.

Over a period of time, we have learnt that businesses that comply with applicable laws and regulations turn out to be more successful as compared to their non-compliant peers. Organisations involved in malpractices might get some benefit in the short term but pay a heavy price when they get caught, often resulting in complete shutdown of operations, confiscation of the assets and severe punishment of individuals involved. Some of the benefits of a compliant organisation include improved operations, reduced legal problems and better public relations.

In fact, companies are now going the extra mile and opting for 'above and beyond compliance' approach, i.e. taking care of their stakeholders beyond legal and regulatory requirements resulting in increased morale and motivation and in the process offering various growth prospects. This is being done by focusing on engagement and empowerment of all stakeholders via introduction of various initiatives such as personal development programs, customised products, flexible plans, feedbacks and market surveys, green environment programs and Corporate Social Responsibility (CSR) frameworks.

As part of routine audit, auditors also obtain reasonable assurance as to the compliance of laws and regulations by the auditee company. Any non-compliance is duly reported to either management, board of directors, members, or in some cases, regulatory organisations as part of their whistleblowing responsibilities. The corporate sector regulators such as Securities & Exchange Commission of Pakistan, State Bank of Pakistan, Pakistan Stock Exchange Limited and other allied institutions such as The Institute of Chartered Accountants of Pakistan closely monitor the applicable financial, corporate and regulatory frameworks of different sector companies working in Pakistan to ensure transparency of operations.

Nevertheless, the onus of compliance with laws and regulations fall on all of us and it is our combined responsibility to ensure that we all act within the given regulatory framework and report deviations to the regulators. Only then, we as a nation will prosper.

The writer is chartered accountant working as internal auditor in Pak-Arab Refinery Limited.

Ethical Practice Ensures Public Confidence

by Hamza Bilal

Professional accountants are expected to act in the wider interest of the public while working both in the role of an auditor or an employee of an organisation. Hence, we as chartered accountants are not only expected to be technically strong and competent but at the same time, it is an expectation from us to reinforce ethical behaviour and ethical decision making by our clients and employers. Ethical practice ensures to sustain confidence of public in accountancy profession. In order to sustain confidence of stakeholders and avoid any disrepute to our profession, we are expected to be fully in compliance with relevant laws and regulations and disassociate ourselves in scenario where there is a known or suspected non-compliance by our employer or client and evaluate whether disclosure of the matter to relevant regulatory authority is required under vast public interest.

Our Institute, The Institute of Chartered Accountants of Pakistan (ICAP), is a member of International Federation of Accountants (IFAC) and adopts the comprehensive Code of Ethics issued by International Ethics Standard Board for Accountants (IESBA), an independent standard setting body under the auspices of IFAC. ICAP has adopted conceptual principal-based approach which provides guidelines to professional accountants to help them identify threats to ethical behaviour, evaluate them and respond to them in desired manner by application of adequate safeguards to ensure confidence of a knowledgeable independent party in independence of professional accountant involved in the matter.

Accountants are expected to observe principles of integrity, professional behaviour and confidentiality while providing services. Non-Compliance with Laws and Regulations (NOCLAR) is any act of omission or commission whether intentional or unintentional by an employer or a client, by those charged in governance or by management or by employees for or under the direction or willingness of the employer or client which is not in line with prevailing relevant laws and regulations. NOCLAR was initiated by IESBA to address concerns of regulatory authorities and other stakeholders that ethical principle of confidentiality is acting as a potential barrier to disclosure of NOCLAR where it might in fact be required to be disclosed in vast interest of public. NOCLAR sets out criteria to evaluate where a disclosure to an external appropriate authority might be required in public interest. The code acknowledges that it can be a difficult scenario for a professional accountant to decide appropriate course of action, hence it states that professional accountants should often consider taking legal advice in scenarios where there is known or suspected NOCLAR.

NOCLAR became effective in July 2017. NOCLAR framework sets out following steps to be taken by a professional accountant or an auditor:

i. Identifying and understanding the facts involved in the matter.
ii. Discuss the matter with management and those charged with governance.
iii. Determine further action which might include seeking legal advice.
iv. Evaluating wether disclosure to an outside authority is required.

Professional accountants are expected to act in the wider interest of the public while working both in the role of an auditor or an employee of an organisation.

v. Evaluating the impact on financials, going concern and other aspects of the company.
vi. Deciding on appropriate required action.
vii. Documentation of the matter.

The International Auditing and Assurance Standards Board (IAASB) has approved changes recommended by this regulation to International Standards on Auditing (ISA) 250 (Consideration of Laws and Regulations during Audit of Financial Statements). The changes became effective for audits of financial statements for period beginning on or after December 15, 2017. The objective of IAASB for NOCLAR was to identify actual or perceived inconsistencies between NOCLAR provisions of IESBA and ISA 250 and to bridge those inconsistencies.

ISA 250 has been specifically designed to provide guidelines about responsibility of an auditor to consider laws and regulations in an audit of financial statements. ISA 250 divides laws and regulations into two types:

- Those laws and regulations that have a direct impact on amounts reported and disclosed in financial statement of the company.
- Those laws and regulations that may have an indirect impact on the financial statements of the company.

ISA 250 defines that it is the responsibility of the management to develop controls to ensure compliance with laws and regulations. The standard states that an auditor needs to evaluate the likely impact on financial statement in case of any non-compliance with relevant laws and regulations. As an auditor needs to give an opinion whether financial statements are free from any material misstatement due to fraud or error.

ISA 250 revised as a result of NOCLAR explains the audit procedures that are required to be performed when a non-compliance with laws and regulations is identified or suspected which includes:

- Obtaining an understanding of the nature of the act and the circumstances in which it has occurred and further information to evaluate the possible effect on the financial statements.
- Discussing the matter with management and those charged with governance and obtaining legal advice in certain circumstances.
- Evaluating the implications of NOCLAR in relation to other aspects of the audit.
- Evaluating the impact of NOCLAR on the audit opinion.
- Determining whether to report NOCLAR to an appropriate authority outside the entity would be in accordance of the NOCLAR (Ethical Standard).

The work effort in ISA 250 (Revised) has not been amended. However, the revised standard now specifically highlights possible scenarios that may exist under law, regulation or relevant ethical requirements in relation to reporting to an appropriate authority, and addresses the confidentiality considerations.

Other key amendments to IAASB standards under NOCLAR were as follows:

- **ISA 210 Agreeing the Terms of Audit Engagements:** More detailed application material was added to emphasise that the auditor should consider including in the audit engagement letter the auditor's responsibilities under law, regulation or relevant ethical requirements regarding reporting of NOCLAR to an appropriate authority.

Due to corporate scandals, questions have been raised on the integrity and objectivity of professional accountants which has resulted in increased requirement for professional accountants to be ethical and act in public interest.

- **ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements:** Updates were made to be consistent with changes made to ISA 250 (Revised), in particular to address the additional responsibilities under law, regulation or relevant ethical requirements, the communication required with management and those charged with governance, and requirement to identify required reporting of fraud to an appropriate authority outside the entity.

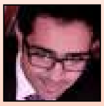
- **ISA 220 Quality Control for an Audit of Financial Statements:** Matter was added to explain in detail the communication required between a predecessor and successor auditor, including with respect to NOCLAR, linking it to the provisions in the IESBA Code.

- **ISAE 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information and ISRS 4410 (Revised) Compilation Engagements:** Amendments to be consistent with changes made to ISA 250 (Revised), in particular to address the additional responsibilities under law, regulation or relevant ethical requirements, the communication required with management and those charged with governance and reporting NOCLAR to an appropriate authority outside the entity. Amendments also made to address the practitioner's expected level of understanding of laws and regulations beyond the scope of the standard.

- **ISRE 2400 (Revised) Engagements to Review Historical Financial Statements:** Amendments to be consistent with those made to ISA 250 (Revised), in particular to address the additional responsibilities under law, regulation or relevant ethical requirements, the communication with management and those charged with governance and reporting NOCLAR to an appropriate authority outside the entity.

- **ISAE 3402 Assurance Reports on Controls at a Service Organisation:** New application material was added to highlight that the auditor may communicate with third parties when NOCLAR is identified.

Conclusion: NOCLAR will create a sense of greater accountability among organisations and will help protect the interest of stakeholders and general public from potential harm suffered as a result of non-compliance with laws and regulations. The standard will also help improve the reputation of our profession and enable greater trust and reliability. Due to corporate scandals, questions have been raised on the integrity and objectivity of professional accountants which has resulted in increased requirement for professional accountants to be ethical and act in public interest. In order to prevent any disrepute to our profession, we need to stay in touch and updated with ethical requirements and expectation from us to sustain confidence of the public in our profession.



The writer is a chartered accountant working as deputy manager Finance at Rafhan Maize Products Company Ltd. Faisalabad.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Embracing Simplicity

by Khizar Hayyat

To apprehend theme NOCLAR – Non-Compliance with Laws and Regulations, we need to look at the positive side of the prism, i.e. compliance rather than non-compliance.

Simplified approach to compliance: Compliance might be perceived as a compelling and articulated practical tool all across the nations. To a large extent, entities, institutions and public sector concerns had remained almost compliant and any deviations perceived as occasional incidents.

For instance, a billboard display on a big electric pole for advertisement is showing 440 voltage danger and beneath it an ice seller selling ice cream unaware of the potential electrical hazards.

The billboard is all around connected with secured transmission lines which may be perceived as more important than the livelihood of an ice cream seller. Safety measures and hazards might be thought as occasional occurrences in our country.

Compliance environment: Largely, compliance environment might be perceived as compliance within visible and explicit domains. But sometimes, external jolts might exist in surrounding objects. Relevant example may be incidents of flights disturbances by flying bird collusions.

Compliance reward: Cost of compliance in form of duties, taxes, levies and other contributory funds being of substantial volumes ought to be utilised for capital appreciation and allied ventures for support of contributors and allied supporting infrastructure. These volumetric contributions predominantly categorised for public sectors capital outlays. Dissemination of pre-planned methodology with reflection of each niche of outlay would foster and further cultivate environment for self-compliance.

Fortnightly projection: The monetary leverages emanating from compliant taxpayers as well as its segmental outlay would to be reflected with planned cycle. Media and different institutions might be entrusted with responsibility for awareness tutorials and information dashboards for compliance intakes and capital appreciation therefrom on fortnightly basis.

Heavens of duties: The entities, units, public sector facilities having meager and feeble capital structures, concerns declared sick and industries' facing operating caps might be facilitated by declaring duties and taxes heavens regardless of any area-wise demarcations. Compliance leverages might be phased out for generation of employment and economic enrichment therefrom.

Integrated enterprise resource management: The basic pillars of enterprises i.e. safety, security and facilities would have to be reinforced and integrated with Enterprise Resource Management (ERM) Systems to keep and re-ensure completeness of larger compliant picture and culture. Safety being of utmost importance, its compliance environment would have to be enlarged with stimulating in phased manner covering system and tech based refinements. Safety and security revolts would have to be encompassing Enterprise Resource Planning (ERP), infrastructure, public facilities and cottage and micro units.

Large corporations, multinationals, particularly entities associated with food and beverage sectors, had achieved numerous excellence milestones through process compliance and optimisation. At the same time, compliance contributions in terms of levies, taxes, duties, etc. had been made substantially to national exchequer and evenly in hard times contributions in the form of substantial advances duly routed through related portals to support and supplement crunchy niches. Notwithstanding of the aforesaid achievements and goals, surpassing instances in form of products' specifications deviation had been witnessed in recent days. Particular example might be tea whitener, etc. being cause of health issues might be relevant here.

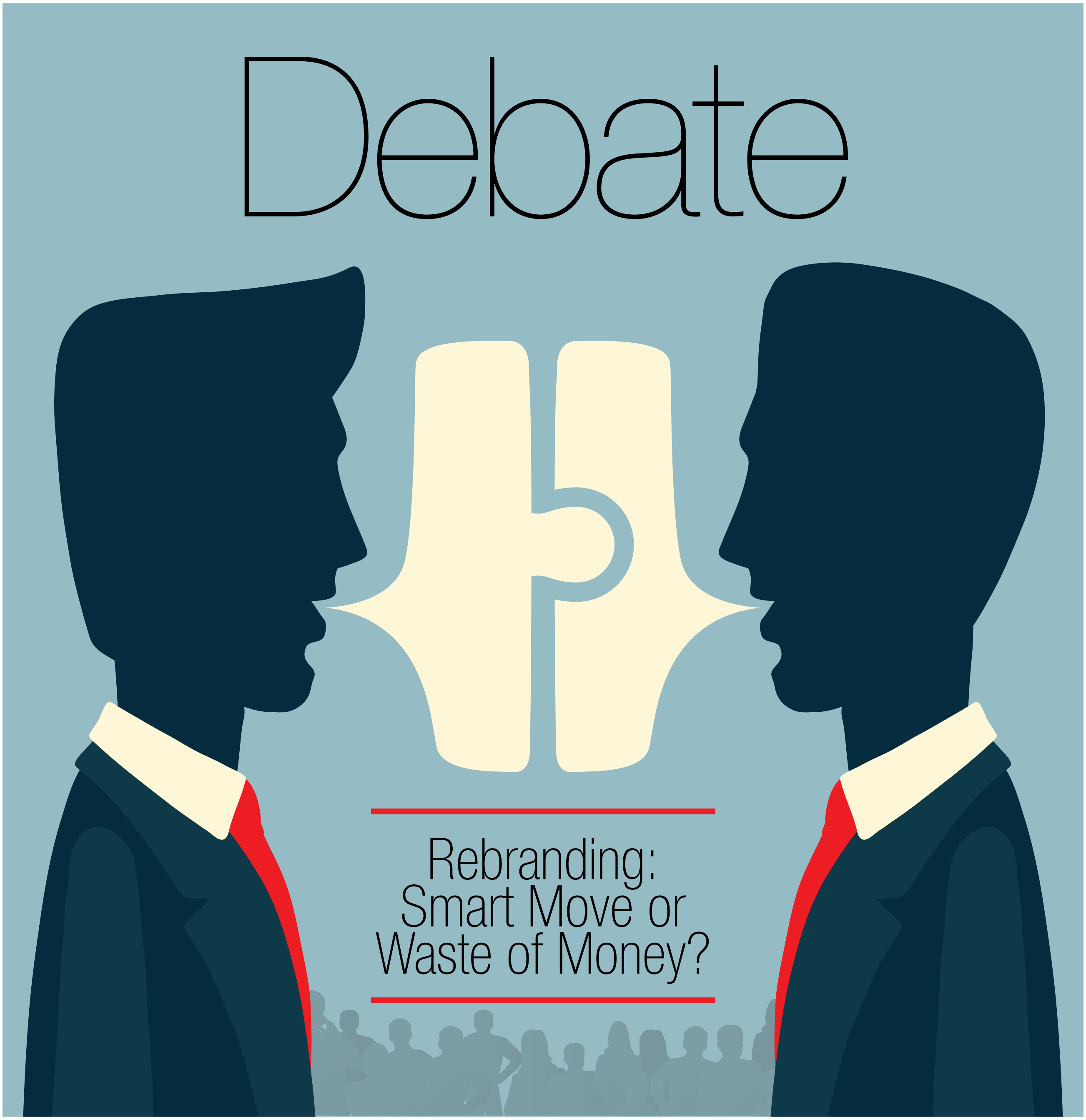
Safety and security had to be more proactive, impartial and participative to aggravate and prelude in process refinements and facilities management. These processes had to be taking active and righteous participation in renouncing of Key Performance Indicators (KPIs) of regions, concerns, institutions and functionaries and cross-border boundaries for resources appreciation rather than mere intakes and outbursts for short term textures.

Mechanism for reinforced indicators: Mechanism encompassing quarterly reports for new facilities, capital outlays on projects and ventures, supply chain management refinements, public sectors appreciation might be evolved from compliance contributions. Foreign investments and flows intake and outflows would also be multiplexed and pegged for capital ventures and outbound flows would also structure within compliance environment.

Compliance boundaries: The manifest of compliant limits attracts local, international, global and cross-continental jurisdictions. All these may increase diversity and complexity inhibit in the process affiliated with compliance levels to be achieved by users.

Supporting and enabling approach: Nowadays, the prevalent era ought to be more embracing towards simplicity and ease in broader application of multiplexed regulations and related changes. Post compliance might be a great deal to ease out all spheres and might be whimsy around lightness. To achieve limiting factors excellence, 'optimisation, operating convergence into capitalisation, supply chain venturing and intangible capital endowments' are pillars to build.

The writer is a chartered accountant working as deputy manager Finance at Attock Refinery Limited, Lahore.



Hina Kazi, FCA
Karachi

A brand is a perception of the company, an image of its products and services in the minds of its customers and other stakeholders formed as a result of the combined efforts of the various departments of a company. Or simply, it can be said that brand is a set of emotions, feelings and trust that people associate with a corporate or a product name and which speaks of one's experience with that product.

Rebranding is an approach of providing a new look and feel for an existing product/service by the company aiming to create a different identity, uniqueness and distinctiveness to the existing brand which also transforms the manner the product is accepted by the existing customer.

Now, why is there a need to rebrand your product/service? There are situations when there is a stiff market competition that leaves no option for survival. The brand may be outdated and needs uplifting as long time has elapsed since the company was last rebranded. In these circumstances, there is a dire need to present a different brand image in order to cope up with changes in the business world globally and meeting the ever-increasing demands and expectations of the target customer base and market trends. The necessity of creating a niche and settling the company apart from its competitors makes it incumbent on the former to revamp its corporate image and a brand makeover even though there are heavy costs associated with it. Mergers and acquisitions, in today's world, have become so common which, in turn, requires repositioning of the company in terms of presenting a new vision and achievement of goals/objectives combined with a new business design and strategic planning.

Along with the advantages, there are also risks associated with this methodology. Rebranding could be a blessing or a huge success or it can turn into a disaster or tragedy for the company depending on the way it is implemented. Therefore, rebranding entails rigorous research and extensive study along with the cost-benefit analysis before investing heavily in terms of money and time. Before undertaking the rebranding exercise, the company is to be cognisant of what course of action is exactly to be taken for a successful rebranding, like obtaining customers feedback through online surveys or talking in person to find out what changes the customers are actually looking for, taking positive/negative feedback in respect of any new product/service and encouraging the customers to offer suggestions for improvement, etc.

As it is said that rebranding is not meant for everyone, it is unsafe and could be a total failure for smaller companies with limited capital and fewer resources. Bigger and successful companies have little chance to mess-up as they are well-equipped and established and even if anything goes wrong, they have the capacity to revitalise and start afresh. Growing businesses have to always explore ways and tactics to make sure that their brands are modernised and restructured and are relevant to the customers' needs and satisfaction in order to maintain their presence and standing in a fierce and competitive market.

Zuhair Akram Shaikh, ACA
Karachi

Rebranding is a natural phase in a company's life. You don't wear the same stuff you did in high school, so why should a business keep the same image in maturity that it had at the beginning?

A brand identity, name, and logo is a company's public face. Hence, introduction of any changes requires some critical and careful analysis of the need and the associated benefits. In my view, successful rebranding campaign requires more than just a revamped logo; it demands a vision that inspires customers and other stakeholders to visualise the company in a new light. Sadly, a good number of recent rebranding attempts seemed to just crash and burn.

Pepsi is no stranger to logo redesigns. The latest iteration of Pepsi's logo was released in the year 2008 – a rebranding attempt that reportedly cost the company one million dollars. However, it is beyond comprehension, that the company spent a million dollars on something that turned out to be a failure.

In my opinion, an organisation attempting rebranding needs to make an informed decision, after careful analysis of every aspect including the purpose that is intended to be achieved. Any ad hoc action may lead to nothing but a waste of valuable resources.

Hina Afzal, ACA
Karachi

Rebranding more often than not translates into a new logo or design theme for the company involved. While one may argue that it is a smart move given the ever increasing competition, innovation and modernisation, it could at the same time result in fading off of brand loyalty, visual acceptability, emotional connection and timeliness attached with the specific logo for consumers. It has been witnessed that for many strong and established brands, the strategy could not really work and was also not received well, it rather backfired. Well-known instances include rebranding by Pepsi, GAP Inc, Kraft foods, etc. to name a few. On the other hand, brands that vowed to continue with their brand design continue to reap benefits of loyalty, trust and instantaneous brand recognition – Coca Cola tops the list of such brands; and the strategy has worked equally well for many others including Nike – with their ever so recognisable 'Swoosh,' Apple – for the 'bite' out of the fruit, Mercedes Benz – for the 'three-pointed stars.' The costs involved in rebranding are significant and even the most thought out and researched ones do not meet the desired outcomes. Needless to say, the product involved however needs to continue its value for the consumer for retention and loyalty with or without rebranding.

Qasim Abbas, FCA, FCMA
Toronto Canada

Rebranding, a policy decision, is indeed a smart move. Such decision is always taken in the interest of the organisation. The policy decision of rebranding depends upon the circumstances, e.g. international scenario, legal requirement, better corporate image, better performance, organisation's survival, etc.

The best example in Pakistan is of Aspro, a fast relief drug/medicine for pain, fever and inflammation, very popular in England and the Sub-continent for decades. In 70s, when a law came into effect to give generic names to all drug/medicine, the name of Aspro was also generalised. And the company rebranded its corporate name from Nicholas Pakistan Limited to Nicholas Aspro Pakistan Limited. Due to this policy decision, the popular name Aspro remained associated with the generic drug/medicine.

Another example is of a Pakistani professional organisation Institute of Cost and Management Accountants of Pakistan (ICMAP). Until 70s, its formal name was Pakistan Institute of Industrial Accountants (PIIA). Based on international scenario, the Institute rebranded the name to Institute of Cost and Management Accountants of Pakistan (ICMAP), which was indeed a smart move to keep pace with international standard.

Thus, rebranding is indeed a smart move and not a waste of money since a new identity is in the best interest of an organisation.

Shiraz Noordin, FCA
USA

According to American country music singer, Patty Loveless, "Life's about changing. Nothing ever stays the same." This quote strongly resonates with my feelings regarding change and adaptability in life. In an ever increasingly competitive market where new innovations are being churned out on daily basis like hot cakes, I believe that it is imperative to continually rebrand a given product or service in order to sustain its value and charm. Be it through a new makeover in packaging, enhancing a product's efficacy and features, or investing in a fresh marketing campaign. Rebranding a product seems like a smart move to me in order to maintain the lifetime of a product in the market. Take for example, iPhones; – if Apple hadn't continued to build and innovate on their first iPhone (launched in 2007) and hadn't been improving iPhones each successive year (i.e. rebranding their product's value through improvement in efficacy and features), then perhaps iPhones would not have been a common household product 11 years later today.

Muhammad Farrukh Siddiqui, ACA
Karachi

Rebranding is a hot topic these days with most people comparing the cost benefit of the exercise. So what does rebranding means? It is, in simple terms, changing or reshaping the corporate image of a company.

Why do companies need to 'rebrand' is the important question. The major reason may be the need of the hour as many companies may have become stagnant, target audience may not be enhancing and they have nothing new to offer. Other reasons may include introduction of a new competitor, new products to offer or there may be a sudden shift in customers need or behaviour.

The next question is, does it really help? The result varies on case to case basis. Nothing can be said with absolute certainty. The disadvantages or risks involved in rebranding includes the cost involve, and change of image may lead to loosing of customers, etc.

Companies need to conduct a cost benefit analysis of the exercise and if it seems appropriate, they should opt for it as it may give a new life to the company. Nowadays, many companies are opting for rebranding and are finding it to be a beneficial marketing tool.

Muhammad Suleman Zahid, ACA
Lahore

I support both the statements because this is based on the current situation of a business. Rebranding is done when business has a brand already in existence and the company wants to take the advantage of changing consumer habits and changing environment. Rebranding is a smart move only when you have a sound customer base and you know that they will be further attracted and new customers will be enlisted. Rebranding involves considerable investment for heavy advertisement on media, so there is a huge risk involved whether or not it will be successful. The main objective of rebranding is to maximise profits and to attract new customers. Rebranding is also done when the existing brand is saturated in terms of its value and people want some change, and also when the competitor brings in more valuable brands and the business is in danger of being wiped out. Rebranding is a waste of money when a customer has already shifted to the competitor, and they may not shift back. Research is important in this case to know the behaviour of people. So rebranding really depends on the situation of a business.

Owais Usman Ghani, ACA
Karachi

Rebranding is a marketing strategy in which a brand obtains a new identity in one form or another. This can include a change in the name, term, symbol, design, logos, advertising themes, product packaging, slogans or combination thereof. Making rebranding strategy a smart move, the following ingredients must be considered otherwise it would be a waste of money:

- Company's logo should be updated in a way to give the brand a fresh and modern look. A fresh look will recapture the attention of the audience.
- Company's rebranding and marketing strategy should be aligned with the corporate values. The rebranding stage is an opportunity to clearly define what those values are and get all employees onboard. They will feel empowered to contribute to the company's goals and objectives.
- Creating a modern logo should help appeal to prospective audiences previously unconnected (or having a lower connection) with the brand.
- A thorough market research should be conducted before launching a rebranding strategy. Measuring a selective audience response to new logos, themes, advertisements and

promotional materials can be a good indicator of what should or should not be changed.

- Don't forget about brand loyal customers by putting too much focus on targeting new audiences. Always keep in mind that it's more expensive to acquire a new customer than to keep an existing one.

Muhammad Amin, ACA
Karachi

In today's ever changing world, rebranding is a concept used by the marketing teams to make their brands and products competitive in the market place. Businesses are facing severe challenges in this global market place where everything is accessible on the click of a button and it is difficult for them to maintain customers' loyalty of their brands and its associated products. Companies which are moving smartly and repositioning their products through different types of rebranding strategies and associating them to emerging market trends are successful in exploiting the full benefits of their established brands to its maximum level.

Rebranding reminds the consumer about the existence of the product with improved features and place the product differently as compared to competitor's product by making small changes in the product features like its packaging, image, logo, etc. Who can forget the successful rebranding of Apple computers to Apple with a tagline of 'Think different.' Companies are required to think differently and align their marketing strategies with the latest trends in the market place and rebranding is one of it.

Muhammad Fahad, ACA
Karachi

People tend to get bored with repetition, and lack of change. Due to this phenomenon, rebranding becomes an integral part for every company. There is news of painting a Markhor on the tail of every PIA plane; thus PIA was in the news because of this rebranding. People want to see something new all the time, therefore, rebranding becomes important.

Let's talk about the most successful rebranding of all time – where was Apple before Steve Jobs? Nowhere. What Steve Jobs did was to rebrand Apple and this continued for a long time; he was always able to satisfy customers by bringing in newness and his rebranding attitude. In order to make any rebranding a smart move, one very important point to remember for any company is to rebrand after reasonable time period and to rebrand in such a way that it surpasses the rival by a long way in terms of customers and sales.

Waqas Bin Tariq, ACA
Kingdom of Bahrain

Rebranding is defined as a strategy to revamp/restructure/rename something to make it look new. Rebranding is a common business strategy in the modern day world. The business industry is filled with popular brands that have undertaken the strategy to gain/regain their position in the market namely: Burberry (notable fashion brand swung from being a 'gang wear' to 'luxury wear'; McDonald's (fast food chain known for causing the 'obesity epidemic' now offers healthy breakfasts and even salads); and Apple (suffering from low sales and poor customer responses in the 90's has emerged as a tech giant in the recent decade).

Well, to be honest, rebranding does not largely work for all business and the number of failed attempts is probably higher than the ones ending up in success. In my view, rebranding to a large extent, depends not upon the organisation itself by the 'drivers' of the organisation, making something old look new which anyone can do; it's the commitment and the intuition and the consistency with which you are willing to drive the 'brand' is what really matters. So it can either be a smart move, or an absolute waste of money.

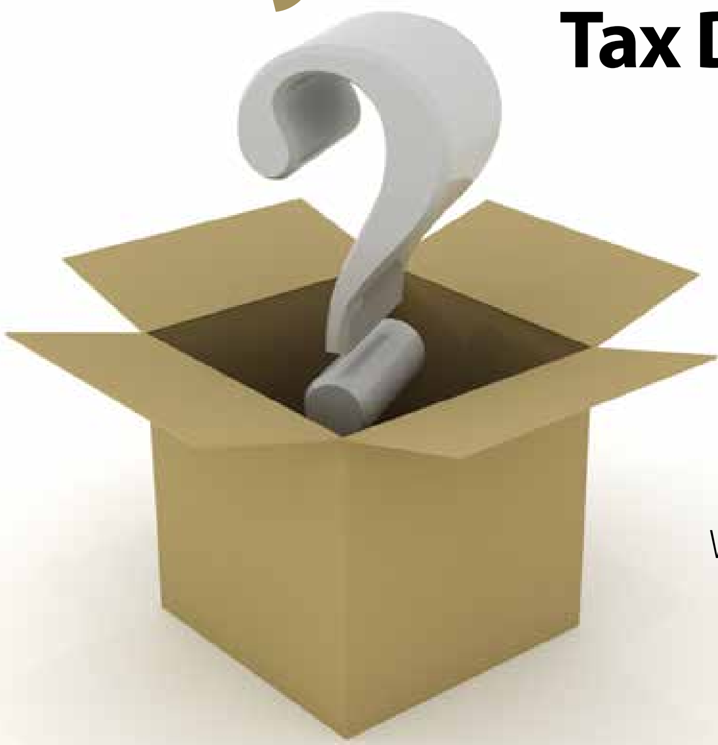
Shabbir Barkat Ali, ACA
UAE

Rebranding is more than a smart move. I feel such a move is necessary to keep a brand alive across generations. Some may argue that if you deliver a quality product/service and keep it relevant to the times (e.g. companies selling carton milk, keep enriching the product with present day customer demands in terms of content, flavour, quantity, etc.), that alone will ensure market share. But I would extend the same argument that unless you keep your brand known and recognised against competition (that from legacy and new entrants), your presence will be lost. I therefore believe, it is of equal importance to keep your brand alive, and rebranding done properly achieves exactly that.

Beyond – Out of Box

Tax Dispute Resolutions between Center & Provinces

by Ashfaq Yousuf Tola



To address the anomalies amid provinces and between provinces and center, there needs to be a way forward. A thorough study would be required to be undertaken to evaluate and harmonise the provincial and federal tax laws, especially for services.

Central government controls the main fiscal jurisdiction, such as taxation, spending and borrowing, in the countries having federal morphology, to upraise stability in the country by truncating horizontal inequities.

Through the 18th Constitutional amendment, a new paragraph to Article 38 of Principles of Policy of the Constitution was added and disparities regarding share of provinces in assorted services were extirpate.

The amendment also extirpates provincial autonomy and the Articles 70, 142, 143, 144,149, 157, 160, 161, 167, 172, 232, 233 and 234 were either measured or out-rightly altered. The issues included National Finance Commission (NFC) affairs; production of electricity; emergency provisions; natural gas; legislative powers and borrowing of provinces. The most momentous change was Article 142(b) and (c), which gave rights to provincial assemblies to legislate with respect to criminal law, criminal procedure and evidence.

Pakistan is also a Federal democracy and to conserve inter-governmental fiscal relationships, setting up of a NFC at most intervals of five years is provided under Article 160 of the Constitution. The mandate of NFC is to recommend to the president the distribution of resources between the federal and provincial governments. The president, through Presidential Order, endows legal cover to the recommendations of the NFC. The contrivance of revenue allocation between federal and provincial governments is available and used in the form of NFC.

NFC acts as a constitutional gizmo and has primary onus of disseminating the resources at sub-government levels employing a conjointly agreed and specified formula. This apparatus of allocation of resources and accountabilities betwixt distinctive layers of government is a serious affair and privations may lead to social, economic and political turbulence, therefore, this format of revenue sharing arrangements is required to be supplemented by a strong system of upfront and transparent distribution.

Presently, 7th NFC Award 2009 is functional. Through this Award, the financial sovereignty of the provinces has been invigorated by snowballing their share in the Divisible Pool (taxes) from 50% to 56% in fiscal year 2010-11 and to 57.5% from fiscal year 2011-12 onwards. For the first time in history, diverifox indicators were assented for apportionment of provincial shares in the divisible pool whereas in all the previous awards, population remained as solitary criterion for dispersal of provincial share in the divisible pool with special grants (subventions) to smaller provinces.

NFC also acknowledged that Sales Tax on services is a provincial subject under the Constitution of the Islamic Republic of Pakistan, and may be collected by respective provinces, if they so desired.

Provinces were allowed to collect Sales Tax on services and consequently, Punjab Revenue Authority (PRA), Sindh Revenue Board (SRB), Khyber Pakhtunkhwa Revenue Authority (KPRA) and Balochistan Revenue Authority (BRA) were established as alternative to Federal Board of Revenue (FBR) for collection of Sales Tax on services.

These boards/authorities were established and are functioning under their separate rules and regulations. The lack of uniform provincial tax laws has provoked rifts to be evolved among provinces, peculiarly between SRB and other provincial bodies.

An example of mismatch among provincial tax laws is that Punjab and Khyber Pakhtunkhwa are of the outlook that services received or consumed in their jurisdiction should be subjected to Sales Tax. But Sindh argues that services originating in its territory should be subjected to Sales Tax even if they are delivered or consumed in other provinces.

Currently, there are a number of different types of taxes imposed in Pakistan operating both under federal and provincial regimes. Some of them are listed below:
1. Income Taxes; 2. Workers Profit Participation Fund (WPPF);
3. Workers Welfare Fund (WWF); 4. Goods and Sales Tax (VAT);
5. Provincial Sales Taxes on Services; 6. Professional Tax;
7. Stamp Duty; 8. Sindh Employees Social Security Institution (SESSI); 9. Employees Old-Age Benefits Institution (EOBI);
10. Sindh Development and Maintenance of Infrastructure (SDMI);
11. Petroleum Development Levy; 12. Marking Fee;
13. Custom Duty; 14. Federal Excise Duty (FED); 15. Property Tax;
16. Motor Vehicle Tax; 17. Capital Value Tax (CVT); 18. Hotel Tax;
19. Entertainment Duty; 20. Advertisement (Visibility) Tax;
21. Market Committee Act 1948; 22. Education Cess; and
23. Fuel Tax.

The presences of assorted types of taxes under different authorities also evince the presence of complexities in the inter-governmental revenue transfers and settlements besides causing grave catastrophe to genuine taxpayers. This country is virtually being supported by an insignificant number of tax payers and these rifts are also dissuading them to operate and grow.

The issues relating to inter-governmental transfers arise time and again due to lack of concrete revenue entitlement determination mechanism. This causes piling of taxes paid on services pending to be adjusted against federal taxes or refund claims. These growth impediments are attenuating the growth of economy and wherefore resulting into 'dead weight loss.'

To address the anomalies amid provinces and between provinces and federation, there needs to be a way forward. The representatives of the provinces, at highest forum, will have to discuss and agree on the basis of provincial taxes, that is, whether the tax should be charged on services on the basis of area of origination or consumption. Also, a thorough study would be required to be undertaken to evaluate and harmonise the provincial and federal tax laws, especially for services. Probable way forwards should include:

1. Harmonised Tax Code

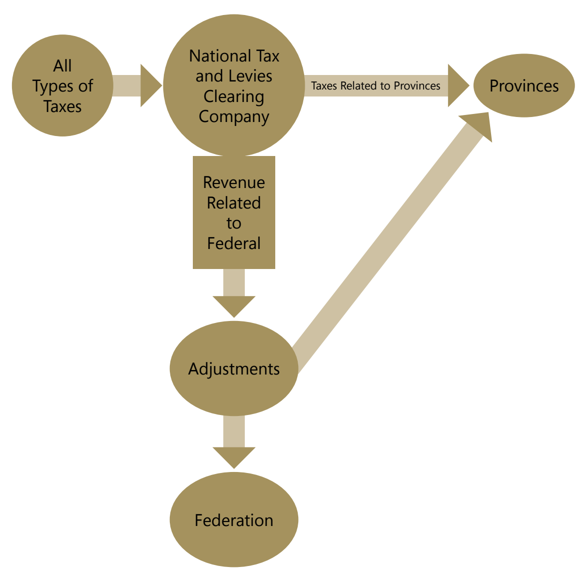
The lack of harmony over provincial tax laws for services amidst provinces causes the incompatibility between taxes charged and their adjustments for the taxpayers operating in multiple provinces. Therefore, the tax codes should be harmonised and any disagreements should be discussed and removed. The tariff codes for services in each province should also be revised.

2. National Tax Authority and Clearing Company

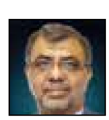
A structure through which dues of provinces to each other and to federation and vice versa are settled should also be defined.

A national neutral body is required to be established with responsibility and authority to settle inter-governmental dues employing this mechanism. The body may be called as National Tax Authority (NTA). NTA may be structured through formation of a Board of Directors consisting of five directors, one representing federation and the rest representing each province and all stakeholders must subscribe its equity equally.

A National Tax and Levy Clearing Company (NTLCC) may be formed under the NTA to clear and settle the inter-governmental dues. The lessons learned and experiences gained through working with Pakistan Revenue Automation (Pvt.) Ltd. (PRAL). NTLCC would act as a hub for collection and disbursement of taxes and levies to and from governments. The taxes and levies which relate directly to provinces like stamp duty, motor vehicle tax, etc. would be directly disbursed to provinces and the revenues which are part of federal pool would be settled on monthly basis after incorporating inter-governmental adjustments forthwith.



The establishment of NTLCC will smooth the flow of revenue and would pace up the economic activities.



The writer is a chartered accountant and ICAP Council member working as president of Tola Associates.

How come, despite so many penalties, Pakistan continues to see a low number of returns being filed each year?

Avoid DISCRIMINATION: File Tax Returns

by Samir Ahmad

Imagine going up to a shop or retailer and paying more than the person before you did for the same product or service. Imagine the discrimination you feel, the anger you go through, and the increased cost you must now endure. But also imagine this; all this could go away if you were to complete one task, which is a legal requirement. Yet, only 1.2 million Pakistanis complete the mandatory requirement. The rest end up paying the price, literally.

When it comes to fulfilling one's duty in Pakistan where the state of public education, health, infrastructure and availability of jobs leaves much to be desired, you can't help but wonder the real benefit of paying your due share of taxes.

For the past few years, the distinction between filers and non-filers of income tax returns has been made clearer than ever before. Non-filers have been subject to higher rates of withholding taxes, pay more when they buy vehicles, see a greater amount cut on their dividend income and capital gains, and even see deductions when they transfer amounts over Rs. 50,000 through a cheque transfer. Buying or registering property, deriving profits on banking instruments as well as getting paid for any goods, contracts or services rendered sees the non-filer recording a higher transaction cost.

So how come, despite so many penalties, Pakistan continues to see a low number of returns being filed each year? Is it that citizens have lost all faith in the taxation system that they do not want to file returns even if it costs them more not to? Perhaps, is it that the citizens lack awareness on what they ought to do to escape the penalties?

Perhaps, it is a bit of both. Pakistan's revenue collection may have increased over the last few years, but the structure on which it stands hasn't become stronger. Share of indirect taxes

Pakistan has suffered due to its low tax-to-GDP ratio, and will continue to do so. There is very little left to finance education and health. Mark-up, interest payments on borrowing and loans eat up a chunk of the country's budget.

is greater than before, and people are still reluctant to declare their sources of income even if they are all legitimate. Some, in the pursuit to raise their standard of living, have also exploited every loophole and legal lacuna to escape higher taxes.

The days of penalties are over; now, the government wants to completely shun these people. Non-filers will not be allowed to purchase property that has a declared value of over Rs. 5 million, effectively ruling out most transactions in the real estate market.

While the structure remains in shambles and cries of reform fall on deaf ears, small steps towards convincing the populace and spreading awareness can go a long way in reducing cost and expenses for those who do opt to take the legally correct path.

To be honest, there shouldn't be benefits of filing tax returns. It's a legal requirement, and needs to be fulfilled. You can't expect the government to fulfil its duty when you have failed to fulfil yours.

But when it comes to fulfilling one's duty in Pakistan where the state of public education, health, infrastructure and availability of jobs leaves much to be desired, you can't help but wonder the real benefit of paying your due share of taxes.

So, in the interest of appealing to our selfish nature, let's talk about the advantages and benefits of filing tax returns.

Firstly, it goes in your favour when purchasing property. You pay a lower amount of advance tax when buying immovable property worth more than Rs. 4 million, according to the current withholding tax regime of the Federal Board of Revenue (FBR). The capital gains tax on sale of shares is lower, and dividend income is also subject to just 15% tax if you are a filer. Withholding tax at the time of purchasing a vehicle is half – across all vehicle engine categories – and registration as well as motor vehicle taxes are lower. If this wasn't enough, companies pay a lower amount on import of certain commodities and there is no tax deducted when transferring money through banking instruments.

If this wasn't enough, the latest budget through Finance Bill 2018 has also put curbs on non-filers looking to purchase new vehicles. The days of penalties are over; now, the government wants to completely shun these people. Similarly, non-filers will not be allowed to purchase property that has a declared value of over Rs. 5 million, effectively ruling out most transactions in the real estate market.

With so many curbs and penalties, it just makes sense to file income tax returns. All one has to do is fill in required details of income and expenditure, and declare assets. This applies to all individuals who have an annual income of over Rs. 400,000. If one has earned it legally, there is no harm in declaring it. Why the secrecy? The incentive to hide only exists when income has been generated through ill-gotten means. In that case, higher tax rates aren't punishment enough. But in the case of honest income, a cost of even Rs. 10,000 is a blow to hard-earned money.

The argument shouldn't be about paying taxes. We already do; and a lot through sales tax, withholding tax and income tax. Instead, the argument should be to file tax returns so as to enjoy the benefit of paying those taxes as well.

Pakistan has suffered due to its low tax-to-GDP ratio, and will continue to do so. There is very little left to finance education and health. Mark-up, interest payments on borrowing and loans eat up a chunk of the country's budget.

The argument shouldn't be about paying taxes. We already do; and a lot through sales tax, withholding tax and income tax. Instead, the argument should be to file tax returns so as to enjoy the benefit of paying those taxes as well. There is no greater thrill than paying less for the same service when the person standing next has to contend paying more.

The writer is a working journalist, who specialises in financial markets and taxation matters.

Value Added TAX in UAE

by Numan Ali

Value Added Tax (VAT) is a tax on the consumption or use of goods and services levied at the point of sale. VAT is a form of indirect tax and is used in more than 180 countries around the world. While it feels exactly the same as a general sales tax to end-consumers, VAT is a more sophisticated tax and overcomes many challenges that affect the General Sales Tax (GST).

VAT is charged at each step of the 'supply chain.' End consumers generally bear the VAT cost while registered businesses collect and account for the tax, in a way acting as a tax collector on behalf of the tax authorities.

Effective from January 1, 2018, UAE government has achieved a milestone by successfully implementing VAT in the country and has reduced its dependence on the oil reservoirs and tourism. This is the first time in history that UAE has introduced VAT accordingly, to reduce its overall burden on the consumers, rate of VAT has been kept at a low rate of 5%. This rate is comparatively on the lower side as compared to other countries around the globe that have either GST or VAT ranging from 10% to as high as 30%.

UAE government has established the Federal Tax Authority (FTA) which is responsible for the administration, collection, enforcement of federal tax laws. Contrary to practices in various countries, where VAT on goods and services is collected and administered by different bodies, VAT on goods and services in the UAE will be collected by the FTA. VAT on goods and services has been imposed as all-inclusive which means all supplies are subject to VAT at standard rate except in cases specifically zero rated or exempt from VAT.

VAT Registration Requirements

Mandatory registration is required where the value of the taxable supplies reaches United Arab Emirates Dirham AED 375,000 for the previous twelve-month period. A provision of voluntary registration has been introduced in the law where the value of the taxable supplies reaches AED 187,500 for the previous twelve-months. A person registering voluntarily shall be entitled all the benefits of registered person subject to filing of the returns. A person making only zero rated supplies may apply for exception for the registration irrespective of the value of the supplies made by him. However, in such cases the

specified person will not be able to claim VAT paid as input tax credit.

Registration as Tax Group

Two or more persons may register as a tax group instead of individual registration subject to certain conditions that they are related and have place of establishment in UAE. Tax group shall be considered as single taxable person for the purpose of VAT. Sales and purchase outside the tax group shall be treated as sales/purchases by a representative member of the tax group nominated and authorised by all the other group members. However, any supply made by a member of the tax group to another member of the same group may be disregarded.

Types of Supplies

Standard rate: Unless specifically mentioned, supply of goods and services are subject to standard rate of VAT at five percent.

Zero rated supplies: Some key zero rated supplies are as under:

- Direct or indirect export outside the implementing states.
- International transport of passengers and goods.
- First supply of residential buildings within three years of its completion.
- Supply of preventive and basic health care facilities.
- Supply of educational services.
- Supply of air, sea and land means of transport.
- Supply of investment of precious materials.

Exempt supplies

- Specified financial services where they are not conducted in return of an explicit fee and provision of life insurance and life reinsurance contract.
- Supply local passenger transport.
- Supply of residential buildings other than zero rated as specified above.
- Supply of bare land.

Reverse Charge Mechanism

A mechanism by which the taxable customer is obligated to pay due tax on behalf of the supplier as against to the normal cases where the supplier is responsible to charge, collect, and pay VAT to the tax authority. Reverse Charge Mechanism (RCM) applies when a person receives taxable good or services in UAE from a place outside UAE.

VAT Payment and Return Filing

Filing of VAT return and payment of VAT shall not be later than 28th day following the end of the tax period. FTA, depending on the size and nature of the business has assigned tax periods on monthly and quarterly basis. As per standard tax return format provided by the FTA, a taxable person shall disclose his standard rated supplies, zero rated supplies and exempt supplies made during the tax period. A taxable person supplying both taxable and exempt supplies shall not be able to recover the VAT incurred on common expenses and shall use apportionment formula for claiming the VAT.

Conclusion

The introduction of taxes in the UAE is part of a Gulf Cooperation Council (GCC) initiative to diversify regional economies. Given the overall reduction in oil prices in recent years, it was necessary for the GCC member states to explore other revenue raising measures and reduce dependency on hydrocarbons as the key contributor to the public purse. As a result, the GCC member states agreed to sign unified framework agreements for the implementation of VAT and excise taxes. Under the unified framework umbrella, member states will also implement their own domestic legislation that will govern the introduction of these taxes.

The UAE citizens and residents enjoy exceptional public services, such as healthcare, roads, education, parks, social services and waste management. The full cost of these services is paid by the government. The introduction of VAT and excise taxes will help the UAE diversify sources of revenue so that government departments can continue to deliver excellent public services and ensure a high quality of life for the coming generations. This is also in line with a key pillar of the UAE's Vision 2021.

The writer is working as VAT specialist at Bukhatir Education and Advancement International (BEAM), United Arab Emirates.

Can there be a canon namely minimum in a taxation code?

by Haris Tufail

Adam Smith, a Scottish economist, philosopher, propounded 'Canons of Taxation' as a hallmark of an equitable taxation system leading to a civilised society. The famous American historian, Albert Bushnell Hart, said that: "Taxation is the price which civilised communities pay for the opportunity of remaining civilised."

Often the taxation machinery aggressively collect taxes through extortionist treatment and taxing even beyond the earned amounts and perhaps such was the apprehension in the mind of Austin O'Malley, a famous English author, as he cautioned: "In levying taxes and in shearing sheep, it is well to stop when you get down to the skin." There is the same apprehension on the minimum tax provisions enshrined in the Pakistan tax code introduced in early 90s in the now repealed 1979 tax code.

In accountants' parlance, this levy requires that aside the orthodox tax computation respecting all the provisions of the tax code, a concurrent tax charge has to be calculated by levying a certain percent on surrogate base of gross revenue to calculate the minimum tax which, if arrives at higher amount then is to prevail over the orthodox tax.

It was only invariable for this levy to be challenged in the court of law as tax is required to be paid on income and no income should mean no tax. This levy was however validated by the Supreme Court of Pakistan in a certain decision which the legal experts believe holds grounds even case of current tax code.

The taxation and economic experts believe that this levy was introduced on the eve of reduction in corporate tax rate to provide a stop gap arrangement to the government to balance the perceived revenue reduction. It has however now become a permanent feature of Pakistan tax code and despite being a disputed proposition, the passage of time has only seen strengthening, nurturing and broadening of such levies. For service sector of the economy, a four time higher revenue based minimum tax without a proper carry forward right forms part of the tax code. Alternative Corporate Tax which levies tax on the basis of accounting profits can also be easily related to this family of surrogate taxation.

Despite the ratification of court of law coupled with regional conformance, the author considers this levy as a constant aberration in tax code and the most blatant capitulation by the tax machinery from their own developed tax code.

The taxpayer's hues and cries were paid some heed as the tax code although retaining this provision introduced an entitlement to carry forward the excess of this minimum tax over the orthodox normal tax. The review of documents of the related Finance Act reveals that this entitlement was introduced particularly for industries sustaining losses in initial years of setup and unable to bear the brunt of this levy. Unfortunately, as has remained a hallmark of our taxation system, a dispute was raised by tax field force that this right of carry forward is only available if there is some amount of tax payable by a person, i.e., this entitlement is not available in cases where the taxpayer has sustained losses. This interpretation has been approved by one high court which is unfortunate. The most ironical about this adventure is that this right of entitlement to carry forward excess minimum tax has been taken back from the very cases for which this was introduced. This should be as absurd as would look like if a medical practitioner would pronounce that diabetic medicines should only be available to pre-diabetic persons and not for the ailing patients.

Further sanity was also injected in this provision when the law introduced immunity from this levy for corporate taxpayers sustaining trading losses. This exemption should also be incorporated with the three suggestions given after the following paragraph. This was quite an equitable legislation, however, was debated on the ground that discrimination has been made between corporate and non-corporate cases. This deprivation of non-corporate taxpayers has been addressed by the taxman to now bring harmony between corporate and non-corporate taxpayers in their own way of doing business by disentitling (rather than entitling) both from this immunity.

Under the current economic scenario where the foremost desire of the state is to ensure revenue collections to meet the lender's obligations, it is highly unlikely that these levies would be done away with. Considering this practical scenario, it is advisable that extortionist connotations of minimum tax should be scaled down by considering the following suggestions:

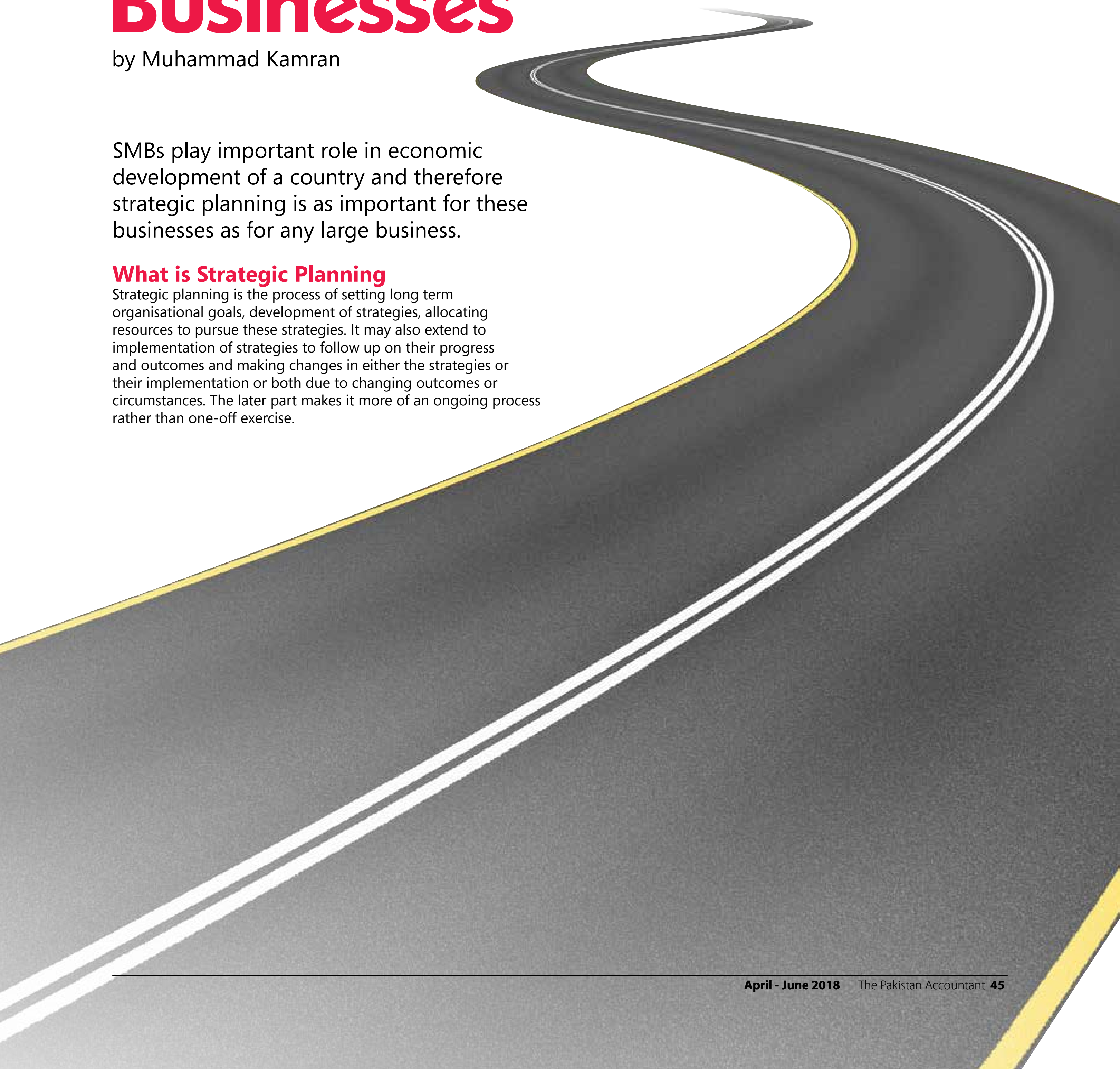
- If at all inevitable for legislature, there should only be one minimum tax provision at a reduced rate across the scale.
- The right to carry forward excess of minimum tax over the normal tax for atleast ten years should be unequivocally and invariably be available to all taxpayers hit by this mischief.
- The minimum tax should not be applicable for the taxpayers in the first five years of operation and also for taxpayers to which the law has enshrined exemption from tax.

The writer is of firm view that an equitable income based taxation system is not an inconceivable notion. An equitable system of taxation is a workable model and can have far reaching enduring reaps as conceived by Adam Smith in the following words: "Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things."

The writer is a chartered accountant working as senior manager KPMG Taseer Hadi & Co.

Strategic Planning in Small & Medium Businesses

by Muhammad Kamran



SMBs play important role in economic development of a country and therefore strategic planning is as important for these businesses as for any large business.

What is Strategic Planning

Strategic planning is the process of setting long term organisational goals, development of strategies, allocating resources to pursue these strategies. It may also extend to implementation of strategies to follow up on their progress and outcomes and making changes in either the strategies or their implementation or both due to changing outcomes or circumstances. The later part makes it more of an ongoing process rather than one-off exercise.

Strategic Planning in Large Businesses

In large businesses, the ownership is often separate from the management. Normally, the owners (shareholders and sometimes some other stakeholders such as financial institutions or regulators) appoint managers (board of directors) with responsibility to manage the business. Due to the size and complexity of the business, the impact of decision making on a larger organisation, the dependence of board's continuity and remuneration on company's performance and the availability and affordability of resources, large businesses normally have a well-structured strategic planning process in place. Such businesses have well-defined vision, mission and corporate objectives and strategies to achieve these objectives. Some of the large businesses even have a separate function headed by a chief strategy officer to design and implement strategies to make sure that strategic planning and implementation is given its due priority and is not compromised due to the priority of managing the business. Some of the businesses use external strategic planning experts to develop strategic plan for the business. Whatever approach is adopted, most large businesses do engage in strategic planning and often have a strategic plan and measure their performance against the set objectives, efficiencies and outcomes as defined milestones in the plan.

Importance of Small and Medium Businesses

Small and Medium Businesses (SMBs) are the key drivers of employment and economic growth and make up the largest business sector in almost every economy. SMBs dominate many important sectors and form crucial forward and backward links in both value and supply chain of various large capital intensive industries. SMBs help avoiding dominance of few large players in industries and marketplaces by providing important competitive and structural balance. SMBs normally cater those niche or fragmented markets which are less attractive to large enterprises due to their risk-return considerations or are considered economically unviable for large businesses. Also, SMBs are big contributors in innovation by acting as 'seedbed' for start-ups which may turn into a new industry or a large business in future.

Small and Medium Businesses (SMBs) dominate many important sectors and form crucial forward and backward links in both value and supply chain of various large capital intensive industries.

When the personal motivation and ambitions of owner-managers are fulfilment of personal goals then there will be higher level of lack of strategic thinking.

State of Strategic Planning in SMBs

In spite of the importance and their many contributions to the economy, in most of the cases SMBs have higher failure rates and poor performance level. It has been observed that as opposed to large businesses, SMBs normally do not engage in strategic planning. While it is certainly true that performance and success of a business is not dependent on strategic planning alone but to survive in highly competitive and turbulent market conditions, it needs proper planning. Findings generally support that enterprises are at greater advantage to planning than not planning.

It has been observed that strategic planning is generally more common in better performing SMBs. As compared to those who do not engage, SMBs that engage in strategic planning achieve higher sales growth, higher return on assets, higher profit margin and higher employee growth. Moreover, such enterprises are also likely to be more innovative and most importantly less likely to be those who fail. Therefore, though the extent, process and methodology of strategic planning in SMBs could be different from those in large businesses but the strategic planning is as important for SMBs as large enterprises.

Reasons of Lack of Strategic Planning in SMBs

Generally, SMBs are owner-managed businesses acting as extensions of their owners. Actions and decisions in these businesses revolve around the owner-managers and all the guidance and planning comes from them and is normally tied up with their personal preference and objectives. Therefore, the main onus of lack of strategic planning in SMBs is on its owner-managers. According to Mazzarol (2004), the owner-managers lack long term vision as to where their business is headed.

Generally, the owner-manager's motivation for being in business determines the level and extent of strategic planning in SMBs. These motivations are influenced by multitude of psychological, sociological, demographic and environmental factors such as education, gender, ethnicity, social marginalisation, family commitments, personal aspirations, etc. Though it is not the case always but it has been observed that when personal motivations and ambitions of owner-managers are profit or growth maximisation then there will be higher level of understanding and inclination towards strategic planning. Whereas, when the personal motivation and ambitions are fulfilment of personal goals then there will be higher level of lack of strategic thinking.

Even when the owner-managers wish to grow, they are prevented from doing so by barriers. Irrespective of size of a SMB, following main barriers prevent SMBs from strategic planning:

- **Lack of time:** The owner-managers are often involved in day-to-day operations of the business. Therefore, they do not have time to focus on any sort of long term planning.
- **Lack of expertise:** In most of the cases, owner-managers lack expertise in many areas of the business. It has been observed that normally owner-managers setup their business around their primary skills (which makes sense when starting a business) and try to efficiently manage that aspect of the business. They do not focus in developing expertise in other areas of business.
- **Inadequate knowledge of planning process:** As most of the SMBs emerge from nothing and are built by the owner-managers from scratch, the owner-managers and the team they build around them generally lack adequate knowledge

of planning process because in most of the cases at the initial stage they cannot afford to bring on board people having knowledge and experience of planning process.

- **Reluctance to share strategic ideas with employees and others:** In most of the cases, owner-managers are reluctant to share business information with anyone and want to remain focal point of every decision making. They even do not want to share future direction of the business and their views in this regard with their teams.
- **Size of business:** The bigger the size of a SMB, there are more chances of being inclined towards strategic planning.
- **Type of industry:** Most of the SMBs work in niche markets and industries which are less attractive to large enterprises. Therefore, the whole of the industry sometime lack planning process and hence the players in the industry find it irrelevant to adopt something which is not normally prevalent in the industry.
- **Internal implementation barriers:** Due to lack of prior experience and expertise, owner-managers often fear/face internal implementation barrier even if they want to, or try to, introduce strategic planning.
- **Business life-cycle/stage of development:** Whether the owner-managers will be inclined towards strategic planning depends on the stage of business/product life cycle. It is very important to do proper planning at all stages especially at both initial and maturity stages when the risk of failure is the highest.

Challenges in Strategic Planning in SMBs

The challenges of introducing strategic planning in SMBs can be divided into following three categories:

1. **Convincing for Strategic Planning:** The first and foremost challenge is to convince management that the business needs proper planning specially when the business is performing well. As the business is managed, in most of the cases, by those who created it from nothing, they feel that they know everything about the business and hence the way it is managed is the best way – after all they think they are successful because of what they have been doing. It is therefore important to understand the motivations of the owner-managers and identify the main reasons (barriers) of lack of strategic planning in the business. If the owner-managers are not entrepreneurial they will not engage in active growth activities including strategic planning. If they are entrepreneurial, then identify areas of improvement and convince the owner-managers that the business needs proper planning as either it has reached or is reaching to a point where it cannot grow/sustain without proper and deliberate actions (strategic plan).

2. **Preparing Strategic Plan:** Most of the SMBs operate in niche markets where there is no or minimum public information available about the industry and competition. Also the information available within the business is not that extensive due to lack of sophisticated data capturing and analysing capabilities. Therefore, scanning of both internal and external environments to analyse strategic position and options is not easy in such entities. The managers also lack knowledge about outside the organisation and hence they are often reluctant to accept anything contrary to their own knowledge and working style when it comes to both market and practices and therefore, they are resistant to accept both changes and challenges. Preparing a strategic plan in such environment is both difficult and challenging. Therefore, it is important to engage relevant teams within the business throughout the process of preparing the plan. This will give them sense of participation and they will be more inclined to own and implement the plan successfully.

3. **Implementing Strategic Plan:** Perhaps the most difficult challenge in every business is to stick to and implement the strategic plan especially if the business operates in continuously changing environment. It is important to make sure that the plan is continuously updated to meet the changing circumstances. Though the main goals and strategies many remain same but the implementation plan can be broken down into short term plans with defined milestones to mark the journey towards overall success and give team sense of achievement.

Conclusion

SMBs play important role in economic development of a country and therefore strategic planning is as important for these businesses as for any large business. It is important to understand most relevant reason(s) of lack of planning in the business, identify areas of improvement and convince the owner-managers that the business needs proper planning as either it has reached or is reaching to a point where it cannot grow/sustain without proper and deliberate actions (strategic plan). It is equally important to engage relevant teams within the business throughout the process of preparing the plan. It is better to initially start with a short term and easy to implement plan with fewer and simpler strategies. This will help build confidence and experience of both owner-managers and their teams when these strategies are implemented and have positive impact of the business. Strategies which are bit complex and require longer time to implement and produce results can be included in next phase.

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The writer is a chartered accountant and member of CPA Australia, working as finance manager at Southern States Group, Australia.

Normally owner-managers setup their business around their primary skills (which makes sense when starting a business) and try to efficiently manage that aspect of the business. They do not focus in developing expertise in other areas of business.

Most of the SMBs operate in niche markets where there is no or minimum public information available about the industry and competition.

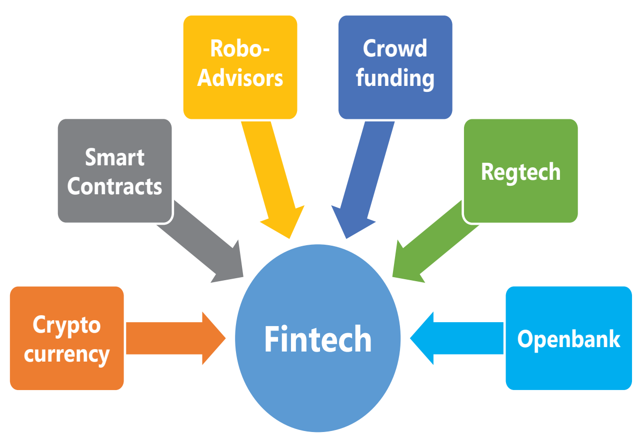
Financial Services Industry – Transformation through Fintech

by Muhammad Tayyab Raza

Fintech is not a very recent phenomena but it has gained focus on financial services sector in the recent past. The investopedia defined this phenomenon as: 'Fintech is a portmanteau of financial technology that describes an emerging financial services sector in the 21st century. Originally, the term referred to technology applied at the back-end of established consumer and trade institutions. Since the end of the first decade of 21st century, the term has expanded to include any technological innovation in the financial sector, including innovations in financial literacy and education, retail banking, investment and even cryptocurrencies[1].'

Fintech Developments

Fintech is like a sun on the rise with endless beams. Let's explore some of the Fintech developments that could have drastic impact on the future of financial services industry:



Fintech will increase the efficiency of the processes with less dependence on the human factor.

Financial services industry is passing through a perilous phase. The competition is not only emerging within the financial services industry but from the outside as well.

Fintech	A layman narrative
Cryptocurrency/ Digital Currency	Cryptocurrency, like Bitcoin, is a virtual currency which has a potential to be used as medium of exchange in future. Virtual currency or digital cash can replace physical cash movements (not entirely) and reduce the need of masses to visit banks or ATMs for withdrawal or cash deposits. A Cryptocurrency uses highly complex and hard to break encryption mechanism that transforms a plaintext to cipher text. Satoshi Nakamoto, a Japanese founder of Bitcoin, introduced the idea of Cryptocurrency through a whitepaper, Bitcoin: A Peer-to-Peer Electronic Cash System, which was published in 2008.
Smart Contracts	Smart contract (or also called Cryptocontact) is a computer program that executes the transfer of digital currencies and other assets using blockchain technology.
Robo-Advisors	Robo-advisor is a new class of financial advisors. These are digital platforms that provide investment management services based on predefined algorithms. This new class is not only changing the role of traditional advisor but also replacing them.
Crowdfunding Platforms	Crowdfunding is an electronic medium to gather funds from masses for the project. This idea has gained unmatched popularity in western world and billions of dollars were invested through Crowdfunding platforms in thousands of projects. The technological advancements have made this idea look simple. In essence, it resembles the Islamic mode of Mudaraba i.e. investor(s) provide fund to other person(s) with certain skill set or idea to do business and share the profit in an agreed way. In case of loss, however, it belongs to the investors unless it is proved that loss is due to willful negligence of other person.
Regtech	Regulatory compliance has always been a challenge for the companies in the financial world. Now the technology has also come up as 'saviour.' Regtech companies are providing a number of solutions that can assist companies to meet regulatory requirements particularly in the areas of Foreign Account Tax Compliance Act (FATCA), Anti-money laundering and Know Your Customer (KYC).
Openbank	Openbank is a futuristic approach to the traditional closed banking model. Emergence of non-financial players like, telecoms and Fintech companies are significant potential threats to the existing revenue streams of existing financial players. The Fintech has also raised customer expectations to the 'sky is the limit' level. Under this new emerging banking model, the banks' products, services and data will be shared with third parties for value addition and create/tackle new business opportunities through Application Programs Interface (API).

The Impact of Fintech on Islamic Financial Services Industry

Islamic financial industry, in comparison with conventional financial services, is at infancy stage. However, this aging difference does not undermine the competition between the two financial services streams. Technological advancement is a pre-requisite for the Islamic financial industry to compete the matured conventional institutions. Innovative product development and technology are possible routes to success for the Islamic financial industry. In order to maintain a sustainable growth in the Islamic financial industry, which has been witnessed in last couple of years, Fintech should be given unprecedented importance in the business strategy for the Islamic financial institutions. The ruthless competition can only be sustained if the technology is at par.

Fintech – Simultaneously an Opportunity as well as a Challenge

Financial services industry, not only Islamic, is passing through a perilous phase. The competition is not only emerging within the financial services industry but from the outside as well. The range of financial services offered by the telecommunication companies is rapidly eating the bank's share. The Fintech will increase the efficiency of the processes with less dependence on the human factor.

Disclaimer

I am not a financial technology expert. However, Fintech instantaneously attracts my attention, thus this piece on the development in financial services industry for my fellow colleagues.

Reference: [1] https://www.investopedia.com/terms/f/fintech.asp

The writer is a chartered accountant, working as a senior manager Finance at Al Yusr Islamic Banking, Oman.

Transforming Challenges into Opportunities: Fee Pressure

A recent International Federation of Accountants (IFAC) Global SMP Survey identified key challenges many small- and medium-sized practices (SMPs) face. This article is one in a series that breaks down the data from the survey and provides information, ideas, and tips to help SMPs address these challenges as well as best practice examples from IFAC SMP Committee members, together with the range of other tools and resources available.

Pressure to Lower Fees

The third highest challenge SMPs face globally is pressure to lower fees. Practitioners are fully aware of the importance of providing quality services, but it is clear that some clients remain reluctant to pay for such services. Technological advances, globalisation, and outsourcing to less-expensive offshore contractors may also prompt clients to keep up the heightened fee pressure.

The Guide to Practice Management for Small- and Medium-Sized Practices includes a section on coping with pricing pressures.

- **Adopt new approaches to pricing.** Instead of billing an hourly rate, set prices for services such as business advisory services based on perceived or estimated value to your client. Also, packaging more desirable services with services that are essential but less desirable allows for a broader range of services for a larger fee.
- **Stress the value of services offered.** Talk to clients regularly about the benefits of the services they receive. Communication is an important part of value pricing.
- **Focus efforts on most valuable clients.** Evaluate clients, group them, and offer different service levels to different groups, especially for non-audit services such as business advisory or tax. This technique, referred to as yield management, is used in the airline industry to price seats by the level of service in first class, business class, or economy sections. Some clients will appreciate, and pay for, first class service. Others will prefer the economy rate.
- **Leverage technology.** Maximise technology to improve processes and lower costs in the face of stagnant or declining fees. Cloud computing solutions deliver the same services, like payroll and bookkeeping, for less cost, email costs less than regular postal services, and Skype is less expensive than telephone or in-person meetings.
- **Re-examine service offerings.** Consider combining value with additional services for little extra cost, or provide the same for less cost. To set your practice apart in the marketplace, consider specialising in niche markets or services.
- **Fee breakdown.** Break invoices into smaller parts. For example, instead of charging a total amount for "Services Rendered," an invoice can show separate services and each cost, such Rs. X Tax Return, Rs. X Annual Report, etc. This clearly demonstrates each individual service and makes it harder for clients to complain.
- **Find less expensive sources of supply.** Review your practice's suppliers and look for competitors offering benefits that may warrant switching. Competitive pricing and choice of suppliers, from internet service providers to computer hardware vendors, may have improved considerably since your practice first chose its suppliers.
- **Tackle overheads.** Seek to minimise waste and make the most efficient use of human and environmental resources, including workspace, energy, and consumables. To optimise expensive office space, practices may encourage staff to perform work at clients' premises or at home and pre-book a desk space when in the office. Similarly, practices could find staff efficiencies through improved workload distribution, adequate planning and supervision of engagements, and delegating work to the appropriate levels. Flexible working hours may avoid staff redundancies, which erode morale and make it difficult to recruit new staff. Shifting routine work to more junior staff can also help cut costs, but staff assignments need to be managed carefully to maintain quality results and avoid damage to your practice's brand.

Searching for Stars:
Youth & Talent Management

In the 2016 International Federation of Accountants (IFAC) Global SMP Survey, 33% of the respondents reported that personnel and staffing issues were either a high or a very high challenge. The top three personnel challenges they saw were:

- Finding qualified staff (at all levels) – 45%;
- Retaining qualified staff (at all levels) – 41%; and
- Provision of technical training – 35%.

The American Institute of Certified Public Accountant (AICPA) 2017 Top Issues Survey also found that staffing is at the top of mind for many practitioners with finding and retaining staff a key issue across all sizes of SMPs.

It is important for many smaller accounting practices to genuinely reflect on how to ensure the career path for younger generations in the profession so that it will continue to be attractive over time. Given the technology developments impacting the profession, the model of practices is likely to change with ramifications on recruitment and talent management. For example, some firms are now hiring data scientists, rather than individuals who have studied accountancy.

The Accountancy Europe publication, Keeping the Audit Profession Attractive, listed five factors influencing the attractiveness of the audit profession – the process of becoming a registered auditor, regulations, having a compliance mindset, technology and work-life balance.

In addition, ACCA recently published the report, Generation Next: Managing Talent in Small and Medium Sized Practices, which explores the strategies SMPs can adapt to access talent.

The topic of youth and talent management was discussed during a recent IFAC Small & Medium Practices Committee (SMPC) meeting, which included practitioners from around the world sharing their perspectives and practice on how smaller practices can both attract and retain talent.

Advantages in Joining Smaller Practices

The following advantages for young individuals joining smaller practices were noted:

- The ability to be more customer focused. Such an approach allows staff to be closer to the clients and also partners. At an early stage of their career, younger staff have opportunities to work closely with clients and have greater possibilities to undertake a range of services, learn from senior staff and realise an increased chance of promotion;
- The operating structure of an SMP is usually not in a silo. Staff will have the ability to develop a 360 learning experience in a relatively short time. In addition, staff can usually look forward to better job variety;
- Better work-life balance proposition with a flexible HR policy; and
- Higher correlation between work effort and earnings.

Talent Management Initiatives

To ensure that new openings appeal to the younger generation, firms will need to be more creative in this space. The top ten suggestions and measures to attract, develop and retain young talent in a smaller practice environment included:

- **Invest in technology and gadgets** to create an efficient and enjoyable environment for staff to work in;
- **Create a sense of belonging for each employee.** Team building sessions with the senior staff can assist in developing and building relationships and enhance communication throughout the practice;
- **Provide more opportunities for learning and continuous development.** This includes offering scholarships to cover the cost of education, paid study time, prizes for students who excel with exam results, as well as organising regular training courses and enabling experienced staff to train and mentor new employees;
- **Be prepared to pay market rates for talent.** In order to recruit top talent in a competitive market place, the salary and benefits package remains very important;
- **Provide opportunities for the next generation to be more entrepreneurial** and able to make a difference much faster. Demonstrate to them that their opinion matters. 'Rising stars' can be offered extra responsibilities, e.g. leading on specific technology projects. Based on research, the younger generation now wants to work for a purpose;
- **Provide internships** and upon graduation from college or university, offer them a pathway to become a full-time employee;
- **Establish and build relationships with local higher learning institutions.** For example, arrange access to high academic achievers or organise presentations at career fairs by former students of the institution now working within the firm;
- **Offer challenging assignments** to new employees – clearly explain that there is a work plan for them when they join so that they can see their own career progression;
- **Use social media** to reach out, target and engage younger generations; and
- **Publicise the firm's investment in staff training and other personal development.** This can send a powerful message to the marketplace and garner the interest of young job seekers.

PAO initiatives

It was noted that Professional Accountancy Organisations (PAOs) also have an important role to play. Suggestions for possible activities included:

- Publishing success stories covering the benefits of working in a smaller practice;
- Arranging for practitioners from SMPs to speak at student engagement events at the university or college level;
- Organising for peers of smaller firms to share best practices on talent attraction and retention, which can be recorded and disseminated to other members;
- Helping to brand the career of an accountant and thus, drive more students into the profession; and
- Creating a young Certified Public Accountants (CPA) team in the PAO and emphasise reaching out to younger generations through activities and outreach. These individuals may be more relatable when speaking to their peer group.

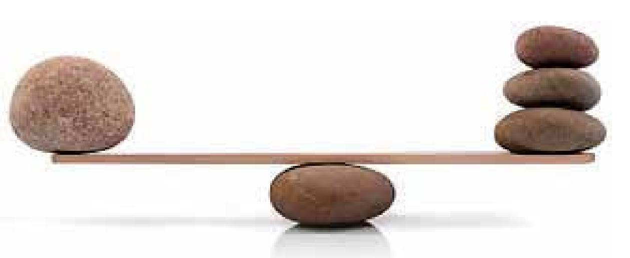
Summary

It is important to recognise that the results from some of these talent management initiatives may take time to materialise. The key is to start investing in some of the initiatives above. The appropriate action will also vary depending on the size, location and circumstances of each practice.

Courtesy: Used with the permission of International Federation of Accountants (IFAC) Global Knowledge Gateway (GKG): www.ifac.org/Gateway

Offsetting When & How?

by Aamer Abdul Razzak



As a rule, all assets and liabilities, and income and expenses are required to be reported separately unless specifically permitted by any specific International Financial Reporting Standards (IFRS). Offsetting in the statements of comprehensive income or financial position, except when this reflects the substance of the transactions or other events, detracts the ability of users not only to understand the transactions (or other events or conditions) that have occurred but also to assess the entity's future cash flows. Measuring assets net of valuation allowances (e.g. inventories or receivables) is not regarded as offsetting for the purposes of applying the above principle laid down in International Accounting Standards (IAS) 1.

Following are some examples where transactions are presented on net basis:

- Gains and losses on disposal of non-current assets, including investments and operating assets, are reported by deducting from the amount of consideration on disposal the carrying amount and related selling expenses.
- Expenditure related to a provision that is recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and reimbursed under a contractual arrangement with a third party (e.g. a supplier's warranty agreement) may be netted against the related reimbursement.
- Gains and losses arising from a group of similar transactions are reported on a net basis. For example, foreign exchange gains and losses, and gains and losses arising on financial instruments held for trading, are presented net although they should be reported separately if material.

IAS 32 Financial Instruments: Presentation sets out more detailed requirements regarding the offset of financial assets and financial liabilities.

IAS 32 requires that a financial asset and a financial liability should be offset as a net amount in the statement of financial position when, and only when, both of the following conditions are satisfied:

- The entity currently has a legally enforceable right to set off the recognised amounts of the asset and liability; and
- The entity intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The assertion that both conditions exists at time become difficult to maintain. For example, it is common for entities to have amounts on deposit with a financial institution and simultaneously have a drawn-down borrowing facility, sometimes referred to as an 'overdraft,' with the same financial institution. The entity has a separate financial asset and a financial liability with the same counterparty. It is usually not possible to achieve offset for the asset and the liability because, in most cases, the entity cannot assert that the asset will be used to settle the liability. The asset will rise and fall as the entity places further cash on deposit or withdraws cash to settle other obligations. Although the asset at the reporting date could be used to settle the overdraft, the entity cannot claim offset because the entity does not have the intention at the reporting date to settle the overdraft liability with the deposit asset. Rather, the entity's intention is to use the deposit asset at the reporting date, and potentially draw-down more borrowings if needed to meet its working capital needs.

Some other examples of standards providing specific guidance on recording assets and liabilities on net basis is IAS 19 which requires an entity to recognise the net defined benefit liability (asset) in the statement of financial position. The net defined benefit liability or asset is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. Therefore, in general, all the assets and liabilities, and income and expenses are required to be reported separately unless permitted by any specific IFRS.

The writer is a chartered accountant, working as manager Finance at Hub Power Company Limited.

Sustainable Cost Reduction

by Amjad Waqar

Based on my experience, cost reduction and revenue optimisation opportunities exist in all organisations. However, the most important element is the identification of those opportunities and implementation of required measures to achieve desired results of cost reduction and revenue optimisation.

Difference between cost reduction and revenue optimisation

Cost reduction and revenue optimisation are two different approaches for increasing bottomline of an organisation. Cost reduction mainly focuses on identification of potential areas where operational cost (variable/fixed) can be reduced, either by adopting new methodologies, changing the work pattern or through usage of latest technologies.

Revenue optimisation, on the other hand, cater to areas in a value chain of an organisation where strategies are adopted to increase revenue from current streams or adding new revenue streams to increase profitability (effectively efforts to increase revenue to increase profitability).

Illustration

Cost reduction: Renegotiating contract with distributor and effectively achieving better pricing for goods distribution.

Revenue optimisation: Sale of same production volume with higher value/at higher selling price.
In summary, revenue optimisation is the strategic management of pricing, inventory, demand and distribution channels to maximise revenue growth over the long term.

Cost reduction is commonly understood as staff reductions, product and facilities rationalisation, and cutting capital budgets, although these are sometimes necessary. However, effective cost reduction program lies in an everyday processes that continually addresses the root cause of each cost, say, reason for excess staff, requirement for unprofitable and over-expanded product lines, etc. Effective cost reduction program deals with improving system and culture to reduce cost on long-term basis.

Cost reduction and revenue optimisation are two different approaches for increasing bottomline of an organisation.

Why cost reduction is important?

In today's rapidly changing environment where existence of organisations is challenged with digital era and FinTech solutions, efficiency, effectiveness and eagerness for continuous improvement is a key to success. One way of continuous evolution is to develop a culture for identification of improvement areas in an organisation and another is to challenge the core of each element of doing business.

Challenging the core elements means challenging each cost and resultant revenue for its existence; resultantly, this necessitates the need for cost reduction and, in other words, cost reduction is important for organisations to:

- Be competitive
- Be innovative
- Develop a culture of continuous improvement
- Evaluate new ways of achieving targets and objectives of the organisation
- Reduce wastage and preserve resources
- Reduce various risk organisation is facing
- Have detail understanding of each function
- Allocate resources where growth stimulated

In my humble view, the correct and long term implementation of cost reduction program in any organisation is not only focusing on reducing its cost and increasing profitability; the program also helps them to become more competitive and agile for adaptation of new technologies with the help of inbound culture of continuous improvement developed with this program.

In today's rapidly changing environment where existence of organisations is challenged with digital era and FinTech solutions, efficiency, effectiveness and eagerness for continuous improvement is a key to success.

Key elements for effective cost reduction

To be effectively implemented cost reduction program/ system require the following key elements:

- to be led/managed by senior leadership of an organisation;
- along with allocation of required resources, include but not limit to a dedicated team with experience of industry and departmental norms and ability to identify opportunities of cost reduction; and
- align strategic priorities to develop a culture of continuous improvement and excellence so that any cost reduction opportunity can be implemented properly for long term.

How sustainable cost reduction can be implemented (the methodology)

There are different approaches for implementing sustainable cost reduction program. It starts with a need for improvement in profitability, organisational culture and to become more competitive in market (as defined above in detail) and the key elements discussed above would be essential to start the program in an organisation.

The simple methodology for implementation shall be:

1. Effective communication within organisation and clarity for:
   a. What is being targeted and why?
   b. What would be the ultimate benefit to all stakeholders (employees, customers, suppliers, shareholders, government and others)?
   c. Role/requirement from each department.
   d. Key Performance Indicators (KPIs).
2. Compilation of departmental cost in value chain of an organisation.
3. Analyse/evaluate each cost item:
   a. For detail understanding and evaluation (historical, within industry and best practices).
   b. By challenging each activity with Zero based budgeting (Zero based costing).
4. Undermine cost reduction exercise with each identified areas.
5. Discuss and educate team/departments with cost reduction outcomes.
6. Document cost reduction ideas.
7. Evaluate each cost reduction idea with cost and benefits analysis and strategic advantage to organisation.
8. Shortlist/prioritise cost reduction ideas.
9. Prepare plan for implementation of cost reductions proposals/drive for change.
10. Organisation wide implementation and transformation.

Highlight on some of key areas of cost reduction

Cost reduction opportunities exist in almost all areas of value chain, namely:

- Procurement function
- Sales and distribution function
- Production area
- Store and inventory management
- Marketing and advertising function
- Communication arrangements
- Repair and maintenance
- Third party services arrangements
- Stationary and printing arrangements
- Insurance arrangements
- Human resources management
- Financing and working capital management
- Treasury and forex arrangements
- Waste and recycling arrangements
- Taxes and duties management
- Others

I have discussed how cost reduction can be achieved in various industries, and readers are requested to share their views on same and experience/lessons learned in implementing cost reduction and revenue optimisation within their organisations.

The writer is a chartered accountant working as senior deputy general manager at Lucky Cement Limited, Karachi.

RIP, CFO

by Muhammad Ammar Malik

A few months back, an article on venturebeat.com caught my eye and made me frown in concern. The title of that article was something like, 'CFO is dying, long live the COO,' and in that piece, the CFO of a tech company described what he thought was a fast-paced evolution of role of finance professionals from traditional accounting or finance to an operations focused role.

In another broadcast on YouTube, I heard a CFO trainer describe the existing accounting and finance model to be completely obsolete and incompatible with the business models of the present day. He argued that while accountants are caught up in historical book value concepts, investors and business executives want to know what is driving market value of any business.

I took a moment to absorb these bits of information, and thought why people have increasing concerns about the modus operandi of accountants and finance professionals? Are they after our jobs?

The answer, of course, is no, they are not after our jobs. The issue is heavily linked to the wave of change which today's finance professionals find themselves caught up with.

Today's accountant is busy presenting and analysing what has historically transpired in an organisation. However, our bosses want to measure what the future looks like. Consider this: Facebook's current market capitalisation stands at US$ 500 billion while the book value shows US$ 62 billion. Tesla's books show its value at US$ 5 billion but the market says it's worth is US$ 55 billion. This huge gap exists because the market is willing to place a value to the enterprise's growth potential, otherwise, not visible on the balance sheet. And it is this value that the executives want to comprehend. So, what are we doing to understand this gap in value measurement?

The gap, of course, points to something which the good old International Accounting Standards Board (IASB) fervently disallows to measure in the balance sheet, that is, the intellectual, human and social and relationship capital of a company. These capitals make up what we know as internal goodwill of that company which, my fellow accountants would recall, is not allowed to be brought on the balance sheet. Ironically, these capitals also make up for the real worth of an enterprise and there is an increasing push from within organisations to get ahead of the curve, measure these elements and link it to overall value of the company.

If that's how the gap between book and market values is to be explained, then, that's exactly where the role of today's finance professionals comes into play. With finance acting as the melting pot of majority of information and data being churned out inside a company, they are in a perfect spot to collate that data, measure the functional Key Performance Indicators (KPIs) and then link them up with the value of the company by demonstrating how much of intellectual, human and social and relationship capital has been created in the organisation.

I know this sounds, just like that article in venturebeat.com, to be more of an operational than the traditional finance function role, but I also believe that's the way our profession is going to evolve in the near future. This is especially true once you factor in big data which refers to the wonderful ability of today's technology to process and store the quantity of data which wasn't possible 20/25 years back. The technological factor gives even a greater thrust to the need for a change in the role of financial professionals and to perform those cutting edge data analytics which tell us that an organisation's real worth, just like Facebook and Tesla, is far more than what the balance sheet presents.

We need to change the way we measure and report information. The change is earnest in need, fast approaching and as Heraclitus of Ephesus, a Greek philosopher once said "The only constant in the world is change." And if we don't adapt to this change, then my best is that the word 'CFO' may soon be removed from the C-Suite. RIP, CFO.

The writer is a chartered accountant working as financial controller in one of the leading conglomerates in the Eastern Region, KSA.

Automation & Relevance of Accountants

by Muaaz Tahir

There will always be a need for accountants; their traditional role of number crunching will definitely change but nevertheless the accounting profession will evolve and thrive.

It's 2025, a number of men and women wearing suits are standing in a place which, due to the surrounding skyscrapers, appears to be the financial district of the city. It seems like they are waiting for someone. After a few minutes, a pickup truck appears and advances slowly towards the crowd.

The people standing there, which by now is clear are finance professionals, start to gather around the truck. The truck halts, the driver signals and a few of them jump to the back of his truck and then the truck departs.

The above is a somber view of the future of accountancy profession according to a video uploaded on YouTube. Now, the question we should be pondering upon is that whether the need of chartered accountants will be eradicated in the coming years?

There are numerous articles circulating on the web and social media claiming that robots and artificial intelligence (AI) will take over the job of accountants. Even if we cut through these speculations about the future and look at the present, there are various applications available for nearly every service provided by the accountants.

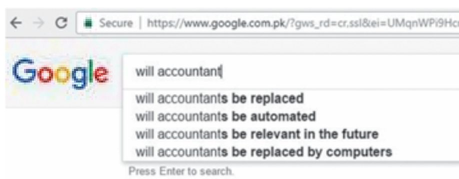
You want your taxes done, there's an app for that; you want someone to take care of your book-keeping, there's an app for that; you want someone to prepare your financial statements, there's an app for that too. These are just examples of services available to everyone for free. If you go one step ahead and look at professional softwares, everything from preparing forecasts to analysing and drawing conclusions from complex financial models is automated. Audit firms themselves

Instead of being pessimistic and perceiving the upcoming surge of automation as a threat, we should turn it into opportunities and focus on the new jobs automation would create instead of worrying that it will cause unemployment. Accountants just need to make sure that they have the right skills to solve the problems of their clients and employers in the most efficient and effective way.

have developed and deployed software that can perform, with greater accuracy and better speed, many tasks which previously required a number of personnel.

For example, a few months back KPMG Australia signed a deal with IBM to use the technology firm's high-profile Watson supercomputer to do big company audits. Similarly, Deloitte also has its own deal with IBM Watson for governance regulatory compliance.

There's actually a lot of debate going on about the future of accounting profession. Take a look at the following screenshot which reveals what people around the world are searching:



Also take a look at this survey which lists the jobs susceptible to computerisation. According to it, the future seems pretty dark as there is 94% risk that accountants and auditors will lose their jobs to computers. Surprisingly, second only to the telemarketers.

Jobs	Probability
Recreational therapists	0.003
Dentists	0.004
Athletic trainers	0.007
Clergy	0.008
Chemical engineers	0.02
Editors	0.06
Firefighters	0.17
Actors	0.37
Health technologists	0.40
Economists	0.43
Commercial pilots	0.55
Machinists	0.65
Word processors and typists	0.81
Real estate sales agents	0.86
Technical writers	0.89
Retail salesperson	0.92
Accountants and auditors	0.94
Telemarketers	0.99

Source: "The future of employment: How susceptible are jobs to computerisation?" Carl Benedikt Frey, Michael A. Osborne. Published September 2016

So the question we should be asking ourselves in the midst of all this uncertainty is: what should we be doing? Should we just sit back, hope for the best and dismiss all this as 'fake news,' or should we just give up and believe that the accounting profession is doomed?

Fortunately, the AI technology is still in its initial stages and we can take steps to ensure that we are prepared for its impact.

We, as accountants, can agree that the best solution and the most pragmatic approach to tackle this challenge is to prepare ourselves for the upcoming tsunami of automation. Everyone in the accounting profession can take steps to benefit from computerisation and to evade from its potential disadvantages.

Existing firms should modify their customer solutions to include technology in a way that maximises the quality of the service as well as reduce its costs. By doing this, instead of being wiped out, firms can actually use this certain change to their advantage and increase their revenues.

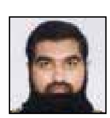
Existing chartered accountants and finance professionals should learn computer skills beyond the typical MS Office products and conventional ERP software. They should familiarise themselves with the best apps available and not only recommend them to their clients but also avail them to their own benefit. It will also provide immense opportunity for flexible working, achieving work-life balance and at the same time improving the quality of work done by them.

Institutes of chartered accountants should also take steps to ensure that CAs are equipped with the knowledge and skills that will be in demand in the future. For example, they can develop suitable Continuing Professional Development (CPD) programs as well as update their syllabus to ensure that fresh CAs are ready for the clients' and employers' need that will arise in the future.

The regulators have the task of assessing the impact of automation on audit and related services, especially its implications on compliance and ethics. The relevant laws and standards will also need revision keeping in view the dynamics of computerisation.

To conclude, it could be said that instead of being pessimistic and perceiving the upcoming surge of automation as a threat, we should turn it into opportunities and focus on the new jobs automation would create instead of worrying that it will cause unemployment. Accountants just need to make sure that they have the right skills to solve the problems of their clients and employers in the most efficient and effective way.

We accountants can take a sigh of relief, as there's one thing AI can never accomplish; and that is exercising human judgement, especially in situations when there's no clear distinction between right or wrong, ethical and unethical. Due to this, there will always be a need for accountants; their traditional role of number crunching will definitely change but nevertheless the accounting profession will evolve and thrive.



The writer is a chartered accountant working as VP Business Development at NTM Soft (Pvt.) Ltd.

Banking CFOs & Evolution of FinTech
Sit up, CFOs!

by Nadeem Iqbal

The global financial system has undergone numerous changes particularly after 2008, driven predominantly by geopolitical sensitivities and heightened level of regulatory supervision. The horizon of CFOs has also been re-shaped by a range of opportunities such as:

- Large number of non-performing loans/assets;
- Emergence of various new cost structures;
- Enhanced level of prudential regulations, financial reporting and disclosure requirements; and
- Financial Technology (FinTech) revolution.

FinTech is a term that refers to the innovative use of technology in the design and delivery of financial services and products. The application of FinTech cuts across multiple lines of businesses and customer segments, including lending, investment management and payment services. The CFO's role in the banking industry has transformed accordingly with the pace of technological advancements generating a number of excelling opportunities. Having said that, such opportunities have also triggered some rigorous challenges too.

Some real life examples of FinTech

Mobile Banking: Many FinTech companies integrate and leverage on mobile communication/networking technologies, business intelligence tools and analytics to modify and offer financial products for various customer segments. One of the most prominent examples of FinTech, that revolutionised the way we bank today, is the advent of mobile banking. FinTech has driven a change towards traditional banking norms. Certainly, mobile banking has impacted the customer footfall gradually moving away from face to face channels, like branches, to alternate channels i.e. E-Banking, for various reasons, including customer convenience.

Banks being a major user of technology, FinTech has placed itself at the heart of the financial services offering, fundamentally changing the way in which companies interact with their customers. As FinTech brings together many different facets of technology, its impact is being felt across a range of industries and in both the business and consumer markets. From an investor perspective, FinTech is creating important changes to the way in which businesses secure funding. Peer-to-peer lending is enabled by digital technologies, thereby empowering startups to launch and grow more easily by allowing them to secure alternative investment opportunities.

Blockchain is the talk of the town these days. The concept has taken the financial services industry globally. Simply put, blockchain is a public ledger of transactions that have ever been executed. A block is the current part of a chain, which records some or all of the recent transactions, and once completed, goes into the blockchain as permanent database. Each time a block gets completed, a new block is generated. Blocks are linked to each other, like a chain, in an order with every block containing a hash of the previous block. In conventional banking, the blockchain is like a full history of banking transactions. Banks are now exploring how to leverage this technology in advancing complex transactions, for example, global trade and receivable finance.

The challenges

FinTech companies have mushroomed as new terrains challenging the dated business models in financial services, over the last two decades or so. Navigating the astute challenges and coming up with compliant solutions for banks has become even more mission critical challenge for the board of directors. The pressure naturally trickles down the line to C-level officials of the banks, as the banking industry is facing tremendous cutthroat competition and globalisation of financial services in business landscape. CFOs together with the chief executive officer (CEO), chief compliance officer (CCO) and chief risk officer (CRO) are expected to play a more coordinated role in optimal utilisation of technology for raising the bar to the next level.

Bank CFOs in particular are challenged more so to explore the balance between business restructuring and return, both on capital and return on capital, to grow with technology innovations. CFOs are now days at the heart of most of the world's big companies as they are:

- Playing a pivotal role in overseeing operations and cost-cutting initiatives.
- Acting as a focal point of contact for investor relations, board and regulators.
- Allocating capital and other resources to translate strategy into real life realities.
- Formulating and driving strategy articulation hand in hand with CEOs.

Gone are the days of a typical stereotype CFO whose role was confined merely to bookkeeping and reporting. Now the role is even more pertinent, acute and influential. Let's analyse how it has evolved to this level?

Number crunching bookkeeper: Traditionally, the position of a CFO began with a perception of backward-looking, controlling and financial reporting only. The forward-looking function of capital planning was added progressively as the role evolved by focusing on the bank's operating model on an enterprise wide basis.

Articulation of strategy and project management: The role then acquired a more-outward-looking dimension overseeing competitive strategy. CFOs progressively began to acquire a thorough understanding of markets and competitors, to carve out and re-shape the business models, and therefore, adapted effective communication and interpersonal skills.

Custodian of the 'ship wheel': The next responsibility came when CFOs were entrusted with the responsibilities to look after the funding structure thereby taking control of the 'ship wheel.' The role grew multi-folds as it encompassed capital management and as a primary port of call for investor relations.

Risk steward: With the advent of emerging new regulations, Basel III and others, the CFO's position elevated even higher. The CFO is now expected to have a thorough understanding of finance, risk management, financial products, alternate distribution channels and negotiation strategies.

Sustainable value manager: Finally, having clarified the risk management perspectives, the CFO became the ultimate director of value chain management thereby allocating the most critical roles and resources of a bank, both tangible and intangible ones, and not merely limited to the economic capital alone.

The CFO role continues to expand yet again as a result of the financial crisis, revision of regulations and the pace of digital innovation. Technology continues to evolve and impacts the changes in the marketplace itself with FinTech enabling enhancement of existing financial service offerings. Modern research suggests that technology presents a bigger challenge for financial services than ever before. Regulatory developments are driving technological change and broadening the role of the CFO to include cyber risks as well in context of production of reliable financial and non-financial information. This is in addition to the increasing number of information requests from regulators for different types of financial reporting, which are driving more and more liaison with supervisory authorities.

The supervisory focus on FinTech, including Regulatory Technology (RegTech) as one of its core elements, will only add to the future volumes of regulatory publications. In the given context, the following points are worth noting:

- Emerging signs, where there is a visible divide between those banks, which have embraced the wave of technological innovation compared to those who chose to ignore it either out of sheer ignorance or due to lack of availability of affordable capital.
- Availability of trained resources in the market and its subsequent development/honing (as part of talent management plan), in response to these developments.
- Particularly RegTech, as a part of FinTech, has the potential to affect a wide range of banking activities. Various areas of risk management are likely to be affected by RegTech including regulatory reporting.
- The budget allocation to RegTech solutions in the coming years will need to be revisited.

The potential areas of evolution include:

Penal actions against banks: With banks all over the globe being fined with hefty penalties and sanctions, and given the increasing complexity required to satisfy new compliance requests, the CFO is expected to play an enabling role for CCOs and CROs to ensure putting in place efficient strategies to counter threats like anti money laundering and counter terrorist financing. Hence, it comes down to CFOs to implement and refine core banking system that is flexible enough to allow for interfaces with other pertinent and specialist systems like Know Your Customer (KYC), Anti Money Laundering (AML), etc. to synchronise without much customisation costs in a timely manner.

Reshaping cost structures: The cumbersome cost structures of a banks' operating model and the instances when banking operations and support functions fail to deliver effective operational efficiency, have led to the CFO's having greater say on transfer pricing and target saving programs along with their implementation.

Catalyst for FinTech implementation: CFOs help drive digitisation of banks' operating models and develop the data governance. This follows the rise of big data, the use of analytics to turn big data into business opportunities, and the increasing number of competitive challenges posed by FinTech. Modern day banking CFO is expected to have a good grasp of the increasingly crucial cyber security risk, which is not only an IT technical issue, but also a strategic issue with relevance to business continuity, capital concentration and even the viability of the competitive strategy of the bank itself.

Improvising change: CFOs help the business survive and prosper by dealing with the new FinTech companies by integrating them rather than resisting them. In order to achieve this, CFOs will continue to diversify and develop various skillsets, such as:

- **Financial skills:** CFOs need to enhance their financial skills which play a paramount role in transformation of institutions particularly those going through financial turmoil.
- **Restructuring skills:** CFO will define the cost transformation because it is a critical component, in order to survive and to recover profitability. He will be a partner in operations, by negotiating and challenging them, as well as playing a leading role in both setting targets and making sure that these are delivered on time.
- **Compliance skills:** CFO will need to collaborate with compliance functions, in order to preempt the gaps in internal controls resulting in regulatory breaches and wiping out of capital and business performance, with the amount of fines and potential penal actions posing an existential threat to banks. Topics such as AML, KYC, customer conduct, treating customers fairly, anti-bribery and corruption are gaining increasing importance. The related remediation plans are equally becoming crucial parts of the successful CFO's agenda in terms of providing the necessary resources to make it happen.
- **IT skills:** CFO will also be involved in the overall IT and business transformation to digitise the bank and leverage its data.

The million-dollar question

In modern day digital revolution in financial services, the role of CFO has certainly changed significantly. And that change has accelerated in the recent past, following the global financial meltdown in 2008 and onwards. Whilst it's too early to say that it's about time when traditional old age banking models that have been supporting transactions for many moons will soon become extinct, FinTech has certainly made its mark by making CFOs sit up and take notice. Whether it's mobile apps, cryptocurrencies or social networks, FinTech is bringing innovations to an industry that had long been in danger of stagnating. The question still remains whether CFOs are geared up and equipped to deal with these developments and support banks in embracing these challenges posed by the FinTech evolution?

The writer is a chartered accountant working as senior manager in Global Internal Audit Function at HSBC Bank Middle East, U.A.E.

Determination is a quality for which we can certainly get some inspiration from a baby reaching out for their favourite toy.

Five Things the Corporate World Can Learn from Babies

by Farhad Nasiruddin Rajabali

On May 1, 2017, I was blessed with the most beautiful gift from God, my little angel, a baby girl! The past year has been the most enjoyable and rewarding time of my life. From hearing her cry for the first time, to watching her smile with a twinkle in her eyes, to seeing her learn to sit, crawl and recently walk, everything has been an experience to cherish for the whole life. For my little girl, there is so much around her to explore and learn and a lot for us to teach, but what I have also realised is that there is so much for adults to learn. These are the traits that people working in the corporate world should have or develop:

Babies are determined and persistent

Babies are very determined. No matter how many obstacles you put, they will reach out for their favourite toy, food or blanket until they finally get it. Nothing can stop them; all they have their eyes set on is what they want.

We, sometimes in the fast paced corporate world, forget what we are aiming for or what our goals are. For those of us who don't, may either give up very easily or lose focus. Determination is a quality for which we can certainly get some inspiration from a baby.

When babies cry, they indicate that something isn't right and it needs to be fixed. In the corporate world very few people cry out. Most people will just continue with how things are, even if they were unhappy, irritated or unwilling.

> Appreciation never harms anyone, it just makes them feel special and motivated to do even more.

Babies cry out

The initial few nights with a new born can be a daunting experience, especially if it is your first child. There are a lot of emotions you have to handle when they cry, and they do cry a lot, until you figure out what's wrong so that they can go back to sleep. What I figured out was that babies don't cry for nothing, usually there is something wrong, either they are hungry or they want their nappies changed or they are too hot or too cold. When they cry, they indicate that something isn't right and it needs to be fixed.

In the corporate world very few people cry out. Most people will just continue with how things are, even if they were unhappy, irritated or unwilling. If only we could cry out like babies do when there is a problem, people would take notice and make an effort to resolve the problem so that the crying stops and things return to being normal.

> Babies are never satisfied with the skills they already have, they want to learn new things. A lot of people in the corporate world become lax and discontinue the continuous process of learning.

They sleep in peace

We have all heard the idiom, 'To sleep like a baby,' and I wish we could all sleep as deeply and peacefully like a baby does, but in truth most of us can't. The baby sleeps peacefully because its mind is free from all worries and stress. But when we sleep we take our worries to bed. It's all about figuring out what we can do during our working day to reduce our stress and worries and if there are still things that we can't address then we must leave them in our office and not carry them home.

I asked my audit partner once, how does he know that everything is alright when he is signing an audit report. He said that the litmus test to see if you have covered your risk and are satisfied with the audit work is how peacefully you sleep at night after signing the audit report. If you have made the most of your working hours, completing the work effectively and efficiently, you can make the most of your time at home and relax when you sleep.

They learn quickly and willingly

They always want to learn; first to sit, then to crawl and finally walk. Never satisfied with the skills they already have, they want to learn new things.

A lot of people in the corporate world become lax and continue to rely on their college education to move up and discontinue the continuous process of learning. As most of us now know that education is a lifelong process and this human urge of learning and development is more critical today than ever. Continuous learning is the only way we can move from crawling to walking and then sprinting in the corporate world.

> If there is one thing that lights up my day is the smile on my daughters face. It makes me smile too. In a place where people smile a lot, there is an encircling positive energy which makes it a really productive and good place to work.

They smile often

If there is one thing that lights up my day is the smile on my daughter's face. It makes me smile too. The moment you see someone smile, it relaxes the mood and generates positivity. During our hectic days at work, we sometimes forget to take moment to pause, smile and greet the people around. For those of us who do, will agree that doing so just recharges our system, rejuvenates our mind and gives us a sense of belonging. More importantly in a place where people smile a lot, there is an encircling positive energy which makes it a really productive and good place to work and that's essential because you spend more than one third of your day in this place.

For everyone who has read till the end, there is a bonus entry.

They give back love

With all the love and care you show them, you get the same in return, mostly manifolds. Employees work really hard for their employers and organisations, with a lot of care and sincerity. Similarly, a lot of employers make an effort to provide a congenial working environment for their employees where they can thrive and achieve their true potential. It would be great if we as employers or employees can show some love and appreciation in return. Appreciation never harms anyone, it just makes them feel special and motivated to do even more. It strengthens the relationship whether it's between you and your child or you and your employer/employee. Love and appreciation should be bilateral but has to be initiated from someone.

Those were my thoughts on what we can learn from our babies. I am sure every parent would have experienced these during some phase of their child's development, so let us put some of these learnings to practical use in our professional lives. All the best.

The writer is a father with a full time parenting job and a chartered accountant working as a regional financial controller at Forum Energy Technologies.

Pakistan's Digital Age Challenges in Management and Governance

by Saad Gul

We're living in rapidly evolving times where economies are growing exponentially towards becoming more digitalised. Buzzwords like IT, governance, smart data, cloud and Internet of Things are continuing to become familiar day by day. Across all businesses and industries today, companies are constantly innovating, adapting and pivoting by using technologies that can transform products, services and entire industries overnight. There are companies like Elon Musk's SpaceX, which were 'founded in 2002 to revolutionise space technology, are equipped with the ultimate goal of enabling people to live on other planets.' Then there is us – Pakistan; it is still predominantly paper-based, and more worryingly, the governance mind-set and culture here is still conservative and governed by old school.

It is sad, and one wonders if Pakistan is thinking like an emerging economy at all? We have all the factor endowments, such as abundant human resource, well-established institutions and natural resources which constitute an important element in forming emerging economies. Both institutions and factor endowments such as natural resources impact emerging economies. This fulfils the foundational criteria for production activities to start with. But the bigger question is whether our government as a whole is geared to draw on the factor endowments at all?

Another fundamental for material growth is real liberalisation of the economy as the primary engine of growth. Given the centralised nature of decision-making and the excessive taxation regime, Pakistan seems to be still way-off the ideals of a

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Given the centralised nature of decision-making and the excessive taxation regime, Pakistan seems to be still way-off the ideals of a liberal economy.

One wonders whether Pakistan is heading into a management nightmare because of the fast growing population?

Extremely critical elements such as dynamic policy framework and liberal regulation in areas of market research, accounting firms, logistics business and engineering schools are largely missing in theory and practice. This is a major handicap and a sure recipe for slow and tardy progress.

In order to be successful in this continuously developing, high-intensity environment, companies need to fill information gaps and managers need to acquire new skills. We need to be making market conditions more attractive for people at home and investors abroad.

liberal economy. Institutional voids due to old regulatory mechanisms and deficient intellectual capital within all tiers of governance structures continue to come in the way of a liberal economic regime. Thus, the law-enforcement and strategic planning remains essentially weak.

The mismanagement surrounding Islamabad's new airport immediately after its abrupt inauguration is one example of all the aforementioned factors. The chaos and dysfunction at the airport for a few days shocked almost every passenger. We had all been looking forward to smooth sailing once it goes operational nearly 11 years after its construction began. In the words of a passenger, who flew from Islamabad to Karachi, the experience was horrible. He shared this on a social media forum: "Such an expensive project but absolutely no basic facility functional. No announcements, no guidance, gate numbers not matching with those written on cards, escalators, lifts dysfunctional. People on wheel chairs were forced to walk down the stairs and later asked to climb back up because the bridge was dysfunctional. Walking around finding your gate was even more difficult due to lack of guidance."

It obviously reflects poor advance planning, no regard for organised, well-thought out launch, and deficient management skills. Or a bit of everything. It is alarming too, and one wonders whether Pakistan is heading into a management nightmare because of the fast growing population? What lies at the heart of this and who is responsible for all of this?

On the face of it, this is rooted in three basic issues: a) an education system that hardly promotes critical thinking and innovation; b) absence of real innovative leadership thinking; and c) missing political will coupled with unnecessary and unbiased top-tier political interference in all governance matters.

This also shows that extremely critical elements such as dynamic policy framework and liberal regulation in areas of market research, accounting firms, logistics business and engineering schools are largely missing in theory and practice. This is a major handicap and a sure recipe for slow and tardy progress.

What we need is quality education and skills development programs that are based on the basic principle of critical enquiry. This can also help in understanding managerial issues in a broader context and help us in wrapping our heads around how to use accounting principles to understand the performance and health of a company. Such programs are critical to figure out as how to build models and use economic theory to project future outcomes, and develop critical-thinking skills.

Pakistani youth, who return from abroad after higher education and/or employment in developed economies, are a case in point here. They get good exposure to all the skills mentioned above. They bring with them skills, experience and knowledge from abroad which they can deploy here if given an opportunity to serve. They can indeed be a good source of knowledge spill-over in sectors of the economy including business houses and educational institutions.

What we need in Pakistan is the ability to construct and recognise solid logical arguments, comprehend their underlying assumptions, and also identify limitations. We must educate ourselves about organisational behaviour and personal leadership so that young managers develop a deep self-awareness of their

own strengths, weaknesses, and even identity.

In order to be successful in this continuously developing, high-intensity environment, companies need to fill information gaps and managers need to acquire new skills. We need to be making market conditions more attractive for people at home and investors abroad.

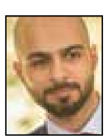
More resources should be mobilised to improve the pace at which business ventures are being created in Pakistan. Here, entrepreneurship is often informal since not all companies, particularly the small scale businesses generally do not register with the government. This means that they neither have professional guidance nor access to public finance platforms. If encouraged, small and medium businesses can make a huge contribution to the national exchequer. To put this into context, the Gross Domestic Product (GDP) estimates of informal economies unsurprisingly translate to approximately 65 percent of employment in Asia; 51 percent of employment in Latin America, and 72 percent of employment in North/Sub-Saharan Africa.

Achieving these ideals is difficult but not impossible. One way of coping with these challenges would be entering into a classical public and private partnership. If both sectors could possibly join hands to start multiple incubators where companies with better financial standing and experience can coach start-ups, who usually struggle initially or never come out of the 'idea' and 'planning' phase due to financial and knowledge handicaps. Why is it that small businesses continue and new ones are constantly popping up but hardly contribute to the economy on a regional and national level? We need to be training our workforce in a way that takes advantage of the low production costs, creates high tech products and provides services both to national as well as trans-border economies. Furthermore, low female labour force participation remains a key contributor to our low GDP. The Global Gender Gap Report 2017 ranks Pakistan as the second-worst country in the world amongst 144 countries. This should serve as a wake-up call to encourage more women to join the labour force.

Private enterprise holds the key to future growth and success. Even the public sector can catch up but only if all the leading lights agree on the need for compatibility of the public-private sectors, whereby processes become decentralised and more pro-active, backed up with the modern and latest tools of governance.

China, Taiwan and other South-East Asian as well as some Middle Eastern economies provide us good guidance into such partnerships. Let the private enterprise lead the way into soft and smart governance solutions.

Such processes can be the basis for the creation of corporate entrepreneurial activities as managers are relieved from the constraints of state bureaucracies. Overall, this may attract more Foreign Direct Investment (FDI) by encouraging competition amongst local and international competitors. Since we know culture eats strategy for breakfast, a culture of selflessness and designing of policies based on a healthy dose of common sense will provide more fairness than frustration.



The writer has a business administration and marketing background and is an upcoming private entrepreneur in Islamabad.

We need to be training our workforce in a way that takes advantage of the low production costs, creates high tech products and provides services both to national as well as trans-border economies.

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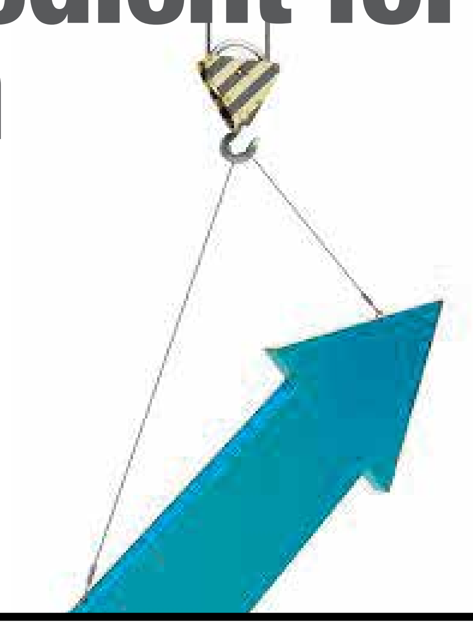
Increased Visibility – Essential Ingredient for Career Growth

by Khayam Nasim



Enhancing visibility is essential for a professional in today's world.

Well-connected people attract the spotlight easily and quickly as management becomes aware of their capabilities and have the comfort to rely on them.

Competition in current corporate world is becoming tough. In an employer-driven market, the talent pool is huge, and the options are widely available for employers. Being good is not enough as the expectation is to be the best. Employees need to be subject matter experts and standard has been raised. This creates pressure on employees for improving their performance continuously. However, this is not sufficient to perform well unless it gets noticed. It is equally important that good performer has visibility in the organisation, considered as a star performer and admired for his achievements. This raises a question: how can one ensure that his efforts and performance is recognised and appreciated? Enhancing visibility is essential for a professional in today's world. Considering corporate culture and vertical hierarchy, we usually need to rely on our supervisors to promote us with management and increase our visibility. However, there are certain strategies which we can follow, and it supplements the purpose to boost our career growth:

1. **Focus on Networking:** This is the area where most of our professionals, especially people belonging to functional departments, struggle due to our typically back office kind of job. And if we are naturally not a social person (i.e. introvert), it becomes much harder. It requires extra effort, an additional investment of time and lot of patience. But once we start enhancing our network, we see how easy it is to be noticed. To improve our network, we can start by trying to engage colleagues from the department as well as other functions/ area at our level. We should focus on making a direct relationship with them and leverage their support. Effort should be made to build strong connections within organisation and industry. Well-connected people attract the spotlight easily and quickly as management becomes aware of their capabilities and have the comfort to rely on them.
2. **Emotional Intelligence:** We should be aware of our emotions and motivational factors. Self-management is the most important factor which impacts our success and the first step is to be self-aware. Equally important is to understand others' emotions and behaviour and treat them accordingly. It improves our situation handling and managing conflicts. We can learn nothing better from adaptive leadership behaviours than Emotional Intelligence (EI). In today's world, it is more than Emotional Quotient (EQ). This is a major attribute which differentiate between just good and the best.
3. **Strong Connection with Supervisor:** Creating a strong relationship with the supervisor is very important. Gaining his

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trust and support is the basic requirement. Start talking with supervisor on role and responsibilities and how can you improve in the assigned area of work. Take suggestions from him. Don't wait for the year-end evaluation.

4. **Lead the Change:** Once you develop a good relationship with the supervisor, ask him if you can help in other areas where your experience can be utilised further. Try to do some improvement projects with high impact results, particularly those which are linked with improvement in an overall process for the organisation. However, respect the culture/environment of the organisation and avoid steps which can lead to conflict.
5. **Demonstrate your Expertise:** Reflect what you are good at. Establish an area of specialisation and keep yourself updated. Be the point of contact for that area. People who are subject matter experts are easily noticed in the company.
6. **Don't be a Critic, be a Well-wisher.** Try to focus on the solution and not problems. People should see you as a trusted person, and it should be easy for them to come to you for counselling when they need a sincere opinion. Be positive and helpful. Do remember, we need to earn respect from others. It does not come easily.
7. **Participate in Meetings:** Represent your department in meetings and at different forums. Come to the meetings prepared. Share your ideas, listen to others and contribute constructively. Let your presence be felt.
8. **Volunteer Yourself:** Share your knowledge and offer your expertise to develop others. Take the initiative for organising training sessions for the area of your expertise. Passing out the knowledge help not only others but also sharpen your ability. Ultimately you will benefit.
9. **Appreciate Others:** Keep a heart for appreciating others. Don't focus on yourself only. Recognise and praise good performances from other colleagues. Be happy for their achievement and celebrate. Always pay due credit to those who deserve.
10. **Give More Expect Less:** We need to give more and expect less in return. Help anyone in need and contact people, without expecting any favour back from them. The reward will flow to you eventually.
11. **Attention to Detail:** No matter how busy we are or how tired our mind, no exception to attention to detail. We must keep focused. We can do ninety-nine things correctly but one mistake can damage our reputation and slow down our progress.
12. **Dress Up:** Sounds a bit insignificant advice, but appropriate dressing has a powerful impact. It is our first impression and well-dressed people leave a pleasant impact. Avoid unprofessional and casual clothing. Following the latest trend is acceptable, but it should come within the limit of corporate culture.
13. **Reflect, Adapt and Adjust:** Change is the only constant. We need to adapt the change quickly and adjust our approach accordingly. Reflect on strategies and improve/amend to make sure it is effective with changing world around us.
14. **Self-Development:** It is an ongoing process, and we are responsible for our own. Invest time in continued learning. It will keep you updated and increase your confidence. Seek opportunities within the company for formal learning opportunities and participate actively in the corporate development programs. It will prove your ambition to grow.
15. **Create Your Brand:** We need to create our personal brand; how we want people to see and accept us. We need to influence perception of ourselves. That defines our reputation in the company. It has an invisible but immense impact on our progress. Once people get convinced of our ability, opportunities are bound to come.

Summarising the discussion, these are certain actions you can take to increase your visibility. In this era of the highly competitive workplace, it's not only hard work which can take us to next stage of our career. Rather, the one with shining visibility in the organisation are more likely to be considered for opportunities and advancement and can progress faster and farther. A right blend of hard work and increased visibility results in success. We need to keep focused, remain motivated and put our optimal effort to become a star performer, but at the same time we need to make sure all our efforts and hard work gets the right level of recognition.

The writer is a chartered accountant working as controller finance at 3M Arabia Co. L.L.C.

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Women in Accounting – Opportunities and Obstacles

by Hina Kazi

Many surveys have revealed that women employees are more dedicated, motivated, confident and professional when it comes to delivering the goals and targets.

The progress of the world in international trade and commerce has resulted in increasing opportunities for accountants across the globe. Increased demand has also opened doors for women in accountancy profession. Twenty years ago, women in accountancy profession were half in number as of today. The past few decades have brought a great transformation in the accounting and finance world. As a result of enhanced global business activities, going for a career in accounting and finance has turned out to be an attractive option for ambitious females who want to progress to the top spots in organisations.

With more females having educational achievements in accounting and finance, women are seen in leadership positions in organisations serving as chief financial officers (CFOs)/ directors of companies and partners/leaders in accounting and consulting firms and even some choosing to be entrepreneurs and running their own accounting firms and other businesses. There are plenty of career opportunities available in accountancy profession with varied scope of roles and responsibilities, starting from an entrant level to leadership roles. That is why, in today's world, more women prefer to choose this profession as they can see a wide range of career paths and a bright future ahead of them which is secured, innovative, challenging, rewarding and highly respected in society.

Many studies have suggested that organisations with gender diversity in leadership perform better in terms of profitability and growth by bringing diverse pool of talent and aptitude together which can contribute to the success of an organisation. As rightly quoted by American Institute of Chartered Professional Accountants (AICPAs) Women's Initiatives Executive Committee that "A diverse profession is a sustainable profession."

Many industry groups have increased their focus on providing new initiatives of career advancement for women workforce and have enhanced efforts to recognise, develop and reward excellence without any gender disparity. Gender parity is also encouraged by various organisations by reserving job opportunities only for female employees.

Many surveys have revealed that women employees are more dedicated, motivated, confident and professional when it comes to delivering the goals and targets. Many companies have accepted the fact that employees with strong background in finance are a valuable asset as their knowledge of financial implications of business objectives are a necessity for the growth of not only organisations but for the economy as a whole in the 21st century no matter whether male or female.

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However, accounting has always retained the image of a male-dominated profession as it is simply called 'a man's profession' and poses particular challenges for females to handle. Changing the organisation's culture where more than half of the workforce consists of males is a tough task for a woman employee and becomes quite perplexing at times. Even in today's modern times, it is unacceptable to many males to consider females as their reporting boss or having more females than males. Such barriers, unfortunately, do not only hamper women's advancement but also create 'glass ceiling.' Glass ceiling, a phrase first introduced in 1980s, is a metaphor for the invisible and artificial barriers that block women and minorities from advancing up the corporate ladder to top executive positions. This trend is changing fast but still there is much that needs to be done for overcoming stereotypes organisational practices where it becomes a real contest for the females to advance in career or even survive in the organisation.

Having healthy work-life balance and personal fulfillment is another challenge for female workforce to manage. It is very commonly seen in organisations for male employees putting in endless hours of work, working on weekends, sleeping on the office couch and not seeing family for days which, eventually, turns into a culture of sitting late after office. Such a culture becomes a real impediment in the way of a female employee who would want to maintain a healthy work-life balance.

Not only this, there are many other social, cultural and organisational barriers that are detrimental to the growth of women in accountancy profession. Many firms and organisations are making great strides in overcoming the barriers to women's advancement, retention and development in the field and have devised and successfully implemented programs to address these concerns in order to bring and retain the best talent.

For aspiring young females towards accountancy profession, the efforts of successful females in the profession should also be recognised and rewarded, thus bringing them into limelight as role models. It will help to demonstrate various aspects of professional development for females such as work/life integration, styles of leadership and business development approaches.

As opportunity and diversity have come a long way in the accounting profession, women have made great progress and excelled very well but, still, there are more obstacles to overcome in order to utilise the ability and expertise of female workforce to its best. The options of telecommuting, flexible working arrangements, job sharing and work from home should also be explored. Following in the footsteps of western world, our government also needs to support females by making laws for providing more conducive work environment for women.

The writer is a chartered accountant working as partner Audit and Assurance at Parker Randall-A.J.S Chartered Accountants, a member firm of Parker Randall International.

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REVISION Techniques for CA Students

by Muhammad Amin

Meticulous revision of the subject is important to guarantee success in that subject. There is general complaint among students appearing for their final examination that they are unable to make good revision although they prepared well and have also given, say, more than 40% of study time in to that particular subject. But they still feel unsure while going to give that paper. In state of panic, they end up just rolling the books, notes and registers on their way to The Institute of Chartered Accountants of Pakistan hoping to revise what they have studied in the last 60 days.

So what goes wrong?

There can be many reasons for that and we can hear scores of reasons from students starting from lack of time, not getting proper leaves from their firms, classes going on till the week before examination, non-ending syllabus and the list goes on...

Some useful revision tips for the candidates who are to appear for their final examination are as follows:

- First, choose the correct number of subjects in the order that one can give adequate time to the preparation as well as to the revision of each subject.
- Make a weekly plan for what to study and when to revise it, and update that weekly plan at the end of each week by setting more aggressive targets.
- Be realistic while making your study plan and don't be over optimistic in setting goals which are practically not achievable. Set SMART goals.
- Allocate some time each day for revision; the best time would be half an hour before the start of day, in the middle and at the end of the day. (For example, if one can study for 9 hours on an average, he/she should give 7.5 hours in the preparation of different subjects and 1.5 hours in revision of another subject.)
- Plan the revision of theory papers in those days when you are giving your full time to practical or analytical based subjects. It removes the monotony of the same subject running throughout the day and refreshes the mood.
- Similarly, a plan to give the entire day for theory based subjects and revision of any practical or analytical based subject. For example, going through the past papers or tricky points in the practice question paper.
- For all calculation in practical based papers, do not just practice the past papers randomly, write down the key points or techniques used to resolve that question with a sticky note pasted on the book where that question is practiced or solved. Each big question carrying 15 or more marks has two to three tricky points which can take away those previous marks or the student may end up wasting upto 45 minutes in order to get those 15 marks. Revision of those points can help to save precious time.
- For all calculation in practical based papers, note the time taken to solve the question against the time that should be taken to solve it in the examination hall (here a general rule of thumb can be used, 1 minute and 8 seconds for 1 mark). Also keep that timing difference a part of your revision so you can avoid wasting time in the examination hall if a similar situation arises there.
- When one subject is done, plan its double revision in all the remaining days ahead in a way that both the revisions are done just before three days from the examination week. (For example, if one has completed the preparation of Corporate Laws in first 12 days out of 50 leave days then s(he) may plan the first quick revision to be completed by 30th day and the second detailed revision to be completed by 47th day.)
- In the first revision which is also a quick one, start with less important areas and end up with more important areas. In the second revision (a detailed one), start with most important areas and end up with least important.
- While doing your third revision, mark the areas which you are going to see or revise before or on the paper day. It will help you on focusing the critical areas before the exam instead of doing random revision. Make an index for revision areas of each subject and paste it on your study table. If possible, make revision notes for the final revision.
- All the revision related material for each subject should be kept separate from other study related stuff one day before the start of final examination in order to avoid any distraction as the student is curious to go over everything which comes in front of him/her before or on the paper day.
- Allocate more of your revision time in the last days and reduce your time in preparing for something new. For example, if one has started with 1.5 hours on revision and 7.5 hours on preparation of new area then this time allocation should end up with 4.5 hours for each area by the start of last 10 days before start of the examination week.

The above revision tips are my own practical experience of approaching the subject and it's just for guidance and does not guarantee a 100% result. But it will definitely help the students of every field particularly CA who cannot study throughout the six months and do their preparations in exam leaves.

The writer is a chartered accountant working as finance manager in Otsuka Pakistan Limited.

For Trainee Students

Managing Professional Relations

by Sahir Jamal

Working in a training firm as a trainee student is an opportunity to learn and grow professionally. However, it is, at the same time, a test of your communication and people management skills. Managing the workplace relations with your managers, co-workers and clients, and developing a positive attitude towards work is what requires conscious efforts in the area of personal attitude, understanding others' perspective and development of conflict resolution approach.

Following are some situations you may face, during training, challenging your communication and people management skills.

Honest Difference of Opinion: Professional matters are no science where there are hard and fast rules for everything. Opinions differ and there is no problem in it. You can hold an opinion on a matter which is altogether different from the one your manager has. However, you should consider the matter in detail from all possible angles before forming an opinion to ensure that your basis for different opinions are strong enough. You should also consider the fact that you may not have the required professional capacity (knowledge and expertise) to form a competing professionally sound opinion on the matter.

Further, you should have the ability to understand your manager's perspective in the matter and understand that in spite of holding a different opinion on a matter, you may prefer your manager's opinion to act and there is nothing wrong in it. Holding a different opinion does not necessitate differences on implementation of the solution in practice.

Getting Credit of Work Performed: Your attitude towards work is as important to managing your workplace relations as your other obvious skills are. There is a mindset that you may find yourself not getting appropriate credit for your work. Interesting thing about this mindset is that actually no one can steal credit for your hard work. First of all, you learn a lot while doing hard work on any assignment. Second, your responsibility leverage increases as you gain confidence in yourself. Third, and most important, is that you should know that hard work never goes unnoticed. No one can really just outperform your hard work using his/her tongue. These three things are your credit for hard work, which no one can take away from you.

Fixing What Went Wrong: Things can go wrong during assignment while dealing with clients or performing procedures. It happens a lot. You may find yourself in such situations more than often during your training period. Here comes two challenges – first is to communicate the situation to your managers clear enough and second is to find a solution to the problem. Blame shifting and avoiding responsibility may not help you in this situation. The approach should be to take the responsibility for the work assigned to you and at the same time working on a practical solution for the situation.

Meeting People with Dominant Behaviour: People have different attitudes and behaviours. During training, more often than not, you have to deal with 'difficult' people. Such people like to have a dominant position in the conversation, somehow ridicule your arguments and even don't hesitate to strike personal attacks. Such people are a good test of your nerves and patience. It is advisable to remain calm, to hold a smile on your face and never let go of professional courteous behaviour. You may insist on your point without seeming to take any pressure. It will wear them out when they do not see the expected response. Often these tactics bring good results. You may even consider walking out without any conclusion if you deem it appropriate in the situation.

High Stress Situations: During your period as trainee student, there are times you go through rough patches when timelines are short, work is in abundance and late sittings become a norm. Communication in such high stress situation becomes more challenging as you not only have to perform the work efficiently within time but also keep your seniors informed about the status of work and your communications going on with the client.
The key is not to lose control of the situation by scheduling and planning activities for every day and communicating the same to your seniors. This will bring relief. Assigning specific tasks to each individual in your team and making them responsible instead of using every one on your team on need basis will help you mange resources efficiently in such a situation.

The writer is a CA finalist working as senior associate at Grant Thornton Anjum Rahman Chartered Accountants.

From Around the Glbe

CAs, Keep Yourself Updated

by Samina Iqbal

Briefs, updates, notes, ideas, innovations, research, surveys and smart quotes from the world of business, finance, medicine, HR, technology, marketing, education and environment… Be it management, governance, leadership, lifestyle, attitude or behaviour, career, success or failure, sports or humour, news or views… find it all here.

Pakistan National Human Development Report 2017 Unleashing the Potential of a Young Pakistan

The United Nations Development Programme (UNDP) Pakistan launched its National Human Development Report (NHDR), **Unleashing the Potential of a Young Pakistan** in May 2018. This report seeks to understand Pakistan's human development challenges and opportunities from the prism of youth. It focuses on how to improve human development outcomes – by empowering young people, addressing the root causes of the obstacles they face, and by proposing innovative ways to surmount these challenges.

Offering first-rate analysis and evidence-based policy recommendations, this report looks at three key drivers of youth empowerment: quality education, gainful employment and meaningful engagement. Authored by Dr. Adil Najam, dean Pardee School of Global Studies, Boston University, and Dr. Faisal Bari, associate professor of Economics at the Lahore University of Management Sciences (LUMS), the Pakistan NHDR accentuates the critical role youth's quality education, gainful employment, and meaningful engagement can play in securing human development progress in the country.

This report relies on the Human Development Index (HDI) as the measure of overall achievement, emphasising three main aspects of a nation's polity: people, opportunities and choices. The report focuses on youth primarily because Pakistan currently has the largest generation of young people ever recorded in its history. 64 percent of the total population is below the age of 30, and 29 percent is between the ages of 15-29 years. It is currently one of the youngest countries in the world and the second youngest in the South Asian region after Afghanistan.

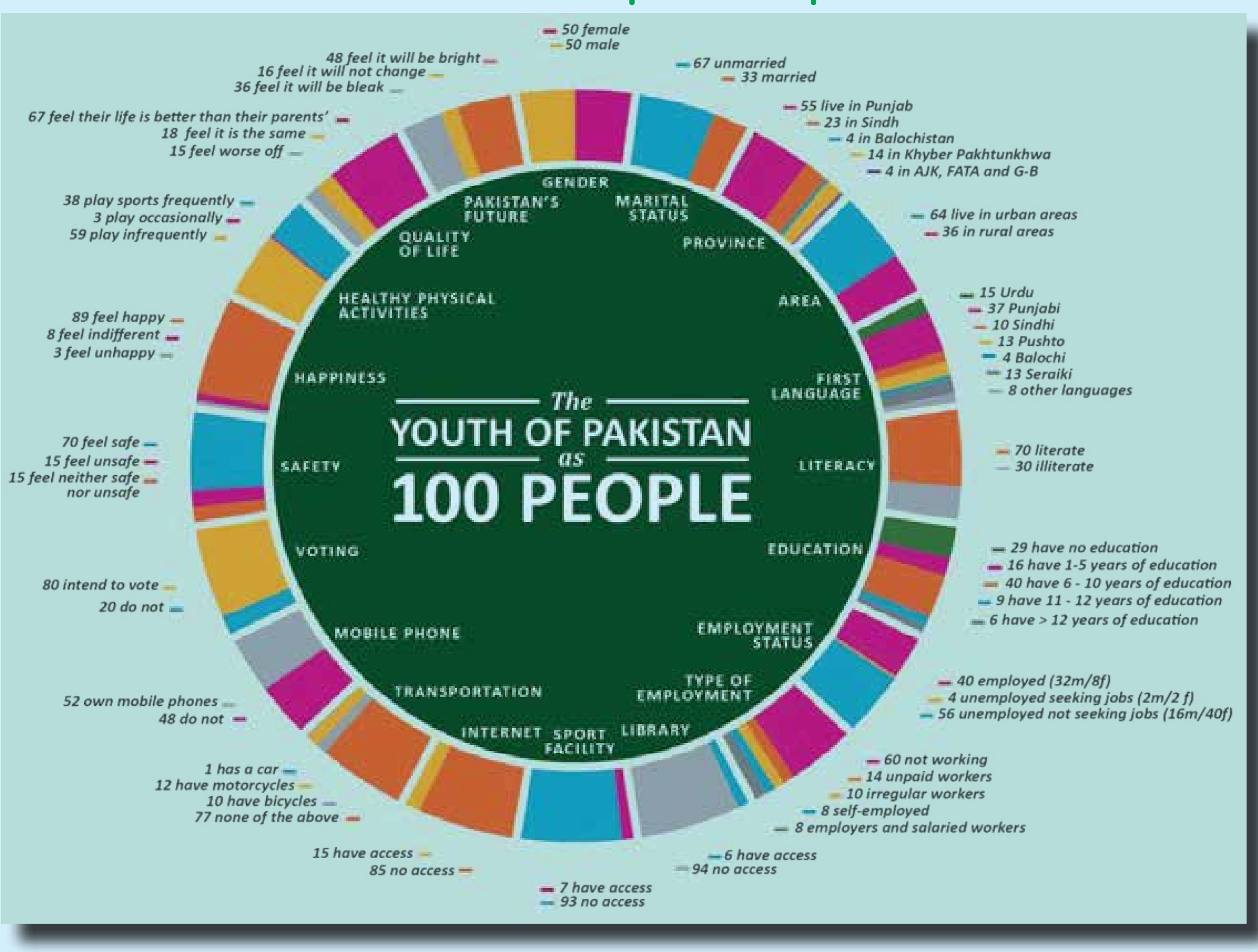
The future of Pakistan – one way or the other – will be determined by those who are between 15 and 29 years of age today. The single most useful thing that the rest of us can do is to create meaningful opportunities in education, employment and engagement that can empower our young to unleash their potential," says Adil Najam, lead author of the NHDR.

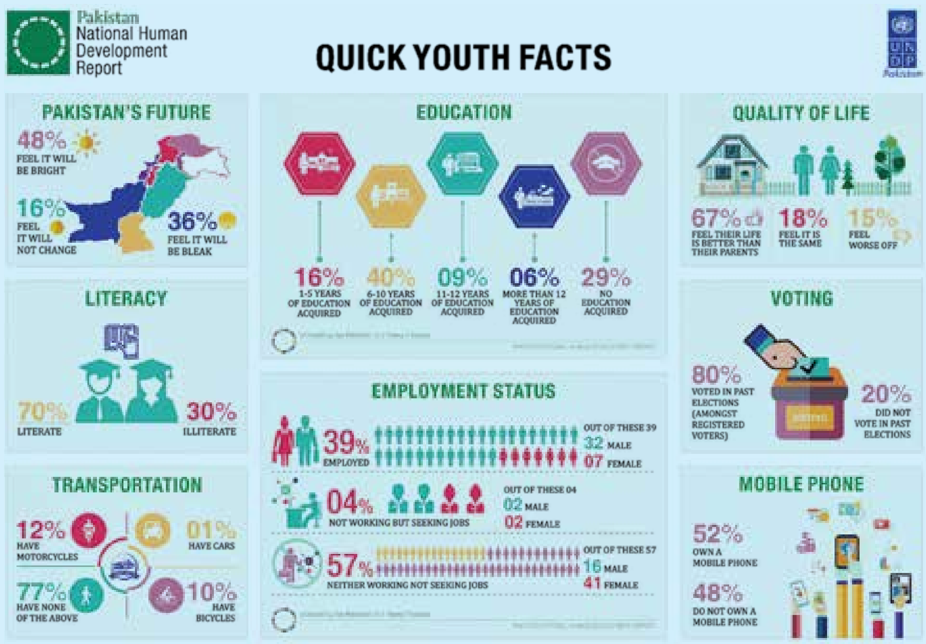
This nationally-owned report is formulated under the advice of an Advisory Council with members represented by major political parties, the government and intellectuals. Through its intensely inclusive and participatory process, the Pakistan NHDR 2017 has reached out to nearly 130,000 individuals across the country, 90% of who were youth.

The NHDRs take the Global Human Development Report approach to the national level and are prepared and owned by national teams. They are primarily a policy advocacy tool that is used to introduce the notion of human development to national policy dialogue. They use the human development approach that places people, instead of the economy, at the centre of development. Fundamentally, it is about advancing human well-being by creating an environment in which people can develop their full potential, choose their exercise their own choice, and lead productive, creative, and happy lives.

This is Pakistan's first NHDR in over a decade. The last one in 2003, the NHDR on Poverty, focusing on growth and governance, was authored by Dr. Akmal Hussain.

Pakistan National Human Development Report





> "Pakistan is young and dynamic, and it will be among top economies of the world by 2050."
>
> – Sardar Masood Khan, president Azad Jummu & Kashmir.

> "If you wait for certainty, you're almost always too late."
>
> – George Curian, CEO NetApp.

World Environment Day 2018: Beat Plastic Pollution
Our planet is drowning in plastic pollution

World Environment Day (WED), a UN Environment-led global event, the single largest celebration of our environment each year, was celebrated by thousands of communities worldwide on June 5.

Each WED is organised around a theme that focuses attention on a particularly pressing environmental concern. The theme for 2018 was **Beating Plastic Pollution**. WED 2018 urged governments, industry, communities, and individuals to come together and explore sustainable alternatives and urgently reduce the production and excessive use of single-use plastic polluting our oceans, damaging marine life and threatening human health.

Since it began in 1974, it has grown to become a global platform for public outreach that is widely celebrated in over 100 countries. WED is a day of everyone around the world to take ownership of their environment and to actively engage in the protection of our earth. In recent years, millions of people have taken part in thousands of registered activities worldwide.

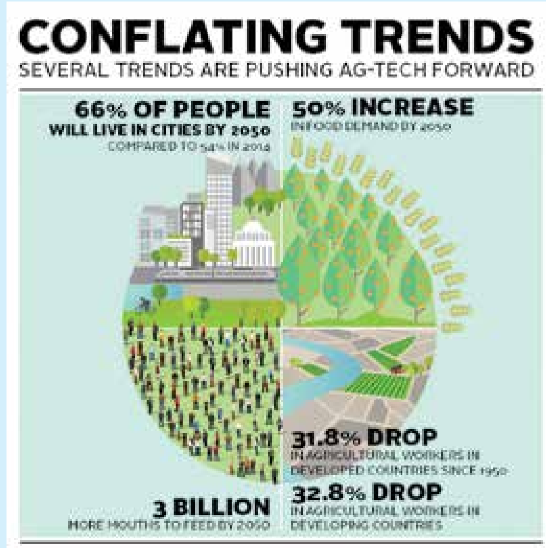
Every WED has a different global host country, where the official celebrations take place. This year's host was India.

Plastic Pollution Facts

- Every year the world uses up to 5 trillion plastic bags.
- Each year, at least 13 million tonnes of plastic end up in the oceans, the equivalent of a full garbage truck every minute.
- In the last decade, we produced more plastic than in the whole last century.
- 50 percent of the plastic we use is single-use or disposable.
- We buy 1 million plastic bottles every minute.
- Plastic makes up 10% of all of the waste we generate.

Great people to fly with

March 1962: The First Lady of USA, Jacqueline Kennedy, arrives in London on Pakistan International Airlines (PIA) B720. She thanks Captain Saleh Ji with a hug. Someone stated that she was asked how was her flight with PIA and she replied, "Great people to fly with" which became the PIA slogan.



Source: FAO

ACCOUNTANTS ARE BEST IN COMPLIANCE TO THE RULES AND REGULATIONS.

Remote workers more stressed than their in-office counterparts

Remote work is becoming the new normal. According to **Upwork's 2018 Future of Work** report, 1000 hiring managers expect that in 10 years, 38% of their workers will be remote employees. But it doesn't come without its challenges, particularly when it comes to focus and productivity. Remote workers struggle with efficiency if they don't engineer their environment in a way that makes them want to work.

Many remote workers also struggle with stress. They might work more extended hours and overcompensate for not being physically present in an office, and have a difficult time separating home and professional life when their workspace is in their home. But on the other hand, some remote workers do enjoy greater work-life balance than their office-based peers. If there are the tools and support systems in place, remote work can bring greater freedom and autonomy.

"Washington would ultimately fail like the famous cat in Tom and Jerry."

– Iran's supreme leader Ayatollah Ali Khamenei denouncing U.S. efforts to "hit the Islamic Republic."

"The future of web design doesn't involve computers at all. Just phones."

– Katharine Schwab, associate editor at Co.Design based in New York who covers technology, design, and culture.

> "It's clear that promoting gender equality is not only a force for good, it's a force for growth."
>
> – Chief brand officer Marc Pritchard, Procter & Gamble, the largest advertiser on Earth, spending $7 billion on ads per year.

Hats off to the people who made this.

Once upon a time...

President Ayub Khan inspecting a location reserved for a capital known as Islamabad.

> "Productivity declines after you hit a threshold – usually about 50 hours a week."
>
> – Jon Messenger, co-author of International Labour Organisation (ILO) report: Working anytime, anywhere: The effects on the world of work.

Study Finds AI is Better at Diagnosing Skin Cancer than Your Doctor

A new study has found that artificial intelligence is better than humans at detecting skin cancer.

The study, published in the journal **Annals of Oncology**, put dermatologists against a computer that had been trained to tell the difference between cancerous skin lesions and benign ones. In the end, the dermatologists were only 86.6% accurate at diagnosing skin cancer, while the computer was able to diagnose issues with 95% accuracy. The 58 dermatologists involved in the study came from a variety of backgrounds and 17 countries.

The computer was also less likely to diagnose a benign mole as cancer, something that would result in a patient undergoing unnecessary stress and surgery.

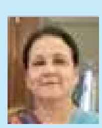
The hope is that the technology could eventually be implemented as a way to diagnose skin cancer in its early days before it spreads.

Harvard Study Shows Children Who do Chores are Smarter

A Harvard study has found that kids who do chores growing up are more likely to be successful.The study identified love and work ethic as things people need from a young age in order to be successful.

Based on the assessment of the 724 Harvard grad participants, chores are the best way to create good work ethic. The study found that professional success in life… comes from having done chores as a kid. The earlier you started, the better.

The study also found that those who do more chores as a kid, the happier they are in life. By doing chores, kids realise they're part of a family and more generally, a workplace. Time to start cleaning.



The writer is a journalist working as head of Publication Department at The Institute of Chartered Accountants of Pakistan (ICAP), Karachi.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