The Pakistan
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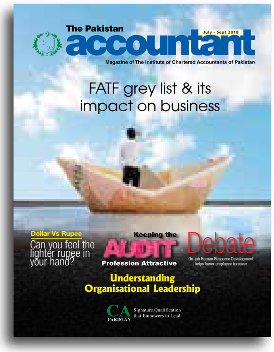

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Editor's Letter

Many of today's transnational challenges can only be solved through deep and widespread international cooperation. In some issue areas, countries choose to negotiate through formal agreements to solve problems, but when the problem is transnational or worldwide, non-compliance by a handful of countries can create global vulnerabilities.

The Financial Action Task Force (FATF), an inter-governmental body which sets international standards for Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT), has taken significant action over the years, making it easier for policy makers to pursue financial inclusion goals while combating money laundering, terrorist financing, and other financial crimes.

Pakistan was included in the FATF grey list during 2018, while its name was included in 2012 and then removed in 2015 after visible improvements in the country's AML/CTF regime. There are concerns that due to Pakistan's inclusion in FATF, the economy will slow down and may witness less trade, foreign transactions and investments by European countries in future but on the other hand, it is expected that economic surge will happen through China-Pakistan Economic Corridor (CPEC) which may offset any negative impact from the grey listing. Whether the above concerns hold true, only time shall tell.

Regarding anti-terrorism efforts, Pakistan introduced first standalone Anti-Money Laundering law in September 2007 through promulgation of Anti-Money Laundering Ordinance 2007 (AMLO) followed by Anti-Money Laundering Ordinance 2009 and Anti-Money Laundering Act 2010. The AML law criminalises money laundering and provides a wide range of predicate offences. Moreover, the AML Regulations 2015, prescribe detailed procedure and forms in respect of reporting of Suspicious Transaction Reports (STR) and Currency Transaction Reports (CTR) to Financial Monitoring Unit (FMU), Pakistan's independent and administrative financial intelligence unit, along with provisions incidental thereto. This step by Pakistan is significant in its efforts of eradicating terrorism from its soil.

Fuller and stricter compliance of AML/CFT is the need of the hour for Pakistani banks and exchange companies to avoid the negative impact of being grey-listed by FATF. Any mishap in weak administration of AML/CFT regulations runs the risk of hampering smooth flow of export proceeds, home remittances and even Foreign Direct Investment (FDI).

The Institute of Chartered Accountants of Pakistan (ICAP) being the leading statutory body of professional accountants has been requested by FMU to create awareness and understanding of the obligations upon its members under the AML Act 2010 and FATF recommendations relating to the accountancy profession. In this context, ICAP is in process to develop and issue guidelines to members on AML/CFT and also planning to hold awareness seminars on the same through its regional committees in various cities of the country. I hope the guidelines and awareness sessions shall be useful in not only increasing the knowledge of our Chartered Accountant fraternity, but would also enable them to exercise due vigilance in day-to-day professional matters. The articles in this edition of the Pakistan Accountant are a first in a series of activities and I hope you will find these useful.

We would like to hear from you about the grey-listing and its impact on our profession.
For more information, members can access FMU website at: http://www.fmu.gov.pk/, FATF website at: http://www.fatf-gafi.org/, and APG website at: http://www.apgml.org/ for further clarification.

In other matters for this edition, we have covered articles on economy, trade and industry, IFRS, Islamic finance and financial reporting to name a few.

As always, the team at Pakistan Accountant welcomes any feedback about the magazine.
Please share your feedback at publications@icap.org.pk

Muhammad Awais, FCA

The Financial Action Task Force (FATF) placed Pakistan on the 'Improving Global Anti-Money Laundering/Countering Financing of Terrorism (AML/CFT) compliance list' known as the 'grey' list in June 2018.

Pakistan Government reaffirmed its commitment to comply with the FATF set of requirements. Pakistan's placement on the grey list has many implications particularly from the international perspective. The foremost being a negative perception of the robustness of the local regulatory regime and the implementation and monitoring of the laws. Being on the international watch list may hamper in negotiations for foreign financing and in doing other related banking transactions.

Pakistan needs to demonstrate that it has a system that can control terrorist financing and unchecked flight of capital. The dilemma is the effective monitoring and implementation of the laws especially when a large segment of our economy is undocumented.

Sadly, it is the law abiding individuals that become subject to even more stringent policies and regulations, whereas the escapist take advantage of the loopholes. The drive is to identify and plug the loopholes for improving implementation of the AML & CFT regulatory regime.

The Anti-Money Laundering Act 2010 (AML Act) is applicable to 'Financial Institutions' and 'Non-Financial Businesses and Professions' (NFBPs). In the AML Act 'Accountants' are categorised as NFBPs, and their risk originates from the possibility of rendering of services to the persons who have proceeds of crime (from the predicate offences or foreign serious offences).

The Institute of Chartered Accountants of Pakistan (ICAP) being the leading statutory body of the Accountancy Profession in Pakistan is actively engaged with the Financial Monitoring Unit (FMU) in creating awareness and providing input in the Mutual Evaluation review of the Asia Pacific Group for FATF. Further, ICAP taking cognizance of the significance and relevance of the country's accountancy profession in understanding the exposure to the risks of money laundering and terrorism financing and combating these risks effectively, has developed a Guide for the Accountants on **Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT).**

President's Page

Pakistan has been working at all fronts to improve its controls on money laundering and terrorist financing. The Accountancy Profession can also contribute towards bringing in greater transparency and effective compliance, thereby contributing in improving Pakistan's image and credibility. The much needed strive to move Pakistan out of the negative lists.

Riaz A. Rehman Chamdia, FCA

FATF grey list & its impact on business and economy

by Hina Kazi

What is FATF?

FATF (Financial Action Task Force), an international watchdog, is an inter-governmental organisation formed in 1989 by G7 group of large industrialised countries with an objective to develop and promote policies and protocols at both national and international level to protect the global financial system against money laundering, terrorist financing and other related matters.

The role of FATF is to assess the vulnerability of the countries to the money laundering and terrorist financing criminalities by evaluating their current laws and regulations of anti-money laundering and terrorist financing in practice along with their execution methodology.

Grey list includes those which have 'structural deficiencies' and loopholes in their Anti-Money Laundering laws and Combating Financing of Terrorism regimes.

Black list includes those countries which fail to apply measures to overcome the shortcomings and are considered as non-compliant high risk countries.

FATF's 40 recommendations

FATF has designed a set of 40 recommendations (counter-measures to money laundering and terrorist financing) which are updated from time to time. The salient features of these recommendations that every country should mandatorily have in their systems is to:

- Identify risks and threats prevailing in their existing systems and policies.
- Develop and implement policies and procedures to counter those risks and threats.
- Track money laundering, terrorist financing and financing of proliferation.
- Design precautionary measures for financial institutions and other relevant sectors including customer due diligence, record-keeping of suspicious transactions, etc.
- Equip the competent law enforcement and other supervisory authorities with sufficient powers and responsibilities to control and prevent the occurrence of any potential criminal activities.
- Conduct fair accountability and transparency in the legal and judiciary systems.

The role of FATF is to assess the vulnerability of the countries to the money laundering and terrorist financing criminalities by evaluating their current laws and regulations of anti-money laundering and terrorist financing in practice along with their execution methodology.

FATF's grey list and black list

FATF, a 37 member multilateral body, has categorised countries in two different lists:

Grey list includes those which have 'structural deficiencies' and loopholes in their Anti-Money Laundering (AML) laws and Combating Financing of Terrorism (CFT) regimes. Such countries commit with the FATF to address these insufficiencies in their laws, policies and systems through an action plan agreed with the international watchdog within a prescribed timeframe after which their name is removed if the FATF is satisfied that they are being compliant with the action plan agreed.

Black list includes those countries which fail to apply measures to overcome the shortcomings and are considered as non-compliant high risk countries. Such countries are declared by FATF to be non-cooperative in the global fight against money laundering and terrorist financing and are called Non-Cooperative Countries or Territories (NCCT). At present, two countries, Iran and North Korea are included in the black list and heavy sanctions are being imposed by the body.

Pakistan's inclusion in grey list and action plan

In the beginning of 2018, Pakistan was placed for inclusion in the FATF grey list which, in turn, created the necessity for an independent assessment of its AML/CFT regime by FATF. The assessment highlighted 'strategic deficiencies' and which led to the official inclusion of Pakistan in the FATF grey list in June 2018. This is not the first time that Pakistan was included in FATF grey list; in fact, it was first included in the list in 2008 and afterwards in 2012. It was due to the successful implementation of the FATF action plan that Pakistan's

Being in the FATF grey list implies that Pakistan's financial system is being confirmed as a risk to the international financial system due to its inability and limitations to prevent money laundering and combating terrorist financing.

name was removed from the list in 2015. Being in the FATF grey list implies that Pakistan's financial system is considered as a risk to the international financial system due to its inability and limitations to prevent money laundering and combating terrorist financing.

An ambitious 10-point action plan is drawn whereby the country is now required to further address its counter-terrorist financing related deficiencies and implement a system to achieve the objectives of the action plan in order to avoid being black listed by FATF. Salient features of the action plan are:

- Pakistan is required to prove that terrorist financing risks are properly identified, assessed and supervision is applied on a risk-sensitive basis.
- Remedial actions are formulated and applied in cases of AML/CFT regime violations and that these actions have an effect on AML/CFT compliance by financial institutions.
- Controls are in place to identify risk of cash couriers being used for financing of terrorism.
- Relevant competent and supervisory authorities have to demonstrate that they are playing an effective role in the identification of criminal activities and taking enforcement actions against illegal money or value transfer services (MVTS).
- Law enforcement agencies are also to exhibit that they are able to identify and investigate widest range of terrorist financing activity and that the investigations and trials target designated persons and entities including administrative and criminal penalties.
- Effective enactment of targeted financial sanctions against all designated terrorists is in place and applied strictly and without any condition.

Potential impact on business and economy

It is not very clear as to how Pakistan's name on the grey list would ultimately affect the business and economy. However, due to current political situation in the country coupled with the fact that the economy is under deep crisis from all sides, it is predicted that Pakistan may face numerous financial difficulties not only now but also in the coming months.

Banking channel could be most aggressively affected as it is linked with the international financial systems. Costs of doing business will increase and situation for banks will become more difficult than it was between 2012-2015 when the country was last included in FATF grey list. However, the circumstances at that time were better as large banks like Habib Bank Limited, United Bank Limited and National Bank of Pakistan were working as correspondent banking channels and which helped trading and banking to run smoothly. The situation is no more the same. Under the current laws and regulations, it will become tough for Pakistani banks to work abroad like in USA and other foreign countries. Only last year, Habib Bank Limited paid a penalty of US $225 million to the department of Financial Services of New York State for violating multiple state regulations including illicit money transfers and had to shut down its operations over there as a consequence.

Being in the grey list means the country does not have effective AML/CFT controls in place. Banks and financial institutions (overseas) would be suspicious of undertaking transactions with Pakistani banks and financial institutions when considering the legal and other risks associated with it

Due to current political situation in the country coupled with the fact that the economy is under deep crisis from all sides, it is predicted that Pakistan may face numerous financial difficulties not only now but also in the coming months.

Due to intense pressure from international regulators to guard against money laundering and terrorist financing, foreign banks have become reluctant and have been withdrawing from high risk countries and especially those under grey list. In such a situation, these foreign banks might decide to pull out from Pakistan also.

A gloomy economic outlook would keep the expatriates away from sending money back to Pakistan. Potential investors would also be discouraged to bring about new investment and business into the country.

outweighs the economic benefits. Even if any continues somehow, they will carry out extensive scrutiny of every single transaction that takes place in order to avoid the risk of violations relating to money laundering and terrorist financing. This will also entail additional cost (extra charges passed to the country on due diligence performed on every transaction) and time to the economy. Large banks like Citibank, Deutsche Bank, Standard Chartered Bank and others will suspend credit lines, that is, that they will not accept Letter of Credits (LCs). Opening LCs will become a challenging task to some extent. Due to intense pressure from international regulators to guard against money laundering and terrorist financing, foreign banks have become reluctant and have been withdrawing from high risk countries and especially those under grey list. In such a situation, these foreign banks might decide to pull out from Pakistan also. This way, there will be a decline in foreign transactions and foreign currency inflows and that would result into an already larger current account deficit and fiscal imbalances. Such a move would unfavourably reflect upon the exchange rate also which is already under pressure due to dwindling State Bank foreign exchange reserves.

According to an expert on Pakistan economy, there is a chance that the country might suffer a rating downgrade by multilateral lenders such as International Monetary Fund (IMF), World Bank, Asian Development Bank (ADB) and it may also lead to a reduction in risk-rating by global credit rating agencies like Moody's, S&P and Fitch. With the downgrading by rating agencies, accessing funds from international lenders would become an expensive option on which the economy is usually dependent upon. Also, it would affect the interest rate at which the country and local companies may be able to borrow from other countries and banks. With increased risk assessment and a combination of all of these factors, local banks would also increase their interest rates for local borrowers, thus, making the loans costlier.

If all of this anticipation comes to reality, it might pave way to a significant fall of stock market. Foreign remittances would also come under great burden and there might be a sharp decline in that area also. A gloomy economic outlook would keep the expatriates away from sending money back to Pakistan. Potential investors would also be discouraged to bring about new investment and business into the country. The trust factor gets shaken and reputation of the country comes at stake.

Conclusion

Overall, the FATF grey list is definitely never good for the country and its economy. Weak financial systems and controls desperately needs to be improved and aligned stringently with the international financial standards in order to curb the menace of money laundering and terrorist financing regimes. The clock is ticking, Pakistan has a strict timeline of 15 months defined by FATF to tighten up its AML/CFT management; otherwise, the grey list is a clear pathway to the black list.

The clock is ticking, Pakistan has a strict timeline of 15 months defined by FATF to tighten up its AML/CFT management; otherwise, the grey list is a clear pathway to the black list.

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.

FATF grey list & its impact

by Muhammad Bilal

The Financial Action Task Force (FATF), founded in 1989 on the initiative of the G7 to develop policies to combat money laundering, is an inter-governmental policy making body to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. Since its inception, the FATF has developed a series of recommendations as international standards for combating the financial crimes and held various meetings of its decision making body (FATF Plenary) to discuss the related matters. (Source: FATF guidelines and website)

Pakistan Stock Exchange (PSX), which started the month of July with a very positive vibe and had a 10% correction in benchmark index, started to slow down due to the decreased investor confidence since the news of Pakistan's inclusion in grey list.

The FATF decides the rating of a country through its evaluation based on two factors: Technical Compliance and Effectiveness Assessment.

Recently, Pakistan has been put on grey-list by FATF due to strategic deficiencies in Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) mechanism. Here, some questions arise: What kind of non-compliances have Pakistan made? How has the FATF evaluated the deficiencies? When Pakistan has a system of AML/CFT regulated by the central bank, State Bank of Pakistan (SBP), then why we have been put on the grey list? What will be the likely effect on the business society and economy at large of this decision? To answer these questions, we need to first look at the efforts made by Pakistan in this area and process of FATF to evaluate these efforts.

Regulatory Framework

Pakistan introduced first standalone Anti Money Laundering law in September 2007 through promulgation of Anti-Money Laundering Ordinance 2007. This was followed by Anti-Money Laundering Ordinance 2009 and Anti-Money Laundering Act 2010. Presently, the Pakistan AML/CFT regime is contained in the following legislations:

- The Anti-Money Laundering Act 2010 (AML Act)
- The Anti-Terrorism Act 1997
- The Anti-Money Laundering Regulations 2015
- The Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations 2018

In accordance with AML Act, the **Financial Monitoring Unit (FMU)** is the Financial Intelligence Unit of Pakistan. FMU is Pakistan's central agency mandated to receive and analyze the Suspicious Transaction Reports (STRs) and Cash Transaction Reports (CTRs), reported by the reporting entities.

For banks, Know Your Customer (KYC) and Customer Due Diligence (CDD) systems were introduced and banks are required to monitor financial activities of high-risk accounts.

FATF's mechanism

The FATF decides the rating of a country through its evaluation based on two factors: Technical Compliance and Effectiveness Assessment.

The technical compliance methodology refers to the implementation of the specific requirements of FATF recommendations, including framework of laws and existence, powers and procedures of competent authorities.

In this category, FATF rates a country as per the following:

Rating	Description
Compliant	There are no shortcomings.
Largely compliant	Only minor shortcomings noted.
Partially compliant	There are moderate shortcomings.
Non-compliant	There are major shortcomings.
Not applicable	A requirement does not apply, due to the structural, legal or institutional features of a country.


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The assessment of effectiveness of a country's AML/CFT system is equally as important as the assessment of technical compliance with the FATF recommendations. In AML/CFT context, effectiveness is the extent to which financial systems and economies mitigate the risks and threats of money laundering, and financing of terrorism and proliferation. In this category, FATF rates a country as per the following:

Rating	Description
High level	The immediate outcome is achieved to a very large extent. Minor improvements needed.
Substantial level	The immediate outcome is achieved to a large extent. Moderate improvements needed.
Moderate level	The immediate outcome is achieved to some extent. Major improvements needed.
Low level	The immediate outcome is not achieved or achieved to a negligible extent. Fundamental improvements needed.

Thanks to the regulatory regime already in place we were saved from being placed in the black list. It will still be a challenge for Pakistan to work its way out of the grey list because of various political and other ensuing factors. However, for economic stability all efforts are needed to be off the grey list.

The goal of an assessment of effectiveness is to provide an appreciation of the whole of country's AML/CFT system and how well it works. Assessing effectiveness is based on a fundamentally different approach to assessing technical compliance with recommendations. It does not involve checking whether specific requirements are met, or that all elements of a given recommendation are in place. Instead, it requires a judgement as to whether, or to what extent defined outcomes are being achieved, i.e. whether the key objectives of an AML/CFT system, in line with the FATF standards, are being effectively met in practice. The assessment process depends on the judgement of evaluators, who are required to work in consultation with the being evaluated country.

Based on the combined evaluation, FATF issues warnings and recommendations that a country must consider in order to improve AML/CFT compliance system.

What Pakistan has done so far?

The International Cooperation Review Group (ICRG) report shows that Pakistan did show progress on three out of four major areas of concerns. Cross-border smuggling of cash was the only major area where FATF thought Pakistan has deficiencies. Banks are also now under strict supervision of SBP for reporting suspicious transactions, implementing KYC policies and maintaining and updating their records regularly.

Pakistan: After the FATF action

Pakistan was on this list previously for three years between 2012 and 2015. The task force recognised Pakistan's efforts and removed it from the grey list in 2015. Other countries, apart from Pakistan, included in the list are: Ethiopia, Iraq, Yemen, Serbia, Syria, Sri Lanka, Trinidad and Tobago, Tunisia, and Vanuatu. While the inclusion in grey list has many potential impacts, but the most significant and important ones are economic impacts. Following may be the potential issues that may arise to our economy and business sector due to this inclusion:

- **Impact on banking sector:** Since Pakistan's banking sector is linked with international financial system and some large Pakistani banks also have overseas operations, it would negatively affect their operations and would surely impact their reputation and raise questions on their ability to detect suspicious transactions and they may be subject to tighter regulations from foreign regulators.
- **Impact on country rating:** Pakistan may face risk downgrading by multilateral lenders such as International Monetary Fund (IMF), World Bank and Islamic Development Bank (IDB) which means getting funds from international bodies would be tougher and subject to higher degree of monitoring and strict terms. This may also lead to reduction in risk rating by international rating agencies such as Moody's, S&P, and Fitch.
- **Impact on cross border transactions:** This means funds received from overseas Pakistanis. They may also face hurdle sending funds to their homeland as foreign financial institution may deny or restrict the level of remittance to restrict the relationship with Pakistani financial institutions.
- **Foreign investment:** Pakistan is already facing a problem of diminishing foreign direct investment. The inclusion in grey list cannot be just ignored by potential investors and they may show reluctance to introduce funds or to make investment in our country.
- **Impact on capital market:** Pakistan Stock Exchange (PSX), which started the month of July with a very positive vibe and had a 10% correction in benchmark index, started to slow down due to the decreased investor confidence since the news of Pakistan's inclusion in grey list. Pakistan's stock market is very responsive and it reacted negatively with -2% decline month-on-month (MoM).
- **Trade finance:** Since the financial institutions are so inter-linked that they almost share the same international finance rules due to financial inclusion, it is more likely that Pakistan may face problems in securing exports and international trade opportunities as foreign financial institutions may deny altogether or place restrictions to provide services. This will further hamper economic engine and will result in economic recession through decrease in Gross Domestic Product (GDP) and National Income.
- **Foreign exchange reserves:** Due to decrease in trade volume and decline in remittance level, the country's foreign reserves may fall to an alarmingly low level. Although, these days, we are facing current account deficit but this will further deteriorate the situation and will hamper the economic wheel.

Thanks to the regulatory regime already in place we were saved from being placed in the black list. It will still be a challenge for Pakistan to work its way out of the grey list because of various political and other ensuing factors. However, for economic stability all efforts are needed to be off the grey list.

The writer is a qualified chartered accountant and currently working as senior auditor in Saudi Arabia specialising in financial services sector.

Never mind the political upheaval in the country, Pakistan continues to face issues in its weak tax regime, low revenue and a lack of enforcement of its laws and regulations.

FATF

by Samir Ahmad

Pakistan was formally placed on the Financial Action Task Force's (FATF) grey list in June this year after the body identified the country as having strategic deficiencies in its anti-money laundering (AML) and countering financial terrorism (CFT) regimes.

It was not the first time that FATF identified Pakistan as strategically weak or deficient in the AML/CFT framework, but this time the media hype and coverage was phenomenally stronger, giving rise to speculation over what the future holds for the country that is already reeling from several crises.

Never mind the political upheaval in the country, Pakistan continues to face issues in its weak tax regime, low revenue and a lack of enforcement of its laws and regulations. Hence, it comes as a little surprise that the country features so heavily in the FATF's reviews and fails to meet the AML/CFT standards every now and then. But what does it really matter for a country which is so desperate to attract attention and investment? It is not positive, that's for sure. When foreign investors look at potential markets, they tend to focus on areas that can churn high growth with the minimum risk. Telling an investor that a country has been put on the grey list recently doesn't do wonders for that impression.

The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system as mentioned on its website. By reading this definition and understanding that Pakistan would be closely monitored, it can safely be assumed that the country will need to put its act together. This either changes the business regulatory environment for everyone, thereby increasing cost, or makes it more firm such that it only becomes difficult for non-compliant persons to get affected. Either way, companies, individuals and the government will brace itself for changes.

So what has Pakistan done so far as a consequence? It has made a high-level political commitment to strengthen its AML/CFT regime and to address its strategic counter-terrorist financing-related deficiencies, according to the announcement made after Pakistan was placed on the grey list. The FATF said Pakistan will also be demonstrating that remedial actions and sanctions are applied in cases of AML/CFT violations, and that these actions have an effect on AML/CFT compliance by financial institutions. This means the regulatory environment is due to change for the financial sector, and controls would be enforced on the illegal movement of currency.

Another thing the country would need to do would be to improve coordination between law-enforcement agencies as well as the federal and provincial governments. This is a tough task, since it has historically been difficult for Pakistan to implement. However, it is acknowledged that some progress has been made. Designated entities and individuals are not being provided financial services, and since October 2017, 177 additional accounts have been frozen

When global investors make decisions on where to invest, it matters to them how a country is ranked on the ease of doing business index, whether it is compliant with different sets of regulations the world has put in place to curb terrorism, and if the country meets other criteria for their investment.

owing to their indirect linkage and association of customers with UNSC-listed persons and entities. However, a lot more needs to be done.

Pakistan needs to deliver on the first goal by January 2019 – deficiencies in the AML and CFT regime – and complete all 26 actions by September same year. The SECP has also issued regulations for all securities brokers, insurance companies, non-banking finance companies and modarabas with the aim to harmonise the AML and CFT regime in order to strengthen its compliance.

The corporate sector regulator has also directed companies to collect information about their real owners within three months aimed at addressing concerns regarding transparency in ownership structures. On the other hand, the country has admitted that illegal money remitters, known as money/ value transfer services (MVTS), are significant threat to money laundering and terrorism financing.

The State Bank of Pakistan here has stepped in to develop a legal and regulatory framework. However, according to the review of International Cooperation Review Group (ICRG), commonly known as Grey List, Pakistan has not demonstrated that it has an understanding of how many illegal money remitters exist in the country and how many are operating in each region, including higher risk regions.

Pakistan admitted that it is impossible to determine the exact number of illegal MVTS operators but it would continue to explore various options to dissuade and prosecute such elements in the system.

These details reveal that there are a number of areas that needs to be worked upon. From the corporate sector regulator to the stock market, from the central bank to law-enforcement, everyone will need to play a part in ensuring Pakistan comes off the grey list.

When global investors make decisions on where to invest, it matters to them how a country is ranked on the ease of doing business index, whether it is compliant with different sets of regulations the world has put in place to curb terrorism, and if the country meets other criteria for their investment. Unfortunately, Pakistan does not enjoy a very good reputation at the global level. It is overshadowed by a number of negative news and the lack of stability in its system.

Hopefully, it can muster all its energy and concentration in ensuring that it curbs terrorism financing as it looks to curb terrorism. It is a step in the right direction, and would greatly improve not just its image but make it an attractive destination for investment as well.

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

Accountants Vital Role in Anti-Money Laundering and Counter Financing of Terrorism

by Sohail Malik

The aggregate size of money laundering in the world is estimated somewhere between two and five percent of the orld's GDP, or $800 billion - $2 trillion.

Money laundering and terrorist financing are significant global problems, adversely affecting the integrity of financial systems and institutions and regional and global stability. The magnitude and adverse implications make countering of both money laundering and the financing of terrorism as a key priority in ensuring regional and global security and stability. The aggregate size of money laundering in the world is estimated somewhere between two and five percent of the world's GDP, or $800 billion - $2 trillion. The size and entanglements are expected to increase, owing to the technological and communication developments, unless these global problems are combated collectively and timely.

In simple words, money laundering is conversion of 'dirty money' into 'clean money.' Money accumulated through dirty means i.e. crime (such as corruption, extortion, drug trafficking, smuggling, fraud, tax evasion) is concealed and converted (purchase of assets, investments, personal use) to give it legitimacy. Terrorist financing is the collection and use of funds to finance domestic and international terrorism. Terrorist financing and money laundering share commonalities in the methods used to collect, hide and distribute funds, however, in addition to the proceeds of crime, legitimate funds, charities and self-financing may also be used to finance terrorism.

To combat the money laundering and terrorist financing, the Financial Action Task Force (FATF) sets out the international standards on anti-money laundering and counter financing of terrorism termed as 'FATF Recommendations.' The FATF Recommendations require all jurisdictions to develop and implement anti-money laundering and counter financing of terrorism legal framework and systems. Further, FATF or its regional-bodies carry out an assessment to comprehensively review the effectiveness of each country's anti-money laundering and counter financing of terrorism system and its level of compliance with the FATF Recommendations. Pertinent to mention that after placement on the grey-list, Pakistan's Mutual Evaluation is currently under way.

The Pakistan's anti-money laundering regime based on the FATF Recommendations requires businesses to put preventative measures in place to help tackle money laundering and financing of terrorism. The business and professions are broadly classified as financial instructions and designated non-financial businesses and professions.

FATF recognises accountants as one of businesses and professions exposed to the risks of money laundering and terrorist financing as criminals can exploit their services to launder money. Originating from the nature of the work, accountants may have a higher chance of crossing paths with money launderers or dealing with illicit funds from money laundering. Hence, it is vital that accountants act as 'gatekeepers' and keep a watchful eye for 'red flag' indicators of suspicious transactions.

In simple words, money laundering is conversion of 'dirty money' into 'clean money.'

Consistent with the FATF Recommendations, 'accountants' are 'reporting entity' under the Anti-Money Laundering Act 2010. Being a reporting entity, the accountants are required to submit suspicious transaction and currency transaction reportings.

The focused and committed compliance with anti-money laundering and counter financing of terrorism requirements will deter criminals from using the accountant's services and help detect them if they do. The accountancy professionals should take further focused measures to enhance understanding of the Pakistan anti-money laundering and counter financing of terrorism regime and to give due priority to establishing and maintaining an effective compliance regime and culture.

In the coming period, further changes are expected in Pakistan's anti-money laundering regulatory landscape and systems, designed to streamline and improve the country's ability to tackle money laundering and terrorism financing.

In this context, the risk-based approach will assist in taking pragmatic and proportional measures. An effectively designed, implemented, and managed compliance program needs to be tailored to the accountants' specific risk areas. A significant area where accountants play a vital role in combating money laundering is in their client dealings, especially the due diligence that accountants should perform on their clients. A critical aspect of this due diligence process is the identification of the natural person who ultimately owns or controls the client, i.e. beneficial owner. This information is of paramount importance as it may provide information on any high-risk personnel (such as a politically exposed person, an entity or person located/ resident of high-risk country, an entity or person included in the UN sanctioned list) who may be more liable to commit money-laundering crimes. Another important point to remember is the offence of 'tipping off' a client where a suspicious transaction report of client has been submitted.

The Pakistan government and regulators have become increasingly focused in combating money laundering and financing of terrorism. The need of hour is consultative and coordinated approach among all stakeholders in meeting the FATF requirements, with the expectation that organisations and professionals will fully understand and establish robust anti-money laundering and counter financing of terrorism system programs. The stakes are high as failings on part of any person or institution could be immense, leading to financial, business and reputational exposures for the businesses and government.

In the coming period, further changes are expected in Pakistan's anti-money laundering regulatory landscape and systems, designed to streamline and improve the country's ability to tackle money laundering and terrorism financing.

The accountancy profession through sharpened approach and efforts will not only be fulfilling statutory obligations; but importantly would be contributing in improving the image and credibility of country's anti-money laundering regime and promoting the integrity and stability in capital markets.

The writer is a chartered accountant working as director Technical Services at The Institute of Chartered Accountants of Pakistan.

Dollar Vs Rupee

Can you feel the lighter rupee in your hand?

by Samir Ahmad

Literally, every single move you make is connected to the rupee-dollar parity, in other words, the exchange rate.

If you think rupee's devaluation does not affect you or it will not impact your life as much, think again. Literally, every single move you make is connected to the rupee-dollar parity, in other words, the exchange rate. Want proof? Pakistan imports roughly two-thirds of its requirement for energy, denominated in dollars.

When the value of dollar increases against the rupee, it makes everything expensive – from fuel to school fees, even if the latter seemingly isn't directly related.

The thing about any economy is that sectors, people and stakeholders are linked. A price increase for a manufacturer increases cost, thereby forcing his hand at his selling rate. The buyer purchases at a higher price, and has to 'recover' the loss from elsewhere. He will then either raise his rate – if he is selling something as well – or ask his employer for a better raise, increasing the cost for his company that seemingly had nothing to do with the price increase.

In Pakistan's case, the rupee – any note in your hand – has become cheaper and less valuable in the last nine months. From being Rs. 104.8 in December 2017, the currency is currently hovering around Rs. 124.23 to the US dollar. Having lost almost 19% – read one-fifth – of its value against the dollar, the effects are bound to be felt by everyone in their daily lives in months to come.

When currency devaluation takes place, it is mostly used as a tool to address either an issue in the economy or achieve a goal. In China's case, it is cheaper to make its exports cheaper so that people buy more of its products. It has built over $3 trillion in foreign currency holdings, putting it at ease when it comes to letting its Yuan become cheaper even if fundamentals or US president Donald Trump suggest otherwise.

Pakistan, however, does not have the luxury of making any such moves. It has reserves of around $10 billion, has a trade deficit that is higher than $36 billion, and it closed fiscal year 2017-18 with a current account deficit of $17.99 billion. Surprised at the numbers?

When the value of dollar increases against the rupee, it makes everything expensive – from fuel to school fees, even if the latter seemingly isn't directly related.

Much like most economic fundamentals, if there is expectation that prices will rise, they most often do.

The government is now running from pillar to post to arrange at least $12 billion, which is its external financing gap, as it lets its rupee weaken to control the deficit. It hopes that a weaker currency would increase its exports, control imports and rake in more dollars.

While policymakers scratch their heads in arranging billions of dollars, the rupee has lost value and may continue to do so until a sweet spot is found.

The public, on the other hand, is now focusing on damage control. Some are converting their savings to dollars, while the others are looking at avenues to make more money. At the same time, the weaker currency has already started to trigger inflation. Much like most economic fundamentals, if there is expectation that prices will rise, they most often do.

In such a scenario, the State Bank of Pakistan (SBP) has another policy tool at its disposal to tackle the increase in prices. This time, it's the monetary policy through which it determines the interest rate corridor. Already, the SBP has raised the benchmark interest rate by 175 basis points.

This basically means that the cost of borrowing from a bank or even an informal institution becomes more expensive – see, everything is expensive now.

When businesses have expensive loans to tap, their cost of production runs higher. They raise prices, triggering further inflation. But this time, the key interest rate will increase the amount you earn on your savings accounts, encouraging you to spend less and giving time to the economy to 'cool' off.

This may reduce the growth rate, but it also controls demand in the economy, taming higher prices as well.

But at the same time, the dollar has become expensive and there is very little control the government has over some of the other effects it will have.

A weaker rupee will make all imports expensive, categorically increasing the prices of every mobile phone, every litre of fuel you purchase. Cost of tuition and daily expenses for a student living abroad and surviving on earnings in Pakistan have become higher. This motivates schooling in the country to raise rates as well, making education expensive.

These are only some of the effects a weaker currency has. Since Pakistan remains an import-driven economy – its fuel imports are one-fourth of the total bill in a year -- the economy is likely to feel the effects straightaway.

There is very little one can do to hedge against this movement in the exchange rate. Businesses already project a 4% depreciation in the currency each year, even if it doesn't happen. This is how they function, and this is how the economy operates. As individuals, this is the only hedge we can make. For now, betting on the rupee becoming stronger is likely to go wrong.

Businesses already project a 4% depreciation in the currency each year, even if it doesn't happen. For now, betting on the rupee becoming stronger is likely to go wrong.

Keeping the AUDIT Profession Attractive

Audit is a people business. While increased regulation and technology change the demands on auditors, audit quality remains at the forefront. Looking ahead, Accountancy Europe believes it is key for the audit profession to appeal to top talent, including professionals with different backgrounds.

Accountancy Europe gathered views on the audit profession's attractiveness, as well as ideas on keeping it attractive, by interviewing 21 key stakeholders – young auditors, regulators, investors, academics, and policy makers. The findings are summarised in Keeping the Audit Profession Attractive.

Key Ideas

Most interviewees thought that the best way to keep the audit profession attractive is to promote the audit profession's achievements and demonstrate what benefits it brings to society. "Make people aware of the benefits of the audit profession: you learn a lot from the 1st day, you meet a lot of interesting people, and you do a lot of interesting things," a young auditor from Austria said. At the same time, clients, investors, and society should perceive the positive value of the audit.

There is also the retention issue: students and young professionals must not only be attracted to join but also motivated to remain in the profession and audit firms to prevent the loss of knowledge and experience. High junior staff turnover rates in audit firms are a concern for the profession and should not be overlooked. Audit firms face the constant challenge of managing the outflow of staff, especially as today's economic growth creates more opportunities available elsewhere in the job market. It's not all negative, as new colleagues entering the profession bring fresh ideas to an audit firm. But the challenge for the firms is also about keeping the right people.

From the interviews, five main factors were identified influencing the attractiveness of the audit profession.

- The registration process: the process of becoming a registered auditor encompasses several phases and can be very lengthy. There is a need to find a balance between demanding requirements to join the profession and ensuring that the best professionals are not discouraged from becoming registered auditors.

- Tougher regulation: greater accountability and scrutiny reinforce the public interest dimension of the audit profession. Although auditors understand this is part of the job, they notice that the nature of their work gradually changes, focusing more on tasks related to oversight and quality assurance.

- The compliance mind-set: the very desirable intellectual challenge might be perceived as diminished as work becomes a tick-the-box exercise. Professional judgement and audit quality need to remain the central elements of work. "Too much focus on the audit process instead of focus on the outcome—we need to find the right balance" was mentioned by a regulator in the United Kingdom.

- Impact of technology: the millennial generation is proficient in the use of modern technology. Young professionals joining the profession should be encouraged to use their capabilities and share them with more senior staff. Also, as firms adopt technology to carry out certain procedures, there are opportunities for more interesting areas of work that may be more attractive.

- Work-life balance: the audit profession is known as very demanding in terms of work load with a high impact on personal life, especially in the peak season. Young professionals seem to increasingly value their personal and social achievements. This imposes a new equilibrium on audit firms to achieve this balance, such as offering increased flexibility.

As for the auditor's skillset and his or her interaction with other professionals – the key idea regarding the skillset is the willingness to adapt to new situations. The skills needed for an audit will be increasingly driven by the context in which the audit is performed: new business models, technologies used, etc. These trends may make the auditor's work more challenging but also more interesting.

There is also a growing demand for specialised professionals in the audit profession, ranging from data specialists to environmentalists, and for individuals without an audit or accounting background. This is due to three main factors: technology, increasing complexity in financial reporting, and new services provided by audit firms.

Technological developments impact the nature of the work of the auditor. Not only does the auditor have to further develop his own IT skills but audit firms are also including growing numbers of IT experts in the audit team in order to cope with changes in the business environment. "Every company is an IT company nowadays. What does that mean for audit firms?" asks an audit partner in the Netherlands.

Audit firms and Accountancy Europe's members are taking action regarding the attractiveness of the audit profession. For example, members are increasing their interaction with universities and are setting up young professionals' bodies. We present some of these initiatives in the paper.

Recommendations

Interviews and reflections also allowed some conclusions to make recommendations. Stakeholders, amongst other things, should:

- promote the achievements of the audit profession
- better inform students about the profession
- achieve a balance between demanding requirements to join the profession and ensuring that the best professionals are not discouraged to join
- work together to find the balance between demonstrating compliance and applying professional judgement
- be transparent and realistic on the use of technology in the audit procedures.

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Enhanced Auditor's Reporting – The New Auditor's Report

by Hina Kazi

Complex and critical areas have always been discussed between auditors and management and audit committees but never has anything been reported through an audit report which could give any indication or outcome of any discussions to the stakeholders or other users of the financial statements on what the auditor exactly did and observed.

Background

The auditor's report is the key deliverable culminating the audit process being carried out. It was felt for a long period by the investors, regulators and other stakeholder groups (users of financial statements) as well as chief financial officers and their finance team, directors and management of the company (preparers of financial statements) that the old audit report was not capable enough to provide relevant information and insight about the audit being executed. Complex and critical areas have always been discussed between auditors and management and audit committees but never has anything been reported through an audit report which could give any indication or outcome of any discussions to the stakeholders or other users of the financial statements on what the auditor exactly did and observed. In the wake of global financial and economic crises of 2008, questions were raised as to the integrity of auditors and reliability of their work. A desperate necessity for a more transparent and communicative audit report arose then. There was a dire need to regain the lost public and market confidence in both the audit process and the financial statements of companies. Therefore, the International Auditing and Assurance Standards Board (IAASB) after having extensive international research and public consultation sessions over five years issued new and revised

Reporting of Key Audit Matters will, not in any case, increase the scope of audit or procedures expected to be performed by the auditor. It is just the additional reporting giving more transparency and perceived value to the audit being performed.

auditor reporting standards including the new auditor's report in January 2015 which became effective for audits of financial statements for periods ended on or after December 15, 2016.

The New Auditor's Report

In Pakistan, the Securities & Exchange Commission of Pakistan (SECP) has, on April 26, 2018, issued the Auditors (Reporting Obligations) Regulations 2018 prescribing the format for the new auditor's report which is effective for audits for the periods ending on or after June 30, 2018. With the effectiveness of these regulations, the old format of audit report of 35A, 35B and 35C under Companies (General Provisions and Forms) Rules 1985 stands repealed. The audit report format approved by SECP is aligned with the report format defined by the new and revised auditor's reporting standards issued by IAASB.

The goal of IAASB is to achieve transparency and gain trust and confidence of the stakeholders by adding credibility to the financial statements. The objectives of the new auditor's reporting format are to:

- Improve relevance and understanding of audit.
- Improve audit quality and enhance information value.
- Focus on key risk areas and proper disclosures in the financial statements.
- Increase in professional skepticism and judgement of the auditor.
- Clarify the responsibilities of auditor and management of the company by emphasising on their respective roles and tasks.
- Encourage regular collaboration between auditors and those charged with governance and audit committees.
- Increase the communicative value of auditor's report to stakeholders and other users of financial statements.

With the advent of the new auditor's report, a significant transformation in the world of audit reporting practice has taken place. There is a major change in the manner in which auditors communicate their work in the new auditor's report as now the auditor communicates more than the standard pass/fail option. There are various enhancements and additions to the new reporting format.

Key Audit Matters

The major improvement is the inclusion of Key Audit Matters (KAM) which is considered to be the heart of this new reporting format. KAMs are defined as, "Those matters that, in the auditor's professional judgements, were of most significance in the audit of the financial statements of the current period. KAM are selected from matters communicated with those charged with governance." Audit report with KAMs are mandatory only for listed companies, however, it is at the option of non-listed companies if they wish to include KAMs in their audit reports voluntarily. Also, KAMs are reported if the auditor is required by relevant local law or regulation to communicate key audit matters in their audit reports. KAMs are included in a separate section of the audit report explaining its nature and objective. It should be clear, concise, and understandable along with giving a balanced explanation of the matter being identified as KAM. Also, it should be entity-specific as well as audit-specific meaning that KAMs are not necessarily the same in the same industry but is a reflection of the specific circumstances of the individual company.

Not all matters communicated with those charged with governance will form part of KAM. The auditor's professional skepticism and judgement will play a big role here by narrowing the matters communicated with those charged with governance to matters that required significant auditor attention and from these matters; the auditor determines which were of most significance in the current audit period.

The description of each KAM in the auditor's report should include:

- Why the matter was considered to be one of the most significant in the audit including the factors that led to the conclusion that the matter required significant auditor attention and therefore, determined to be KAM.
- How the matter was addressed in the audit including auditor's response/approach, audit procedures carried out, indication of the outcome of the audit procedures (without giving separate opinion on these matters) and key observations with respect to the matter.
- Reference to the relevant financial statements disclosure (if any).

In determining KAM, the auditor considers:

- Areas of higher assessed risk of material misstatement in the financial statements.
- Significant auditor judgements focusing on areas in the financial statements that involved significant management judgement, including accounting estimates that have been identified as having high estimation uncertainty.
- Effect on the audit of significant events or transactions that occurred during the current period.

In the wake of global financial and economic crises of 2008, questions were raised as to the integrity of auditors and reliability of their work.

However, KAM is not to be misinterpreted as a substitute for disclosure in the financial statements or a qualified/modified opinion or material uncertainty related to going concern or a separate opinion on the individual matters or on the financial statements. Here, there is a need for stakeholder to be engaged and educated as they should understand the purpose for which KAM is reported and why the matter is determined to be KAM.

Through KAM, communication between auditors and those charged with governance will increase manifold. Discussions and meetings between two sides of the table will continue throughout the audit. Auditors will inform the management as to what they will include as KAM in the audit report beforehand. At the same time, management will be more careful and vigilant in including disclosures in the financial statements especially those disclosures to which direct reference is made in the KAM section.

The new global reporting format has already been adopted in many countries like Singapore, Malaysia, United Kingdom, etc. As the new auditor's report will be implemented in Pakistan for the first time, it is yet to be seen how it benefits the stakeholders.

Reporting of KAM may include significant matters that pertains to any entity such as goodwill impairment and impairment of other assets, taxation maters, business combination and disposal of business units, revenue recognition, going concern assessment, implications of new accounting standards, inventory provisioning, significant one-off transactions, provisions and contingencies, retirement benefit obligations, derivative financial instrument valuations, etc.

Reporting of KAM will, not in any case, increase the scope of audit or procedures expected to be performed by the auditor. It is just the additional reporting giving more transparency and perceived value to the audit being performed. This might entail more time in the first year of implementation with little or minimal extra costs. The auditor is required to act in the best public interest and therefore, this revamps the auditors' role in fulfilling duties and responsibilities in the light of the new audit reporting format.

Other Changes

In addition to KAM, the other changes introduced to the new auditor's report are:

- Auditor's opinion on the financial statements is positioned at the beginning of the audit report followed by basis of opinion explaining how the opinion was arrived at.
- Affirmative statement of independence and fulfillment of relevant ethical responsibilities and requirements by the auditor.
- Separate section with respect to material uncertainty related to going concern when a material uncertainty exists.
- New descriptions of responsibilities related to going concern for both auditor and management to be included in their respective sections.
- Expanding the description of management's responsibilities for preparing and fairly presenting the financial statements, including the identification of those responsible for oversight of financial reporting process, if they are different from those responsible for financial statements preparation.
- Identification of those charged with governance within the management's responsibilities section.
- Extended description of auditor's responsibilities, including key features of an audit (explaining the concept of risk-based audit and auditor's responsibilities in relation to specific matters, including fraud, internal control, accounting policies and accounting estimates and evaluating the overall presentation, structure and content of the financial statements and disclosures).
- Auditor's reporting on other information relevant to companies issuing annual reports, identifying the other information (like director's report, chairman's review, etc.) specifying the management and auditor's responsibilities in relation to the other information, keeping in view if any material inconsistency exists between the other information and financial statements and auditor's knowledge obtained during the audit. Also, disclosure of other information that the auditor is expected to read and report on has not been received as at the date of audit report.
- Disclosure of the name of the engagement partner in case of listed companies, however, this practice already existed for a long time and many non-listed companies prefer to disclose the engagement partner's name in their audit reports.

Implementation Benefits

The new global reporting format has already been adopted in many countries like Singapore, Malaysia, United Kingdom, etc. As the new auditor's report will be implemented in Pakistan for the first time, it is yet to be seen how it benefits the stakeholders who are looking forward to receive a more transparent and clear picture of the concerns that the auditor faced during the audit and how these concerns were alleviated by the latter in arriving at the audit opinion no matter material or immaterial in size. The extended auditor's report will go a long way in giving assurance to the users of the continued rewards they will reap as KAM will be reported and updated every year and how they are linked with each other in different years; how the auditor used his professional judgement to determine these matters and addressed them during the audit. Any serious investor will not have to dig much deeper to get the relevant information he is looking for; in fact, the new reporting format will serve as the right tool for him and will most likely to assist him in giving required information as the new audit report will now be considered as one of the primary sources of information and knowledge about a company. Regulators will also get useful and relevant information about the company from the 'auditor's eye.'

The beneficiaries of the new reporting practice will not only be the investors, regulators and auditors but it will serve as a very essential tool whereby the company will make its corporate governance structure, internal control mechanism and financial reporting strong and flawless, thus, getting an opportunity to enhance its reputation and market standing.

With this revolutionary change in the auditor's reporting format, the auditor will adopt a more focused and stringent approach on significant and complicated areas including going concern and other financial statements disclosures, thus, impacting audit quality and professional skepticism.

The beneficiaries of the new reporting practice will not only be the investors, regulators and auditors but it will serve as a very essential tool whereby the company will make its corporate governance structure, internal control mechanism and financial reporting strong and flawless, thus, getting an opportunity to enhance its reputation and market standing. Audit committees will be involved at length along with those charged with governance in discussions relating to matters arising during the audit. They will be able to evaluate the audit quality and competence of the auditor engaged in the audit. The valuable input and suggestions by audit committee independent of the management would also give comfort to auditors in forming an audit opinion.

Financial Reporting Excellence for Loan Losses

by Muhammad Imran Butt

For financial institutions which are in the business of lending, calculating provision against loans (allowance for loan losses) is one of the critical accounting estimates made by the management. Performance of loans is not only an indicator of the financial health of an institution but also provides a good understanding of the lending policies adopted and executed by the management. In Pakistan Securities Exchange Commission of Pakistan (SECP) has adopted IFRS 9 Financial Instruments effective for financial reporting periods beginning on or after July 1, 2018, further State Bank of Pakistan is actively considering implementation of the same for Banks and DFIs. Presently, Pakistan's financial institutions follow SBP prudential regulations and prepare financial statements in accordance with the directions of the SBP.

Disclosures mandated under SBP framework ensure pertinent information about lending portfolios as well as provision and write off of doubtful loans. However, the current disclosure requirements don't provide the user of the financial statements, sufficient information about the policies adopted by the issuer of the financial statements. Below are some areas which are currently deficient and their inclusion in disclosures can significantly enhance the ability of the reader of the financial statements.

Non-performing loans: The policies as to when the issuer considers a loan as a non-performing loan. Disclosure should include a description of policy by each material portfolio category. Further, a description of the conditions, if any, when a non-performing loan can return to the performing status.

Write off policies: Disclosure of policies describing the measures management considers before writing off any loans by each material portfolio category.

Specific reserve: Description of policies regarding the estimates used in determining the amount of specific reserve, including valuation of collateral held by the issuer, if any.

General reserve: Discussion regarding how management performs its evaluation of general reserves. If the loans are reviewed in pools, what factors are considered for each material pool when determining the general reserves.

Accrual of interest on non-performing loan: Policy should describe when the interest on doubtful loans is stopped. Further, how the payments received on doubtful loans are applied i.e. if the payment received on non-performing loans are entirely used against the principal outstanding.

IFRS 9 Financial Instruments, issued by International Accounting Standards Board requires significant changes in calculation of allowance for loan losses. The standard will also change the current allowance for loan loss estimates from commonly employed 'loss incurred' model to the new 'expected credit loss' model. The new model would require even more complex assumptions in calculation. Furthermore, IFRS 9 implementation requires more open and comprehensive disclosures of loan losses. The enhancement of current disclosure is much needed to enhance the ability of the reader of the financial statements and for comparison between various issuers.

The writer is a chartered accountant working as director Financial Reporting and Accounting for an investment bank in New York.

Business is interactive and open system that takes inputs from environment and generates output that affects environment.

The Strategic CFO

by Hamza Bilal

A chief financial officer (CFO) is the head of finance department in an organisation working in close collaboration with other functional heads and chief executive officer (CEO) with the objective to lead the business towards sustainable growth.

CFOs are primarily responsible for managing the financial risk faced by an organisation and assisting in formulating viable business strategies through strategic evaluation of information. Nobody could ascertain business uncertainties better than a CFO therefore, they are partnering in development of strategies to enable the organisation to cope up with its future challenges.

Modern business environment

Business is interactive and open system that takes inputs from environment and generates output that affects environment. Business environment means all internal and external factors affecting business operations. Business needs to be responsive and flexible to adapt as per the changing expectations of stakeholders to ensure continuous growth.

Today's business environment is robust and in the process of continuous evolution due to technological developments and ever-changing customer demands. In modern business environment, customers enjoy vantage position due to removal of trade barriers, IT revolution and stiff market competition. In this situation, only those businesses will maintain stability and growth which have a customer centric, forward-looking and flexible business approach.

CFOs are no more number crunchers, they are expected to partner with other organs of the organisation for formulating a unified and coherent business strategy.

Changing role of CFO

CFOs are no more number crunchers, they are expected to partner with other organs of the organisation for formulating a unified and coherent business strategy. This is a significant change in the role and expectations from CFO. In a report released by McKinsey, 88 percent of 164 CFOs surveyed reported that CEOs expect them to be more active participants in shaping the strategy of their organisations. Half of them also indicated that CEOs counted on them to challenge the company's strategy. It is essential for CFOs to take a more strategic role.

Traditionally, CFOs and finance teams had majorly been playing a back-stage role by engaging themselves in book-keeping and statutory compliances. However, in today's business world, CFOs are spending most of their time in a strategic partnership role aiming to lead the organisation towards its desired destinations.

In annual reports too, the focus is shifting from numbers to interactive reporting framework that shows the linkage between various Key Performance Indicators (KPIs) and their impact on business performance and outlook.

In a report released by McKinsey, 88 percent of 164 CFOs surveyed reported that CEOs expect them to be more active participants in shaping the strategy of their organisations. Half of them also indicated that CEOs counted on them to challenge the company's strategy.

Living up to Expectations

Finance professionals hence, need to prepare themselves to become successful CFOs and play an effective role as strategic business partners. The question is what needs to be done to be successful in the new role, and here is a list of things that CFOs will be expected to do in future:

- **Globalisation:** Businesses are becoming global and are expanding in multiple countries which mean operating in different cultures, varying statutory requirements, different tax regimes and meeting different customer expectations. CFOs will need to be aware how finance function can work as strategic business partner in global business environment. Hence, global leadership will be one of the most important critical success factor for future CFOs.
- **Technological development:** CFOs will be expected to have the vision to use technological developments in the best interest of the business which means linkage of technological applications with business structure, operations and strategy.
- **Risk management:** In a rapidly changing and developing business environment, the need for CFOs to develop the right mix of funding, investment and working capital strategies will become more and more critical by time.
- **Stakeholder management:** Future CFOs will be expected to be capable of identifying and satisfying the varying needs and requirements of multiple stakeholders in order to accomplish business objectives by creating win-win situations. Hence, psychological and human management skills need to be focused as well.
- **Change management:** In robust business environment, change is fundamental and vital for business growth and longevity. CFOs will be expected to keep finance function aligned with changing business strategy and also play a pivotal role in formulation of strategies critical for long term business interests.
- **Short term profits vs. long term success:** CFOs will be expected to keep and maintain a balance between short and long term success and have the courage to take decisions which help in chasing its long run pursuits rather short term gains.
- **Pool of finance talent:** CFOs will be expected to develop, hire and retain the finance resource required for achievement of strategic objectives of the organisation. CFOs need to focus on key factors like succession planning, back-up development, trainings and employee engagements, etc.
- **Develop the right culture:** CFOs will be expected to set the right tune and develop the right culture and attitude in the organisation vital for business success.

From finance managers to CFOs

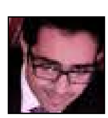
After qualification, young chartered accountants enter industry as managers with the ultimate dream to become tomorrow's CFOs. Here is an advice of how to accomplish this path successfully from manager to CFO:

- **Polish soft skills:** There is a dire need to work and improve soft skills because being a lead business partner, a CFO is expected to have excellent interpersonal skills and (s)he should also possess key partnering skills i.e. negotiation, influencing, observation and sensitisation, etc.
- **Strategic decision making:** Strategic decision making comes out from strategic thinking. In order to think strategically, one must have the in-depth knowledge of subject matter, a thorough understanding of the environment, fair assessment of own strengths and the ability to foresee future outcomes and challenges.
- **Achievements and improvements:** After entering the industry, what will take to the top ladder is experience and achievements in practical realm. Hence, focus should be placed in improving business processes and practical demonstration of skills.

Young finance professionals need to work on strategic leadership along with technical skills which will enable them to embrace challenges arising as a result of changing expectations and challenging business environment.

Conclusion

The expectations from finance professionals are now being changed as CEOs expect them to act as strategic business partners. This shift in expectation results in a need to put increased focus on strategic leadership skills which is an area often ignored or given less importance historically. However, to live up to expectations, I strongly recommend young finance professionals to work on strategic leadership along with technical skills which will enable them to embrace challenges arising as a result of changing expectations and challenging business environment.



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

The First Experience with Financial Statements under Companies Act 2017

by Farrukh Rehman

The new Companies Act 2017 (the Companies Act) was promulgated in May 2017. The Companies Act among other matters brought with it critical changes relating to the preparation of financial statements of the companies and the audit of annual financial statements. The changes included introduction of a new Third Schedule to the Act and the revised Fourth and Fifth Schedules. The Third Schedule deals with the all-important description of financial reporting frameworks and their application to various classification of companies. Fourth and Fifth Schedules to the Companies Act respectively relates to listed and unlisted companies that are not subsidiary of listed companies requiring disclosures principally in addition to what the financial reporting frameworks mandate for the preparation of financial statements.

The Third Schedule to the Act while prescribing the specific financial reporting framework for medium and small size companies did not mention that these companies can also opt for having their financial statements prepared on a higher framework.

The new disclosure requirement mandates reporting of the geographical location and address of all such business units in the financial statements thereby providing to users of financial statements an understanding of the organisational operations.

The first experience with the financial statements under the Act here in this article is with reference to the annual financial statements of the companies an overwhelming majority of which have their year ends on June 30, 2018.

The Dilemma

The Third Schedule to the Act while prescribing the specific financial reporting framework for medium and small size companies did not mention that these companies can also opt for having their financial statements prepared on a higher framework, for example adopting International Financial Reporting Standards instead of IFRS for SMEs or the Accounting and Financial Reporting Standards (AFRS) issued by The Institute of Chartered Accountants of Pakistan (ICAP). Previously under the repealed Companies Ordinance 1984 such use of higher framework was allowed. A number of companies who had been using the higher framework raised this question as being fundamental to their preparation of financial statements under the Act. Though, very recently, the SECP has amended the Third Schedule and incorporated the option of use of higher framework by small and medium sized companies, many companies have already issued their financial statements on interpreting that such use of higher framework is not prohibited.

The Change

A general user of the financial statements would get his first surprise by noting the different names with which the financial statements are now labelled. Balance sheet is now named as 'statement of financial position,' profit and loss account is changed to 'statement of profit or loss and other comprehensive income.' These new names are used, as the Act by including the definition of financial statements has now specifically stated these names. It may however be pertinent to note that the financial reporting frameworks allow flexibility in use of financial statements nomenclature which the Act has restricted.

For many companies property, plant and equipment are stated at revalued amounts instead of cost as per the chosen accounting policy. In such situations the arising surplus was prohibited to be made part of equity of the company under the repealed Companies Ordinance, 1984. The Act though have not carried forward such provision and the surplus on revaluation of property, plant and equipment of such companies are now shown part of the equity of the companies resulting in substantial increase of their total equity. A related disclosure where revaluation policy is used is the requirement to disclose the forced sale value, where. disclosure values are being provided by the professional valuers.

Almost every company has more than one business unit from where operations of the company are carried out. The new disclosure requirement mandates reporting of the geographical location and address of all such business units in the financial statements thereby providing to users of financial statements an understanding of the organisational operations for example in a typical manufacturing concern the location of plant, head office, warehouses, sales offices and distribution centres etc. There has been debate as to the definition of 'business unit' which is not provided in the Act and companies such as those engaged in the business of telecommunication, oil marketing, distribution agents etc are finding the disclosure excessive.

An interesting disclosure required to be included in the financial statements of listed companies relates to the particulars of company's immovable fixed assets including location and area of land. Such public disclosure of location and land area may have been triggered in view of disputes that the Securities & Exchange Commission of Pakistan (SECP) has been experiencing and therefore decided to require it in the financial statements.

The financial statements provides details of all the material items and transactions during the year. Such information is, however, spread all across the many notes forming part of the financial statements. The Fourth and Fifth Schedules to the Act now specifically require a note that provides summary of significant transactions and events that have affected the company's financial position and performance during the year. The first experience of the financial statements including such information at one place has provided companies to highlight significant happenings of the year and the users of financial statements would find this very informative and helpful in understanding the company's operations for the year. Generally, companies have provided such information by one liner statement and cross referred it to the relevant note in the financial statements for more details.

One of the salient feature of the Act relating to the preparation of financial statements is the provision of option to companies who intends to prepare the financial statements with unreserved statement of compliance with International Financial Reporting Standards. Based on the first experience none of the companies have gone for adopting such option. May be by the end of this financial statements season few companies would present their financial statements with full IFRS compliance. Though not a company, State Bank of Pakistan is probably the only organisation in Pakistan who prepare its financial statements with unreserved statement of compliance with IFRS, which is commendable.

The new Auditor's Report

Along with the applicability of new requirements for the preparation of financial statements, the Act has also mandated for the first time that the auditor's report on financial statements to be in accordance with the new format prescribed. Such format is in accordance with the International Standards on Auditing (ISA). In the auditor's report on the financial statements of only listed companies a new section Key Audit Matters (KAM) is required to be included. KAM refers to the most significant matters of attention in auditor's judgement during the audit of financial statements for the current year. This represent the most significant change in terms of the auditor's reporting on the financial statements. The first experience has shown that mostly about 2 to 5 KAMs have been included in the auditor's reports of listed companies. It is suggested that ICAP along with SECP and Audit Oversight Board do a comprehensive study on the issue of KAMs and its impact in Pakistan.

The auditor's reports formats prescribed under the Companies Act includes the reporting on consolidated financial statements. Previously the auditor's report on consolidated financial statements was on the concept of division of responsibility whereby the auditor of consolidated financial statements was not responsible for the audit of subsidiary companies. However under the new requirements now the division of responsibility concept has been done away with in accordance with ISA. Accordingly the auditor's reports issued on the consolidated financial statements for the year ended June 30, 2018 are on the basis that the holding company auditor is responsible for the audit opinion on the consolidated financial statements and has carried out the required audit procedures in respect of the subsidiaries in accordance with the applicable ISA. This change is also impacting the appointment of different auditors of holding and subsidiary companies.

Hot disclosures

The matter of related party transactions remained a hot topic in the corporate sector. The related party transactions disclosures were required previously also. However in the revised Fourth and Fifth Schedules the requirements for related party disclosures have been enhanced to include not only the names of related parties with whom there were transactions during the year but also the name of related parties with whom there is any agreement or arrangement in place during the financial year though no transaction has taken place. Such disclosure of related party names is to be along with the basis of relationship describing common directorship and percentage of shareholding where applicable. The first experience show that much focus have been applied by companies on the assembling and completeness of this information.

For the associated companies, subsidiaries, joint ventures and holding companies incorporated outside Pakistan with whom the company had entered into transactions or had agreements and/or arrangements in place during the year additional information about such entities including their operational status and respective auditor's opinion on latest available financial statements have been required. The companies for whom such disclosure was applicable have provided the information in the financial statements which the stakeholders will find extremely useful.

Details of loans or advances or investments in foreign companies has been a matter of particular focus in the Act. Significant information about the transaction and the entity are required to be disclosed in case of listed companies with reduced requirements for unlisted companies not being subsidiary of listed companies.

One of the salient feature of the Act is the provision of option to companies who intends to prepare the financial statements with unreserved statement of compliance with International Financial Reporting Standards.

In the revised Fourth and Fifth Schedules the requirements for related party disclosures have been enhanced to include not only the names of related parties with whom there were transactions during the year but also the name of related parties with whom there is any agreement or arrangement in place during the financial year though no transaction has taken place.

In case of listed companies where there is export sales information relating to amount of export sales in each foreign jurisdiction along with break up into confirmed letters of credit, contract or other significant categories have been made. Further information with regard to situations where there are defaulting parties additional disclosure regarding relationship if any and description of any legal action taken against the defaulting parties has been given. It is mostly the textile sector financial statements where such disclosure are applicable.

A separate line item on the face of the balance sheet has been mandated by the Act to provide information on unpaid dividend which is different from unclaimed dividend and arises due to some specific reason that stops the company to make payment of dividend. There have been practical issues identified where there are unpaid dividends but the required legal formalities have not been taken care of. Companies are now getting conscious and taking the remedial actions.

A statement as to whether the investments in associated companies or undertakings have been made in accordance with the requirements under the Act is to be provided in the financial statements. In view of such express statement the companies and their auditors are taking special care in making such disclosure.

Another statement relating to loans and advances to directors that these have been made in compliance with the requirements of the Act is required for listed companies' financial statements.

Many companies have shareholders agreements which are traditionally being kept very confidential. The new requirements include the disclosure of shareholder agreements for voting rights, board selection, rights of first refusal, and block voting. Companies are disclosing such information however only to the extent of the existence of these agreements and the specific purposes referred to above.

Disclosures relating to contingencies has been a norm required both under the Act and the financial reporting frameworks. However under the new requirements for reporting of contingencies in describing legal proceedings, under any court, agency or government authority, whether local or foreign, it is required to include name of the respective forum in which the proceedings are pending, the date instituted, the principal parties thereto, a description of factual basis of the proceedings and the relief sought. The companies providing such information have significant extra work and coordination with the legal department of the company to comply with the disclosure required.

One of the most significant disclosure that the listed companies feel is in relation to the disclosure of comparison of tax provision as per accounts viz-a-viz tax assessment for the year. The companies consider that provision of such disclosure is compromising their position with the tax authorities and is excessive.

Directors and executives remunerations disclosures are continued to be part of the financial statements however in terms of perquisites and benefits in kind the Act requires disclosure, where practicable, their approximate money values. Though companies have provided this disclosure but inconsistency in financial statements may be there for the current year.

The companies who are paying royalties to third parties have been required to disclose the name and registered address and relationship with company or directors, if any.

With the passage of time and recurring financial statements being prepare the companies will be further improving the manner and details of disclosure required by the Companies Act. Based on the first experience although certain requirements in the Companies Act appear excessive but on an overall basis the Companies Act has improved the financial reporting in Pakistan in line with the international standards, trends and development.

The writer is a chartered accountant, Council member and chairman Accounting Standards Board (ASB) of The Institute of Chartered Accountants of Pakistan.

On-job Human Resource Development helps lower employee turnover

Muhammad Fahad, ACA
Karachi

"The sun himself is weak when he first rises, and gathers strength and courage as the day gets on." – Charles Dickens, English writer and social critic

Working in any organisation requires motivation and on-job motivation is derived from many components, one being on-job development. But this doesn't guarantee that an employee won't leave if s(he) is trained within the organisation. This is just one component of on-job motivation, there are a lot of other factors which decide whether an employee will stay in the organisation long term or not such as working environment, pay scale, recognition of work, etc. We have seen that employees leave multinationals as well as single member companies although turnover percentage is much lower in multinationals. Multinationals spent a lot on employee development so that they are on the cutting edge of knowledge and are well-versed with the ever changing business environment. Therefore, I can safely say that on-job development is very important for any employee but other factors are equally important to be the deciding factor for employee turnover which should be taken care of by the human resource department of every organisation.

Muhammad Amin, ACA
Karachi

Yes, human resource development is the key to keep employee motivation at optimum level and help minimise employee turnover. It is not only the monetary benefit which keeps the morale of employees at the highest level. Along with monetary benefit, on-job personal development is the foremost factor to retain an employee in any organisation. Big organisations are investing in training, counselling, mentoring, career development, performance management of their people to update and develop their knowledge, skills and abilities in order to give them any role in the organisation. Organisations which are not investing in the development of their people are facing difficulties in retaining skilled people in their set-up and ultimately suffer from losing skilled people from their key positions. As organisations are built with a vision and a great vision without great people is irrelevant, therefore, there is an immense need for organisations to invest in the development of their human resource as the world is continuously evolving and organisations are required to evolve through incessant training and development of its human resource.

Danish Akbar, ACA
Islamabad

One of the key aspects of a progressive organisational culture is their effort to cater the needs for Learning and Development of their employees. To some, the idea of L&D might represent a foreign trip for some seminar or training, which seems lucrative enough. But on-job seminars and trainings are equally effective on altogether a separate level. Each organisation has a varying employee motivation level which is undoubtedly affected by L&D initiatives within it. Within the last five years as a professional, I have become a strong enthusiast of on-job trainings. This has varied from sessions on enterprise solution initiatives to learning a foreign language used in our sister entities.

Not only am I able to relate the effects of such trainings on the job I am performing, but also It has helped me in making new friends. I recall being acquainted with many colleagues of mine who work in either Procurement or HR team, with whom I might never have found the need to meet. Not only this adds to the diversity in perspective on the training-at-hand, but also helps you in gelling-in within your organisational mates. In a nutshell, I do believe in the countering employee turnover and decreasing employee morale with on-job training and development by the organisation.

Qasim Abbas, FCA, FCMA
Toronto, Canada

On-job human resources development is a key factor, which helps to reduce employee turnover since developing an employee on-job results in retention of employee and thus lower employee turnover. Indeed, this keeps employees motivated. In fact, job rotation through change of assignment, elevation, transfer and enrichment play an important role in retaining employees. For lower employee turnover, there are other factors as well, like hiring of right people, fair appraisal system, work environment, fair and optimum pay scale as per current market norms, discipline, etc. Due to these practices, employees take interest and grow in their jobs and are loyal to their employers resulting in lower employee turnover. Due to employee's efficiency, loyalty and devotion s(he) becomes an essential team member, and therefore an asset for the organisation.

Fawad Mazhar, ACA
Karachi

The factor of on-job human resource development cannot be overlooked while determining the success of any company. In countries like Japan, where human capital is critical asset of organisation, the employees' needs for progress are looked into carefully and employee retention is at higher level.

On-job HR development, when aimed appropriately at employee training in their functional areas, new skills and knowledge, role definitions, job rotations, building relationships and conflict resolution results in bringing a sense of belongingness and satisfaction of personal goals of the employees, without which the employee motivation and morale will be low. When an employee feels a part of an organisation and knows that the company considers his/her growth and development needs, s(he) will give positive job commitment and not consider leaving the company easily.

To avoid a condition where a company loses its long term investment in human capital, the HR development should ensure that programs are designed for retaining employees because it takes a lot of effort to train, teach and develop staff. So, a lower employee turnover with on-job HR development should certainly be targeted because it is not just the system but the brains behind the systems that lead the way.

Hina Kazi, FCA
Karachi

A decent and respectable remuneration is a key consideration by an employee when selecting a job but other factors also play a pivotal role if those employees are to be retained. No doubt, a good pay-scale is a motivating feature of keeping the employee stick with a particular job but today's employee expects more than that. An employee knows that like any other organisational resource, if he is not being upgraded and rationalised on timely basis in terms of skills and latest knowledge, he will lose his market value, thus, preference of being developed overweighs the charm of getting even high salaries. Therefore, in order to keep the employees engaged with the organisation on a long-term basis, a healthy organisation offers continuing on-job human resource development (HRD) opportunities and facilities to its employees.

There is always an option for an organisation to discard the outdated employees who become useless with the changing business needs and technology if they not being updated and trained accordingly. But is it wise to keep discarding the old employees and hire new ones? In the long run, this strategy would turn out to be very absurd and costly in terms of time and money. Hence, it is more sensible for an organisation to upgrade and restructure their existing human resources.

HRD programs provides numerous prospects for employees to improve not only their personal and organisational skills but also enhance their knowledge and know-how of the required tasks/job duties and meeting other employer expectations. In order to keep the employees happy, motivated and satisfied so that their attention is not diverted anywhere else in looking around for other jobs, various human resource development techniques are employed by organisations on an ongoing basis. Such techniques could be formal such as classroom training, management training, seminars and workshops, or a short course relevant to the job, or informal such as coaching by a senior employee or boss, mentoring programs or in-house training and development sessions, etc. Career development and succession planning is another essential aspect through which employees are attracted to continue as they are guaranteed growth and progression within the organisations. Acceptable challenging assignments should be given to employees which, in turn, would increase not only their knowledge and understanding of work but would also boost self-confidence. Also, a regular feedback mechanism should be made part of the program which would be a direct communication to the employer as to whether the employees are benefitting from the planned training methodology and what improvements could be brought about if any deficiency arises in those methods and systems.

The purpose of these employee development practices is to achieve the organisational goals and objectives through an efficient and a well-trained workforce which is only possible if staff is properly trained and rightly guided. Also, the employee would prefer to continue serving an employer who is willing to make investment in their human resource development needs and requirements. So it is a two-way process whereby both the employer and employee achieve their targets by fulfilling each other's needs.

Zuhair Akram Shaikh, ACA
Karachi

"Job training empowers people to realise their dreams and improve their lives." – Sylvia Mathews Burwell, American government and non-profit executive

I thought I had recommended the perfect person as subordinate for my organisation. He was passionate, bright, hardworking and eager to learn from the ground up. He was going to be my support. I arranged an interview with my boss and he agreed. Imagine my surprise and disappointment when just three months down the lane my new star was in my boss' office offering his resignation. "What happened?" I inquired. "No one took the time to train me" was his answer. "Simply put, I did not want to let anyone down as I don't feel knowledgeable enough to deserve this position; quitting is the best option that I have."

A study reported in Harvard Business Review reveals that some 12% of high-potential employees were actively searching for new jobs. But why? What causes employees to walk away from their jobs, even when unemployment is hovering near 10%? Studies show that one of the top reasons is lack of growth opportunities through on-job training programs which are particularly important to young workers, who have higher expectations and a massive career ahead. In my opinion, organisations need to pin point the employees' training needs by deploying tools such as regular assessment reviews, 360 degree feedbacks and one-to-one sessions with the line managers. Slogans such as "Train to motivate and train to retain" are no more just mere statements but the reality of the day to be recognised by organisations in order achieve competitive advantage in terms of its human resources.

In the words of Michael Leboeuf, American business author and former professor at University of New Orleans, "If you believe that training is expensive, it is because you do not know what ignorance costs. Companies that have the loyalty of their employees invest heavily in permanent training programs and promotion systems."

Abdul Sami Awan, ACA
Karachi

Train your employees and watch the best of them leave and the rest of them flounder. The more realistic and logical side of the picture is on-job human resource development and training which increases your employee's worth who might then use his newly acquired skills and knowledge to find a better job that pays more money resulting in an increased employee turnover. Specially, small organisations with lesser levels of hierarchy, normally find it difficult to offer promotions to its trained employees who are always looking to move up the organisational ladder, will eventually result in an employee quitting and joining another organisation.

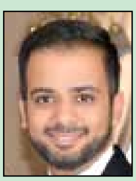
So merely spending money on human resource development and training is not going to help lower the employee turnover unless they are provided with upward career paths and advancement opportunities along with the other extrinsic and intrinsic motivating factors because mostly, absence of growth opportunities and money lie at the heart of a good employee's departure.

Muhammad Bilal, ACA
Kingdom of Saudi Arabia

Professional development is the most important aspect in today's business environment as young employees are now more concerned about their professional growth than monetary benefits. Many employers recognise this fact and arrange on-job training sessions to equip their employees with contemporary skills and to encourage them to take up new tasks in new ways. It also helps employees feel engaged and result in low employee turnover. On-job training does not only cover traditional in-house training sessions, but can also take form of job rotation and mentoring.

Most organisations adopt different strategies to help reduce employee turnover but statistics show that the most effective strategies are employees' professional training and their engagement in the affairs of the organisation.

To end, I would say that organisations should target the training needs of their employees if they wish to retain talented and well-skilled employees and continuously monitor their progress and professional development.



Farhad Rajabali, ACA
UAE

What makes you get out of bed every morning, dress up, leave home, rush through the traffic and make it to work? One simple answer maybe money you need to earn to live and feed your families but is that enough to keep you motivated and engaged in one single job? This brings into play other factors such as job security, career growth, relationship with managers and peers, work culture and fulfillment of the constant need to learn and develop. If any of these are missing, you might soon be thinking of switching jobs. It is difficult to find an ideal job that has it all but mostly one factor may make up for another. On-job training achieves this in three ways: First, it gives you a sense of continuous learning to improve your skills; second, it better equips you to do your job instead of being lost without guidance; and third, it makes you feel valued as your manager and employer are investing time and effort to develop you. If employees feel valued and motivated, they are less likely to leave, thereby reducing employee turnover.

The counter argument maybe that training an employee is just preparing them to take a better job elsewhere as they become more marketable and may want better pay and perks on offer elsewhere. In the first place, the employee was recruited because s(he) had the requisite skills for the job and so any further training and development should be done at their own cost and time outside their normal job hours.

So one may ask the question – what if you train them and they leave? The rebuttal – what if you don't and they stay?

Shafqat Ali, ACA
Karachi

On-job human resource development helps in creating long term relationship with the employer. In an organisational culture where there is no concept of development, an employee starts looking for some other workplace where s(he) can be groomed or developed for the current and future roles. In fact, developing an employee on-job is an investment from an employer's perspective and on the other side, a good employee always considers this and wants to provide return on the investment in terms of long term relationship. At present, every employer is facing employee turnover issue, which can be managed, to some extent, by hiring fresh employees and provide them on-job training/ development, to make it safe for the employer as well as the business.

Hasan Mahmud, ACA
Karachi

A company will only be as successful as the people it employees. Human endeavour is humanity's progress, without human endeavour mankind's excellence cannot be reached. History shows that successful companies were not able to hold on to their competitive advantage with the passing of time as a result of high employee turnover. Retention of quality staff is only done through motivation and in my opinion, there are only two major forms of motivation for an employee, remuneration and erudition/learning (other than the motivation of serving humanity).

There is a saying that "Great people work for great bosses." In my narrative, a 'great boss' is he who understands what is required from his team and how to train his team/staff members to extract the required outcome. Being part of a professional services practice for nine years, I believe 'learning' is higher than 'remuneration' and what we learn on-job cannot be taught in any class. In my case, my on-job development made me less likely to (turnover) resign.

The burden of learning also lies on the shoulders of the employee and not only the employer. Only the employee knows what training will motivate him to stay with the current employer. The employer will only facilitate the process, not dictate it.

Iqra Sajjad, ACA
Karachi

I tend to disagree. Often at organisations, under the umbrella of on-job development, there are training sessions, seminars, workshops and conferences. But I would like to narrate my own experience(s) where a date had been forced on me and attendance was made mandatory. I was physically present at the venue while mentally still stuck with the pile high work load I left on my desk. Not to mention the repeated calls/SMS and email bombardment from the boss/subordinates about the whereabouts of a long-forgotten inter-office memo which needed to be brought back from hibernation on that day only. Irony is that after such a session, I have never felt satisfied. At the end of a day which should have enriched and empowered me and paved ways for my professional development, I was even more tired and fatigued.

Here, I would also like to point out that organisational attitude also matters. When it comes to on-job development, sadly, many organisations still consider this as a mere box to tick off their to-do list; a mandatory yearly 'thing.' If taken in its true spirit, it might contribute in lowering the turnover ratio but otherwise not as such.

Shiraz Noordin, FCA
USA

There is a clear connection between continuation and consistency of Human Resource Development and employee retention that often goes unnoticed and is largely undervalued in the life cycle of one's employment within a company. Throughout the recruiting process, companies tend to focus their efforts on attracting individuals to their business, but if all is easily forgotten upon hire, there must be something in place to maintain employee satisfaction and loyalty to the company. The more a company invests in its resources through ongoing training, mentorship, future planning, etc., the more willing employees will be to reciprocate their own investment in the company. As employees' strengths are further developed and their limitations are managed and controlled, they will be able to contribute much more to the organisation they work for, thereby increasing their engagement, productivity and commitment manifold. A healthy approach to mitigating resource turnover could very possibly be providing formal and informal professional development opportunities even and especially after the initial onboarding phase.

Atif Riaz, ACA
Islamabad

Once a CEO of a big company told his HR head to arrange trainings for the employees. The HR head asked, "What if we invest and train them and they leave us?" The CEO said, "What if we don't train them and they do not leave us?"

With every passing day on-job training and human resource development is very crucial in the current era of dynamism and new developments. It not only helps to increase knowledge and expertise of the employees for betterment of the organisation but also create a sense of responsibility and organisational loyalty in employees. If employees are loyal to the organisation, they would be ready to sacrifice their personal gains for the betterment of the organisation. If an organisation invests on its employees, they are indebted to it. It would not only reduce the employee turnover but also increase the productivity, efficiency and effectiveness of the employees which in turn result in growth and prosperity of the organisation. It is pertinent to mention that on-job trainings and human resource development exercises are never a waste of money as this investment always pays back one way or the other.

Adil Farooq Qureshi, ACA
Rawalpindi

Whatever an organisation is looking for in an employee, the employee is looking for in the organisation. Commitment, dedication, engagement and development are all reciprocity based. Therefore, employees who want to see these developed, would surely prefer an organisation which invests in on-job human resource development resulting in longer employee retentions and lower turnover. However, there is also a flip side in that there is a limitation of engaging employees through on-job development. The factors involved include organisational structure and expansion strategy, value addition of specific jobs, departmental hierarchy, company culture and tone at the top. The solution lies in embedding development in company culture, adequate complementing of on-job and off-job development and personalised development plan based on employee's skills, ambitions, competence and capability.

As with everything, change in development sciences has necessitated the organisation to prompt and identify those employees who aspire to develop themselves and have that spark of self-development. They even have started to put this 'other side of employee engagement' in their recruitment/promotion criteria, highlighting how necessary it is for every worker to focus on self-development, have goals, look for opportunities and exhibit willingness to develop and take on new challenges at the same rate during hiring process and service period.

Sarfraz Khan, ACA
Dubai, UAE

'Human resource is the most important asset of the organisation' is used very often and believed to be a reality.

Any good organisation provides orientation to their newly hired employees about complete operations of the department/division in which the employee is hired. Although, the employee is hired for a specific job/role but orientation about the complete operations of the department/division provides know-how to the employee and s(he) starts thinking about the bigger picture of the organisation. This practice empowers the employee to start thinking not only about his job role but about the functions of the organisation as a whole. Thus, the employees start thinking out of the box which is essential for the success of an organisation as well as personal development of the employee.

Leading organisations provide a platform to their employees for their career development, by providing them on-job training as well as opportunities to learn from their colleagues across the organisation, which helps lower the employees' turnover, resulting in a win-win situation for both employee and the organisation. One example is the 'Ideas Portal' in place in leading organisations where employees can submit their innovative ideas not only about improvement in their respective division but also about improving the operations in other departments/division of the organisation and in return, employees are rewarded monetarily and via appreciation certificate. Such practices give employees a sense of their importance for the success of the organisation as well as confidence about their abilities/talents.

Muhammad Athar Jamal, ACA
Karachi

Eraldo Banovac, Croatian author and professor, rightly said that motivating employees through on-job HR development to work at their full potential is the main premise of successful management. Undoubtedly, on-job HR development always keeps lower rate of employee turnover hence, it's not always salary that keeps an employee motivated towards his job. It is an undeniable fact that cost of losing talented, experienced and skilled workers is much higher than the cost of hiring new ones. Job satisfaction, mainly pertinent to on-job HR development, is the key variable which makes the higher or lower levels of employee retention at any organisation in the rapidly changing world and its dynamics. Success of business necessitates recognition of employees' hard work and keeping them motivated through on-job HR development and training so that precious resource is not lost, and this is called strategic human resource management. In a nutshell, organisation must invest in their resource training and development to increase their productivity, efficiency and motivation and avoid any employee turnover issues.

Pakistan International Airlines – Turnaround Concept and Proposal

by Mohammad Ali Dada

The performance of Pakistan International Airlines (PIA) has been a point of debate and controversy for the last few decades. The stories of how PIA used to be one of the best airlines in the world are now part of folklore. The current results, performance and stories have not been very positive to say the least. Many attempts have apparently been made to run PIA around but none have succeeded as such. Yet PIA continues to be around, and is still one of Pakistan's best known brands.

The concept of turning around PIA has been a topic I have found very interesting. I am a lifelong commercial aviation enthusiast and have been fortunate enough to work in the airline industry for over a decade. And I have always maintained a view that turning PIA around is, on the face of it, not a very complicated task – what needs to be done is obvious. The difficulties are to be sorted out and solutions are to be materialised effectively.

I wrote this paper as my analysis of PIA and a solution that would see PIA become a profitable airline like it once used to be as the legend goes.

Airline Overview

Fleet Size	Long Haul (Wide Body)	Number / (Capacity)
33 (Average Age 11.2 years)	Boeing 777-300	4 / (393-442)
	Boeing 777-200	8 / (310-329)
	Medium to Short Haul (Narrow Body)	
	Airbus A320	11 / (158-180)
	Short Haul (Turbo Prop)	
	ATR-42	5 / (48)
	ATR-72	5 / (70)

Destinations	Domestic	Number
49	Main Hub – KHI	1
	Secondary Hubs – LHE and ISB	2
	Others	18
	Total	**21**
	International	**Number**
	Ultra Long Haul	1
	Medium to Long Haul	13
	Short to Medium Haul	14
	Total	**28**

Key Three Month Financial Data (Group)	QE 31 March 2017 USD '000	QE 31 March 2016 USD '000
Total Revenue (Including Hotels and Subs)	235,185	236,409
OPEX (Including Hotels and Subs)	(265,513)	(220,300)
Gross Profit / (Loss)	**(30,328)**	**16,109**
Distribution, Administrative and Other Expenses (net off Other Income)	(43,388)	(41,361)
(Loss) from Operations	**(73,716)**	**(25,252)**
Finance Costs	(34,598)	(31,083)
Tax	(1,414)	(1,313)
Net (Loss)	**(109,728)**	**(57,648)**
This data suggests as annual net loss of around USD 350m to USD 400m.		

Strengths

- Approximately 20 million air travel passengers (based on published Pakistan Airport figures) in Pakistan every year, with a growing market.
- Dominant carrier in a country of 225 million, with an established infrastructure, network and valuable slots in restricted international airports.
- Pakistan, as a market, in underserved. There are currently just four airlines (PIA, Airblue, Shaheen and Serene Air) operating in the country with only 64 aircraft based in the country, of which PIA has 33 aircraft.
- Karachi, Lahore and now Islamabad are large airports with excess capacities. There are no operational constraints is selecting the right timings and slots.
- The only real point-to-point carrier operating international flights to and from Pakistan – point-to-point attracts premium on fares. This is PIA's single greatest strength apart from major carriers for long-haul markets such as Canada, USA (now shut down), UK and Europe, along with some Far East destinations.

Weakness

- Reputation and perception in market – PIA is no longer a respected brand for multiple reasons. That does not make it an airline of choice so it is forced to compete with lower fares. Being the only main point to point options, PIA should be attracting the highest fares.
- Financial situation – PIA makes an operational loss with a net loss of around 47% of its revenue – that is a significant gap to address. To put that in perspective, some of the best airlines in the world make a 5% to 9% net margin in a good year, examples listed below:
  - American Airlines Group – 4.55%
  - Delta Airlines – 8.67%
  - Air France-KLM – 3.18%
  - IAG – 8.79%
  - Emirates – 4.03%

  The concerns that stands out prominently in PIA's financial statements, and I have only been able to find Quarter Ending March 31, 2017 as the latest available ones, are Staff Related Costs at 24% of revenue and Finances Costs at 15% of revenue.
- PIA's total staff levels – based on data available online, is about 13,500. That is 409 employees per aircraft, which is one of the highest employee to aircraft ratios in the industry. To compare this to the ratio in the profitable and large airlines mentioned above:
  - American Airlines Group – 129
  - Delta Airlines – 93
  - Air France-KLM – 252
  - IAG – 112
  - Emirates – 256

  PIA's staffing levels are more suitable for a full service airline of around 100+ aircraft. Staff related costs account for USD 57.753m or 24% of the revenue. An airline of PIA's size and set-up (full service, international operations and in-house functions like catering and engineering, and hotel subsidiaries) should average around 250 employees per aircraft, so around 8,000 employees.

- Finance costs of around 15% of revenue, with a debt of nearly USD 2 billion (long and short term) gives PIA an extremely high debt to asset ratio – nearly 100%. That's not sustainable and highly unlikely to be recoverable from operations, no matter how much efficiency is achieved.

Opportunities

International

- Major international airlines do not want to fly to Pakistan. That is not because they do not see the opportunity but because they still are not comfortable placing their crews overnight in Pakistan. That is what is keeping major airlines like British Airways, Lufthansa and Air France-KLM out. The market exists and therefore it is not a surprise that airlines like Emirates, Qatar Airways, Etihad Airways, Gulf Air, Saudia and Oman Air, along with LCCs like Air Arabia and Fly Dubai are more than happy to add flights to Pakistan – they don't have to overnight their crew here. These airlines are serving Pakistan about 30 times a day for passengers that either avoid PIA or cannot get seats on PIA.

  The fact that Middle Eastern carriers can get so many international passengers to fly with them out of Pakistan for one stop options, via their home bases, to the world is where PIA's opportunity lies – it is the only airline that can offer non-stop flights to quite a significant volume of traffic flying between Pakistan and Canada, USA, the UK and Europe.

  PIA already has the infrastructure, it just needs to become a reputable and reliable three star airline than can consistently deliver a reasonable quality of service to passengers that already exist. It does not need to become an airline comparable to the four or five star Middle Easter carriers.

Domestic

- As mentioned above, Pakistan is underserved in terms of aviation, and the domestic yields are one of the highest in the world and that is simply because there aren't enough flights. To give an example, there are only 10 flights a day between Karachi to Lahore, and Karachi to Islamabad on a typical Monday.

  To highlight the opportunity further around yield per passenger, please see the comparable fares for Monday morning (May 22, 2018) as checked on May 18, 2018 – the classic peak business traffic flight with high yields:

KHI – LHE	USD 296 (10 flights per day)
KHI – ISB	USD 350 (10 flights per day)
BOM – DEL	USD 51 (60+ flights per day)
LHR – FRA	USD 127 (30+ flights per day)
SYD – MEL	USD 56 (50+ flights per day)
JED – RUH	USD 72 (50+ flights per day)
NYC – CHI	USD 126 (50+ flights per day)

There is a significant opportunity to increase flights domestically and to do it profitably – PIA should actually be far bigger than it is now.

Threats

- The solutions for PIA are simple, the problem has been (other than intent) the interference of government related entities, the politicised union set-up that may prove to be a barrier that cannot be breached and the current financial state.
- Middle Eastern carriers have now established themselves very firmly. Emirates is now effectively Pakistan's largest international airline. PIA, in its new state, will have to win back passenger loyalty.

Proposed Solution

- The two main problem that impact the cost base have to be addressed with a one-time restructure to resolve them once and for all:
  - The debt must be reduced through either an injection of equity or by government sponsored write-off. PIA, no matter how efficient it becomes, cannot survive with the debt servicing costs it currently has to pay.
  - Staffing levels have to be addressed, including excess staff and those not qualified to be employed. This has failed in the past so the redundancy package must be sweet enough to be accepted by the staff with a binding agreement that prevents future backlash or revocation resulting in reinstatement.

  If these two areas cannot be addressed then the airline, as it stands, **cannot be turned around** and I say that with confidence of having seen this applied a few times and fail in far less worse scenarios.

  If PIA cannot be restructured, then there is the option which worked well for Swiss/Swissair and did not work well for Alitalia, and that is to form a completely new PIA with a clean balance sheet. The new PIA takes over assets and staff of choice from the old PIA along with its slots, rights and licenses. That will leave old PIA to fight its battles while new PIA can operate without these hassles. Of course, this is easy to state but may have practical issues. But the model has been applied and both Swiss and Alitalia scenarios are explained below:

  - **Swissair/Swiss International Airlines**
    Swissair went bankrupt in 2002 and was revived through a new clean company – Swiss International Airlines that took over its useful assets and quality staff, but left all its problems making it a clean company, and it has operated successfully ever since.

  - **Alitalia LAI/CAI/sPA/SAI**
    Alitalia, despite operating in a lucrative market has a history of financial issues – very similar to PIA. There are strong unreasonable unions and the government isn't clear about its approach. It lost the ability of surviving through state support after EU regulations took hold and first went bankrupt in 2008 as Alitalia LAI. Since then, it has been revived repeatedly by forming new Alitalia's (Alitalia CAI in 2008, Alitalia sPa in 2009 and then Alitalia SAI in 2015). It is now in its fourth bankruptcy within a decade. The reason is simple, unlike Swiss they keep transferring their problems to the new Alitalias formed, with the same result.

- From a business perspective, PIA has a solid base which it simply has to use. The airline can expand domestically while it should focus on select international routes with heavy VFR (visiting family and relatives) and holiday traffic such as Canada, USA (JFK, ORD and IAH/DFW), the UK (LHR and MAN), Turkey, GCC (Saudia Arabia, UAE, Bahrain, Oman and Qatar), China, Malaysia, Thailand, Bangladesh and other destinations where there is consistent traffic. The network should be focused on core destinations, with the rest on codeshare with Middle Easter Carrier(s). PIA should be able to operate this network with a fleet of 50 to 60.

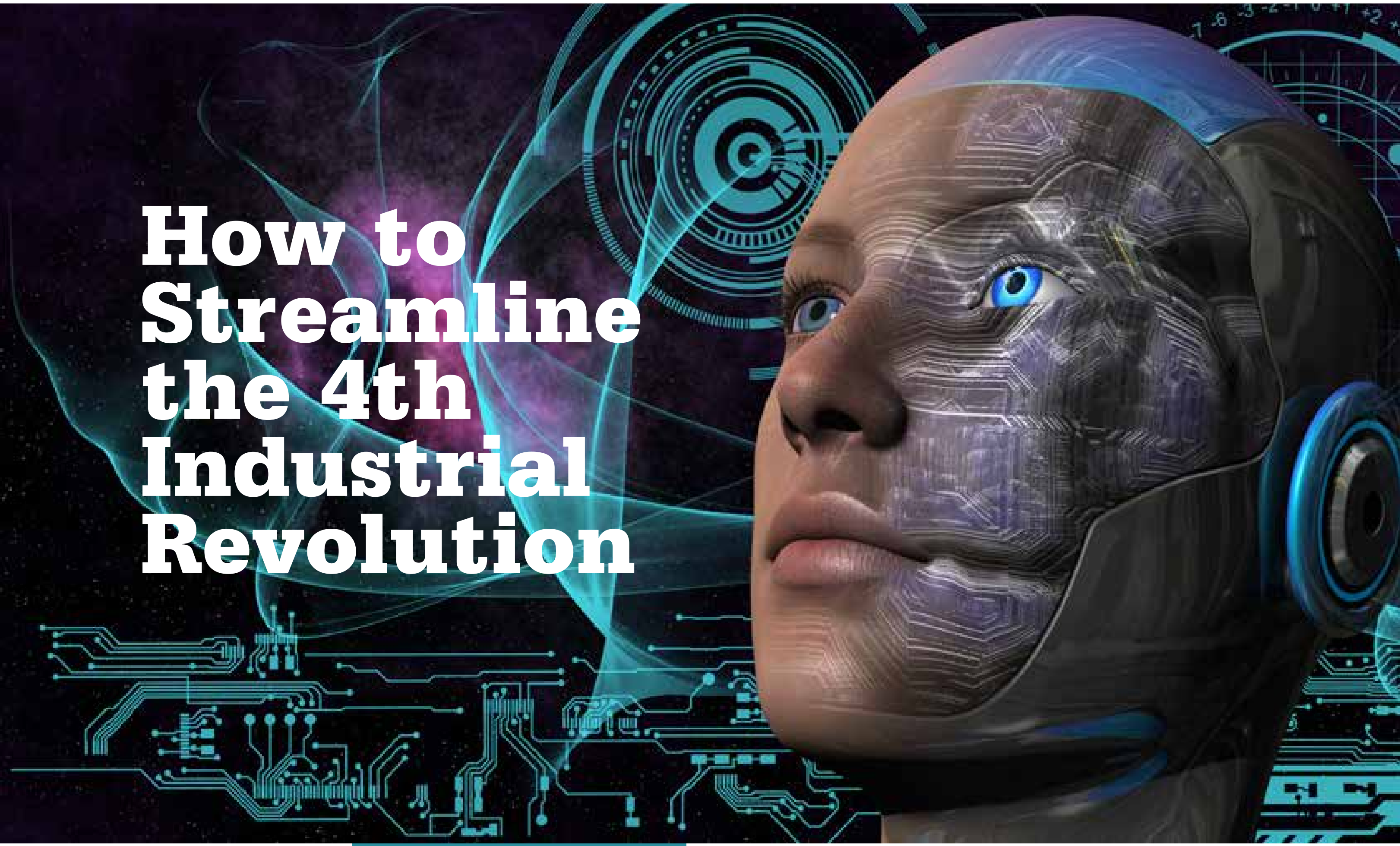
- The current fleet is actually very good. Airlines should not have a large variety of aircraft and PIA has that with long haul covered by 777s, short to middle haul by A320s and regional and A320s and ATRs. The same fleet types can increase.

- A review of operations will by default yield efficiencies in operations or business with a 5% impact on financials.

Summary and Conclusion

PIA, based on where it operates, is in an area with immense opportunity of growth. And an airline that dominates point to point traffic in a country of 225 million should be profitable. Issues are primarily in staff levels and finance costs, while reputational matters need to be address. This view is idealistic and there clearly are political and other barriers that will impact this. However, with the backing of the right sponsor this can be achieved. This document reflects a very high level view based on data available publically. The view might change based on review of information such as management reports, distribution costs and channels, route profitability data, performance of subsidiaries, RASK, CASK and load factors, and MIDT reports applicable to PIA's market.

The writer is a chartered accountant and has worked for over a decade with large global airlines leading internal audit and business transformation.



How to Streamline the 4th Industrial Revolution

Globally, it is said that by 2020 almost 50 billion devices will be connected whether it be simple household items/gadgets or complex apparatuses/ machineries of commercial use.

The 4th Industrial Revolution (4IR) is a 'Revolution of the Mind' emerging from knowledge and creativity. It builds on the Digital Revolution, representing new ways in which technology becomes embedded within societies and even the human body. The rise of cyber-physical systems came with breakthroughs in a number of fields, including robotics, artificial intelligence, nanotechnology, quantum computing, biotechnology, Internet of Things (IoT), 3D printing and autonomous vehicles.

A knowledge-based approach is required to be enthused amongst the masses in order to reap the maximum benefits of the 4IR since socio-economic development is no longer dependent on natural resources and knowledge is now the key driving force of world economies. Those countries which have realised that their real wealth lies in unleashing the creative potential of their human resources are the countries which are taking reins of the future in their hands.

Its effects have already struck the banking industry where innovative models of branchless banking are seeing the light of the day. On the smart manufacturing side, there have been breakthroughs at international level and it will not be long when

such innovations are brought home locally to reap the benefits of efficiency and less error prone procedures.

> Pakistan as a nation needs to reskill its human resource already out of educational institutions and needs to introduce extensive programs where through using cognitive and cloud technologies, people are equipped with modern technologies.

The education sector is the area where educational institutions could consider increasing the outreach of schooling via technology and virtual class rooms. Startups need proper guidance and carry through mechanisms and to be linked with the relevant investors for which there are organisations promoting them. With regard to Small and Medium Enterprises (SMEs), a lot more needs to be done to bring them under the ambit of technology. They do not seem to be geared for such revolution and it is time they take note of the changes around and start taking appropriate steps.

Overall, the board's role would remain largely the same with respect to governance, however, it would be required to ensure robust risk management system and strategy to respond to disruptive changes of the revolution. Whereas, for women, such revolution brings glad tidings as technological advancements shall make it easier for them to carry on with their careers with distant work stations facilities, etc.

Globally, it is said that by 2020 almost 50 billion devices will be connected whether it be simple household items/gadgets or complex apparatuses/machineries of commercial use. Similarly, in Pakistan, everything will also need to be digitised and in this regard huge potential for automation exists across all industries. It is said that some of the more sophisticated establishments are already automated, however, their systems need upgrading/renovation which will require new insights and thus creates potential for new models and technologies.

Science is a lucrative profession in Pakistan and we need to excite young minds about the wonders of science since it is about time that the nation starts investing heavily in its future generation as the way forward for Pakistan is to nurture and develop its 'real resource' where the actual worth lies. Pakistan as a nation needs to reskill its human resource already out of educational institutions and needs to introduce extensive programs where through using cognitive and cloud technologies, people are equipped with modern technologies.

Simultaneously, the upcoming youth should be trained directly by the employers who can teach them the skills needed for the future because this way, we will have people who will be contributing to the economy and GDP as soon as they are out of educational institutions.

4IR can also help Pakistan in closing the digital divide between urban and rural areas. Initiatives have been taken for rural development, particularly in the agricultural sector where farmers are being connected to internet smartphones so that they have direct access to the consumer of their products. Resultantly, e-commerce platform of today has tremendous potential of transforming lives in rural areas, thus closing the digital divide.

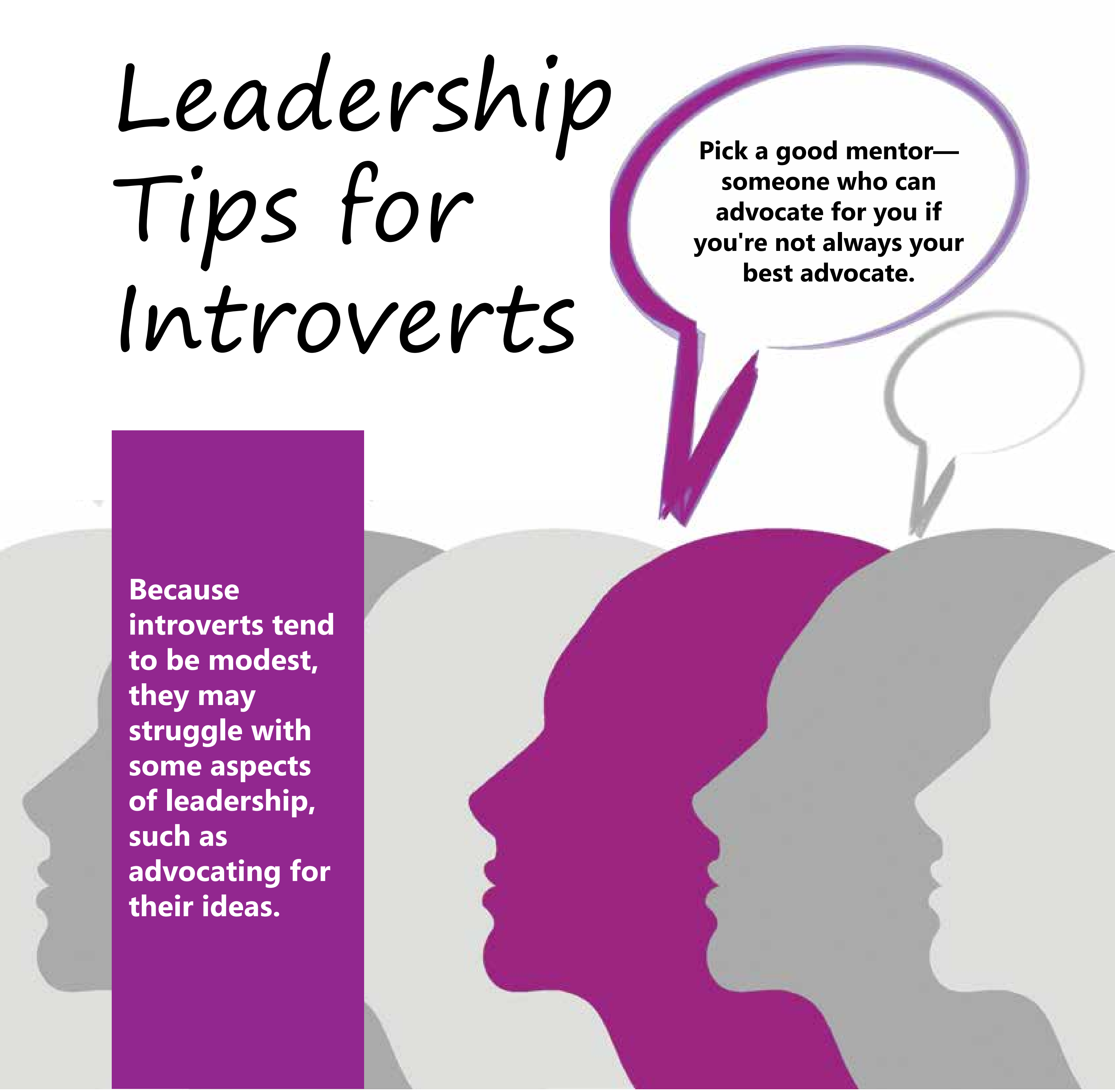
Challenges and opportunities of 4IR can be met when the government is ready to adapt and take appropriate steps to respond and keep up with the rapid pace of development. Further, adopting of international standards is also a key element which configures the way in which we communicate the financial information in a uniform manner regardless of technological improvements.

> The key takeaways of CA Women's Committee Leadership Summit includes policy reformations for financial-services and data secrecy, collaboration of demand and supply within agricultural, education and other skill-based sectors, and awareness and training of board of directors and audit committee members so they can play a vital role for appropriate risk management strategies.

In 2017, CA Women's Committee had organised a Leadership Summit to spread awareness about the 4IR technological advancements and how to optimise it thorough risk-based narrow regulations, less taxation, less governmental influence and less litigations. The key takeaways of the conference includes policy reformations for financial-services and data secrecy, collaboration of demand and supply within agricultural, education and other skill-based sectors, and awareness and training of board of directors and audit committee members so they can play a vital role for appropriate risk management strategies. More detailed takeaways of the conference can be viewed at CA Women's Committee website: icapcawc.org

Contributed by CA Women's Committee

Leadership Tips for Introverts



Because introverts tend to be modest, they may struggle with some aspects of leadership, such as advocating for their ideas.

Introverts need to keep in mind that being a leader often entails becoming more social and visible, even if that's something that doesn't come naturally to them.

In American business culture, leaders are often pictured as gregarious types who have no trouble addressing a crowd, connect with potential clients at networking events, or voicing their opinions in meetings—in other words, extroverts. "Loud backslapping types are often seen as leaders," said business coach Nancy Ancowitz, author of the book **Self-Promotion for Introverts**. "It's a cultural bias, but it's not an accurate perception." In fact, many top business leaders, such as Warren Buffett, Charles Schwab, Marissa Mayer, and Bill Gates, are introverts.

Though introverts may have a more reserved leadership style than extroverts, they possess many qualities that make them good leaders. Their capacity for listening and reflection, for instance, helps them forge strong relationships with colleagues and clients. "Introverts have the ability to really take in what people are saying, process it, and come back to it in a meaningful way," Ancowitz said.

"People view leaders as 'life of the party' types," said Gary Boyd, Certified Public Accountant (CPA), a partner with top-100 firm Montgomery Coscia Greilich in Dallas. "But a lot of times leadership is being able to connect with someone and hear them out and then provide a thoughtful response or reaction."

Introverts also excel at making careful decisions that are grounded in research—a plus in an analytical field such as accounting. "Because they're introspective, introverts tend to be thoughtful and intentional," said Tamera Loerzel, a coach and a partner with ConvergenceCoaching. "They do a lot of internal processing before making a decision."

Yet, because introverts tend to be modest, they may struggle with some aspects of leadership, such as advocating for their ideas. This tendency sometimes causes them to be overlooked. As Boyd put it, if you're reluctant to take the spotlight, "people may wonder whether you know what you're doing or if you're adding value, because you don't stand up and tell them why you're there."

Introverts need to keep in mind that being a leader often entails becoming more social and visible, even if that's something that doesn't come naturally to them, said Maribel Torres-Pinero, CPA, the CEO of Lumix CPA and a member of the American School of Certified Public Accountant (AICPA) Digital CPA Advisory Committee. "As you grow as a leader, you'll be called on to do things like deliver presentations, give seminars and classes and webinars, and participate on boards," she said. "As an introvert you might think, 'That's not what I signed up for! I signed up for the analytical work.' But you need to move past that mindset."

However, if you're an introvert, there are techniques you can use to become more vocal, promote yourself, and contribute to business development—without going against your natural temperament. The key, introverted leaders say, is to tap into what motivates you.

The reserved person's guide to self-promotion

To marshal your passions in service of your career, "lead a small group or create a presence in an area you're passionate about, like a certain niche or type of client," Loerzel suggested. To take the focus off yourself, think about how your actions will help your firm, team, or clients. When networking, for example, remember that "by building your network, you're not just serving yourself, you're serving others," Ancowitz said. "You're also helping your team members by finding out about projects that would benefit them."

To advance in your career, it's necessary to make sure key decision-makers know who you are and what you've accomplished. If you're an introvert, though, self-promotion may not come naturally. But you don't have to brag or become a social butterfly to make yourself more visible, introverted leaders say. Instead, you can capitalise on your knack for building one-on-one relationships.

Boyd recommended that introverts strategically choose people in their firm to get to know better. "Understand who the key decision-makers are in whatever environment you're in and get opportunities to speak with them in smaller settings," he said. "Then they can see that side of you that you may not be as comfortable showing in larger groups."

Another best practice, he said, is to "pick a good mentor—someone who can advocate for you if you're not always your best advocate."

Be intentional about your style when leading a team

Because they listen well and respond thoughtfully, introverts often make excellent one-on-one managers. They tend to take a more relaxed approach to leadership—coaching and advising others and then expecting them to follow through. The only way people learn is by doing things themselves.

Introverts' listening skills can be an asset when leading teams. Making sure everyone feels heard, Yeager said, is a good way to secure buy-in. "When you're trying to gain consensus, give everyone the opportunity to voice their opinion," she said. "People will be more likely to go along with your decision, even if it's not the option they preferred, if they feel like they were heard."

However, though introverts' unobtrusive leadership style helps team members feel trusted, it can have its drawbacks.

Leaders are expected to inspire people to buy into a shared vision. Extroverts, who are naturally more effusive, often find it easy to get others excited about their ideas. But introverts tend to be modest in their speech and body language, even when they're genuinely enthusiastic about a project, and their reserve can sometimes be mistaken for disinterest or a lack of resolve.

That's why, Loerzel said, introverted leaders need to explicitly state when they're passionate about something, even if it doesn't come naturally for them to do so. "Be intentional about acknowledging what you support and approve of," she said. "Don't sit back. People need to hear those things."

Employees who expect managers to be very proactive may not know how to respond to an introvert's style. It helps to be open with employees about your communication preferences, Ancowitz said. If you do your best thinking in advance, for example, "ask them to send you the information you need

To advance in your career, it's necessary to make sure key decision-makers know who you are and what you've accomplished. But you don't have to brag or become a social butterfly to make yourself more visible.

before you meet with them," she said. Or, if you dislike interruptions, tell them you prefer they schedule time with you. You can also ask them how they'd prefer to work with you.

If you have a mix of introverts and extroverts on your team, plan meetings and other events in a way that accounts for their differences in temperament, Ancowitz said. For instance, if you're planning a brainstorming session—a lively experience extroverts often enjoy—let participants know the topic in advance to give introverts time to think about it first. Then, allow time for quieter reflection on the ideas that were generated, perhaps by having participants write about them or break into smaller groups to work on them. (See "Get Noticed at Meetings.")

Strategy and relationship-building are the keys to business development

As you take on more leadership roles in your career, you'll likely be called on to make more contacts in your community and develop business. Though many introverts find the prospect of networking intimidating, they should keep in mind that networking is not just about shaking hands with hundreds of people at a conference. In fact, the approach to networking favored by introverts—pinpointing a few key prospects and taking the time to get to know them—can be equally effective.

Quality often outweighs quantity when it comes to business development, Boyd said. "Introverts probably won't be the life of the party, but often the life of the party doesn't have the yield in terms of production as someone who builds relationships with the two or three people they meet," he noted.

The main thing introverts need to remember, Loerzel and Ancowitz said, is that introversion is not about how social you are, but about how you gain and restore your energy. Introverts are energized by time alone and feel drained after long periods of socialising. Extroverts, on the other hand, derive energy from being with others and feel out of sorts if they're alone for too long.

"It's important for introverts to be strategic about how they use their time and energy," Ancowitz said. "Decide in advance who you want to meet and which events you want to attend. Set a goal such as having lunch with a certain number of people this quarter." As Boyd put it, "What I've learned is that I don't have to talk to everyone in the room. Having two to four good, meaningful conversations is enough."

If you're not sure whom to speak to at an event, "strike up a conversation with someone on the perimeter of the room who looks uncomfortable as well," Boyd said. "Then you're acting like an extrovert toward that person. Those conversations can lead to some really good opportunities."

Small-group networking can also be very effective. Boyd participates in networking groups of six to eight people that include professionals in other fields, such as lawyers and bankers. The groups meet regularly to share leads. "I'm comfortable with all the people in the group, and I know they're friendly to our firm," he said. "That takes a lot of the pressure off me."

When you're doing a lot of networking or socialising, be mindful of your energy levels, introverted leaders say. Take breaks by yourself, scheduling time for brief retreats if necessary. "Introverts really need that solitude to get their energy back so they can give again," Loerzel said. "That's something that is helpful for others to know about introverted leaders. They're reenergizing, not disengaging."

Torres-Pinero values solitude so much she made it part of her workplace. "When we expanded our office, we put in a small meditation room!" she said. "I like to take at least seven minutes a day to be in silence and recharge."

Finally, know that, while finding your voice can take time and practice, it will come with time. "I used to follow the saying, 'Better to keep your mouth shut and be thought a fool than open it and remove all doubt,' " Boyd said. "But over the years, I had many colleagues and subordinates tell me, 'We know you have good things to say. We want to hear more of what you're thinking.' As I grew into leadership roles, I definitely became more comfortable with speaking my mind."

Get noticed at meetings

Sharing your ideas at meetings is an important way to increase your visibility in the workplace. As Tamera Loerzel, a coach and a partner with ConvergenceCoaching, pointed out, though, "introverts tend to think before speaking," which can sometimes put them at a disadvantage at fast-paced meetings.

"Introverts can get lost in thought," said business coach Nancy Ancowitz. "By the time they're ready to speak, people could have moved on to the next topic, and it's too late."

To make speaking up easier, Ancowitz recommended being the facilitator or making sure you have a designated time to speak on the agenda. Whether or not you're able to do this, come to the meeting prepared with specific items to contribute, such as metrics or an anecdote.

To project confidence, Mary Yeager, CPA, said, "Be careful about your word choices. When I spoke at town hall, I used too many qualifiers, like 'I sort of think this' or 'I might do that.' I didn't realise it at the time, but I was undermining their confidence in my abilities."

And don't worry if you're put on the spot by a question, Ancowitz said. When that happens, "buy yourself a little time with a response like, 'My initial thoughts are A, B, and C. I'd love to think about that a little more and get back to you," she advised. Then, be sure to follow up later.

In more boisterous meetings, introverts may struggle to get a word in. In that case, Ancowitz recommended using the name of the facilitator or person who's speaking. "Say something like, 'Hey, Joe, that's a good point. I'd like to add ... ,' " she said. You can also lean forward or put your hand or index finger up to indicate that you want to speak.

Maribel Torres-Pinero, CPA, the CEO of Lumix CPA, shared some advice from her father, an attorney and college professor. "If you want people to listen, make sure you have something good to say, and say it with weight and confidence," she said. "Pause after you make a point, and most of the time people will stop and listen."

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Understanding Organisational Leadership

by Saira Nasir

There has always been a debate about whether leadership is an art or science. I believe it is a blend of art and science. There is no single doctrine outlining the rules and beliefs of this business tool, but, indeed, there are several similarities. This art/science does not in my view require a college degree and can be applied in a variety of diverse careers.

"Leadership is not so much about what you do and accomplish on your own. It is about what you are able to help others accomplish. It is about how you are able to influence other people to raise their level of performance to new and better heights and contribute more than they previously thought possible."[1] Organisational leadership does not imply dictating or commanding people and, then, watching how the orders are filtered throughout the ranks. In fact, it is the ability of the leaders to understand the company's goals and its employees in a way to bring everyone together. "A leader is considered to be someone with vision and ability to articulate that vision to the team, so vividly and powerfully that it becomes their vision."– General Electric Corporation. Another text says, "A leader is someone who brings to the situation a clear and compelling sense of the future as well as an understanding of the actions needed to get there successfully."[2]

Leadership is not so much about what you do and accomplish on your own. It is about what you are able to help others accomplish.

Different courses are offered at universities which focus on the curriculum of business management, some develop their corporate leadership by participating in various seminars aimed to impart knowledge of certain principles and techniques. Most preferred learning style would be to ask a successful leader to become a mentor. On-job learning is the best way to prepare for a leadership role.

On-job learning is the best way to prepare for a leadership role.

Change Leadership

Change is the only constant and is part of everyone's agenda. Organisations seeking success must have an array of effective leaders. The change must be driven collectively by these leaders and must be able to implement new strategies. They should be well aware of how their organisation operates and adapts to a rapidly changing, uncertain environment. Some techniques to ensure that the desired results are achieved may include team building exercise, instilling leadership development at all levels of an organisation and inculcating the attitude of positive communication. There is no single technique to ensure that this happens. It is not taught in one place but is nurtured over many places. There are always two sides to any organisational change; it is either emotional or practical. The difference lies in whether you are limiting yourself to a traditional, horizontal focus based on education and training for system/ process changes; or you can commit yourself to the vertical development and the potential progression of greater minds capable of dealing with the complexity of forthcoming challenges. Leaders who are committed to vertical development are people who manage to create a sustainable impact.

"Leading change requires you to change both beliefs and behaviours throughout the organisation so that everyone, from front-line workers to the executive team, supports the changes required to successfully execute your business strategy. Embedded old beliefs and assumptions kill new change. The best beliefs are required if you want best practices following. Successful change is a matter of leadership."[3] To have more acceptability of the change, it is recommended that the process of change should be spread over three phases: First: Evaluate the leaders' change capability; second: Make the organisational leadership development to change from inside-out; and third: Create an environment where leaders develop leaders.

For successful implementation of the three-phased program, the organisation must identify:

- The gap and what is required to manage the change.
- A system to focus on.
- Persons who can act as agents of change.
- What works best for your organisation that you can entrench for systematic change?

Organisations seeking success must have an array of effective leaders. The change must be driven collectively by these leaders and must be able to implement new strategies.

As the company grows, a leader who was thought to be most effective became ineffective. With an increase in the number of employees need for people skills becomes a prominent feature of any leadership style. "Motivating and engaging employees are among the most difficult endeavours faced by leaders. Study after study confirms high employee engagement results in increased productivity, greater customer satisfaction, reduced absenteeism, lower turnover, and a far healthier work environment."[4] The effectiveness of any leadership style has a limited lifespan and as business expands, the vision of leadership changes.

The effectiveness of any leadership style has a limited lifespan and as business expands, the vision of leadership changes.

Transformational Leadership

Transformational leadership refers to a long-term relationship established between the leader and the employee through much collaboration. "In a world that is rapidly changing, organisations are finding that they must adapt quickly to meet the needs of their changing environment. Organisations can only remain relevant and achieve long-term success and sustainability by adopting a model of leadership that addresses the needs of their fluctuating environment. To remain competitive, leaders must adopt a model that allows for rapid responses to the changing business environment. Transformational leadership can serve as this needed model."[5]

The focus of transformational leaders is on the big picture, and they use communication to stimulate subordinates to effectively and efficiently help them accomplish their vision. They need to set examples inspiring people to follow them. They are always available and are ready to try out new ideas and are deeply concerned about the interests of their subordinates. History has witnessed that only those organisations which can adjust as per the changing environment survive whereas others fail miserably. Is it possible that the failure or success is a result of the leadership style being embraced by these organisations?

"Transformational leaders guide an organisation experiencing a crisis even through the sense-making process by providing structure in the form of a compelling vision. Sense-making describes the process of organising and turning circumstances into an understandable framework, which then provides a springboard for action. Transformational leaders empower followers and, in doing so, can stimulate the higher order needs of the followers (e.g. self-actualisation) and spur collective action, effectively achieving these principles."[6]

We can summarise the qualities of a transformational leader as follows:

Perfect Influence
Role Model,
"Walk the talk

Stirring Motivation
Inspire subordinates

Personalised Attention
People Driven, Concern for needs of subordinates

Intellectual Motivation
Innovating, Challenges subordinates to be innovative and creative

Transactional Leadership

"Transactional leadership styles are more concerned with maintaining the normal flow of operations. Transactional leadership can be described as 'keeping the ship afloat.' Transactional leaders use disciplinary power, and an array of incentives to motivate employees to perform at their best. The term 'transactional' refers to the fact these leaders essentially motivate subordinates by exchanging rewards for performance."[7]

Transactional leadership is supplemented by transformational leadership. These leaders ensure that everything runs smoothly. Transformational leader directs subordinates through the decision making process during a crisis by developing a persuasive vision that emphasises transcending self-interest for the overall benefit of the enterprise that may ultimately mean the existence of the organisation. The approach views any act done as a transaction. Work undertaken is either translated into a financial or a physiological reward. Motivational view in this type of leadership is fairly simple. All acts are performed either to gain a reward or to avoid punishment. There exists rigidity between expectations of a leader and the performance of an employee. Only obedience is expected from the subordinates, there survives a traditional organisational hierarchy.

Having an understanding of the effects of leadership on the performance of any organisation is also imperative because leadership by some researchers is viewed as one of the pertinent forces for improving an organisation's performance. It has always been argued that traits of transformational leadership style exert a positive but insignificant effect on the subordinates and performance whereas, the traits of transactional leadership style has a positive and significant impact on the subordinates and performance.

Situational Leadership

"Situational leadership refers to when the leader or manager of an organisation must adjust his style to fit the development level of the subordinates he is trying to influence. With situational leadership, it is up to the leader to change his style, not the subordinate to adapt to the leader's style. In situational leadership, the style may change continually to meet the needs of others in the organisation based on the situation."[8]

This style of leadership emphasises on the idea that no one style suits all situations and the styles needs to be amended as per the need of the scenario. Managers adopting this style of leadership may opt from any of the following four styles:

- Telling Style: It's a one-way communication.
- Selling Style: Manager provides direction.
- Participative Style: It's a two-way communication.
- Delegating Style: Workers are allowed to make their own decision.

Supporting → Coaching → Delegating → Directing

The success of this leadership style lies in the fact that subordinates are provided guidance as per their needs. Some need to be told whereas others need to be given space to enable them to bring out their full potential, although the leader may still be involved for direction purposes, it will be on a much minimal level as required by other situational leadership styles.

References: [1]The best leaders are Collaborators, article by The Center for Organisational Design; [2]Role of Organisational Leader-Practical Management; [3]Change Leadership - Views by Center for Creative Leadership; [4]Light the Fire Within, Not the Fire Below: Motivating and Engaging Employees by Michael D. Phillips, Ph.D., senior principal at the RBL Group; [5-6]Organisational Leadership in Times of Uncertainty: Is Transformational Leadership the Answer? Sophon Shadraconis Claremont Graduate University by Peter F. Drucker and Masatoshi ITO Graduate School of Management Abstract; [7]Transformational Leadership vs. Transactional Leadership Definition by David Ingram; Updated February 26, 2018; [8]Define Situational Leadership by Leigh Anthony; Updated February 9, 2018.

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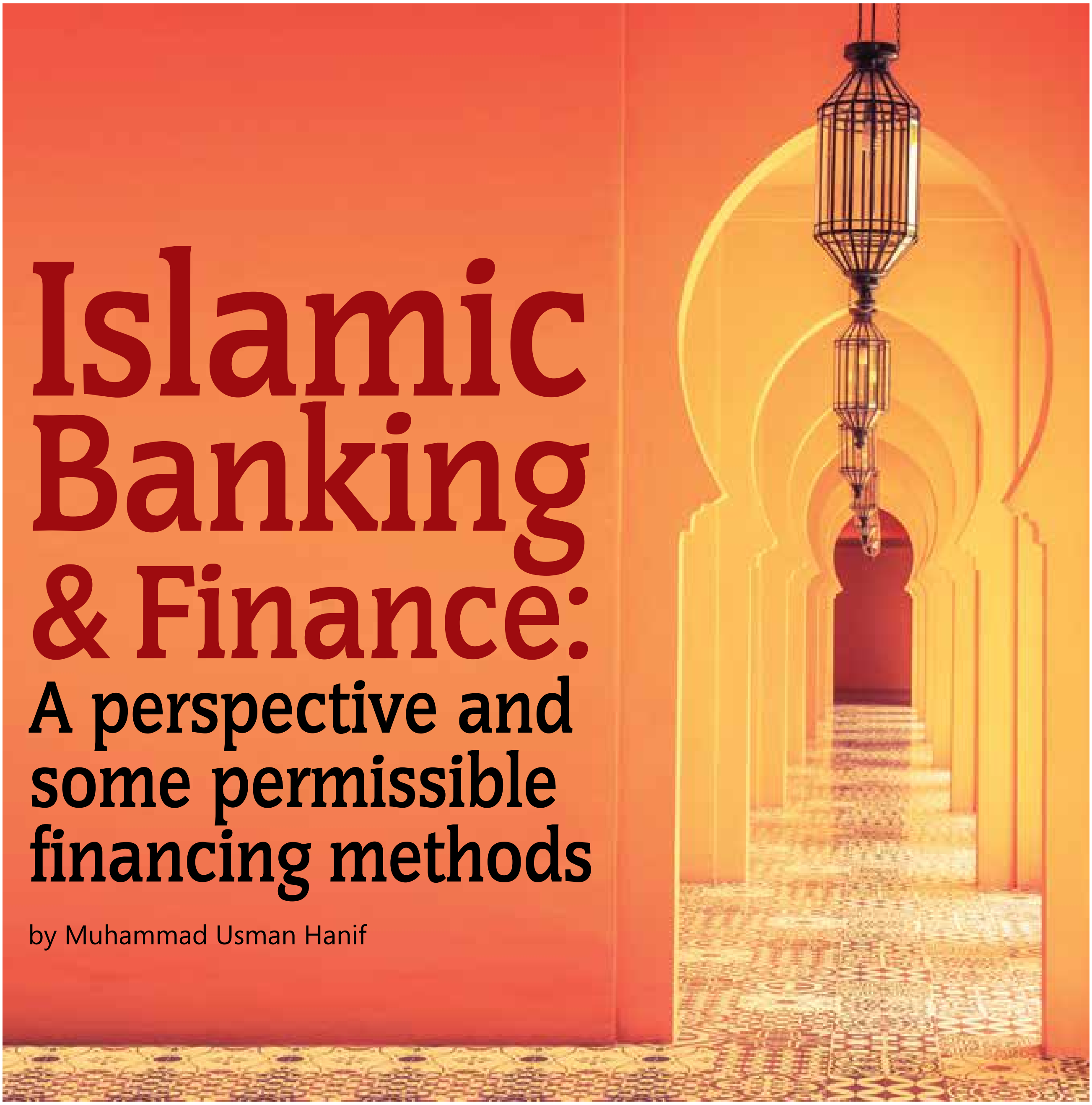


Islamic Banking & Finance:

A perspective and some permissible financing methods

by Muhammad Usman Hanif

The foundation of Islamic banking and finance system is prohibition of Riba in the Islamic financial transactions. The keystone element of collaboration between provider of capital and the entrepreneur is sharing of risk and gains between them. The primary objectives of Islamic economic system are equal distribution of wealth, and social justice.

The conceptual framework of Islamic banking system in Pakistan started with the injunction of Article 2 of the Constitution of Pakistan: "Islam is the state religion of Pakistan." It was the preamble of the 1956, 1962, and 1973 Constitutions. It provided that no law should be enacted that is repugnant to the injunctions of Islam.

A qualified Islamic banking department exists in State Bank of Pakistan (SBP) that serves as central point for all issues relating to Islamic banking and finance. SBP has also established Shariah board which comprises Shariah scholars and banking experts. Islamic banks have also established their respective Shariah boards which approve process flows of the transactions.

Concept of Islamic Banking

Islam is a complete code of life that provides guidance regarding each aspect of life. The primary objectives of Islamic economic system are to provide:

- Equal distribution of wealth among all segments of the society; and
- Social justice to everyone.

An Islamic banking system is based on the principles of Islamic laws (Shariah) and guided by the Islamic economics. The two fundamental principles of Islamic banking are: the sharing of profit and loss; and significantly, the prohibition of Riba (the collection and payment of interest).

The objectives of Islamic economic system can never be achieved in interest/Riba based economic systems.

Difference between Islamic and conventional banking

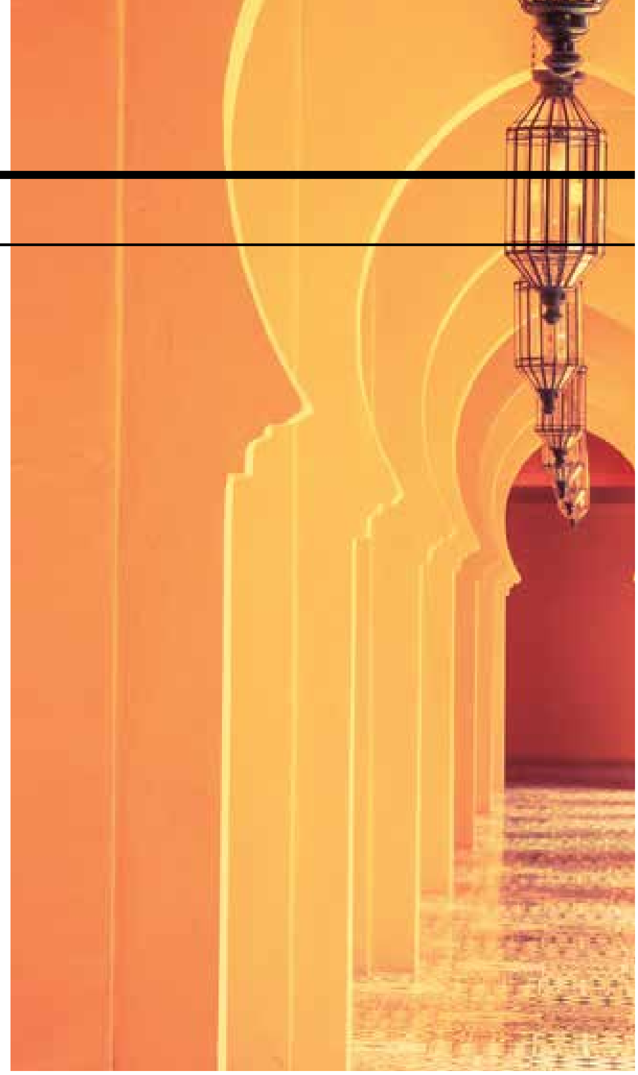
S. No.	Islamic Banking System	Conventional Banking System
1.	Functions and operations are based on Shariah principles.	Functions and operations are based on fully man-made principles.
2.	Promote risk-sharing between provider of capital (investor) and user of funds (entrepreneurs).	Investor is assured of pre-determined rate of interest.
3.	Aim at maximising profit but subject to Shariah restrictions.	Aim at maximising profit without any restrictions.
4.	Partners, investor and traders, buyer or seller relationship.	Creditor-debtor relationship.
5.	Encourage asset-based financing, and based on commodity trading.	Based on money trading. Money is a medium of exchange and not a commodity, its sale and purchase is prohibited in Islam.

Islamic banking and financing products can be classified into three broad categories:[1]

1. Trade based modes of financing

i) **Murabaha (cost plus sales):** In this type of sales, the buyer knows at what prices the seller purchased the item and he agrees to pay a profit or margin over the bought price. This type of financing is used for commodities buying. For example, a customer requests an Islamic bank to purchase an item on his behalf and sell this to him at a certain specified mark-up price. The important condition is that the Islamic bank owns this item before it sells to the customer.

ii) **Bai Bithaman Ajil (credit sales):** In almost all of the cases, the customer does not pay price of the item immediately, as if this would have been otherwise, there would not have been any need of financing and Islamic banks roles would have been restricted to brokerage services. In such cases, when there is a Murabaha transaction, the repayment of the item is deferred for customers. However, Murabaha component determines a profit margin over the original price which is collected over the period.



An Islamic banking system is based on the principles of Islamic laws (Shariah) and guided by the Islamic economics.

2. Partnership based modes of financing

i) **Mudaraba:** In Mudaraba, one provides capital (rab al-mal) and other manages (mudrarib) the venture. It is profit and loss sharing arrangements where distribution of profits takes place only on profits earned. The provider of capital can specify what sort of investment be undertaken by manager. It is a contract binding on both parties. Mudarib will not sustain the financial loss, he will only lose his time spent on the venture. It is presumed that all acts of the manager have been carried out with due diligence and there is no loss due to negligence. Mudaraba does not entitle the financier to interfere in day to day operation of the venture.

ii) **Musharaka:** In this form of financing, Islamic bank and the customer share the assets. The common name of this financing is Musharaka Mutanaqisah i.e. Diminishing Musharaka (diminishing partnership). In contrast to leasing model where ownership of the financing asset remains with the lessor for the entire lease period, ownership in diminishing partnership is unambiguously shared between the customer and Islamic bank (legally, what is established is an Islamic sharikat al-milk). The periodic payments of the customer contain two parts: (a) a rental payment for the part of property owned by the Islamic bank; and (b) a buy-out of part of that ownership. Gradually, the portion of the asset which is owned by the customer increases because of increase in principal portion in total rental installment. Eventually, the customer owns the entire asset and does not need to pay the rent any more.

If we look at the schedule of periodic payment, we find that it would look like a conventional mortgage schedule. However, there is fundamental difference between a mortgage company which holds a lien over asset with entire ownership of the asset, whereas, in diminishing partnership the actual ownership is jointly shared by customer and Islamic bank.

3. Rental based modes of financing

Ijarah (lease financing): Lease contract is not the sale of an item, but rather a sale of the usufruct (the right to use the object) for a specified period. The most important financial difference between Islamic permitted leasing and conventional financial leasing is that the leasing company must own the leased item for the duration of the lease. Islamic alternative to conventional lease purchase agreement is called Ijarah where, an additional clause is added which basically is a promise by the lessor that he will agree to sell the leased item at the end of the lease period at a pre-determined residual value. This promise is binding on the lesser only and the lessee has the option to buy the item on the expiry of lease or returning it to the owner-lessor.

Rapid growth of Islamic banking depends upon innovative products that ensure liquidity to common people at reasonable profit rate with easy security terms.

Islamic Forwards

In general, sale of non-existent objects is forbidden in Islam due to Gharar (uncertainty, risk, unknown conditions of sales). However, to facilitate certain types of businesses, exceptions were given through two contracts:

i) **Salam:** Where price is paid in full and the well-defined object of sale is delivered after a specified time. This pre-payment of the price allowed buyers to buy input for their products, etc.

ii) **Istisna:** This is permissibility or commission to manufacture. The price is paid in installments as the work progresses in manufacturing or building, an otherwise non-existent object. The price pre-paid in installments in this case will usually be lower than the cost of purchasing the finished product. A practical example of this Customer Purchase Order for finished goods is presented to Islamic bank against which they finance and permit manufacturing of these goods.

Appropriate legal framework, solution to related taxation issues and human resource development will increase Islamic banking share in overall banking market.

Challenges to Islamic banking

- Enforcement of Islamic contracts need be more effective.
- Systems need to be made efficient to ensure timely recovery.
- Code of conduct for professionals to be applied in letter and spirit for full compliance.
- Although, Sukuk Bonds are issued by the government but making other government securities Shariah compliant will expand Islamic banking.
- Research and development of new products are required to replace conventional running finance lines of conventional banking.
- Substantial investment in training of banks' human resource is required so that they can better understand customer business and develop the products accordingly.
- Dissemination of information about Islamic financing products will educate and create awareness among people.

Conclusion

Rapid growth of Islamic banking depends upon innovative products that ensure liquidity to common people at reasonable profit rate with easy security terms. Development of secondary money and capital markets and introduction of Shariah compliant public securities will develop institutional sales. Appropriate legal framework, solution to related taxation issues and human resource development will increase Islamic banking share in overall banking market.

Reference: [1] Concepts and material have been used from A Basic Guide to Contemporary Islamic Banking and Finance by Mahmoud AminEl-Gamal of Rice University, Houston, June 2000.

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A&CP – Dilemma of FMCG Industry

by Muhammad Muneer Tariq

Advertisement and Consumer Promotion (A&CP) expense forms a major cost component between gross profits and operational profits of any Fast Moving Consumer Goods (FMCG) company. A&CP expense, being a major line item after gross profits, have a greater impact in eventually fixing the bottom line of an FMCG company compared with freight and other Selling and General Administrative (SG&A) expenses.

Generally, A&CP costs can be broadly categorised into two sub-categories, Trade-focused and Consumer-focused.

Trade-focused costs include communications directed to shopper placed in a trade environment like banners, shelf displays, buntings, brand ambassadors, consumer promotion schemes, etc. These activities are generally carried out in a modern trade environment where the shopper has a liberty to walk through the store and pick up his own goods. Companies having products that are sold on impulse tend to invest more in trade-focused activities for example, confectionery, beverages, etc. compared to companies that offer grocery type products.

Consumer-focused costs include communications directed to the end consumer of the product like TV commercials, radio airing, bill boards, etc. Consumer-focused communications usually form a larger portion of all A&CP costs due to its vast reach.

Apart from the general divisions of Trade and Consumer-focused costs, A&CP costs can be classified into the following types:

Above the line (ATL) consists of advertising activities where mass media is used to reach out to the target consumers. ATL communication is done to build the brand and inform the customers about the product. Examples include television, radio, print media, digital media, internet, etc. Advantages of ATL activities are that they have a wider spread and better connectivity with audience.

Below the line (BTL) consists of very specific, memorable and direct advertising activities focused on targeted groups of consumers and known as direct marketing communications. Examples: pamphlets, stickers outdoor bill boards, brand activations banners and placards, direct mail marketing, sponsorships, etc. Advantages of BTL activities are that they cater the need of specific consumers and usually have better Return on Investment (ROI).

Researches could be of consumer behaviour, shopper behaviour, market research, competitive shares, market penetration, distributions, etc.

Push vs. Pull Expenditures

In order to grow and attract more business and customers, an FMCG usually invests in a mix of Push and Pull expenditures.

The Push expenditures help company push its goods in markets, dominate the shelf share and enhance the visibility of its products by means of offering discounts and trade schemes.

Furthermore, Pull expenditures help company create a genuine demand for its product. Generally all A&CP expenditure is of a pull nature.

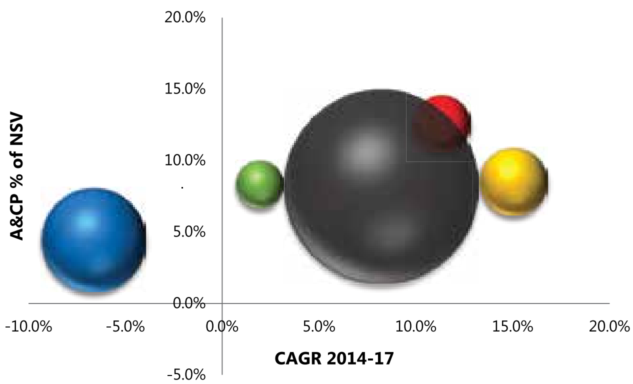
A&CP forms one of the major basic building blocks in order to generate and grow business.

FMCG companies who are manufacturers also tend to focus more on the brand building through A&CP as a long-term approach. Manufactures who shift focus to Push expenditure approach spends for short-term only as it has a disadvantage of disrupting the market, invoking price wars and dominance of retailers. A trading FMCG dealing in commodities and not brands does more discounting than A&CP.

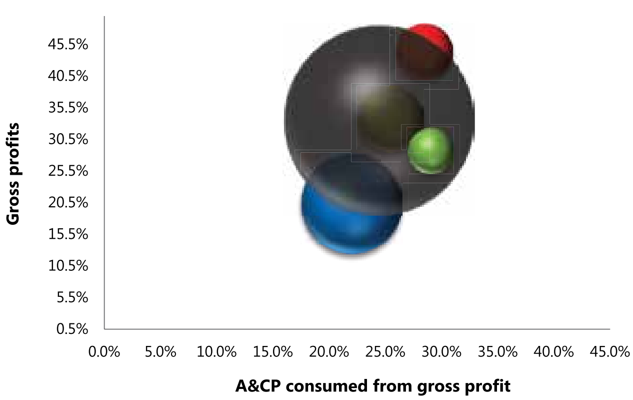
Investment and Maintenance Approach

A new company or a new brand requires heavy A&CP investment initially for a period of two to three years in order to establish identity. During this period, the companies spend more on their marketing campaign regardless of the health of the profit and loss account causing companies to have negative operational profits despite having healthy gross profit margins. After certain period of time when the brand is established, a certain portion of net sales or gross profits are re-invested in the brand for currency of business and reminding customers.

An analysis of five listed food FMCG companies (their size represented by the size of bubble) over the last four years taking into account their Compound Annual Growth Rate (CAGR) and A&CP investment as a percentage of Net Sales Value (NSV) reveals the following results:



While the above graph is very scattered and each company seems to have reinvested different amount of net sales in A&CP, almost all of these companies have invested around 23% to 28% of their gross profits in A&CP as follows:



A healthy gross profit margin allows companies to strengthen their identity, value and increase their market penetration that has a direct impact on growth of business. It can be mooted that healthy margins forms the base of planning aggressive growth through A&CP.

Advertisement and Consumer Promotion costs can be broadly categorised into two sub-categories, Trade-focused and Consumer-focused.

Controlling A&CP, Role of Finance

Spending the entire allocated budget and not controlling and analysing A&CP based on monthly evolving situation of sales and profits could have seriously damaging impacts on the bottom line of the company. Whenever a company is facing a threat of missing sales target, A&CP usually becomes the topic of heated debate between finance and commercial departments.

A&CP being the largest cost item below gross profit is more likely to see the knife besides SG&A that are usually salaries-based. A counter argument from the commercial side usually insists that A&CP needs to be kept intact or increased in order to battle the threat at hand.

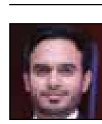
This is where finance needs to emerge from the mindset of only raising red flags to collectively identifying, understanding, and providing alternatives to business problems.

Accordingly, finance department has to position itself as primary driver of strategy along with commercial department. To achieve this, a forward-looking approach is needed. The traditional myths that finance people are showstoppers needs to be done away with.

Usually, a cooperative approach is adopted taking all possible scenarios into consideration, their impact on future plans and currency of affairs. This is done via a strong pre and post analysis of all planned A&CP activities, generally by comparing the cost of activity with the additional profit on sales that the activity bring in, other factors are also considered like analysis of market and competition, impacts of seasonality of business and result of past learnings.

Conclusion

A&CP forms one of the major basic building blocks in order to generate and grow business. A profitable business has a greater potential of expansion though brand building and communications. A healthy A&CP budget, though essential for any FMCG company, needs oversight by finance and commercial teams to achieve the desired results and planned out activities.



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Are CAs equipped for HR Management?

by Asif Ali Soomro

Life acts out mysteriously sometimes. It often tests you by putting you in situations for which you are not prepared for. Take for example ICAP examinations, you think you have covered it all but there comes that one question lurking in the shadows for which you were not fully prepared. Life after qualification tends to follow the same path. Just like that simple working capital ratio for which we, as students, gave pretty simple explanations turns out to be one of the most important aspects of running a business. Once a chartered accountant is entrusted with the finances of a company only then he/she realises how important that simple equation was. While studying for our exams, and during our path to qualification, everyone around us seems to reiterate the fact that we know it all and we are equipped to deal with all the nuances of the profession that we have so enthusiastically embarked on. It is only after we pass the exams and step out in the real world of finance that we realise how restricted and theoretical our knowledge is and finance is much more than just crunching of numbers. One such 'much more' is Human Resource Management.

Often we are entrusted with managing finance as well as human resource functions of an organisation. And why not, we are chartered accountants – we can do it – sure we can, but let's face it, we are not known as very good managers.

It has been stated in our curriculum numerous times how important human resource is and how to best manage it. The various theories on the subject by Maslow, Weber, Herzberg et al and some case studies associated with those are also covered, which we cram in only for the purpose of exams and conveniently forget after, and as a result, are not fully prepared for resource management. Often we are entrusted with managing finance as well as human resource functions of an organisation. And why not, we are chartered accountants – we can do it – sure we can, but let's face it, we are not known as very good managers. It takes time for us to learn these subtle aspects of an organisation.

There is a growing trend of social media management by organisations so that they can keep in touch with their employees even after they leave their offices.

Employees need to be appreciated, fairly compensated and given a good working environment. These are the three most important factors when employees compare themselves with their peers and tend to feel demotivated when the perceived differences seem unfair to them. Organisations nowadays try to keep in touch with their employees to identify such perceptions by holding periodic meetings with staff where they are encouraged to share their opinions freely. There is also a growing trend of social media management by organisations so that they can keep in touch with their employees even after they leave their offices.

An employee who is looking for a job carries 'zombie plague virus' and before you know it, you will have more zombies.

Employees want to stay in the organisation, but sometimes lack the incentive to do so

We often come across situations where an employee has allegedly resigned in pursuit of better opportunities. As part of the exit formalities, a ceremonial meeting is arranged whereby the concerned manager tries to identify and resolve the problem, if any. The case is closed without due consideration to the fact that the concerned manager's behaviour may be an issue which needs to be sorted and is the cause of turnover. I found this out when I had a counselling session with one of the employees after he had separate meetings with the concerned manager as well as the HR manager. What I found was a learning experience for me.

Sometimes, employees don't want to leave your organisation even if they have a job offer at hand. They just want you to realise their importance and the fact that they need to be appreciated. I did manage to convince him to stay and had a meeting with that manager instead to find out a way to improve the working environment.

Organisations tend to bet on their well-founded strategies when in fact they should be betting on the employees who will be working to realise those strategies.

Another reason employees tend to leave an organisation are delayed promotions. Promotions are a way of recognising an employee's contribution to the organisation. Delay in the appraisal process frustrates an employee. This issue is further exacerbated when promotion of one employee is implicitly tied to the promotion of other employees. Many employees are told that their promotion is on hold for six or so months because another employee who is senior has not been promoted yet. An organisation should lay out a clear career path for its employees. The implications of 'word of mouth' have never been as viral as they are today, thanks to social media. Situations like these not only demotivate the employees but also send the wrong message to the outside world resulting in fewer good candidates and headaches for the HR manager.

The essence of management is motivating your employees because just like every other business transaction, employee performance is also a transaction.

Organisations need to change their way of thinking. Employees don't always find a reason to leave the organisation – organisations give them a reason to do so and the irony lies in the fact that they use the organisation's internet to look for job opportunities and spend productive hours on the likes of LinkedIn and other such websites searching for a better job opportunity. An employee who is looking for a job carries 'zombie plague virus' because his or her productivity will not be something to be proud of but it will have spillover effect on the productivity of other employees and before you know it, you will have more zombies. Since an organisation cannot monitor the social interactions of its employees, it is of paramount importance that reasonable needs of employees be taken care of. This will go a long way in securing optimum performance from all of the employees.

Benefits of treating an employee fairly

There are times when an employee has to leave your organisation. This is a very important moment as now is the time to leave a good impression on your employee when he or she is serving the last day of the employment. A token of appreciation will mean a lot to the employee and it helps from a business perspective as well. Here is why – most of the times, an employee move to join your clients and that is where your past relationship with the employee comes into play. Better relationship with the employee means you can increase your business with the existing client. Also, if the employee joins a new company, that's even better. You will have opportunity to increase the client portfolio of your business as your past employee can put in a good word with the management of that potential client. What goes around, comes around. This makes investment in human resources worth the effort. Organisations tend to bet on their well-founded strategies when in fact they should be betting on the employees who will be working to realise those strategies. The essence of management is motivating your employees because just like every other business transaction, employee performance is also a transaction.

Every organisation has its share of white elephants and dead weights. Every now and then such employees seep through the cracks of your hiring process and make you realise the mistakes in your hiring process.

Having said that, it is worth noting that every organisation has its share of white elephants and dead weights. Every now and then such employees seep through the cracks of your hiring process and make you realise the mistakes in your hiring process – which is why it is very important to make the hiring process smart, only then it makes it fun to manage the relationship between the organisation and the employee.

How to approach human resource management?

If human resource management is to move up the ladder of importance, we need to change the way students approach these so-called boring topics or perhaps the way these topics are taught in a class. Instead of focusing on theories, which are also important, attention must be drawn to the practical importance of such topics by citing case studies and better still, inferences from Pakistan based companies.

Our curriculum is in need of balancing its focus on both the technical and managerial aspect. We feel comfortable when we see a line to follow but feel hopeless when it comes to leaving a line for others to follow.

Students find it easy to relate to the technical aspect of their education during their articleship but not so much when it comes to the managerial aspect which should be baked in our curriculum in such a way that we should feel both the technical and managerial aspects of our job. One such aspect is the way we present ourselves. When we talk or present something, people look at us before they look at what we present. Our mannerism, the way we talk and the confidence with which we talk influences another person's mindset. All this is a big part of the life of a manager which brings me to the point of presentation skills. It's another dreaded but far more important subject. Perhaps the reason we are not regarded as good managers is because we have not honed our presentation skills. Our curriculum is in need of balancing its focus on both the technical and managerial aspect. We feel comfortable when we see a line to follow but feel hopeless when it comes to leaving a line for others to follow.

The writer is a chartered accountant working as CFO at Orient Communication (Pvt.) Limited.

Succession Planning

by Mansoor Zaighum

Organisations are prone to the risk of vacancies resulting in losing important skills and knowledge owing to exit of employees on retirement or moving on. Organisations, therefore, need to plan talent management for key leadership positions.

Employees turnover, aging, and significant skills mismatch continue to be of great concern for the organisations. Hiring of new employees and their development entails a lot of effort, time and resources. For organisations to come out on top, they will need not only to find ways to win the best talent, but also to engage and retain their existing employees and develop effective succession plans.

What is succession planning?

Succession planning can be defined as a structured and systematic effort made by an organisation focused on leadership continuity, retention and development of intellectual capital for the future, and ensuring growth and development of individual employee.

Succession planning, irrespective of the industry and demographic structure of the organisation, is the process to identify key leadership positions and developing employees to assume these positions in future upon exit of existing leaders. More likely, it is the process of producing leaders from within the organisation. However, it also includes talent hunt and onboarding the saplings of leadership from outside. It is not solely confined to the management positions, rather, effective succession planning address the requirements of backup for all critical jobs in the organisation and forms basis of building high performance teams. It induces stability in leadership, empowerment of employees, learning organisation and corporate culture.

Effective succession planning: Best practices

Succession planning has emerged as a powerful tool focused on building strong teams and better career development and also yielding time and cost saving for the organisation. Best practices include:

▪ **Involvement of board and chief executive:** Effective succession planning requires involvement of the board and chief executive. Board members play an important role in securing the future of the organisation and provide strategic direction in line with vision and mission of the organisation. Support and resources provided by the board and involvement of the chief executive influences the development of succession plan vis-à-vis raising transitional leadership. Succession plan approved by the board and oversight at the board level committee plays a vital role as success factor for the plan.

▪ **Human resource to be responsible:** Human resources own responsibility to address staffing needs and assist development of leadership of the organisation. Thus, HR's ownership is of critical importance for a successful succession planning. HR has all the relevant tools and is responsible for development of effective succession plan and submits it to the board for approval. Upon the board's approval, HR is also responsible to communicate the succession plan to the concerned.

HR is instrumental in implementation of process to develop key staff members, promote a culture of professional development, and works with the board to schedule board meetings dedicated to the succession planning process and its review.

▪ **Identifying the process:** Demographic structure of the organisation is a basic variant to identify the process of succession planning. According to the varying needs of the organisation, this plan has to be flexible, adaptable and universal to ensure business continuity. Step by step, universal and generic process is laid down as follows:

1. **Identifying/assessing key positions:** A key position is one which is critical to the organisation; if left vacant, would have pervasive and material impact on the organisation's ability to conduct normal business.

   The organisation needs to articulate its own definition and criteria of a key position and a thorough analysis across the organisation based on this definition and criteria would identify the key positions and roles which are critical to the organisation and require succession planning.

2. **Identifying/assessing competencies and talent:** Once key positions are identified, the next step is to perform comprehensive analysis of competencies and talent in the organisation. A requisite set of expertise, education, experience, skill and abilities is necessary to fulfil for the incumbent employees to work at a particular position. Identification of competencies for key position is the baseline, which for succession planning is to be assessed focusing on achievement of goals and objectives with continuity.

3. **Identifying and assessing potential candidates:** After the key position and competencies have been identified, the next step is to identify and assess potential candidates. Choosing the right candidate for development in accordance with core requirement and future needs is of vital importance. The employees are assessed against their core job competencies focusing on their learning and development potential for future roles. This process also helps to earmark low performers and focus on their developmental needs.

4. **Learning and development plans:** Learning and development programs are carefully made based on the needs of the organisation. Candidates identified in the previous step are prepared for the future positions. The organisation must ensure that these employees have access to focused learning and development opportunities so that the gap between expected competencies and present set of skills, knowledge and abilities is bridged.

   Various tools used for learning and development to fulfill employee potential for the future role may include: job assignments; job rotations; formal training; attachments with seniors; coaching, mentoring; and documenting critical knowledge.

5. **Implementation and evaluation:** Finally, after successful implementation of previous steps, evaluation, ongoing monitoring and scrutiny against objectives of succession plan is important. Succession plan should be developed with an evaluation framework so that progress and success could be measured and supported by the evidence. Evaluation would help to determine: success of the process; strengths and weaknesses of the program; potential gaps in planning and assumptions; cost-effectiveness and cost-benefit; and recommendations and revision in the plan.

▪ **Continuous review:** Once the process of succession planning has been identified and implemented, it also requires continuous review at the board level. Objectives of succession planning include development, retention and continuity of leadership. Executive team is accountable for successful implementation. The review process assesses the results of the plan, its effectiveness and gaps in assumptions, and provides opportunity to improve the plan, realign the objectives with vision and mission of the organisation.

▪ **Technology as enabler:** Today, all processes are greatly influenced by technology. Technology is enabler of succession planning and plays an essential role in the success of the plan. Succession planning process driven through technology is more effective, as technology provides tools for each step of succession planning. Collection of information, keeping it up to date, centralised and accessible to the authorised personnel is very easy through powerful information technology solutions. Processing of huge information through these tools is very swift and analytical tools assist in evaluation and monitoring which significantly increase effectiveness and successful implementation of the succession planning and processes.

Conclusion: Effective succession planning can help to ensure that an organisation maintains leadership in key positions, business continuity retains and develops intellectual capital, provides career path and grooming to individual employees and time and cost saving on hiring new employees, and contributes in achieving core objective of the organisation in line with its vision and mission.

The writer is a chartered accountant working as a group head Central Accounts and Taxation Finance group at Allied Bank Lahore.

An Accountant's Contribution to Project Management

by Ahsan Subhani

Business condition has changed definitely in a brief span. Business innovation has propelled business capacities and activities to levels not conceivable before. The role of accountancy in business is maybe a standout amongst the most solid capacities in business. While a couple of fundamental techniques or strategies have changed, the role of an accountant continues as before. Entrepreneurs regularly utilise accountants not only to gauge the money related execution of their organisations and settle on business choices but also in the role to support other business functions in business partner capacity.

Accountants – As Enablers

Accountants by default are the 'partner-in-crime' of anyone who tries to get things done in an organisation. They are well-informed of the transactions' flows and controls and risks that are in built in its processes and this information can provide a roadmap for those people in the organisation who are there for doing something 'off-the-routine,' i.e. organisational transformation, new product design, etc.

Project management is considered to be the language through which business leaders communicate with business and drive the process of improvement and innovation. And to enhance their productivity for the organisation, accountants should be able to speak this language.

Moreover, with the changing organisational needs and concepts, accountants are more into a business partner role for the teams outside of finance. This language will help them to layout their skills and expertise in a way to become the campaigner for sound financial and process management systems.

What is Project Management?

According to a definition from Project Management Institute (PMI), a project is temporary and unique in that it has a defined beginning/ending and is not a routine operation but a specific set of operations designed to accomplish a singular goal. Project management, then, is the application of knowledge, skills, tools, and techniques to project activities to meet the project requirements.

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Project Charter

As discussed, project management is the application of knowledge, skills, tools, and techniques to project activities to meet the project requirements. Being the non-routine operation, project requirements do change and change always bears risks. An accountant should focus on helping project management to manage the risk instead of minimising it.

Usually, at the start of the project, project management identifies the different elements of the projects, their interconnections and risks that arise from them. Any document that formulates these three items is termed as Project Charter. This is drafted at the start of the project and it helps in understanding the ways ahead to reach that 'singular goal' which is the ultimate goal of the project. It may be termed as the contract between project team and the organisation itself and it helps in setting the SMART (Specific, Measureable, Attainable, Realistic and Time Bounded) goals for the project team.

Gathering from the above discussion on project charter, we can resolve that it is the most important document in the project. However, unfortunately, in most of the cases accounting department is not in charge of the project and the accountant may not get the chance to draft this document (most of the cases). An accountant's contribution is usually limited to the financial data and assumptions that are being used in the document.

Instead of reviewing this document at final stage and coming down as gatekeeper, an accountant can liaise in early stage with the project manager to ensure quality of contribution.

Even an extremely well-drafted and well-conceived Project Charter may fail to predict all possible risks associated with the project. So an accountant's role as a risk manager becomes more crucial when the project actually kicks off.

Budgeting and Costing

A budget identifies the planned expenditure for a project, program or portfolio. It is used as a baseline against that particular expenditure and foreseen ultimate price of the work are often set accordingly. Initial budgets are usually prepared by Estimator Engineer (or end user) and project accountant in close collaboration.

Initial price estimates are often comparative or constant. These are refined because the practicability and desirability of the initiative are investigated and a bigger understanding of scope, schedule and resources is developed.

Once approval is given by the senior management, these refined estimates formed the baseline price. By allocating prices to the activities in the schedule, a profile of expenditure is created. A Project Budget usually has three components: Base Cost Estimate, Contingency, and Management Reserve.

1. Base Cost may be direct, indirect, fixed or variable. Inputs for direct cost component usually comes from the estimator or end user, however, the accountant still has to assess the reasonableness of this estimate.

Indirect cost includes mainly overheads, finance cost, hedging costs, etc; usually an input from the accountant.

2. Contingency is the cost component set aside for identified project risks. There are several methods for calculating project cost contingency amount including Deterministic Methods (as a percentage of Base Cost Estimate) or Probabilistic Method (Expected Value method or Range Estimation). Usually in projects spanning over a certain timeline with cost impact of delay, Probability method is used in determining the expected value of delay impact. However, on small and simple projects, contingency is calculated as a percentage of baseline cost. The accountant's role is to identify suitable method while keeping in view the available time, funds and resources. Sometimes, expert input may be required in determining the expected value of identified risks.

3. Management Reserve covers things that might not are predicted, like changes to the scope of the work or unidentified risks. The additional uncertainty requires additional management reserve; therefore, extremely innovative work may need a bigger management reserve than routine work. This is kept separate and not allocated to control accounts. Considering the project timeline, past experiences, industry practices and expected deviation from the scope, management reserve is calculated as certain percentage of project budget. An organisation may keep such reserve at an overall level or at project level.

Project Risks

Even an extremely well-drafted and well-conceived Project Charter may fail to predict all possible risks associated with the project. Moreover, as discussed earlier, requirements of the project may change at any time and this change entails risks as well. These risks become clearer when actual work starts on the project. So, an accountant's role as a risk manager becomes more crucial when the project actually kicks off. An accountant may adopt various methods and techniques to carry out his role as a risk manager which may include but not limited to being involved, applying professional skepticism, managing and keeping trail of work done to maintain workload curves. This may also include and not limited to applying detective controls and looking at things from an 'auditor's' point of view.

Kitchen Sink Syndrome

Kitchen sink syndrome or scope creep is something which is a very common phenomenon to most projects. This may entail extending the original scope or violating the 'contract between project team and organisation' i.e. Project Charter. An accountant should always be there to help in evaluating the necessity of such extension in scope or violation. Think of project components in terms of 'must have,' 'should have,' and 'nice to have.' If a project change is in one of the latter two categories, then the project team needs to provide an assessment of the value, the change would provide versus the additional effort or cost. In case of unfavourable cost benefit analysis, scope change should not be done. Otherwise, this may distract the project from its original purpose. Moreover, if a major change is required, it may also be the sign of some misalignment between project and organisation direction and may also mean that project is no longer necessary.

Though for an accountant this may be a tough situation to challenge any project change which may have lots of workings and momentum behind when it comes to you. However, as explained above, an early stage involvement in the project will enable an accountant to ensure that the project is on track with respect to scope, direction and budget.

Project Closure

A good charter explains the closure phase in same detail as other phases of the project. It is a very important phase of the project lifecycle. It includes a number of steps and is not limited to handing over and signing off celebrations. An important step of closure activity is to record the lessons learned and here an accountant's contribution is required. Looking at a project as a whole, identifying problems faced, recording solutions implied and recording the results thereon, may help in building a good learning for future.

The writer is a chartered accountant working as business unit financial controller-sustainment at Abu Dhabi Ship Building PJSC, one of the region's leading shipyard.

Our Approach to CPD

by Danish Akbar

After we have received the congratulations and blessings of becoming a professional, we instantly makeup our minds that we are never going to open our books or revisit the concepts we have learned. We resolve that studying is now behind us and end up thanking Allah for not having to study anymore.

I "have been in the industry for around two years now, and I have been getting rusty." This was the remark of a senior colleague whom I met after a long time. I knew him for his sound technical concepts and grip over the International Financial Reporting Standards (IFRS) back in the days of CA articles. However, that day, while reflecting on his time in the industry, he had made a different revelation. He argued that the repetitive nature of a specialised career in the industry makes you an expert of that trade, but erases the other less used concepts from your memory. The reason could have been nothing less than our approach towards Continuing Professional Development (CPD) of ourselves.

Becoming a professional does not imply that the process of learning has stopped for us. With time, everything starts to fade away. Our minds choose to forget the practically unused areas of the knowledge we have acquired.

CPD has become an often heard phrase in the previous two decades, while the actual philosophy behind it has been less pondered upon. It is a proven fact that mankind has always learned more from practice than theoretical studies. A surgeon will forget the specifics of the human body and the techniques to operate the patients, unless he remains in practice and simultaneously keeps adding the learning from such experience to his knowledge-base. A couple of months of staying out of the hospital might affect his steady hand and strong confidence. A craftsman may compromise the quality of his product if he has not crafted something for a long time. A trader might be wiped out altogether from the competition if he doesn't employ advanced techniques in his business which the world is adopting. Similarly, our individual professions also demand that we stay up-to-date with the advancements as well as keep our minds employed to not only retain our knowledge but also to enhance it. This philosophy of staying constantly informed and in touch with the evolution in the profession is called CPD.

In the current market scenario of our industry, a lot of professionals have a different approach to the CPD mechanism devised by our relevant institutions. It is usually perceived as a burden, rather than as a means to have the leading edge required to survive. After we have received the congratulations and blessings of becoming a professional, we instantly makeup our minds that we are never going to open our books or revisit the concepts we have learned. We resolve that studying is now behind us and end up thanking Allah for not having to study anymore. This attitude towards knowledge acquisition is quite detrimental to our careers, but we tend to adopt it nevertheless.

Becoming a professional does not imply that the process of learning has stopped for us. Although, we do acquire a lot in our specialised jobs in a dedicated industry, what we tend to forget is that a chartered accountant is meant to be more than that. Our attitude towards CPD affects the amazing variety of areas we have studied in advance during our education and have in-depth insights about. With time, everything starts to fade away. An accountant becomes an accounting expert but forgets the financial modelling techniques available for financing the working capital of the company. Or a taxation expert might become well-versed in dealing with the filing and correspondence with the authorities but forgets the requirements of right issue of shares. Our minds choose to forget the practically unused areas of the knowledge we have acquired. This is a natural process and a dilemma, the effects of which are ignored by us altogether. I may have been an expert of taxation clauses, bare acts of corporate laws and accounting standards. But if I lose the will to stay updated with the advancements, my knowledge will become useless for me. It is imperative for me to know where the world is going with the information I have.

If you analyse, you will know that many options available to you are more than enough to stay updated as a chartered accountant. Be it a seminar conducted by The Institute of Chartered Accountants of Pakistan, a monthly CA Toastmasters meeting, online webinars available on latest developments, reading and writing for a magazine like The Pakistan Accountant, on-job trainings on cultural change, doing a certification to add up on your CV, etc. – each one of these available CPD opportunities add something interesting into your personality and a topic you can share your thoughts upon.

We should consider the fact that career advancement comes through professional development. And the fact that it is termed as continuous, means it is an ongoing process. It shouldn't stop at any point in our professional life.

If you analyse, you will know that many options available to you are more than enough to stay updated as a chartered accountant. You can easily experience almost each one of these. And based on experience, I can undoubtedly confirm that each one is beneficial enough to enhance your awareness. Be it a seminar conducted by The Institute of Chartered Accountants of Pakistan (ICAP), a monthly CA Toastmasters meeting, online webinars available on latest developments, reading and writing for a magazine like The Pakistan Accountant, on-job trainings on cultural change, doing a certification to add up on your CV, etc.– each one of these available CPD opportunities add something interesting into your personality and a topic you can share your thoughts upon. But the icing on the cake is the fact that you communicate the acquired knowledge to your colleagues and acquaintances after the said activity. You can act as a trainer of the subject matter. The trainer is trained to further train others. This solidifies your grasp on the concepts and facts acquired through the process. You don't need to invest a lot of time, effort or money in this cause. Some techniques, only require you to turn on your laptop and open educational websites instead of social networks. You just need the clarity of mind and the commitment to learn something new.

In this respect, quite a lot of effort is made by the institutions to keep their members updated in their career with the least possible sweat at the member's end. Top CPD earners are recognised in the ICAP monthly Newsletter, online webinars are introduced, even non-reported hours are considered for the purpose of CPD. What lacks is the will and motivation to convince our minds to learn and not stop this continuous process. No one will do that for you. It is up to us to erase and re-enact the philosophy of CPD in our minds. We should consider the fact that career advancement comes through professional development. And the fact that it is termed as continuous, means it is an ongoing process. It shouldn't stop at any point in our professional life. Because as the saying goes, "A man should learn from his cradle to his grave."

Happy CPDing.

The writer is a chartered accountant working as a senior analyst at VEON Global Services (Pvt) Ltd.

Firms are Best Practice Places

by Muhammad Amin

Since the amendment has been made in Section 15 of the Chartered Accountants Ordinance 1961 and the Chartered Accountants Bye-Laws 1983 regarding the approval of the Council of The Institute of Chartered Accountants of Pakistan (ICAP) to complete the mandatory training period required by ICAP through training in entities other than the professional firms, there has been uncertainty amongst trainee students whether to opt for training outside practice or not.

In first instance, the proposal looks fascinating for trainee students looking forward to step into the corporate world with their first professional outing after necessary examination but in my opinion, the exposure, learning, growth an audit firm can provide will not match the experience gain in training outside practice. Following are some noticeable benefits between initial training in professional audit firm as compared to training outside practice.

- **Multitasking:** Training in audit practice firm allows you to do multiple tasks at one client or even work on multiple projects after becoming senior audit associate. An opportunity of multitasking helps the trainee to become an all-rounder for his/her prospective employers.

- **Flexibility:** Training in an audit practice firm makes a person flexible enough to work relentlessly for more than 12 hours, it also develops a habit to work on weekends, further it brings agility in personality and makes him/her a rough and tough person to handle difficult situations. This flexibility is entirely impossible in training outside practice firm where mostly routine timings are followed.

- **Practical Exposure to All Areas (Tax, Audit, IT, Accounting & Finance):** The foremost benefit of training from an audit practice firm is the practical exposure of all fields which a chartered accountant should be well aware of before becoming a chartered accountant. A trainee has an opportunity to start his/her training from auditing small areas of the financial statements then the difficult areas and at the senior associate level, most of the trainees are given an opportunity to work out on taxation of companies as well as the preparation of financial statements. In short, a trainee can taste all the flavours of his/her subjects in this small span of 3.5 years.

- **Jack of All Industries:** All audit firms has a portfolio of clients pertaining to different industries ranging from manufacturing sector, service & retail sector and financial sector. A trainee has the opportunity to go through all these sectors throughout his/her training period and can learn the different aspects of all sectors. This sort of learning is not possible in training outside practice where the person can learn the different aspects of only one kind of industry.

- **Learn to Work in Strict Deadlines and High Pressure Situations:** Audit practice firms start their season of June and December with assignments having strict deadlines and trainees are given the task to manage enormous amount of work to be completed within a given deadline so there is psychological as well as physiological training of how to work in high pressure situations and to complete the assigned jobs within given deadlines.

- **Opportunity to Meet Industry Leaders:** One of the highly privileged aspects of getting training in an audit practice firm is the prospect of meetings with industry leaders and building up rapport with them. It also creates an opportunity to develop personal relationships in different organisations.

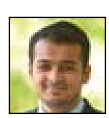
- **Conflict Resolution Skills:** While going through the training period in an audit practice firm, a trainee goes through different types of conflict or difference of opinion with his/her clients as well as with his/her firm superiors, in such situations which arise quite often during the training period, a trainee can learn how to resolve conflict of opinion through different techniques.

- **Intra Culture Skills:** After completion of training period or even before completion, firms give an opportunity to trainees to work for its offices outside Pakistan through which a trainee can get exposure of international working environment and can develop an intra-cultural skills through meeting people belonging to different cultures.

- **Increased Global Mobility:** A trainee who has completed his/her training period from an audit firm has a greater chance to get jobs outside Pakistan as compared to other professions in Pakistan so it increases global mobility of trainee and creates better prospects of jobs outside Pakistan.

- **Intangible Help in Passing Papers:** A trainee in an audit practice firm keeps socialising and meeting with people of his/her profession and can get their insights and experiences of how to manage work alongside studies. Further, they also keep themselves abreast of amendments/changes in his field which cannot be possible in training outside audit practice firms.

Thus, to conclude, I would say that ICAP has taken a great initiative of opening the doors of industry for CA trainees and it is up to the trainee which door he/she has to enter. From my side, training in an audit practice firm should be the top most priority for CA trainees and they should first try to enter into the audit firm and keep the option of training outside audit practice as second.



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

STRATEGY

by Aamir Jan Muhammad

It's true that 'fortune favours the brave.' When you take bold initiatives, nature helps you as a coworker in the achievement of your goals.

As we age, we are faced with the question: What to study to have a successful professional career? Then kicks off a series of suggestions from parents, siblings, relatives, teachers on what you must/should do, pros and cons of a particular field, pressure from parents to fulfill their dreams and so on. In the end, generally, one gets into and chooses the path to get into the education stream to become a professional with a purpose to earn a respectful livelihood and become a "big man" or "*bara aadmi*" in Urdu.

Those who are able to become a qualified professional in any field, e.g. medicine, engineering, accountancy, business, etc. then the real competitive game begins to get a good job and career growth. Those who are able to get into good organisations feel lucky and they foresee their future secured and successful. After spending a few years, generally, employees are institutionalised and gradually get used to the "comfort zone" of secured environment with guaranteed livelihood and year to year increments. The more time they spend with the organisation, the more they become risk averse, seldom initiate courageous actions and eventually find it difficult to get out of this "comfort zone", which is a psychological web weaved over a period of time. They feel comfortable and secure to live within this coziness for the rest of their lives till they are forced by circumstances to take action. If they are not forced to leave the organisation, the majority of employees will spend their lifetime with the organisation by muting their free will option to opportunities they come across from time to time.

This theme portrays the career/life pattern of most of the professionals working in the corporate world. Now the questions are: Has the dream of becoming a "big man" fulfilled? Are those who did not choose to follow the path of professional education more/less successful than these professionals? Have the careers of those who did not get the chance of getting into respectable organisations with secured career paths ended apparently? Those who step out by their own will or by circumstances, take courageous steps, become more/less successful? And so on... Look around yourself and you will get the right answer.

Though, I would not like to outline here the statistics of successful people of the corporate world and their background stories, you can easily find these over the internet. But certainly, would like to name a few individuals like Bill Gates, Zuckerberg, tennis star Djokovic and locals like AKD, Arif Habib, Dawoods, Dadas, Habibs and Tabbas. The common attributes in these personalities which made them standout were that they followed their dreams and stepped out into uncertainty by believing in their inner self and believing that 'Yes,' I have the courage to shape up my own destiny. Mind you, following dreams and stepping out in uncertainty is not an easy venture. Easier said than done. But if you want to standout in a crowd, you have to follow a tough path, which demands sacrifice; sacrifice of your time, your comfort zone and ego. In other words, you have to discipline yourself. Self-discipline is disliked by people in general. But then that's the difference between successful and the average. For example, to wake up an hour earlier in the morning for exercise, go to bed early and any other self-discipline behaviours by choice, requires sacrifice; you need to sacrifice your TV time/ Facebook/WhatsApp/ and so forth. In other words, you need to get out of your comfort zone lifestyle to follow a healthy lifestyle. We all admire people who are fit and fresh, but very few of us try to follow the simple good habits which make them standout. Think about it!

It's true that 'fortune favours the brave.' When you take bold initiatives, nature helps you as a coworker in the achievement of your goals. 'Small actions make big impact.' The example of waking up early in the morning will change the pattern of your day, believe me. Try it.

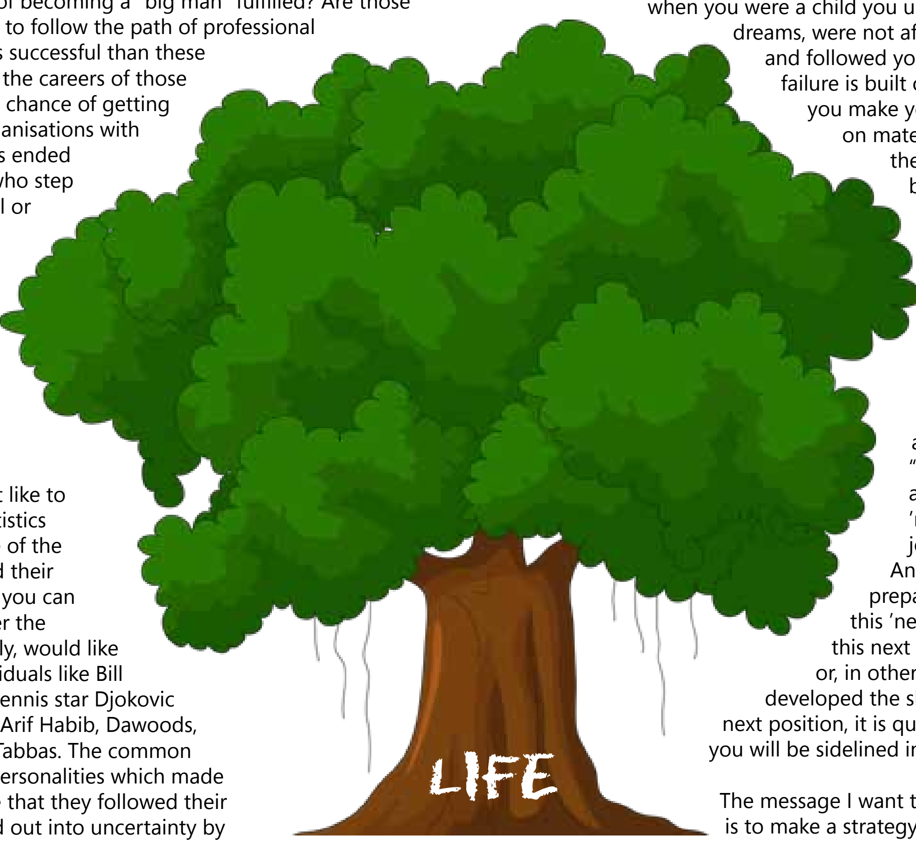
The subject is vast and I need it to confine to the corporate professionals, so, to live a halcyon and successful corporate life, here are a few life strategy concepts for professionals:

Understanding Yourself

First of all, try an inner dialogue with yourself; what are your dreams, your values, what you want to become, your potential, and risks you can afford to take in your own situation. Remember, when you were a child you used to have big dreams, were not afraid to take risks, and followed your heart. The fear of failure is built over time, the more you make yourself dependent on material comforts, the more difficult it becomes for you to make the decision to get out of your comfort zone.

To live your life your way, you have to sacrifice your comfort zone. For example, ask yourself: Now "I am a chartered accountant, what is 'next'? Got a decent job, what's 'next'?" Answer these, and prepare yourself for this 'next'. If you get to this next level unprepared or, in other words, have not developed the skill set to handle this next position, it is quite probable that you will be sidelined in the long run.

The message I want to put across here is to make a strategy, get ready for



the ‘next’ golden moment and prepare yourself in advance for your dream. It is very seldom that people get a second chance. For example, if you want to become the CFO or CEO of a big organisation, prepare yourself for this position, develop your life strategy, outline the skill set you need to develop, identify your areas of improvement honestly, work on it one by one, stop lying to yourself and become what you are capable of becoming.

Small edge over others can give you big success. For example, in a horse race, a champion wins by fractions of a second, Javaid Miandad’s six on the last ball in the Sharjah cricket match between Pakistan and India made Pakistan the champion of the tournament.

Time is Essence

Nature is fair with all human beings in allocating time. We all have 24 hours a day, 7 days a week, 365 days a year. Now it is up to us how we utilise this time to our benefit. One good way to allocate time in an organised manner is to identify and assess your values and make a values tree keeping high priority values on top. For example; health, family, career, money, friends, social media, and so on are some of the key values in life these days. Assign your given time to these values, strike out time wasters which do not have any positive impact in your life.

Believe me, health is the foremost essential ingredient for success in every area of life and should be on top of your values tree. If you are healthy, you can do anything in life. It is a fact that in the corporate world keeping work-life balance is a big challenge. But if you spend your free will time positively on your health and family, no matter how demanding your job is, you can maintain a work-life balance.

What stopped you from a 30 minutes’ walk in a park or a chat with your family? Make a fair assessment, and you will get the answer. You have to sacrifice your bad habits to make time for your health and family. Small actions bring big changes in life and the impact is usually long lasting.

Life Strategic Planning and Mapping

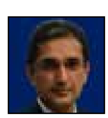
Though this is an advanced level and a vast concept/subject, but no harm in illustrating it for the relevant audience. In the corporate world, we make a business plan, different scenarios for a product launch and new ventures, make strategies, define goals and objectives, vision/mission and so on. But for our own life, we hardly make a serious effort to make a life strategy in an organised manner. What is our purpose, our short term and long term goals, where we want to be in five to 10 years’ time and how we will achieve our goals and so on.

By definition (businessdictionary.com), strategic planning is a systematic process of envisioning a desired future, and translating this vision into broadly defined goals or objectives and a sequence of steps to achieve them. Strategic planning begins with the desired end and works backward to the current status.

Though making a life strategic plan is a tough task and may lead to changes with circumstances and situations, but it does not mean that one shall not attempt to prepare a plan for oneself. I agree that no plan is perfect in business or life and carries the element of constant change. That’s why we use one of the tools in business, ‘Plan-Do-Check-Act.’ In a similar manner, your life is a project with a vital element of continuous improvement, which demands perpetual concentration on its progress towards objectives and corrective actions during the process in accordance with the situation, environment and unexpected related development which were not forecast earlier. In this dynamic, relentlessly changing world, if you are not improving every day then, in fact, you are getting worse.

It is impossible to live all moments of your life as per plan and nobody would advise you to do so. The element of surprise is a beauty of life. However, what I want to put across is to have defined objectives and goals in life, what you want to become and plan how you are going to achieve it. By doing so, the foremost benefit you will reap instantly is that your mind will channelise your efforts and you will be amazed to receive related new ideas which may help to lead you towards achievement of your goals. With a strategy in hand, which is developed by **you** for **your** life, at least you are aware what you want to achieve and not shooting in the dark hoping for success by luck. A concept of ‘Creator of Circumstances and Creature of Circumstances.’ And, to live life your way and to become creator of circumstances, making life strategic plan is an eminent process. Try to make a strategy map for yourself, make different scenarios, you will be amazed to see the power of possibilities in life. Remember these golden words, “Start small and end big” and “Big things often have small beginnings.” Most successful people come from a limited background and break several times in their lives, but in the end, success is their destiny.

In the end, I would like to emphasis that it is your life, you are driving it and ultimately your acts are responsible for your success or failure in life. Nobody can take this right from you, only you can make it or break it through your actions. Though, it is not possible that your life remains uninfluenced by the surrounding circumstances, but nature gives fair chance to all to shape up their destinies. Those who believe in themselves, make best use of available opportunities in life, take calculated risks and become creator of circumstances, ultimately success belongs to them.



The writer is a chartered accountant, working as chief financial officer and executive director at Philips Pakistan Limited. He also authored the book ‘In Search of Perfection.’

Monthly

Newsletter

Governance, Transparency and Service to Members and Students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The Institute of Chartered Accountants of Pakistan

CA PAKISTAN

Newsletter

Governance, Transparency and Service to Members and Students

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meets & events

FRED FORUM 2018

The inaugural of **Financial Reform for Economic Development (FRED) Forum 2018** was held on September 23, 2018 an evening which showcased Pakistan as the perfect destination for trade, investment and tourism. **Abdul Malik,** COO/secretary of The Institute of Chartered Accountants of Pakistan (ICAP) welcomed the guests and presented the curtain raiser of FRED Forum 2018. Then **Abdul Aleem,** secretary general Overseas Investors Chamber of Commerce and Industry (OICCI), briefed on Pakistan's economic profile and investment landscape. **James Brumby,** Governance director World Bank, thanked both the Professional Accounting Organisations (PAOs) ICAP and Institute of Cost and Management Accountants of Pakistan (ICMAP) for organising the third FRED on a topic pertinent to global economic development. The chief guest **Dr. Farogh Nasim,** minister of Law and Justice, spoke about the need for more transparency and the needed tax reforms as the essentials for economic development. The inaugural ended with a cultural and folk performance that entertained the foreign guests and audience with Pakistani traditions.

ICAP and ICMAP jointly organised the third FRED Forum on September 24, 2018 at Marriott, Karachi.

FRED Forum started as a joint initiative of the World Bank and the Confederation of Asian and Pacific Accountants (CAPA), under the support and endorsement of International Federation of Accountants

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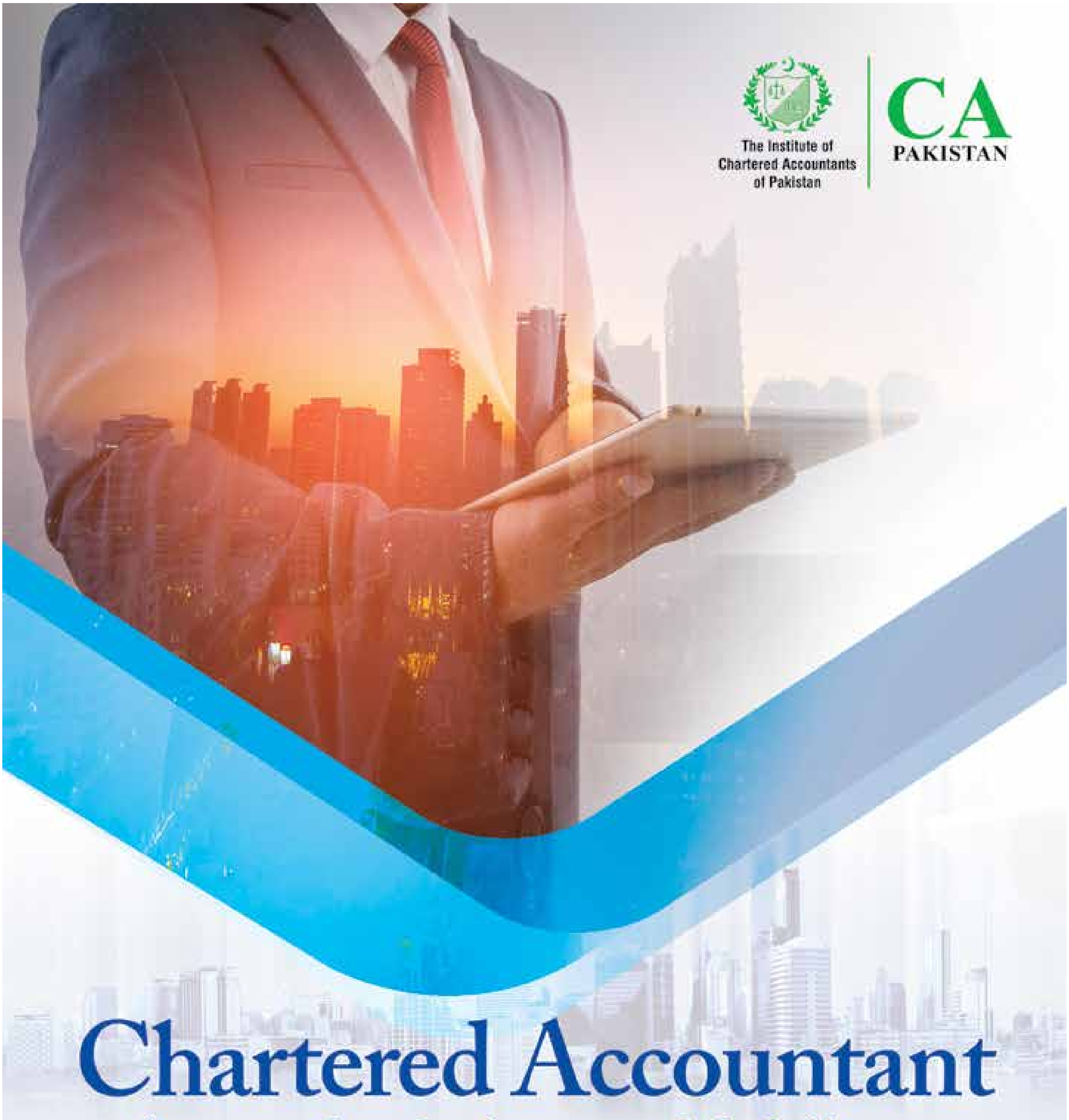
Read about the Institute's meets & events, members news, technical update, HR news, students section and more...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