



The Pakistan

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# Professional Skepticism – The Heart of Audit

**Debate**  
The power of negative thinking

**Project  
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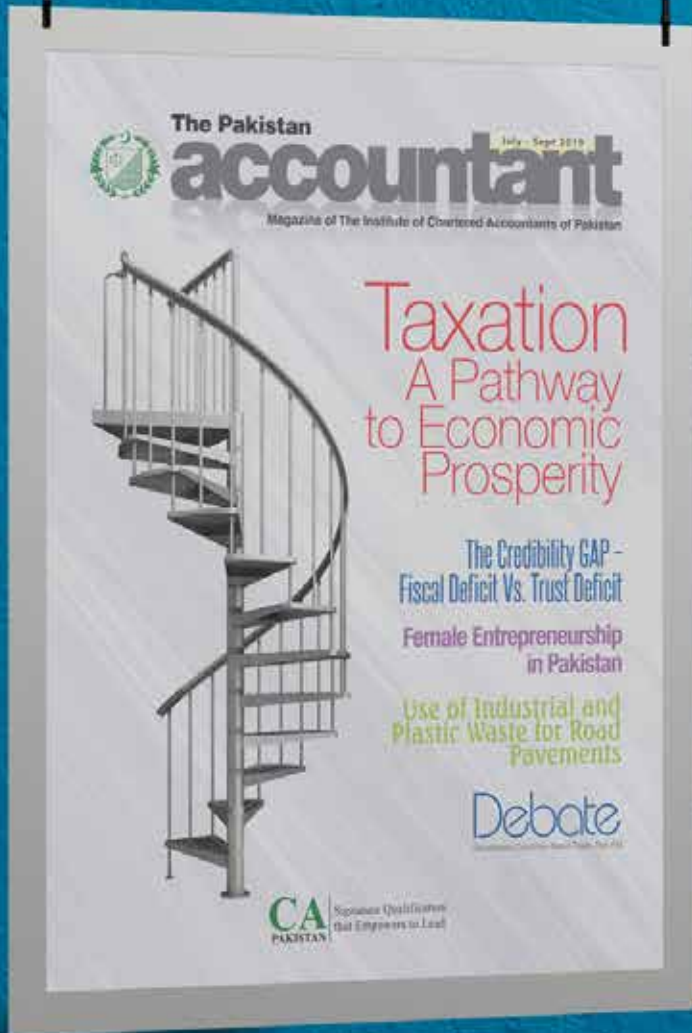
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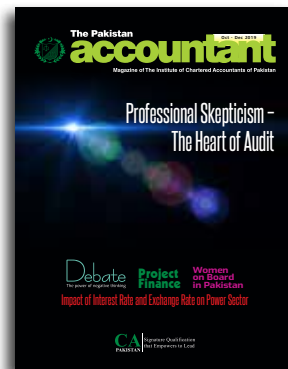
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# Editor's Letter

**A**uditors are perceived as the 'gatekeepers' in protecting the public interest. Though, a number of incidences of fraudulent financial misstatements from corporations has raised doubts in the minds of the public about the credibility of corporate financials as disclosed on annual reports. In the light of the foregoing, regulators and standard setters have in recent years reiterated the importance of professional skepticism.

Professional skepticism has long been recognised as an important contributor to audit quality. The exercise of an appropriate level of professional skepticism continues to challenge the audit profession. Although improvements have been acknowledged, global professional accounting bodies and global regulators/inspectors continue to express concerns with regard to the application of insufficient levels of professional skepticism in the conduct of an audit. Often this is discussed in terms of auditors being too trusting of client management.

The role of accounting ethics is important in fostering professional skepticism in auditors. Accounting ethics will perform a vital role in refining auditor professional skepticism and hence it is necessary for accounting regulatory bodies and other stakeholders to make strenuous efforts at ensuring that accounting ethics are standardised and enforced strictly.

Considering the growing complexity of this matter, the profession needs auditors to comply with the professional skepticism standards while measuring the fraud related risks. The profession assumes that the implementation of professional skepticism among auditors minimises material misstatements within financial statements.

Enhanced professional skepticism by auditors will contribute significantly in improving audit quality and audit firms should therefore prioritise efforts in this area. They must take the responsibility of nurturing skeptical attitude among audit staff either through training programs or on job coaching. Effective training programs/modules would expedite the development of professional skepticism in young auditors.

In the emerging global environment, embracing change and seizing opportunities is the way forward. The standard setters could work in collaboration with other key stakeholders to establish a globally recognised framework, alongside industry best practices and implementation guidance for the appropriate application and documentation of professional judgement and skepticism across different risk settings.

**M. Sharif Tabani, FCA**



# President's Page

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**A**s auditors, professional accountants play a great public interest role, by lending credibility to financial statements, thereby helping potential investors, capital markets, regulators etc. And at the heart of it, is the public trust in the quality, objectivity and independence of their work. To remain relevant, it is important to maintain and enhance public trust and to achieve that, Professional Skepticism, the urge and passion to find and tell the truth, is the key.

Over the years, our profession has evolved successfully, adapting to changing business practices and increasing stakeholder expectations. What we are witnessing today is an era of great challenge and opportunity for our profession. The pace of change is mind boggling. Technological advancements and changing business models are forcing the auditing profession to follow the suit. Data analytics, robotics and artificial intelligence are changing business environments. These advancements are also re-shaping the world of audit.

The challenge for audit professionals is to remain relevant, through high quality audits and insightful inputs. While the use of technology helps in executing effective and efficient audits, central to all the tools and processes is the auditor himself/herself – the individual responsible for the use of these tools and techniques.

The auditor is the driver of audit quality. Despite introduction and use of technology, audit will remain inherently a human process, requiring many judgments. Professional Skepticism is central to the auditor's judgments, actions and decisions. It is a behaviour that demonstrates use of professional expertise with an impartial and diligent mind set. The auditor's conclusions are the outcome of not only gathering financial and non-financial data, but its critical and diligent evaluation.

The International Federation of Accountants (IFAC), in its recently issued auditing and ethical standards has reinforced the concept of Professional Skepticism. In audit, it is and will remain the core. The Institute in tandem with global accountancy profession is committed to continuous improvements in the field of auditing and ensuring delivery of high quality audits by its members.

As organizations depend on professional accountants for providing wide-range of services, for value creation, Professional Skepticism is the trait that will remain relevant to all professional accountants and not just auditors. In the pursuit of Professional Excellence, which has been and will remain the hallmark of our profession, the importance of Professional Skepticism will only increase with time!

**Khalilullah Shaikh, FCA**



# Skepticism and its Connection with Accountants and Auditors

Uzair Aziz ACA

**W**ill You place upon it one who causes mischief therein and sheds blood, inquired the angels (2.30, Surah Al-Baqarah) is the first-ever known evidence of skepticism. The literal meaning of skepticism is doubt as to the truth of something. Doubts as to the certainty of anything including the knowledge itself has existed ever since the birth of the first human. Skepticism is the reason behind every exploration that we have achieved so far, whether related to this world or beyond the skies and beneath the seas.


**In a business perspective, it is the skepticism that has given the existence to accountants and auditors.**

In a business perspective, it is skepticism that has given the existence to accountants and auditors. Entrepreneurs are concerned with building wealth which only becomes possible by engaging the factors of productions in a sophisticated synchronisation to make the whole system working. Running such a brilliant system in the form of corporations and entities requires dealing with abundance of data which, if not, transformed into meaningful information, would only mislead its management in deciding the direction of that system.



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**The word professional skepticism is commonly referred to for the auditors but the truth is that the concept is equally important for the accountants as well as all the relevant stakeholders.**

Because of the need for timely and meaningful information in making best-informed decisions, the profession of accounting was born and there forth the accountants.

“No one can become a good accountant if he lacks skepticism,” I was once told by my senior. I did not know the importance of these words until I started experiencing it myself. The time when I would overlook some information because of perceived reliance and understanding, it turned out to be something that required proper

attention without which the results could be devastating. Yes, even though the word professional skepticism is commonly referred to for the auditors but the truth is that the concept is equally important for the accountants as well, as the responsibility for the presentation of meaningful information to the board of directors and to the auditors rests with the accountants.

The need for auditors became inevitable because of this very skeptic attitude from those who owned or regulated the corporations against those who managed it for the reason that the information being presented might have been misstated due to management’s ill-intention. Consider, if there were no skepticism expected from the auditors auditing the financial information of the corporations and entities; what objective would they achieve on behalf of their appointees? Had all evidences provided by the management in support of their assertions been accepted by the auditors without cross verification and critical assessment as to their reliability and relevance to the auditor’s assertions, it would have not been called an audit but merely the compilation of management claims.

The International Standard on Auditing (ISA) gives a crucial significance to professional skepticism in achieving the overall objective of the audit which is to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. The ISA connects professional skepticism with professional judgement which it expects from the auditor to apply throughout the planning and performance of the audit. It can be viewed logically that the exercise of professional judgement could not be possible without the application of professional skepticism at the very first place. How can one make the best professional judgement without critically evaluating the relevant assertions? Furthermore, if judgements are reached at while not maintaining a professional attitude, it will only compromise the quality of the overall audit objective.

Knowledge is power! For auditors, professional skepticism is a tool that enables them to equip themselves with valuable engagement information on which to base the audit opinion. There are two main principles of professional skepticism explained by the ISA; which are, having a questioning mindset and a critical assessment of audit evidences. Having a questioning mindset however, does not refer to having doubts on management integrity in the absence of any persuasive evidences. It also does not mean to not account for any evidences or claims provided by the management. It refers to being cognizant of the fact that people's motivations and perceptions can lead them to provide biased or misleading information; to not lose trust but to corroborate the information provided; to being alert to contradictory evidences or statements; to avoid reaching out to judgements without proper assessments and evaluations.

One must not, however, confuse the application of professional skepticism as continuous interrogation and seeking multiple evidences to justify a single assertion. It would only lead to wastage of time and efforts that could otherwise be used on other important areas of the audit and hence, compromising the quality of the audit. Therefore, not only being skeptic is important, being skilled at how and when to exercise skepticism is also significant. We must know that one of the auditor's objectives is also to achieve the efficiency of the audit which means to complete the audit in due time, utilising all the available resources including time at the optimum levels. Although, sometimes it becomes very difficult for the auditor to balance between maintaining the quality of the audit and its efficiency; the IFAC does not, in any case, support the notion of compromising the quality of the audit because of the limitation of resources.

Nevertheless, the ISA requires that the auditor may regard the evidences as genuine unless evidence to the contrary has been discovered. The ISA also does not want the auditor to disregard the previous experience with management integrity and honesty.

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However, professional skepticism is required exclusively to be maintained in respect of being alert to conditions and circumstances that may have changed resulting in altered management integrity.

Questioning is the first step to knowing the answers. After performing several audits, we, auditors become so addicted to acquiring valuable information that we tend to question every other unusual thing in our surroundings as well. I remember the day of my wedding ceremony when I asked the true sense of all the clauses in the marriage agreement from the imam. After answering all my questions patiently, he curiously asked me my profession. With a smile on my face, I replied, "I am an auditor" and the response seemed an absolute assurance to him.

*"Indeed, I know that which you do not know."* assured Him to the angels (2.30, Surah Al-Baqarah).

Auditors, on the other hand, require persuasive evidences to conclude an assurance engagement. Auditors have recently been subject to severe criticism for not being able to identify and report misstatements to the stakeholders. Lack of application of appropriate professional skepticism could be the most affecting reason. Auditing practices are being closely monitored and standardised globally by the International Federation of Accountants (IFAC) and also being regulated by local governing bodies, placing more and more focus on professional skepticism. As professional accountants, we must realise the great responsibility on our shoulders because of the trust that is placed on us. Chartered Accountants are one of the prime pillars of the economic and business structure globally and we must demonstrate accordingly in appearance and in mind. We must truly endorse that with great power comes great responsibility.



*Uzair Aziz is a Chartered Accountant working as Manager Accounts at Nagina Cotton Mills Ltd.*

# An Attitude and a State of Mind: Professional Skepticism – Its Documentation for an Audit

Altaf Noor Ali, ACA

**M**y first lesson of professional skepticism began when I was directed by our audit supervisor to make sure that the confirmations of trade debtor and creditor balances of client are sent on correct addresses and are posted personally.

I went through the correspondences received by the company from those parties to verify their addresses and once the addresses were confirmed and confirmation letters were signed by the client representative, I put those into the letter box personally.

On that occasion, I wondered why the confirmation letters may not be handed over to the client representative for dispatch. That would have saved us some effort! After all, we have been doing audit of the client for many years and there was no reason to suspect that the client might not post the letters.

Later, I understood, why I was asked to dispatch personally; I realised our audit senior demonstrated an attitude of professional skepticism throughout the audit; an attitude that includes the questioning mind. At no point during the audit he gave an impression to the client that he suspects their integrity or competence, but he kept on corroborating the audit evidence he obtained from different sources. He accepted all the evidence received from the client, whether oral or in writing, but not blindly. He was very keen to validate the audit evidence through multiple sources.

The task of an auditor is difficult! You rely on the information the client provides. The client is the one who pays your audit fees. However, you cannot rely on the information provided with your eyes and ears closed. This is how an attitude of professional skepticism is applied.

Every member of the audit team, from audit partner to a Job in-charge or a junior team member; all require professional inquisitiveness to carry out an audit. You cannot simply take what an audit client furnishes to you as a reliable evidence by default. It's not about the inquisitiveness only, but it is also about asking the right questions, corroborating answers from alternate sources, being alert to contradictory evidences and conditions indicating fraud, and being open to information that questions the reliability of audit evidence.

ISA 200 defines an attitude of professional skepticism as "An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence."



*Altaf Noor Ali is a Chartered Accountant and in public practice as Altaf Noor Ali, Chartered Accountants.*

# How Professional Skepticism Fits in an Audit

Muhammad Mohsin Siddiqui ACA

**A**s auditors, we have this in grown instinct to question everything that comes our way, be that at our workplace or even out of work. This revolves around five basic questions; “*who, what, when, where and why*”? Within our profession, this practice enables us to question and determine the validity of information provided to us i.e. whether it’s free from error or misstatement and the extent to which it may be admissible for audit. This is what is defined in modern world as professional skepticism.

Now before we analyse in detail what exactly this concept builds on, we need to define it. Professional skepticism is “*an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.*” International Auditing and Assurance Standards Board (IAASB)

As we witnessed the Global Financial crisis back in 2007-08 and the aftershocks that followed, alongside with unleashing of massive corporate scandals namely Enron, Lehman Brothers and many others, standard setters including IAASB have been emphasising on the desire to exercise professional skepticism more necessarily than ever now. With increased regulations surrounding business, enhanced subjectivity pertaining to application of accounting prerequisites, greater penalties for doing things wrong, and impairing trust within business are the key factors that demand the necessity for auditors to exercise professional skepticism. With these ongoing developments in the modern world, an augmented need for vigilance has evolved which emphasises on constant improvisation through a questioning mindset and showing alertness in attitude towards our surroundings.

**With increased regulations, enhanced subjectivity pertaining to application of accounting prerequisites, greater penalties for misconduct, and impairing trust within business are the key factors that demand the necessity for auditors to exercise professional skepticism.**

Before we assess the role of professional skepticism in an audit engagement, let’s look closely at how it really works. It is not just all about asking questions all the time but in fact, asking the right questions at the right time and not simply agreeing to the first-hand information provided without evaluating and digging any deeper irrespective of how plausible it may seem.

Now let’s look into the whole audit process and how this key concept fits into it. Right from the point of accepting an audit client and all the way down to signing of the audit report, the auditors are constantly engaged in obtaining an understanding of the client’s business environment, the business processes involved, the key stakeholder analysis, the economic and legal environment that surrounds and so on. Using all the information that keeps coming, the auditors keep planning and performing the audit procedures that they deem necessary to address all the audit and business risks identified and to obtain reasonable assurance that

nothing important goes by; unnoticed or unidentified. This includes anything significant that should be assessed and reported on or anything vital that needs to be brought into notice of the shareholders and other key stakeholders and regulators so as to ensure that they are not prejudiced. Having all the sufficient information and documentation in hand is not in itself sufficient to provide assurance to the auditor that he has discharged his duties in the best possible way. It's just one of the steps towards conducting an audit in an efficient and effective manner. While executing the audit, the auditor needs to be well aware of any contradiction that may exist among all the information collected, judging the reliability of such information including responses to any queries and determining extent to which inclusion of such details as audit evidence seems legit. This includes bringing into question everything that comes up and the urge to appraise the basis and parameters for all sorts of information and the reasonableness of all assumptions involved, performing further procedures for gaining assurance on reliability of the responses so provided, including but not limited to, interrogating, performing recalculations and obtaining third party validations. Towards the conclusion of the audit, all the material facts and information are critically assessed to ensure the financials of the company being audited are to the best possible extent giving a true and fair view as to the affairs of the company. Professional skepticism enables an auditor to transpose his mindset towards a challenging attitude.

### Professional skepticism enables an auditor to transpose his mindset towards a challenging attitude.

Going forward, it is not contrary to state that the standard of work performed by a professional practice conducting audits can be linked directly with the extent to which professional skepticism is applied in practice by the key personnel involved while conducting audits. Therefore, it would be true to state that the integral prerequisite as well as the value adding ingredient in an audit where all firms are performing more or less, similar audit procedures and gathering the same information is; professional skepticism which without casting a doubt can be stated as the '*heart of audit*'.

What it takes is the nourishing of internal culture to promote quality of work through investing in human resources, adapting new and innovative auditing techniques in line with technological advancements and the need to constantly improvise the audit methodology in accordance with the dynamic operating environment that encompass the businesses today. Recruiting the right talent who can get the job done, the way it's meant to

be done '*right*,' together with retaining, motivating and training people is what takes the overall audit profession, the extra mile, while taking due consideration of all the other factors as enumerated earlier. Professional skepticism needs to be embedded not just within the culture of the firm but it should exist as a part of its mission and vision statement, as it entails the heart of audit and is inevitably necessary for attaining the desired level of professional excellence.

The feedback for audit is equally vital and this includes feedback from regulators, stakeholders and not just the clients, as to ensure the process of continued improvement towards quality of audit work performed which is aligned with the forthcoming constructive criticism. No matter how good one gets, there is still room to improvise on what is in place already with an aim to attain a congruous elite standard of transparency and independence that would not just be beneficial for the audit profession but also ensure high quality of services provided.

### Professional skepticism needs to be embedded not just within the culture of the firm but it should exist as a part of its mission and vision statement, as it entails the heart of audit and is inevitably necessary for attaining the desired level of professional excellence.

Finally, what needs to be added here is that professional skepticism needs to be exercised by not only the auditors but by all professional accountants. When information is provided to auditors, it needs to be analysed skeptically from the management rather than 'playing' with the auditors by gauging how long they can be diverted before they catch the facts, which is not acceptable at all in modern times. It is an implied duty of the management to prove their assertions rather than for the auditor to prove them wrong. Once we understand our duty to our profession, only then it can be possible to build a strong control environment where legal and regulatory compliances are a norm and corporate scandals are unveiled while in making, before it's too late.



*Muhammad Mohsin Siddiqui is a Chartered Accountant working as Manager Accounts at Nishat (Chunian) Limited.*

# Strengthening Professional Skepticism in Auditing

Safdar Ali ACA

**T**he element of skepticism is although focused upon in the audit profession, but it is a useful concept inculcated in minds of all the future Chartered Accountants and is helpful for them in any profession that they choose. This concept is applied at all stages of an audit i.e., before, during and concluding stages of audit. User's confidence also requires the Chartered Accountants to be professionally skeptic in any audit exercise.





The legislators of various jurisdiction are mostly outsiders to the audit profession and hence, they unknowingly strengthen the attitude of professional skepticism by legislation. The AOB concept is currently novel to the over regulated Pakistan. The AOB is also strengthening the attitude of professional skepticism for fear of a watch dog over the profession in general and the auditor in specific.

## Introduction

Professionalism is something liked by all and skepticism is something which is only disliked by parties involved in fraud and their accomplices where a subject matter information is subject to an audit. The chartered accountancy profession teaches professionalism throughout its education and training schemes. The element of skepticism is although focused upon in the audit profession, but it is a useful concept inculcated in minds of all the future Chartered Accountants and is helpful for them in any profession that they choose. The concept and attitude of professional skepticism requires an auditor to be alert to circumstances and conditions that may indicate that the financial statements may be materially misstated as a result of fraud or error. The same attitude also requires the auditor to apply critical assessment of the audit evidence obtained.

This concept is applied at all stages of an audit i.e.

- Before the audit – at the time of audit planning,
- During the audit – at the time of obtaining and assessing audit evidence, and
- Concluding the audit – at the time of individual and overall conclusion.

## Benefits

- During the planning stage, this attitude helps in devoting proper time and resources towards areas where possibility of fraud and error in the financial statements may exist. The auditor neither assumes that management and those charged with governance are honest nor assumes dishonesty while planning. The auditor plans skeptically on the basis of preliminary understanding obtained about the entity and its environment. This attitude has to be maintained by the audit team throughout the audit to ensure an effective audit exercise. Professional skepticism allows the auditor to develop and effective audit plan and an objective audit approach while conducting the audit. After the planning stage, this attitude is needed to be reinforced by the audit staff throughout the audit while performing specific audit procedures. The essence developed at the planning stage, if lost later on, will affect the effectiveness of the audit exercise.
- While executing an audit, the auditor has to be alert to the conditions and circumstances that may lead the elements of financial statements to be materially misstated as a result of fraud or error. There may be contradictory evidences found during the audit evidence obtaining process which might not be in line with the understanding obtained during the planning phases of the audit or that may not support the purpose and nature of the work that the entity being audited performs. Hence, on finding audit evidence that contradicts with the understanding the auditor obtained during planning stage or with other audit evidence, the auditor devotes more audit efforts towards those audit areas. The Auditing standards also requires devotion of more audit efforts towards such areas. The requirement incorporated in auditing standards and practice emanates from the concept of professional skepticism. Hence, if audit evidence is not skeptically assessed, the auditor may overlook circumstances involving elements of fraud and error. The more an auditor skeptically assess an evidence, the more effective audit will be possible. Hence, professional skepticism is important and beneficial while obtaining and assessing audit evidence.
- Audit involves concluding both on individual audit area and on the overall financial statements. Some may feel that professional skepticism is up to planning and evidence gathering stage only, but this concept continues till the final product of an audit i.e., audit opinion incorporated in the auditors' report. This attitude can also effect an audit of a financial statements in extreme form. It will be when the engagement partner opined that management and or those charged with governance of the entity are dishonest and have

**Professional skepticism allows the auditor to develop and effective audit plan and an objective audit approach while conducting the audit.**

**The auditor has to be alert to the conditions and circumstances that may lead the elements of financial statements to be materially misstated as a result of fraud or error.**

**The users of the financial statements have greater reliance and confidence over financial statements that have been audited as compared to financial statements that are unaudited.**

no integrity and that audit evidences available cannot be relied upon. Hence, it will be impracticable to conduct an independent audit and express an unmodified opinion on the financial statements or even be able to express any audit opinion. Such type of instances are very rare but may exist. The auditing standards provide for such situations and the skeptic actions required.

### **Professional skepticism at core of users/public confidence in the profession**

The users of the financial statements have greater reliance and confidence over financial statements that have been audited as compared to financial statements that are unaudited. User's confidence also requires the Chartered Accountants to be professionally skeptic in any audit exercise. The importance of this concept increases as the size and economic and public interest of the entity increases. In smaller entities, usually, an owner himself/herself manages the affairs of the business, hence, the nature of frauds and errors might be different from larger entities. In larger entities, the chances of management fraud from misuse of assets is negligible as there are stringent inter controls over them. However, chances of financial statements fraud especially, those relating to tax evasions and material regulatory non compliances, prevail more in larger entities. Hence, while auditing larger entities, the importance an attitude of professional skepticism increases manifold towards such critical areas. Further, larger entities and public interest entities have vast and diversified stakeholders and direct control of owners is limited and the management and board run the operations without much say from the owners unless the owners are empowered by legislation. In large entities, the fraud schemes may take any form such as misappropriation of assets to molding the figures to report specific results.

The audited financial statements are required to be submitted to various authorities and are used as authentic documents. For instance, audited financial statements will be required by the Federal Board of Revenue (FBR) as the basis of filing a tax return. In case of public interest entities, which may include smaller entities like the government contractors, will be required by their regulatory authority i.e., Pakistan Engineering Council (PEC) to submit an audited copy of their financial statements. Hence, PEC will have confidence as to the state of affairs of the contractor while granting/renewing registration of contractors. There are many other stakeholders who are concerned with the continuity of large corporations, these may be the large number of employees, the financiers, the regulators, etc. There are some situations in which the corporations are facing problems and auditor has to conclude about the going concern assumption. The auditor needs to critically asses and conclude on the going concern assumption along with management assertion and representation that the corporation is a going concern while exercising an attitude of professional skepticism. To create, increase and maintain the financial statements, users and public confidence, the attitude of professional skepticism is of extreme importance.

### **Example on loss of public confidence**

In order to illustrate the importance of professional skepticism in creating and maintaining public confidence, let's take an example. There is an audit of ABC entity by X & Co., Chartered Accountants. The audit senior does not exercise attitude of professional skepticism while planning for the audit area of cash and bank balances. Hence, proper resources and time were not allocated to this area. The client has withdrawn 80% of the Net Assets Value (NAV) in the form of cash from the bank account. At physical cash count, the ABC Client employees arrange for the cash for counting purposes kept in safe custody. The junior auditor, while vouching through the bank statement, also does not exercise professional skepticism while vouching that huge entry of cash. Hence, he forgoes a fraud risk factor due to lack of such a core attitude. The audit seniors and up to the engagement partner also do not exercise professionally skeptic attitude during the review process of the work papers over this single audit area and a clean opinion was issued in the auditors' report. Soon, the fraudsters absconded along with the huge cash amounting to the tune of 80% of NAV of ABC and hence, ABC entity liquidates. ABC was a large entity with vast and diversified stakeholders. Now, not only the shareholders but also the general public will lose confidence over the profession and specifically, over the X & Co.,



Chartered Accountants firm. The carelessness of X & Co., will create a negative perception of chartered accountants in the market.

## Legislations, etc. supporting and strengthening professional skepticism

The legislation of sovereign governments and ethical standards adopted by auditing bodies around the world also strengthen the concept of professional skepticism either knowingly or unknowingly. The legislators of various jurisdictions are mostly outsiders to the audit profession and hence, they *unknowingly* strengthen the attitude of professional skepticism by legislation. For professional skepticism to be exercised, the auditor needs to have certain degree of independence from the audit client. Hence, this is required both by the Code of Ethics and the auditing standards to be independent from the audit client. The local statutes have more stringent measures relating to independence above the requirements of the internationally developed standards. Hence, the same are reinforcing the attitude and concept of professional skepticism. There had also been a wave of establishment of an Audit Oversight Board (AOB) around the world in order to have a watch dog and a blood hound over the auditing profession. The AOB concept is currently novel to the over regulated Pakistan. The AOB is also strengthening the attitude of professional skepticism for fear of a watch dog over the profession in general and the auditor in specific. However, in order to conduct affairs and operations of the AOB in Pakistan properly, it is needed to be manned with chartered accountants solely in its main operational area as it is CAs only who are fully abreast with the auditing profession and its environment in Pakistan as well as trained how to be skeptic. Other employed individuals in the AOB, not fully abreast with the auditing profession, will misunderstand the auditing profession or the contextual reference of the practices, collect improper evidence, wrongly assess evidence obtained, misinterpret results of evidences obtained and hence wrongly conclude upon any practice in the profession. This will not only result in disseminating disinformation but will also negatively affect the effectiveness of an AOB in Pakistan.

The Institute of Chartered Accountants of Pakistan (ICAP) has also adopted Code of Ethics for Chartered Accountants (the Code) developed by International Federation of Accountants (IFAC). Nevertheless, ICAP has included stringent measures and controls, as per local Pakistani environment, to further strengthen the concept of professional skepticism. For instance, the Code requires to avoid familiarity threat when an individual especially, a senior individual is having long association with the audit client as s(he) may become too sympathetic to the client. The Code of Corporate Governance (CCG) Rules also avoids possibility of such threats for engagement partners involved in audit of listed or public interest entities. Both the code and the CCG Rules prescribe controls for minimising or reducing the threat of familiarity to a negligible level. These controls are all for making the attitude of professional skepticism to prevail. This attitude then allows the auditor to avoid any assumption that management or those charged with the governance of the entity are honest and have integrity even though past experience of the auditor may be inclined towards the same. Familiarity is just illustrated above as an example. Dozens of other audit implications over the attitude of professional skepticism and their controls are standardised in the internationally applicable standards of the profession and the local legislation.

In a nut shell, the attitude of professional skepticism lies at the heart of the auditing profession and the whole of the standardisation of the profession is revolving around this concept. The absence of such an attitude, in even a single audit area as illustrated in ABC entity example above, can become lethal for the professional in general and the practice of an audit firm in particular to an extent that public loses confidence and a great gap is created which can then take decades to fill up.



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**The legislation of sovereign governments and ethical standards adopted by auditing bodies around the world also strengthen the concept of professional skepticism either knowingly or unknowingly.**



# Enhancing Auditor's Professional Skepticism

Muhammad Farrukh Siddiqui ACA

**P**rofessional skepticism is a key component of audit. This attribute requires auditors to have a questioning mind and to critically assess the sufficiency and appropriateness of audit findings. It requires being vigilant to misstatements due to error, neglect and fraud.

Most of us (professional auditors) during the course of our professional lives develop the instinct to question numbers/figures, investigate and analyse the basis on which they were calculated and assure if they make sense. Skepticism in essence means not to accept any answer on its face value but to verify the same and ensure that answer is backed by some plausible justification.

Auditing standard 1015 entails the responsibility of the auditors to exercise professional skepticism in detail.

Following are some of the prerequisites that may be necessary in exercising professional skepticism:

- The auditor must possess skill and competencies necessary to undertake the assignment at hand;
- The auditor must not have any preconceived notions about the honesty or dishonesty of the management and the opinion should only be based on the evidences obtained during the audit;
- The auditor must be alert in respect of possibility of frauds, misrepresentations, etc;
- The auditor should gather appropriate audit evidences, analyse the same and must only be satisfied by persuasive audit evidence.

**Professional skepticism should be exercised at every stage of the assignment.**

**The auditor must possess skill and competencies necessary to undertake the assignment in hand.**

**The auditor should gather appropriate audit evidences, analyse the same and must only be satisfied by persuasive audit evidence.**

Professional skepticism should be exercised at every stage of the assignment including but not limited to:

**i. Accepting the audit engagement:**

The auditors should consider information/evidence, if any, which may pose doubt on the integrity of the management of the audit client or any other reason which may affect the objectivity of the auditor;

**ii. Planning an engagement:**

The auditors should exercise professional skepticism at the planning stage of every engagement keeping in view the industry in which the entity operates. This includes evaluating the susceptibility/chances of fraud or errors, financial statement being material misstated, etc. On the basis of this evaluation determining the nature, the timing and the extent of audit procedures;

**iii. Executing the audit:**

The considerations should include reliability and sufficiency of the audit evidence. Particular attention may be given to areas which are judgemental and based on assumptions. The auditors need to assess the adequacy of the assumptions used. Examples of areas which need particular attention are:

- Related Party transactions;
- Provisions;
- Revaluation of securities/fixed assets;
- Impairments.

In this age of technological advancements, the auditor's use of professional skepticism also needs to evolve with the advancement in technology. Trainings are required to be provided to the auditors to ensure that they are equipped to find risks and potential errors that automated/digital tools may have missed. The considerations that maybe needed in the exercise of professional skepticism in such an environment may include:

- Adequacy of data validation checks (data integrity checks);
- Adequacy of user authentication controls;
- Level of encryption;
- Adequacy of controls relating to data confidentiality;
- Reviewing and analysing the firewall configurations to identify any rule violations;
- Segregation of duties and functions.

In practical life, there are few challenges which may impede the exercise of professional skepticism in its true essence. Which may include:

- Constraints of budgets;
- Motivation to foster positive client relationship;
- Maintaining deadlines; and
- At times, lack of training and expertise;

Being too skeptic may also not be a good choice i.e. asking too many questions may result in over – auditing which may ultimately lead to failure to meet deadlines. Spending too much time on low risk areas reduces the efficiency of the auditors. An efficient and effective auditor needs to allocate his/her time and energy in such a manner that high risk areas are given the utmost importance based on the risk assessment conducted at the planning stage.

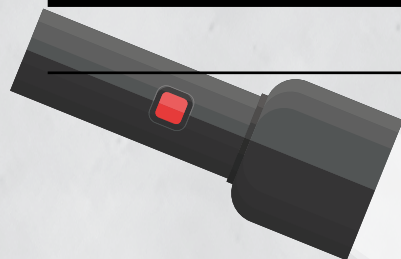
Another important aspect is how do we show that professional skepticism has been exercised in a particular audit, i.e. in a tangible manner. The audit documentation may be a tool to demonstrate the exercise of professional skepticism, they should reflect all the questions that arose during the audit and how they were answered. Another tool may be the rationalisation of the conclusion that is drawn.

So, does the responsibility to exercise professional skepticism lies only on the shoulders of the external auditors? The answer is that the responsibility is shared and the external auditor's professional skepticism may be facilitated by internal auditors and audit committees of the respective entities by asking the right questions from the management.

Professional skepticism reflects the quality of audit. Keeping in view the changing environment of financial reporting and need for enhanced audit quality, an understanding of and an ability to exercise proper professional skepticism is important for all stakeholders who are involved in the financial reporting process.



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# Professional Skepticism – Heart of Audit

Muhammad Faizan **ACA**

**P**rofessional Skepticism as per International Standards on Auditing has been defined as an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

Professional Skepticism is an attitude or an approach which is not only the heart of audit but it lies in the heart of the auditors. The temptation to ask the questions and understand the logic behind any substance or state of affairs is what we term as applying professional skepticism. It's a way of thinking and the attitude towards looking at circumstances and evidences. Skepticism is neither pessimist nor hoodwink. While applying skepticism one should not utterly affirm to the evidences provided or accepting the answer at face value but to question it to at least ensure that the evidences provided and the rationale given commensurate with each other. It provides groundwork for drawing a conclusion for any audit assignment.

This attitude of a questioning mind not only relates to auditing but also to our daily lives; we are applying it, somehow or the other. This demonstrates that professional skepticism is not something that can be developed overnight but it is something that comes from inside, an integral feature.

Professional skepticism plays an imperative role in performing auditing activities. Since it is termed as the heart of audit, it exhibits and carries out the identical role as the heart in a human body. Since a body cannot function without a heart, an auditor cannot undertake audit without applying professional skepticism. It facilitates in applying professional judgement after evaluating the facts & figures and audit evidences and reach more reasonable and conclusive audit evidence. The auditors shall not apply professional skepticism at the time of performing the audit only but also at the time of accepting the engagement as well as at the planning stage.

Nowadays, auditors are gaining criticism that the extent of professional skepticism applied is not adequate or appropriate. Regulatory bodies are also confronting that auditors are not placing emphasis on critical evaluation of the underlying facts while performing audit engagements. For applying appropriate level of professional skepticism, the auditor needs to understand the nature of business activities and risk faced by the business vis-à-vis the client. This will enable them to specifically understand the nature of activities undertaken by the client and assess the risk posed. There is an unavoidable wrench of confrontation between the application of professional skepticism and audit efficiency which is being faced by all the auditors in almost all attestation engagements.

A major impediment faced by auditors while applying an appropriate level of skepticism is time constraint. The auditors usually do not have sufficient time available to understand the nature of business activities in depth and assess the risk accordingly through application of professional skepticism. Moreover, less emphasis is being made at planning stage of any assignment that does not enable the auditor to focus on the risky areas or assign the risky area to a more senior auditor. Furthermore, auditors generally have strong relationships with the management and are intact with them for a considerable time period. This builds on a sense of trust and the auditor tends to rely on the statements made rather than critically examining and evaluating it in the light of available facts and circumstances. Another major hindrance is to identify, develop and maintain suitable professionals. The competition in the market is too tough to be able to retain such staff with the ability of having technical auditing skills. Other encumbering factors that may contribute towards non application of requisite professional skepticism includes avoiding conflicts with the client in order to be appointed as the company's auditors in future as well, achieve acceptable ranking from the clients, cross sell other ancillary services, etc. Low cost/fees may also be considered as one of the barrier as less time is devoted by the firms on low paid clients.

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In the current era of technology trend and advancement, audit firms are particularly focusing on and making more investment in big data and analytics. This technology will enable to critically evaluate the data and information related to the audit using intelligence technology at its entirety rather than on sample basis. This will enable the auditors to provide more insightful information for analysis and reach conclusive audit evidence through application of requisite professional skepticism. This will also enable the auditors (both internal as well external) to plan their engagements focusing on key alarming areas and assess the risk more adequately.

For the purpose of applying skepticism, the auditor needs to be independent. The other stakeholders of the organisation such as management and board of directors cannot apply such degree of skepticism since they cannot be termed as independent as they are mere advocates of the organisation and their stake is linked with the profit of the organisation. Therefore, the ultimate responsibility for application of professional skepticism lies with the auditors.

Since the external auditors has to form an opinion on the financial statements that the same are not materially misstated and presents true and fair view after ensuring sufficiency and appropriateness of the audit evidence, application of professional skepticism is immensely important for them. If the required critical professional skepticism is not applied while assessing the audit evidence, there is a possibility that the sufficiency and appropriateness of audit evidences obtained may be negatively impacted and ultimate opinion formed on the financial statements may not represent the factual position.

Not only just with external auditors, but the same ultimate set of responsibilities are tagged with the internal auditors as well. They also need to apply the same level of professional skepticism and judgement in evaluation the internal control environment followed by risk assessment process and provide an independent opinion to the governing bodies in accordance with the relevant regulatory requirement. For application of adequate level of professional skepticism, the internal auditors need to understand the business line of the organisation and the organisation strategy. The internal auditors need to assess the changes in the organisation environment, pressure of application of regulations from the regulator, competition prevalent in the market, industry share in the market, target pressure, influence of technological environment etc. that can generate alert for the auditors to thoroughly review and apply professional skepticism while performing audit procedures and evaluate the control environment accordingly. For this purpose, the Head of Internal Audit shall also be allowed to attend the Management Committee meetings as an observer to understand the business environment and apply appropriate degree of skepticism.

It is also important to critically evaluate and review your own work with a questioning mind as a first level review. This will also assist one to examine whether the facts and evidences gathered do reduce the extent of risk identified initially and controls available are adequate enough to be able to give assurance on the state of the company's affairs and internal control environment. Using this first level – self review approach will enable the professional identify the gaps in his or her own work and think more critically with questioning mind to validate the same.

At the same time, it is also very important for the auditors to document their respective risk assessment processes, audit procedures undertaken, sampling methodologies applied, results of the testing performed and conclusion reached. This will enable the auditor to demonstrate that professional skepticism and judgement was applied and followed in letter and spirit.

Certain automated tools and techniques can also be used to apply professional skepticism that will enable the auditor to consistently apply professional skepticism and document the assenting as well as dissenting evidences, thereby indicating the application of professional skepticism. Through automated auditing software/tools, the supervisor/reviewer can assure that professional skepticism has not been impaired due to any deadline pressure. Moreover, through the use of such software and certain Business Intelligence tools, one can easily undertake a holistic review of the company's financial statements and assess the risks and can highlight the areas where professional skepticism needs to be applied.

There is also an immense need to specifically focus on real time/on the job trainings to give the assessor a food for thought with respect to how to critically evaluate the available audit evidence. This will not only assist the specific staff on a particular engagement/assignment but will accelerate staff proficiency in long term and his or her way of thinking and perceiving the evidences. Moreover, professional firms can also focus on arranging specific workshops as well in this respect.

The debate in auditing circles about professional skepticism and how to adequately relate will prolong. It is an exigent perception that is difficult to passably articulate. Although it receives immense concentration in the audit profession, it is a notion that, slightly tainted, can be of value to other audit stakeholders. Doing so will help to eventually improve the quality of the financial reporting process and the ultimate conclusion.



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# Project Finance

Usman Shahid ACA

**Project finance is an alternate way of securing long term financing of infrastructure and industrial projects in which financiers typically provide finances based on their reliance on the future cash flow generating abilities of the projects.**



**W**e have recently seen that in Pakistan many greenfield infrastructure projects (for example, power projects) funded their costs through project financing. Greenfield infrastructure projects are built from scratch starting from planning, designing, bidding, construction and finally operations and maintenance. Project finance is an alternate way of securing long term financing of infrastructure and industrial projects in which financiers typically provide finances based on their reliance on the future cash flow generating abilities of the projects. Under conventional financing, the loan is backed by a balance sheet of the sponsors, whereas in the project finance, the repayment of loan relies on cash flow and assets of the project itself. Therefore, in order to attract project financing, the project must provide security to its financiers/investors that it is financially and technically feasible and it is capable of servicing the debt through its operating cash flows over the life of the project.



There are two basic types of project finances: (i) non-recourse project finance and (ii) limited recourse project finance. Under the non-recourse project finance arrangement, the financiers do not have any direct recourse over the sponsors and thus rely on the repayment of loan through operating cash flow generated by the assets of the project. Under limited recourse project finance arrangement, apart from relying on operating cash flow of the project, the financiers have some recourse over the sponsors. For example, the financiers typically ask from the sponsors for pre-operational phase guarantees that there will be no cost overruns in the project during its construction phase. The sponsors commitment is usually captured under the Sponsors Support Agreement which lists down all the sponsors obligations and commitments towards the project.

### Steps to Secure Project Finance

The main sponsors of the project first conceive an idea of setting up a new project. They initially conduct all requisite legal, technical and financial due diligence and secure any governmental consents required to develop the project. An outcome of an initial due diligence is captured under the project Information Memorandum (IM). The main purpose of IM is to acquaint prospective lenders with the project company, the project and the financing required for the project. IM summarises information about the sponsors and shareholding structure, the description of the project, project cost and funding requirements, project key strengths, project's technology/design, market trends, status of the key milestones in the development/construction of the project and the initial financial projections.

IM is initially submitted by the sponsors/company to the financiers, mainly development finance institutions. Once the financiers show their interest in the project, they sign a Mandate Letter (ML) with the sponsors and the company. The ML describes the scope of work that the financier will perform relating to the financing of the project.

After signing of ML, the financiers, with an assistance from their legal and technical advisors, mainly appraise the company, the sponsors and the project and review the project's commercial, financial, economic, technical, environmental, corporate governance and legal aspects. After successful completion of the appraisal, the financier submits the company and the sponsors a draft Term Sheet outlining the proposed financing structure and conditions of the investment. The draft Term Sheet is then negotiated with the sponsors and the company (in consultation with their respective legal counsels).

Once proposed financing structure and terms are agreed under the Term Sheet, then the financiers with assistance from its legal counsel, organise and co-ordinate the drafting, negotiation and execution of all the requisite legal documentation for financing. Once all the legal documentation is completed and agreed between the respective parties, the first disbursement is released by the financiers. This stage is usually termed as a financial closing. Financial closing is an execution of the financing documents that evidence sufficient financing for the construction and completion of the project and financiers are satisfied with all conditions precedent for the initial availability of funds.

### Financial Projections

Project finance is only possible when the project is capable of producing enough cash flows to cover all operating and debt obligations over the whole tenure of the loan. The sponsors of the project typically provide a cash flow projection in the form of a financial model which is usually constructed on the spreadsheet and illustrates the cash flow projection over the life of the project. Since project finance is backed by the cash flow generating capacity of the project, therefore, the company is required to demonstrate a minimum Debt Service Coverage Ratio (DSCR) in its base case financial model. DSCR means, for any period, the ratio of (i) cash flow for such period, to (ii) debt service for such period. DSCR is a measure of the cash flow available to pay the debt obligation, for any specified period. Typically, financiers require the project to demonstrate a minimum DSCR of 1.2x-1.4x for a semi-annual period, till the final maturity of the loan.

## Project Finance Risks

Risks	Financier Risk Point of View	Mitigation
Project Documents	A bankable contract is a contract with risk allocation between the contractor and project company that satisfies the lenders.	By managing all risks of the project. (The less comfortable the financiers are with provisions of the contract, the greater the amount of sponsor support will have to be provided.)
Construction Risk	Can the project be completed on schedule and according to the required specifications?	By having a turnkey fixed price Engineering Procurement and Construction (EPC) contracts with single point of responsibility and fixed completion date.  EPC contracts to include performance guarantees backed by performance liquidity damages.
Operational Risk	Once the project is constructed, it must be operated and maintained in a manner that the project company can comply with its obligations under the other project documents.	Engage a competent operator and agree to an extensive reporting obligation and inspection.  Procure insurances for operational property damage and business interruptions.
Repayment Risk	The financiers want to minimise the risk of non-payment by the project company.	Set up a Debt Service Reserve Account. Usually financiers require that 6 to 9 months of their debt payments are available at all time in this account.  Ensure minimum DSCR ratios are met before any dividend distributions.
Currency Risk	If the project earnings are in local rupee and debt obligations are in foreign currency.	Establish an offshore debt payment accounts where portion of loan proceeds is converted immediately into this account from the local earnings account.  Indexation adjustments incorporated in revenue tariff.

## Main Parties Involved in Project Finance

Party	Description
Sponsors	These are the main parties to the project who provide finance in the form of equity contributions. The sponsors initially conceive an idea of the project and conduct initial legal/financial/technical due diligence of their project.







Company/Project	Usually a separate legal entity (special purpose vehicle) is formed which owns the project assets and to which funding is provided by the sponsors/financiers.
Financiers	The main investors who provide project financing to the company. These are mostly development finance institutions that offer funding to encourage private sector development in developing countries.
Company's technical engineer	The company's technical engineer conducts all the technical feasibility of the project. They are also involved during the construction phase by overseeing different activities at project site during its development stage.
Company's legal counsel	Act on behalf of the company/sponsors and provide legal services in negotiating key project documents with financiers.
Lender's legal counsel	Act as an independent legal counsel on behalf of the lenders and provide legal services in negotiating key project documents.
Lender's technical engineer	Act as an independent engineer on behalf of the financier and provide comfort to the lenders on the technical feasibility of the project. They also oversee the construction and operational activities of the project.
Financial model auditor	Act as an independent auditor on behalf of the financiers and provides its report after reviewing the financial model developed by the project company.
Security trustee	They hold various security interests, on behalf of the financiers, created over the project.
Insurance advisor	Act as an insurance/reinsurance broker and make placements of insurances.

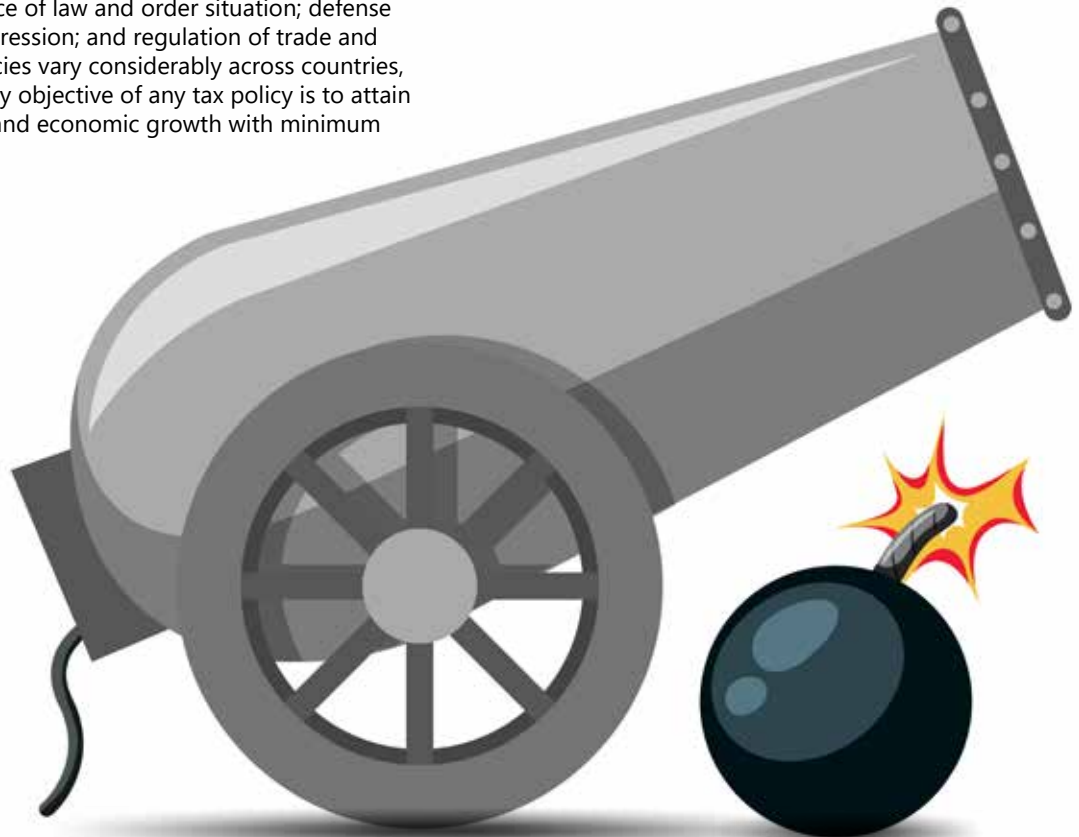


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# Canons of Taxation and Pakistan's Tax System

Shameer Haroon **ACA**

**T**ax is an important fiscal policy instrument being used by governments to mobilise revenue and promote economic growth. The tax collected by governments is used to carry out their traditional functions such as the provision of public goods and services; maintenance of law and order situation; defense against external aggression; and regulation of trade and businesses. Tax policies vary considerably across countries, however, the primary objective of any tax policy is to attain maximum revenue and economic growth with minimum distortions.



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Adam Smith, in his famous book "Wealth of Nations" has laid down four principles or cannons of taxation [discussed below], which should be considered as a preliminary tool for assessment of positive or negative impacts of tax policies on economic growth. Adam Smith's cannons of taxation are: (i) Cannon of equality (ii) Cannon of certainty, (iii) Cannon of convenience, and (iv) Cannon of economy. Few more cannons were later on formulated by other writers on Public Finance, however, for the sake of brevity and for better understanding of the impact of tax policy being followed in Pakistan on overall economic growth, discussions have been restricted to the extent of cannons/principles formulated by Adam Smith.

**(i) Cannon of equality:** The term 'equality' in the instant case, refers to equality of sacrifice i.e. people should pay taxes in proportion to their incomes. This principle points to progressive taxation. It states that the rate or percentage of taxation should increase with the increase in income and decrease with the decrease in income. This principle has unfortunately been ignored by policymakers in Pakistan owing to excessive reliance on indirect taxation whether in the form of sales tax or through income tax withholding on each and every transaction and that too even on capital investment, which is essential for industrial growth, import substitution and export-led growth. Moreover, deviation from this basic cannon of taxation has created distortions in the spending capacity of individuals. A minimum wage earner as well as a wealthy businessman/ politician, all are subjected to the same rate of sales tax of 17% on their spending, which is highly unfair and against the principles of natural justice and fair play.

**(ii) Cannon of certainty:** There should be certainty with regard to the amount of tax which taxpayer is required to pay during the financial year. If there is an element of arbitrariness, it will then encourage misuse of power, harassment and corruption. Unfortunately, this principle has also been ignored by our policy makers. Taxpayers, in current environment of Pakistan, even if they want to pay due share of taxes, are scared of the discretionary and arbitrary powers available with tax officers, which they usually exercise without any fear of accountability.

Tax policy should be devised separately for short term and medium to long term revenue and growth targets. Here in Pakistan, knee jerk approach is followed and major amendments in tax laws are introduced every now and then through annual budget, mini budget, exercise of presidential powers, etc. Super Tax was initially introduced through the Finance Act, 2015 for only a year and was made applicable retrospectively in order to arrange finance for rehabilitation of temporary displaced persons. However, based on amendments made from time to time, this one-year levy has been extended till tax year 2021. Gas Infrastructure Development Cess was levied to arrange funds for Pak-Iran Gas pipeline. This project, apparently is

not being pursued by the government anymore, however, the levy is still applicable and has also been challenged before the Supreme Court of Pakistan. Earlier, this levy was stroked down by the Supreme Court of Pakistan, however, the same has been legislated again without realising the fact that the government is not even in a position to explain utilisation of funds collected from this levy.



**(iii) Cannon of convenience:** In the words of Adam Smith, "Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it". Once again, unfortunately, this principle is also not being followed in Pakistan. Taxpayers are subjected to levy of taxes on almost each and every transaction. Instead of assessment and collection of tax on the basis of income for a completed financial year, taxpayer has to pay advance taxes on import of raw materials, on supply of goods/ rendering of services, on consumption of utilities, etc. Considering the excessive tax collection on transactional level, it is now almost difficult for taxpayers to generate sufficient taxable income to absorb the amount of tax withholding/collection suffered by him and ultimately majority of taxpayers have to claim income tax/sales tax refunds, which, most of the times, are not refunded on timely basis. Heavy reliance on indirect taxes has restricted the level of economic activities and consequently, Pakistan, unfortunately, is moving fast towards premature deindustrialisation. In case, an investor intends to setup a manufacturing facility in Pakistan, he has to pay upfront (at the time of investment) 17% Federal Sales Tax, 3% Minimum Value Addition Sales Tax, 5.5% Advance Income Tax as well as custom duties, if applicable. In case, if we ignore custom duties, provincial sales tax on transportation services and ancillary services necessary for installation of plant and machinery, even then the Federal Income Tax and Sales Tax account for a mammoth 25.5% (17+3+5.5) of the total cost of plant and machinery. How would it be financially viable for any investor to invest in heavy capital intensive machinery, which would result in blockage of his funds in the form of Income Tax and Sales Tax refunds specifically in current economic scenarios where return

on investment in industries is extremely low, due to high input cost and slowdown in overall economic activities, as compared to the return being offered by fixed income schemes and banks. Moreover, although the powers available with the federal government (as per Constitution) is to levy tax on income and even the name of the primary legislature (Income Tax Ordinance, 2001) suggests to levy tax on income, even then majority of the taxes collected under the said Ordinance, are now subject to the levy of minimum turnover tax instead of income based taxation. Consequently, even in case of losses/low profit, taxpayer has to pay to the government, a certain percentage of tax on the basis of turnover, which is highly discouraging for high volume/low margin industries. Moreover, the said minimum turnover tax has been increased by 50% over the past two years, which is strictly against industrialisation and economic growth.

In addition to high rate of taxes, high handedness of tax officers is the main issue being faced by taxpayers in Pakistan. On this subject of conduct of tax officers, Federal Board of Revenue (FBR) must try to formulate policy, guidance for which can be taken from the letter written by Hazrat Ali RadiAllahu Anhu to an officer whom he sent to collect levies. Collection regime, which was introduced then was not the one where officers had an upper hand rather it was a regime where the governed and the payers were at premium. Extract from the said letter, as copied from Nahj-al-Balagha, is reproduced below for ready reference:

*".....do not approach them in a way as to make your approach hateful to them. Do not tax them more than what is actually due from them to Allah. When you reach a group of people (tribe or village) to assess a tax on them, then stay only at their watering-place (a well or water-hole the most convenient place for stay in desert regions) and do not stay in their houses. Then go to them maintaining your dignity and prestige and when you are in their midst, wish them peace and blessings of Allah and show due respect to them. Tell them that the Caliph of Allah has sent you to collect from them their dues to Allah. Ask them whether they possess enough means to pay the dues of Allah that you may gather them and pass them on to His Caliph. If somebody tells you that he does not possess enough wealth to make him liable to pay taxes, then do not worry him and accept his plea. If someone tells you that he is in a position to pay Zakat, then go with him to his house, field or pasture (because Zakat was then collected in coins as well as in kind). But do not frighten him or make him nervous and do not behave with them with undue harshness or tyranny. Then accept the gold or silver which he offers.*

*If he has cows, bulls, goats and camels then do not enter the herd without his permission because most of it belongs to him. If you have to enter the herd, then do not enter like the one who is coming there to take possession of the cattle.*

*Do not tyrannise the owner, do not frighten the cattle so as to make them disperse. Do not make the owner feel anxious or sorry for them. Then divide the herd into two parts and allow the owner to select the one for himself. If he selects one part for keeping himself, then do not object to it. Again, divide the part which he has left for the share of Zakat to be selected from out of these two parts, again allow him to select the lot which he wants to retain for himself. Never object to his selection (because it is the assessor who is dividing them in equal lots; therefore, the selection between the two lots should naturally rest with the owner). Continue like that until you arrive at the lot which constitutes the share of Allah then take possession of it.*

*Even if, in spite of all these precautions, he thinks the division was unfair and unjust, then mix the whole lot and go through the process once again as I have already explained to you till you arrive at the share of Zakat to the satisfaction of everybody concerned."*

We must analyse the tax collection mechanism being followed in Pakistan and compare with the guidelines prescribed by Hazrat Ali RadiAllahu Anhu. On a scorecard of 10, our rating would be even below zero (negative) if we compare our tax collection mechanism with guidelines discussed above.

**(iv) Cannon of Economy:** The cannon of economy implies that the expenses of collection of taxes should not be excessive. They should be kept as little as possible, consistent with administration efficiency. Based on the strength of tax officers appointed in tax offices across the country, FBR must analyse and share publicly the amount of taxes voluntarily paid by taxpayers, taxes collected under various income tax withholding provisions, taxes collected through enforcement measures adopted by tax officers (which have been upheld by appellate authorities) and the per head tax collection in each tax office based on the staff deputed in that office.

Although, above submission is not an exhaustive list of issues being faced by taxpayers in Pakistan, however, even if these major issues are resolved by the government in collaboration with Federal Board of Revenue, we will witness a positive breakthrough in overall economic situation of Pakistan and will surely attract local/foreign investment, generate employment opportunities, promote import substitution and export-led growth along with ever highest record tax collection and that too without any element of harassment or corruption.



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# Bright-line Test for Tax Residency in Pakistan

Ellahi Bukhsh Qureshi ACA



In any tax mechanism, it is essential to establish the definition of a taxpayer and taxable income i.e., who is to be taxed and which income is to be taxed. Income, in any jurisdiction, can be taxed either on the base of residence-based (in Personam) or on the base of source of income.

Individuals, in specific, are taxed based on residence-based in most of the countries. Under Pakistan's tax law, every person who is resident for tax purposes is taxed on the world-over income, regardless of where it is generated. Also, a person who is a non-resident for tax purposes is charged only on Pakistan-sourced income. The definition of a resident or non-resident for tax purposes, therefore, can be vital to the broadening of tax base. Under the tax laws of Pakistan before Finance Act 2019, a resident person is one who is present in Pakistan for 183 days or more as enunciated under Section 82 of the Income Tax Ordinance 2001. Thus, the bright-line test for residency of individuals in Pakistan translates into relief for non-residents from some requirements, which only a resident person is obligated to comply with. The reliefs for individuals being classified as non-resident are as under:

- Waiver from filing of wealth statement under Section 116 of the Income Tax Ordinance 2001. Thereby meaning, if one falls under the ambit of the non-resident taxpayer, he/she can outrightly avoid filing wealth statement showing assets, liabilities and net wealth thereon.
- Waiver from the filing of foreign income and asset statement declaration under Section 116A of the Income Tax Ordinance 2001. The newly introduced provision under Finance Act 2018 requires resident taxpayer having foreign sourced income not less than 10,000 USD or having foreign assets not less than 100,000 USD to file a statement declaring his or her foreign income earned and foreign assets. This provision is categorically introduced after the Panama papers leak.
- Waiver from disclosing income generated outside Pakistan and requirement to only disclosed Pakistan-sourced income. As discussed above, a non-resident person is only legally obligated to disclose and to be taxed on Pakistan-sourced income as per sub-section (6) of Section 11 of Income Tax Ordinance 2001. Therefore, disclosure of foreign sourced income can be outrightly avoided by an individual who may actually be a resident

in Pakistan but avoids disclosure in the return of income by qualifying a simple test of residency.

- The above also accompanies the waiver from paying taxes on foreign sourced income itself, which is logical, only if individual is in fact a genuine non-resident person. A resident person, on the other hand, has to pay taxes on foreign-sourced income subject to treaty benefits, if any, between the country of source and Pakistan.

It can be construed from the foregoing that for a Pakistani citizen, it was merely a simple tax planning scheme to qualify as a non-resident in Pakistan and avoid haughty tax compliances requirements keeping him off the enforcement radar. In Pakistan, specifically, it was easy to qualify as a non-resident taxpayer by merely living in Pakistan for not more than 183 days. With couple of hours' flight away from home, in Gulf Cooperation Council (GCC) in specifically Dubai, UAE is the preferred place to fly to and stay there to avoid Pakistan tax residency. Additionally, since most of the GCC has no income tax, it is an easy destination for tax avoidance. Most people having cross-border business, but having roots and their habitual adobe in Pakistan, avoid being classified as a resident taxpayer in Pakistan and escape the compliance bracket that an ordinary Pakistani is obligated to meet under the law.

There are ways how it can be addressed, and many countries in the world curtail such avoidance by mechanically putting forth checks on the residency test. Sadly though, our tax law until Finance Act 2019 bore this deficiency which was exploited. Some of the examples are as under:

**United States of America:** The US is very well-known for its rigid and stern scope of taxing citizens of the US. A US citizen or a green card holder is required to comply and pay tax in US irrespective of the fact that if he or she even lives in the US or not. In addition to such rigorous scope of the taxpayer, US Code also embodies checks on alien (i.e. not a US citizen) individuals for their residency. They also have the same 183 days bright-line test for residency called 'substantial presence test' which is triggered where an alien is resident in US in a year for at least 31 days. Each day present in US in a calendar is counted as a full day. The test embodies calculating 183 days vide code Section 7701(b)(3) as under:

$$X + 1/3(Y) + 1/6(Z) > 183 \text{ in tax year}$$

Where:

X = number days in the current year (which as stated earlier has to be at least 31 days).

Y = number of days in the first preceding year.

Z = number of days in the second preceding year.

Where, if an alien individual has substantial presence in US for more than 183 days as per the above formula, he or she shall be qualified as resident alien and will be subjected to US tax. The above arithmetical formula is

there as a systematic bracket to track down individuals with strong ties in US, i.e. keeping in view number of visits to the US of course, the US code also provides with safeguards for genuine reasons, such as family ties or so. But it does keep in view the activity of even an alien individual in the US.

**United Kingdom:** The UK has also embodied in its legislature the test of 183 days, but like the US their law also represents a second-tier test called 'sufficient ties test' Statutory Residence Test (SRT) is introduced through Schedule 45 of Finance Act 2013 with guidance thereon under RDR3. The SRT test include factors as follows:

- Family members in the UK (spouse, children);
- Accommodation, which is available for continuous 91 days;
- 40 working days of 3+ hours per day or more in the UK (i.e. signifying effective connection with UK business);
- More than 90 days spent in the UK in at least one of the previous two tax years; and
- Or that individual has spent more days in the UK than in any other country during the tax year.

The above factors are a strong element to the establishment of the fact of whether an individual is a resident or non-resident in UK.

**France:** On the other hand, a civil law jurisdiction also has its test of residency which does not adopt the number of days check but has a different assessment of factors. French Code général des impôts lays tax residency tests with individuals falling under any of the following tests:

- If a taxpayer has the main residence in France;
- If a taxpayer has a principal place of abode; and
- If a taxpayer has a principal activity or has substantial economic interests in France.

**India:** Our neighbouring country even has strengthening checks for tax residency which are as under:

- 182 days or more in a fiscal year, or
- 60 days or more in a fiscal year and 365 days or more during the preceding four fiscal years; the 60 days may be extended to 182 days in certain cases.

The above forms of tests in the tax systems are embodied in other renowned jurisdictions like Germany, Ireland and Canada, to avoid individuals from exploiting a mere 183 day's presence test in a country. It is indeed an anti-avoidance mechanism which was required under the Pakistan tax law. Along with current year residency requirement, it should also consider how frequent visits are made through stretch of years, or to have a check on habitual adobe of the taxpayer to highlight significant economic ties in the country.

Finally, under Finance Act 2019 the government has amended the residency test by strengthening the scope.

The Finance Act 2019 has introduced a second-tier test for residency test which includes a person who is present in a tax year for 120 days or more and who in the preceding four tax years was present in Pakistan for 365 days. It means if a person is resident in Pakistan for 120 days or more, it shall be qualified for the second-tier test, after which if his residency in Pakistan for previous four proceeding tax years is in totality to 365 days then it shall be qualified as resident for tax purposes. The broadened definition does not require an average stay in Pakistan in the preceding tax years but will be counted in total, e.g. if a person was not present in Pakistan in the first two years and in the latter two years he stayed in Pakistan for 365 days, he shall still fall under the ambit of the definition.

The 120-day term for the tax year may still be lenient in comparison to tests as legislated in other tax jurisdictions, but at primitive stage, it is a good first step towards strengthening the residency test, which can curtail avoidance of tax residency by having short stays in Pakistan. It will contribute towards the broadening of tax base but more importantly, it should consider the information obtained through compliances by individuals who intrigue the residency test to artificially fall under the lexicon of non-resident taxpayer. The said Individuals should properly disclose their world-wide income and in accordance to tax treaties claim tax benefit or tax credits as provided under the tax law on foreign income. But if the residency test is feeble and is avoided simply

then it would cost Pakistan heavily, especially in the era when the world is focusing on Base Erosion and Profit Shifting (BEPS) Action 6 of Organisation for Economic Cooperation and Development (OECD) wherein, they are focusing on preventing the granting of treaty benefits in inappropriate circumstances. To conclude, it can be rated as an improvement to the international taxation laws of Pakistan.



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# Director Finance, Let Your Subordinates Love You

Dr. Muhammad Asif Jaffer

**F**inance function is the hub of information. Matured information gets hidden in the files of finance department from across the organisation, and new information is generated which is provided to all relevant functions. This inflow and outflow of information is across all functions, including HR, supply chain, marketing, IT, and strategy, to name a few. Director finance, CFO and other key finance persons therefore, possess multidisciplinary knowledge. As some experts say, senior accounting executive is a person who can manage what others do in procurement, sales, HR or even IT. This is so because senior finance and accounting personnel have a very good exposure to business processes in all these functions. But this is not the other way round, a supply chain or marketing executive do not usually understand business processes outside of their functional domains.

As a result of this centrality of finance function, Director finance, CFO, and other key accounting persons (let me label them all as senior finance executives) have to accommodate requests from all functions within an organisation. They have to make compromises on their choices, emotions, style, freedom, working hours (more seniority, more stringent working hours) and a lot more. In return for a good salary and apparently a prestigious position in an organisation, they have to sometimes go through painful adoptions and adaptations. Though there



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are perceptions as to 'strict and arrogant accountants', I think mostly senior finance persons have to compromise a lot more than they would do in a free to choose context.

As a result of this diverse interaction with the stakeholders, the least a senior finance executive is bothered about in an organisation, is his own departmental subordinates. All the compromises that such senior finance executives make are then unburdened to the possible extent with their subordinates. Finance directors are many a times the cruel and arrogant bosses in the eyes of their subordinates, though the perceptions among their senior colleagues may be different. The hidden costs for such a perception may be severe, and may range from dislike and hatred to severe political reaction.

Addressing such dislikes does not surface as a problem until it gets to an extent that causes political reaction or an issue in the life of a subordinate. But for those who care about such dislike and hatred which has not yet turned up into a visible problem, here are some to dos and don'ts:

1. Always respect your subordinates, never abuse them or degrade them, especially in front of others. Surveillance, directions to carry out a task, critics on bad performance and professional disagreements are all okay and probably necessary, but these all do not necessitate a degrading or disrespectful attitude.
2. Do not be unpredictable to your subordinates. Keep a consistent approach and style so that the subordinates can adapt. Avoid giving two conflicting directions in similar situations. A boss found saying 'why don't you do this on your own and ask me in these petty matters' and at another time in similar situation 'why don't you consult me in such and such matter and do it on your own discretion?' is getting the seeds planted for potential problems.
3. Do not give surprises. Tell your expectations well in advance and be realistic in setting these expectations. A very good principal that is 'be firm but be soft and gentle' meaning that it's okay if you are inflexible in certain situation that demand compliance, but the way of communicating, the words, should not be hard and autocratic. This is a golden principle while saying 'No' to subordinates or even seniors. Sometimes, you do not necessarily need to revisit your stance, but should select the gentle words and way to communicate the same.
4. Using information technology is okay, but remember that in person communication cannot be replaced by emails and WhatsApp messages. Tone cannot be interpreted in written messages. A verbal statement like 'must do this' can still be interpreted as acceptable

and soft if the tone is appropriate, whereas a written statement like 'have to do this' can be interpreted as a dictation even if the intent is not so. In all critical matters, a short personal meeting or a phone call is more inductive towards getting the things done.

5. Give some personal space to your subordinates. Informal *gupshups* are good ventilators for disgruntled feelings. If possible, take interest in their personal problems and issues.
6. Bear in mind that you're accountable for your subordinates to somebody higher than CEO and BOD. 'All of you are shepherds and you are responsible for your sheep.' (Prophet Muhammad SAW).
7. A very useful and important supplication that is very useful in spotting and addressing hidden arrogance as advised by our Prophet SAW, is to say 'O Allah! make me one greatly patient and (one) greatly thankful, and belittle me in my own sight and elevate me in the sight of others.'

It is important, yet difficult to realise that many a times the cause and solution of the problem rests with person facing the problem himself. This story will probably make this point clear. Mr. Jalib was driving his car on a commercial street when he noticed somebody was continuously honking. Jalib drove the car left to give space to the passing car, but to no affect. He saw from the rear-view mirror and a car was following his, so he drove to side again giving it space to pass, but nothing happened, and the horn continued. Jalib then tried recognising the driver in that car from the rear-view mirror again, guessing as if somebody is trying to catch his attention, but the driver was apparently not interested in him, so calm and quiet. 'Why he is honking then?', Jalib thought. Few minutes later, Jalib stopped at a parking slot and that car passed, but the horn sound was still there. It was from Jalib's own car, the horn got out of order!

This is not strange that many a times we, perceive ourselves the victim of a problem, are the cause of the problem, or at least a part of the problem. But in fact, it is difficult to realise. It gets obvious when the car stops, but there is no use of getting such a delayed realisation. Do not let your subordinates dislike you. Let them love you, for real love and affection carry respect and honour in them.

Stay blessed.



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# Women on Board in Pakistan



Hina Kazi FCA

## Introduction

Gender diversity is not only about hiring a certain number of females, but to make sure that the organisation considers hiring females across all levels including the board of directors. Over the period, studies have proved that boards with at least 30% to 40% women have outperformed in terms of improved profit margins and have achieved long-term success than the ones with fewer or no females on board.

## A diverse workforce leads to a successful business, increased profits and motivated staff

This proves that the objective of any organisation should be to hire a competent workforce irrespective of sex in order to have a pool of expertise, knowledge, talent, creativity, skill and diverse opinions. Also, today's corporate board requires sophisticated as well as a complex set of competence, aptitude and flair for which professionals of various backgrounds, skillset and perception are looked for. Thus, this gender balance is not only encouraged to fulfil the moral obligation of the society, but it is more of a necessity these days. With female directors in the boardroom, there is a new perspective to everything starting from better business planning and strategy to decision-making, stronger ability to anticipate and manage risks prudently to improved financial position and performance.

It is experienced that giving equal rights and opportunities to women workforce is one of the driving factors for any developing economy. However, in Pakistan, women have usually been given inadequate representation in terms of leadership roles, especially at corporate boards. This could be one of the reasons for low economic development in the country along with many others.

## Survey results

- In the Global Gender Gap Report of 2018 in which 149 countries were covered, Pakistan held the second last position.
- As per the research conducted by Women on Board (WOB) Pakistan in 2018, out of 556 publicly listed companies only 506 companies are listed on Pakistan Stock Exchange (PSX);
  - Out of a total of 3,942 directors in these companies, only 11% are female.
  - Out of these, 290 women directors 7.36% are related women directors, whereas 126 directors, i.e. 3.2% are unrelated or independent.
  - Also out of these, there are only 41 female chairpersons, 10 CEOs, 11 CFOs, 30 company secretaries, and a total of 416 directors.
- According to KSE 100 index of PSX, 69 out of 100 companies have no female directors.
- Another survey reveals women directors proportion on corporate boards at 6.4%.

## New law of female director on board of listed companies

In order to address this dismal picture in the country, the Securities and Exchange Commission of Pakistan (SECP) issued a Listed Companies (Code of Corporate Governance) Regulations 2017 on November 22, 2017, under the Companies Act 2017 whereby **“all listed companies are mandatorily required to have at least one female director on their boards when it is next reconstituted not later than the expiry of its current term or within one year from the effective date of these regulations whichever is later.”** Along with this, it is also made **“mandatory for every company to arrange training for at least one female executive every year under the Directors’ Training Program from the year**



**starting June 30, 2019.** These regulations came into force with effect from January 1, 2018.

With this revolutionary law in force, women representation on corporate boards in the next two to three years is expected to be doubled. This new step on gender balance is expected to bring a positive cultural change in the workplace; women representation on top will make way for the hiring of women down the line. In our society, being marked by orthodox mentality, many women and even their families prefer them to work only under female leadership roles. This new law will, hopefully, satisfy the prevailing norm.

However, it is not that easy to implement such a law in a country like Pakistan where almost all corporate boards are aggressively male-dominated. Since enforcement, the SECP has been receiving many applications from companies seeking request to issue relaxation or exemption from the compliance of this law where the board is reconstituted immediately after the enforcement of this law and before the expiry of the one year from the effective date of these regulations. Therefore, in light of the requests, the SECP has generally allowed all listed companies through SECP circular dated February 27, 2019, to **“appoint female directors on their boards on the date of next election of Board of Directors (BOD) or on the occurrence of a casual vacancy on the BOD before the date of next elections of BOD.”**

Later on, SECP through SRO 1163 (I)/2019 dated September 25, 2019, issued the Listed Companies (Code of Corporate Governance) Regulations 2019 whereby it is now **“mandatory that the board of directors shall have at least one female director when it is reconstituted after the expiry of its current term.”** Along with this, it is now **“encouraged companies to arrange training**

**for at least one female executive every year under the Directors’ Training Program from the year July 2020.”** Previously, this training was mandatory.

### Loopholes in the system

A few major impediments in bringing compliance to this law are:

- There is a dearth of qualified females in the country owing to the weak education system in place. Most of the female population have no access to even basic education in the absence of which it is difficult at times to find the right ones. With limited availability of qualified and skilled women workforce, it becomes a barrier to climb up the corporate ladder for the executive positions.
- Having WOB is a big cultural and social change. There is still a big hesitation on part of these all-male boards where acceptance of women progression to board level is not easy to achieve. Listed companies boards’ are considered to be the boys’ club where it becomes a trial for women to prove her competence. Also, a general perception exists that women are not as ambitious as men and are not capable enough to handle technical business matters along with balancing personal and professional commitments. It is quite a challenge to change this kind of mindset and behaviour of the conservative male-dominated society.
- Many companies are family-owned businesses in which it is not preferred to bring independent directors from outside especially females. Such companies keep related females on board who usually have no ‘say’ and are only kept to satisfy the prerequisite of the law. At times, such related females in spite of having significant ownership stake in the companies have no right to participate in

decision-making on important business matters. This limitation is another barrier in bringing women directors on board even when qualified females are available for the position. This kind of board composition in terms of female relatives on board (typically as 'puppets') does not satisfy the true essence of the law.

## Measures taken so far to comply with the requirement of law

In order to address the issue, following measures have been taken so far in Pakistan:

- CA Women's Committee (CAWC), a working committee of The Institute of Chartered Accountants of Pakistan (ICAP) has issued a directory of prospective independent female chartered accountants eligible to become directors in listed companies. This directory is sent to all listed companies to assist them in complying with the requirement of law. Its first edition was launched on the Women's Day 2018 which included profiles of female chartered accountants with over 10 years of ICAP membership. Also included is the seniority wise list of female chartered accountants with over 10 years and five to nine years of ICAP membership respectively. Its second edition was launched on Women's Day 2019 which also included profiles of female chartered accountants with over five years of ICAP membership.
- The WOB Pakistan is a trust registered in Islamabad on February 2017, formed to promote the inclusion of women professionals in leadership positions in the corporate world and to encourage listed companies to bring them on their boards. Various professional development programs, mentorship workshops and corporate networking sessions are being held at WOB Pakistan on a regular basis. These sessions are held to create awareness of the necessity for having women in equal positions in an organization. Such sessions also encourage, motivate and prepare the women workforce for the board positions. On international women's day held on March 8, 2017, WOB Pakistan released its first annual report on the status of representation of corporate women professionals on PSX listed companies with the title of 'Women in Boardrooms.' On their website, there is a list of 'Board-Ready Women' in which names of female professionals ready to become board members of listed companies, from various institutes like, ICAP, Institute of Cost and Management Accountants of Pakistan (ICMAP), Lahore University of Management Sciences (LUMS) and Institute of Business Administration (IBA) are mentioned. WOB Pakistan aims to achieve at least 25% gender diversity on corporate boards in the next five to eight years.
- In order to appreciate companies which have incorporated gender balance by including women directors on their boards, WOB Pakistan has classified

them as 'W-Corporates.' This list is updated each year. This initiative is taken to promote more and more companies to join the club. W-Corporate Enlistment awards are awarded to many multinational companies including ICI Pakistan Ltd., Unilever Pakistan Ltd., Pakistan Tobacco Company, Colgate Palmolive (Pakistan) Ltd., and Abbot Laboratories, banks like Standard Chartered Bank, Samba Bank and JS Bank. A few local companies are also following the lead here like, National Foods Ltd., Pakistan Cables, Hum Network Ltd., Pakistan National Shipping Corporation, Dawood Capital Management Ltd., Sui Southern Gas Company Ltd., IGI Insurance Ltd. and The United Insurance Company of Pakistan Ltd.

- Global Reporting Initiative (GRI) guidelines are considered to be the best practice for the environment and sustainability reporting in Pakistan. It also provides a framework for reporting board gender diversity policies and practices. International Finance Corporation (IFC), a member of the World Bank Group, is a big advocate of women on board initiative and creates opportunities for women advancement along with other objectives. Other Institutes like ICAP and the Association of Chartered Certified Accountants (ACCA) global are also good examples of a diverse workforce.

## Conclusion

According to the World Economic Forum's Global Gap Gender Report 2018, Pakistan, still, ranks 148 out of 149 countries surveyed. Pakistan is far behind many South Asian developing economies where women although better represented at government and parliament level have not received sufficient representation at corporate boards. A lot more still needs to be done in order to get qualified, professionally experienced and competent women workforce on boards in Pakistan. As more and more women are hired, there are better chances of female reaching top management positions on merit and ultimately to the board. Gender quota is one tool used by developed economies like Norway, India, etc. in order to bring women on board compulsorily and that is the same tool used by Pakistan now in the new regulations. An effective law implementation is possible only with change in perception and attitude of the society in general and companies in specific.

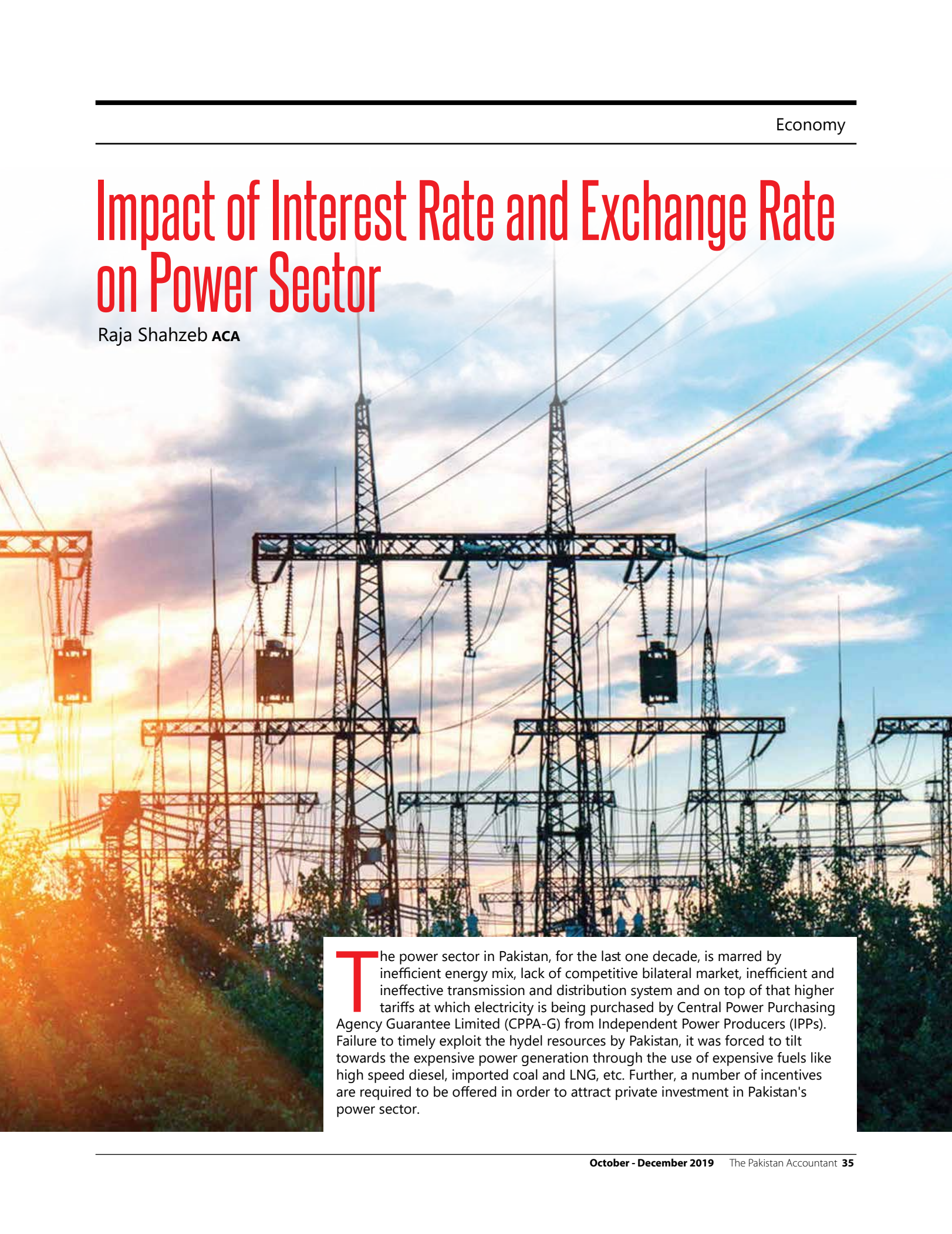
Well, it is yet to be witnessed as to how this law will be debated upon or be given positive acceptance in the current corporate culture in future years to come.



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# Impact of Interest Rate and Exchange Rate on Power Sector

Raja Shahzeb ACA



**T**he power sector in Pakistan, for the last one decade, is marred by inefficient energy mix, lack of competitive bilateral market, inefficient and ineffective transmission and distribution system and on top of that higher tariffs at which electricity is being purchased by Central Power Purchasing Agency Guarantee Limited (CPPA-G) from Independent Power Producers (IPPs). Failure to timely exploit the hydel resources by Pakistan, it was forced to tilt towards the expensive power generation through the use of expensive fuels like high speed diesel, imported coal and LNG, etc. Further, a number of incentives are required to be offered in order to attract private investment in Pakistan's power sector.

Being an import based economy, almost 85% of the power sector project cost is of imported machinery, equipment and services of technical experts.

To attract investments in power sector, particularly in power transmission sub-sector, further incentives/additional securities are required.

Higher interest rate with minimum barriers to flow of capital, other things being equal, could be beneficial for an economy in the form of inflow of foreign capital that helps a country in improving its balance of payment while pushing current account balance to the favourable position thereby having a strengthening impact on the local currency. In other words, a country with a rising current account deficit will need progressively higher interest rates to fund that deficit and that the higher interest rates across the economy will eventually slow down the growth in aggregate demand and thus correct the tendency towards deficit on the current account. However, this would be beneficial if barriers to the flow of capital are minimal otherwise, the desired results might not be achieved by this strategy. For a country, like Pakistan, where the economy is progressing at the lowest growth rate in South Asia and with such high economic volatility, the marginal propensity of investors to invest is very low. Therefore, increasing interest rate for inducing investors to invest in Pakistan along with strengthening fiscal and monetary policy might not achieve the desired results.

In context of the power sector of Pakistan, the increasing interest rates and US dollar to Pak rupee parity have multiple adverse effects on it. The tariff in the power sector has been envisaged under two-part tariff scheme, i.e. Energy Purchase Price (EPP) and Capacity Purchase Price (CPP). EPP, that includes fuel expense and variable operational and maintenance cost, is primarily paid to the company for the actual production and delivery of electricity to the national grid, while on the other hand, CPP is a fixed cost (debt servicing, insurance, fixed operational and maintenance cost and working capital financing cost) reimbursed to the company for the establishment, maintenance and keeping the power plant facility along with a certain percentage of return on equity invested by the investor. In other words, all the actual variable and fixed cost incurred by the IPPs in production and the deliverance of electricity is reimbursed along with certain percentage of guaranteed return over the equity invested therein.

Being an import based economy, almost 85% of the project cost is the cost of imported machinery, equipment and services of technical experts. National Electric Power Regulatory Authority (NEPRA) determines the project cost in US dollars and convert it into Pak rupees at the reference exchange rate that is the rate at the date of tariff determination and all the exchange losses thereafter till construction completion becomes part of project cost. Therefore, any excess cost incurred by investor on account of variation in exchange rate during the construction of power project becomes part of total project cost. With increasing total project cost, the amount of financing in rupee term for the project would automatically increase along with the equity investment amount in rupee term. This is due to regulatory restrictions, for the purposes of tariff, the amount of equity and debt is to be assumed in a ratio of 20%-30% equity and 70%-80% debt. Further, all the exchange rate differences between the date of the initial tariff (determined before start of construction) and tried up tariff that is determined at or about the commercial operation date of plant (after completion of construction) is capitalised as project cost and debt amount is calculated accordingly on project cost determined in tried up tariff. It is pertinent to mention here that all the cost of borrowing incurred by the IPPs is reimbursed to it over the life of the project financing. In case of local lending, it is indexed to Karachi Inter Bank Offer Rate (KIBOR) and in case of foreign lending it is indexed to Lahore Inter Bank Offer Rate (LIBOR) and any variation in US dollar to Pak rupee exchange rate volatility.

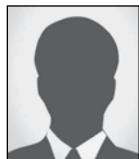
Therefore, any increase in interest rate and adverse exchange rate variation have direct incremental impact on tariff.

Further, investors are offered dollar based guaranteed return over equity investment, however paid to investor in Pak rupee, on their equity investment ranging from 15% -20%. In order to keep the dollar based return intact, any adverse variation in US dollar to Pak rupee is reimbursed to the IPPs thereby also a contributing factor in increasing tariff. Additionally, all local components of the tariff are indexed to local inflation and all the foreign components of tariff are indexed to US inflation and exchange rate. Therefore, any increase in interest rate and exchange rate has a direct impact on tariff.

With the circular debt mounting up due to the higher power generation costs owing to expensive fuel mix, increasing interest rates and weakening of Pak rupee against the US dollar and lack of timely payments by power purchaser, the IPPs' are relying heavily on working capital facilities to finance the daily operations of power complex. The aggravating circular debt issue has compelled the IPPs to finance the operations by utilising the maximum limit of working capital facilities available to them, thereby rendering them unable to finance it from further available resources. This situation coupled with higher working capital finance cost due to higher borrowing and increased interest rates is jeopardising IPPs that might lead to default under the relevant concession agreements. Further, if power purchaser is unable to make payments to IPPs within the due dates as agreed in respective power purchase agreement, then for each day after the due date the power purchaser is required to pay an outstanding balance a specific delay payment rate, the benchmark of which is KIBOR plus agreed spread. Hence, any increase in interest rate would further burden the already cash starved power purchaser in meeting its payment obligations.

The ever increasing circular debt due to high tariffs and inefficient power distribution system is creating resentment among the investors to invest further in the sector. Further, owing to volatility of Pakistan economy, it's hurdle rate is highest among the South Asian countries. So, to attract further investment in power sector, particularly in power transmission sub-sector, further incentives/additional securities are required to be provided to investor that includes, but not limited to, providing revolving account arrangement to guarantee payment obligations of power purchaser in addition to sovereign guarantee. All these measures would ultimately lead to a further increase in tariff and also contribute to increase in the contingent liability of the government of Pakistan.

The electricity is the prime factor of production for any business and for any economy. However, SMEs are particularly assumed to be the backbone of economy. Any increase in the cost or interrupted supply of electricity has a detrimental impact on their growth. The alternative to grid power is through the use of generators whose operational costs are very high. All businesses are impacted due to higher electricity costs and interrupted the supply. This in the larger context, hinders in GDP growth and ultimately renders the country's products uncompetitive in international markets.



*Raja Shahzeb is a Chartered Accountant based in Islamabad.*

The electricity is the prime factor of production for any business and for any economy. However, SMEs are particularly assumed to be backbone of economy.

# Logistics & Business Profitability

Amjad Waqar FCA


Logistic management/effective transport operations management is always a challenge for any company as it plays a fundamental role in business success. It directly relates to customer satisfaction through timely delivery of finished goods/end products, and support business stability through:

- Uniformity and continuation of supply of raw materials and other inputs;
- Sustainability of its operations;
- Preserving the minimum level of inventory;
- Quality assurance; and
- Maintaining the profitability of the company.





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Accordingly, managing logistics/transportation cost is one of the most significant elements in managing sales and procurement operations.

With regard to product costing and determining the selling price, again logistics cost plays a critical role. To remain competitive in the market and increase sales volume, the company has to manage/reduce its logistics cost. If a company can manage it well, it will not only increase its sales/dispatch (i.e. more volumes) but will also result in increasing the company's profitability, brand image, and market share.

## **Two-way transportation can reduce the logistic cost proportionately.**

The most common use of logistic/transportation medium for goods (raw material, finished goods, spares, etc.) is through road transport i.e. via trucks and trailers.

Based on my experience, I believe that the following measures can help in reducing the logistics cost of any business, if adopted individually or in combination, as per the business dynamics to gain maximum results:

### **Ways to Reduce Logistic Cost of Business**

#### **1. Two-way Transportation**

Two-way transportation can reduce the logistics cost proportionately. If the company is regularly transporting the goods to another city or cities, it needs to find out what it can bring back to its own city. It may be for the trading/sale purpose or can be its own raw material or any other material.

Example: Cement companies operating in the north of Pakistan transporting imported coal from Karachi city (port city) to northern areas and if they can manage, return cargo either in the form of cement (finished goods) or others. In this way, they would be able to reduce their costs in two-way transportation. Some of the companies are already doing it and managing their cost accordingly.

However, companies using specialised transportation like oil tankers, cement bauzers/bulkers, fresh cargo trucks, etc. would have limited access to this option unless, they have clients and supply stations at both ends (like fresh cargo trucks can transport dairy items, fish/seafood, ice creams, fruits/vegetable (local/imported), etc.).

The above can be implemented in alternative means as well.

## 2. Alternate Means of Transportation

To be more competitive, the company has to look at different solutions, may it be for logistics or other areas. One common alternate means of transportation is railways which can be adopted to reduce logistics cost. However, the company needs to put in extra effort to make it viable and be able to deliver goods in a timely manner.

During my stay at a local cement company, I have evaluated this option and with the consent of the concerned authority, our company has started transportation of coal through railways. Though it has reduced the transportation cost, but there were some delays in the delivery timings due to Pakistan Railways internal issues. However, the company has discussed various options with the management of Pakistan Railways to make this a reliable means of transportation of coal for companies manufacturing cement in North Pakistan.

**Learning:** Don't always stick to one transportation medium. Though, the company hasn't incurred any loss due to delay in shipment by railways as it was transporting coal through both mediums, i.e. trucks and railways, simultaneously to avoid/reduce any risk.

## Don't always stick to one transportation medium. Explore an alternative medium simultaneously.

Explore an alternative medium simultaneously. Understand its pros and cons and develop a logistics plan gradually. Keep evaluating and discussing alternative means for improvement.

## 3. Collaboration with Businesses

The company can also reduce its logistics/transportation cost by collaborating with other businesses who may be using alternate means of transportation.

**For example:** If the company is transporting its goods from north to south or vice versa, it can collaborate with other businesses (one or more) who are transporting goods from south to north and negotiate together with transporter for the two-way load. This will eventually reduce logistic/transportation costs for both businesses so a win-win situation for all.

While I was looking after Mozambique grinding unit operations as CFO, the company was exploring and discussing options with the transporter, who was bringing coal to seaport (for export), to take its cement

as back load and the transporter was willing to provide a discounted rate for it.

## 4. Peak/Off-Peak Transportation

Transportation cost varies on a day to day and/or season to season basis, especially transportation through trucks. So, the company needs to understand the dynamics and schedule its logistics arrangement accordingly.

The company may increase its stock levels (of raw materials or others) to effectively cover its requirements without paying additional transportation costs during peak periods.

Like, during holidays (especially long holidays), transportation is expensive. The company needs to prepare a plan for its shipments in advance, i.e. it can either ship the stock in advance and keep the same in a warehouse or ship the stock after the holidays. This may save the company paying the extra cost of transportation during holidays. Similarly, during high demand season, like before Eid-ul-Adha, trucks are mostly in use to transport animals, so the high demand increases the cost of transportation. Therefore, it is important to understand the seasonality factors and plan ahead to reduce logistics costs.

## 5. Own Transportation

Having the company's own fleet can also reduce its logistic/transportation cost. However, to effectively manage the same, the company needs to engage experts who know the ins and outs of the trucking/logistics business and are able to handle maintenance and other issues efficiently.

The option of having its own transportation can only be adopted when the company has a sizeable volume of stock and it can start by covering partial volume (say up to 20%) of its daily logistics/transportation requirements.

While in Mozambique, delivering cement to the company's customers on time was a big challenge and the company needed a large number of trucks from various transporters for delivering cement in Maputo, Mozambique. With an approach to serve the customers better and reduce the costs, the company evaluated several options and decided to start its own fleet with very few trucks, approx. eight. The company purchased used trucks from one of the local transporters and appointed a logistics expert as department head from South Africa to manage this function diligently. That option runs well and now the company is not only able to serve its customers better, but also is able to reduce its cost. The number of trucks subsequently increased and even then, the company was not able to cover 100% of the logistics by itself.

The key is to start/replace slowly, learn the dynamics and grow with your learning.

## 6. Consolidation

Consolidation helps the company to negotiate better. May it be the local transportation/logistic requirement or any other requirement, it helps to lock better rates and receive better service.

Start evaluating the businesses with suppliers, customers, others or competitors and evaluate how it can consolidate the requirements of logistics/transportation and bring the cost down for a win-win situation.

**The key to success is to keep evaluating various options and adopting one or more solutions, which is best suitable for the business as per the business dynamics.**

I remember, when I was serving the company it was effectively working on reducing its cost to transform itself into a profitable company. For cement plant, one of the significant costs is fuel (imported coal), which due to the plant size and effective management of working capital, the company was not able to import and hold the full vessel directly from the vendor. Resultantly, the company was buying limited quantities from local suppliers which were a little pricier than buying the same directly. Similarly, the company was exploring options and at the same time visited few other companies (including cement companies) to consolidate its requirement and buy coal together which not only reduces its purchase cost, but also the shipment cost as well. However, the same was not materialised.

The approach should be a win-win. All parties in consolidation should be receiving benefits of consolidation otherwise this will not work.

## 7. Initiatives/Extra Offer to Transporters

One way to reduce the cost is to serve the transporter better, facilitate them, enable them to make more trips and reduce their waiting time.

While negotiating with various transporters, the company has observed that transporters are charging customers for the time they are spending, including waiting time, which may result due to

delay in loading (the company having long queues at its plant for loading cement) or any other procedural requirements. All these are reflected in the transportation rate, if the company can manage these better, it would be able to reduce its logistics/transportation cost to some extent.

A few examples that can be adopted in this regard:

- Reduce waiting time** at plant/warehouse/station, etc., the company can offer night pick up/early morning pick up of goods from its factory. This will definitely require back end integration at the plant.
- Reduce loading/delivery time** i.e. speed up the loading process.
- Plan locations** with transporters (long routes/short routes, etc.).
- Provide **regular volumes**.
- Packaging optimisation**.
- Be **flexible in return cargo**, especially on the long route.

## 8. New Business Opportunity

In continuation with point 1: Two-way transportation discussed above, a business can also evaluate the possibility of additional/new business lines with the help of return cargo. The easiest one would be a trading business.

Identify the opportunities that exist within the company/factory area/market which can be procured from another side/in-route city and start trading at a small scale to learn the dynamics of the trade and grow with time. The company will definitely be able to compete in business because of its low transportation/logistic cost.

## End Note:

If any of the above solutions make sense for your business, evaluate them further in detail. The key to success is to keep evaluating various options and adopting one or more solutions, which is best suitable as per your business dynamics.

**For New Startups**, the suggestion is to review the logistics critically. For example, if the company's business is based on imports, it needs to be closer to the seaport or alternatively closer to its target customer market, enabling the company to save cost at one end. The company also needs to examine alternate ways to manage its logistics/transportation effectively in advance to be more competitive in the future.



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# Moved Overseas? Fix the Experience Gap to Land a Suitable Job

Sarfraz Nadir FCA



## Foreword

Migration remains a hot topic around the world and many Pakistanis are contemplating this decision for a myriad of reasons. In this piece, I covered challenges faced by the new migrants when they land in a foreign country and how to address them. My research focused on accountants living in Australia but the findings and recommendations can be applied to any other place or profession. The statistics are from a survey conducted of professional accountants from Pakistan based in Australia. The support of Australia Chapter of ICAP members in encouraging members to respond is gratefully acknowledged. The survey (now closed) can be accessed at the following link: (<https://www.surveymonkey.com/r/35SZGXX>).

The economy and prosperity of most developed economies are largely built on the diligence, work ethic and values of its migrant community. In fact, it is one of the main reasons behind the United States' continued

global dominance over the last 50 years. Other nations have also embraced migrants but the approach and intent has been different: from the 17th century until the start of the 20th century, European nations mobilised large populations from their colonies mainly as slave labour and foot soldiers. These forced migrations ensured that ties between (former) masters and colonies endured long after independence. Unfortunately, migrant communities in many countries were neither able to proportionately contribute to national economic prosperity nor their own. This was probably due to the historical bias and oppression that sidelined these groups from the mainstream population and may even be prevalent today.

Fortunately, outcomes for migrants in USA, Canada and Australia are much better today as these countries continue to have in place structured schemes to attract skilled, talented and highly qualified individuals to their shores. Many other nations have similar programs but these are either very small in scale or have more

stringent qualifying criteria. Canada and Australia have a further advantage in that they have comparatively small populations, large landmass and natural resources –factors that have resulted in sustained economic growth which could not be powered by the local talent pool alone. Both nations continue to welcome migrants in big numbers (190,000 planned in 2018-19 for Australia and over 330,000 for Canada in 2019) of which Pakistanis form a significant minority estimated at between 2.5 – 3.5%.

**ICAP has an excellent arrangement with Chartered Accountants Australia and New Zealand (CA ANZ) which allows ICAP members to attain full CA ANZ membership by participating in an International Pathway Program which takes place 3-4 times a year and lasts a few days.**

However, one learns through painful experience that our education, skills and experience are not as highly regarded elsewhere as they are at home. This is true of most professions and we all have heard stories of highly qualified and competent friends or relatives who migrated but struggled initially to get a decent job. A study of migrants to Canada noted there was a wage gap of up to 35% between migrants and Canadian born having similar qualifications. People burn through their life savings or end up working far below their level of competence and experience. Many get disheartened and come back after a few months. It can be a soul-crushing experience.

## 1. The Experience Gap

It could be claimed that much of the first world's economic success is built on the back of low-cost migrant labour. There is an unwritten initiation period for most new arrivals during which they gradually get assimilated into the workforce and society, initially finding employment in entry-level roles despite having superior credentials. This was the case a hundred years ago and is in play today, except that these days the focus has shifted from blue to white collar workers.

Skilled migrants are referred to as such because they have the right academic or professional qualifications which are in demand in the host country and theoretically should get a relevant job soon after arrival. However, the reality is that

when these newcomers apply for local jobs matching their profile they rarely get considered. The main reason for this omission is their lack of local experience and know-how. In fact, given the option, many employers would prefer a lesser qualified candidate with local experience than someone who is highly qualified but lacks verifiable local experience. I refer to this phenomenon as experience gap which is primarily driven by what the customer (i.e. local employer) wants. Australians are proud of their history, culture, values and lifestyle and employers want to bring in talent that can integrate quickly and seamlessly with the rest of the team. Many will tell you that it is more important to bring in the 'right' candidate than someone who simply knows how to do the job right.

Unfortunately for migrants, this lack of local experience is a classic Catch 22 situation: in order to get local experience, one needs to get hired!

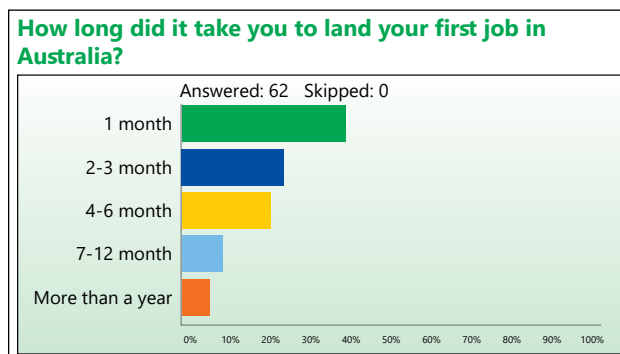
After numerous chats with the hiring managers, fellow professionals, friends and recruiters, I have concluded that this gap is caused by following traits missing from the repertoire of newly-landed candidates:

- Limited knowledge or application of local reporting, listing, tax, prudential, securities and other regulations.
- No experience of supervising local staff.
- Insufficient communication and presentation skills required for the role.
- Lack of awareness of local office culture, lingo, social norms and other nuances.

## 2. The Survey

A survey titled "How have professional accountants fared after moving to Australia" was shared with Pakistani accountants based in Australia. Of the 120+ respondents approached (including non ICAP members), over 50% completed the 16-question survey, the key takeaways of which are as follows:

- Almost two-thirds of the respondents landed their first job in Australia within 3 months of arriving. Refer chart below:
- More than half of those who completed the survey had post qualification experience of 10+ years, as illustrated in the following table:



### What is your post qualification experience?

Answered: 62 Skipped: 0

ANSWER CHOICES	RESPONSES	
0-5 years	6.45%	4
6-10 years	32.26%	20
11-15 years	27.42%	17
More than 15 years	33.87%	21
<b>Total</b>		<b>62</b>

- Local contacts & referrals, English language & communications skills and relevant prior experience were listed by the majority as the main factors that helped them get their first job.
- Typically, the first job was 2 management levels below the member's previously held job outside Australia.

### In terms of seniority or organisational hierarchy, was your first Australian Job:

Answered: 62 Skipped: 0

ANSWER CHOICES	RESPONSES	
At the same level as your last-held job?	12.90%	8
At a higher level as compared to your last-held job?	4.84%	3
One level below your last-held job?	32.26%	20
Two level below your last-held job?	50.00%	31
<b>Total</b>		<b>62</b>

- Not surprisingly, the average starting salary of members for their first job was estimated to be 30-50% below the salary for similarly experienced local candidates.

The detailed survey response report is currently being analysed and will hopefully provide aspiring migrants a checklist of what to do and expect, who to get in touch with and the resources to set aside before leaving the motherland.

### 3. How can we become more employable?

For obvious reasons, it is not possible to fully address all gaps identified in section 1 but I have discussed them one by one.

#### Local laws, rules and regulations

You can partially bridge this gap by pursuing a local qualification or even completing a few courses. Its best to start your research before arriving and pursue something you can maintain even after you start working as annual membership fees are quite high. ICAP has an excellent arrangement with Chartered Accountants Australia and New Zealand (CA ANZ) which allows ICAP members to attain full CA ANZ membership by participating in an International Pathway Programme which takes place 3-4 times a year and lasts a few days. Admittedly, attaining membership this way does not automatically make you an expert in local tax and laws. However, it does help tick a vital box for most recruiters whose clients insist on candidates having a local qualification.

#### Supervising local staff

This is considered essential for taking on local managerial roles and unfortunately, there is no way around it if you're fresh off the boat. If you work for a multinational organisation, it may be possible to leverage your managerial experience in one country for a transfer at the same level in your organisation's Australian operations. However, due to high labour costs, organisation structures in the developed world are much flatter which may mean that even managerial roles have limited to none direct reports.

## Tailor your CV to a format that local employers and recruiters are familiar with.

#### Insufficient communication skills

This is more of a perception issue than anything else and will gradually be addressed as more accountants and other professionals from Pakistan make their way here. Local employers and recruiters alike are pleasantly surprised with our English language skills. This is thanks in no small part to ICAP's efforts whereby the syllabus has been continuously updated and upgraded. Those interested in further honing their skills can benefit from ICAP's association with Toastmasters International.

#### Local office culture, lingo and norms

Another tough nut to crack because this knowledge only develops over time. If you previously worked at a subsidiary of a well-known Australian multinational company, worked with Aussie colleagues or have been employed outside Pakistan before, it can give the hiring manager some comfort that you can adapt in a multinational and multicultural workplace. Be sure to highlight overseas stints (including short term assignments/secondments and courses) prominently in your application and CV.

## Other points

Given that a job is the first step towards financial stability for most, it is possible for us to get consumed by this single mission and ignore other equally important tasks that will complement the primary goal. Most are simple life hacks that just need a bit of discipline and focus to execute successfully.

- Sort out your personal and administrative affairs first. Driving licence, rental agreement, kids' schooling, social security, purchase of appliances, utilities need to be in place before you start looking. You won't have much time to do this after you re-join the workforce.
- Have a routine and adhere to it. This may involve checking for new vacancies every day, following up with job posters, appearing in interviews and closing out the administrative work identified in the above point. A routine will provide structure to your day and give you things to look forward to every day.
- Network with friends, former colleagues and family members who are based in Australia. They are your best bet for getting the first break, as confirmed in our survey. So ditch that ego, forego past rivalries and grievances and make that call.
- Count the small accomplishments: an interview call, a face to face meeting, passed driving test or an updated CV. These will keep you motivated.

## Prepare for interviews. Research people and companies. It is essential to demonstrate your 'hands-on' experience and capabilities.

- Assess local 'businesswear' trends and try to incorporate them into your wardrobe without breaking the bank. In order to get a local job, you should also look like a local! That may require you to ditch those double-breasted suits you wore at your wedding. You can never be underdressed (or late) for a job interview.
- Most resumes are screened using Applicant Tracking Software (ATS) or similar programs. Do some research over the 'buzz words' in play (mentioned in all job postings) and find a way to logically include them in your CV.
- Tailor your CV to a format that local employers and recruiters are familiar with. That basically means keep it short (3 pages max), dedicating more space to your last 2 roles and clearly identify your key career highlights. Given the smaller market size of Australia, it is very common for finance managers in Pakistan to also be looking after tax, reporting, treasury and non-finance functions like IT, procurement and administration. This

is very rare in Australia and one may consider removing the 'extras' from their CV as they can end up confusing local recruiters over what job you are actually suited for.

- An online presence is essential as that is how recruiters search for candidates. There are numerous options available such as LinkedIn, Seek, Jora, Indeed or Monster. Ensure that your profile/CV is consistent across all portals.

## Maintain a positive attitude and surround yourself with people who support and motivate you. Have faith in yourself, the system and the laws of statistics.

- Prepare for interviews. Research people and companies. During an interview, keep your responses short and to the point and if you don't know the answer to a question, be upfront about it. Since most of the Australian will initially be interviewing for non-managerial roles, it is essential for you to demonstrate your 'hands-on' experience and capabilities. Reputation and integrity are paramount so don't get caught out making statements that you cannot substantiate when cross examined.
- Look after yourself: Incorporate fitness and wellness into your schedule and maintain a pace that you can stick to even after starting work. All the success, growth, wealth and mobility are of no use if you cannot enjoy them properly.
- Remember, this time may not come back. Once you get hired (and most will get hired within three months), you will look back with fondness at this free time. Make the most of it. Take care of yourself, spend more time with the family (they too have made the huge transition with you), do touristy things, reconnect with friends based here, etc.

Above all, maintain a positive attitude and surround yourself with people who support and motivate you. Have faith in yourself, the system and the laws of statistics. You're here because this country needs your skills and sooner or later, you will get that break.

Till then, you just have to keep going.



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# Hobbies – An Alternative Profession

Danish Akbar ACA

## A Question

Having lunch on a fine winter morning amongst a few colleagues, a topic was introduced for discussion. A question was asked: "What if you weren't an accountant and if you were to follow your dreams, which profession would you have chosen?" Indeed, it was food for thought and everyone thought of their passions and hobbies; their most favourite thing in life. "Psychologist... hotel tycoon... film producer... businessman... astrophysicist", these were the answers which poured in from the table. The discussion drifted towards why the participants were drawn towards such professions. To some, it was what they loved to do. To others, it was a significant upgrade in lifestyle. But the most important aspect was, "How they ended up as an accountant."







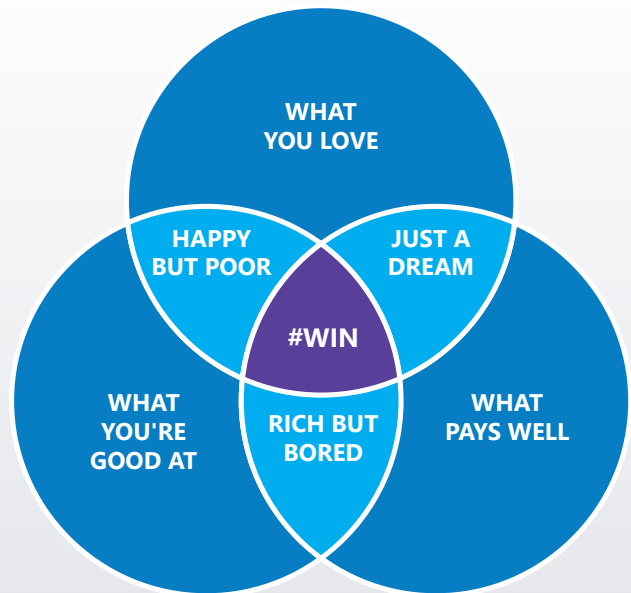
## A Choice

In the early stages of life, humans tend to be very creative and full of energy. You would see children speaking with excitement about what they want to be as an adult. "I want to be a scientist" used to be my answer when I was a child. But the process of selecting a profession isn't that simple. It is in fact moulded by the opportunities you get, the passion you have, and of course, the aspirations of your family. Whether you end up becoming a doctor like your mother wanted, or a chartered accountant, the choice of your profession determines the course of your life.

**In the early stages of life, humans tend to be very creative and full of energy.**

So what is the ideal profession for a person? I happened to stumble upon this amazing Venn diagram from a person named Eskimon on wordpress, which answers our question in a very simple and effective manner.

According to this concept, we are supposed to have a triangular perspective towards the selection of our profession. The three viewpoints are: Passion, Strength and Rewards.



Passion is defined as something you really love to work on. A fascination on which you might not have had any experience at all. Entrepreneurial mindset follows this dimension very closely. They tend to be risk takers and enthusiasts. Unless they are able to find a perfect blend of their cognitive strengths and the financial payback, they end up either earning less or following a dream which never materialises.

Strengths require an in-depth self-assessment process to be identified. Once recognised, they can be exploited perfectly to assist you in achieving your dream job. However, if you drift away from your passion and choose a profession for merely its reward capabilities, you might be financially happy but emotionally discontent. People, who are forced to choose a profession against their will, and because of a parental wish, usually end up being financially stable but bored with their jobs.

**People, who are forced to choose a profession against their will, usually end up being financially stable but bored with their jobs.**

Rewards! Who doesn't think acquisitively these days? To sustain a particular lifestyle and live in this ever-inflating economic world, one is forced to consider the financial aspects of the profession he is about to take. Well, to be honest, most people choose accountancy only because of this reason in Pakistan. It is considered as one of the best rewarding professions in Pakistan. However, it is a very dangerous approach to look only through this filter lens. If you end up drifting away from your skills, the vicious whirlpool of your choice might send you struggling to achieve your goal.

**To sustain a particular lifestyle and live in this ever-inflating economic world, one is forced to consider the financial aspects of the profession he is about to take.**

The triad approach, if applied correctly, lands you in a profession you are built for. Obviously, that would mean that you are well-equipped, well-motivated and well-paid for your job.

### **An Alternative Profession**

Realistically speaking, however, a very few of us land in the middle of the Venn diagram and become fully content with our profession. Most of us are positioned away from the centre due to the centrifugal forces of opportunities and luck. But we continue our loyalty

towards our choice and stick to whichever decision fate has made for us.

In my examination of most of us accountants, I realised that after entering the professional world, we tend to dampen away our heart's desires or hereafter called 'Alternative Professions.' Our passion jobs become just an unfulfilled wish and are even deprived of the status of being kept as hobbies. But there are quite a few who don't forget to take time out for their interests. Strange as it may seem, I know CAs who still look into the equations for rocket propulsion, those who read books by Sigmund Freud on psychoanalysis, who cover events as a professional photographer and who continue to be a brand model in their leisure time.

**You actually have something to spend your free time on; something that you truly value, and who knows? Maybe one day, this talent becomes an augmentation to your main profession or personal development in a life-changing manner.**

In my opinion, our alternative professions need not be necessarily adopted by us on a full-time basis, but we can surely carry them alongside our main professions as hobbies. This keeps our heart lively, our spirits high and our passion to work wonders. This helps us to be multi-talented and multi-skilled in life. You actually have something to spend your free time on; something that you truly value, and who knows? Maybe one day, this talent becomes an augmentation to our main profession or personal development in a life-changing manner. You could end up making amazing photographic coverage of your organisational trip to the mountains. Better yet, if fate favours us, we could end up adopting them as a full-time profession; the fulfilment of our dreams.



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Syed Imtiaz Abbas Hussain FCA

**B**efore we discuss conventional insurance and Takaful, which is Islamic insurance, generally people who just avoid insurance or Takaful say they have put their trust in Allah (Allah tawwakal), and that if some misfortune befalls them, their relatives and friends will fill the begging bowl. So it's necessary to clarify their misconception in the light of from the

following verses of Qur'an and Hadith. Allah (SWT) does not like begging and allows future planning in the shape of storage, savings, etc. To fact, insurance/Takaful is not to protect a person from death but to provide financial protection to his/her family in case regular income is stopped due to bread earner's death, disability or disease.

- Hazrat Yusuf (ES) interpreted the dream of a king saying: "You will grow crops for seven years consecutively. So, what you have harvested, leave it in its ear (bunch), except a little which you eat. Then seven hard years shall come after that, which shall eat up what you have stored for them, except a little which you preserve (to sow)."  
– Verses 46-49, 12 Surah Yusuf.
- Allah made Hazrat Essa a messenger to Israel, who said: "I have come to you with a sign from your Lord, that is, I create for you from clay something in the shape of a bird, then I blow in it, and it becomes a living bird by the will of Allah; and I cure the born-blind and the leper, and I cause the dead to become alive by the will of Allah; and I inform you of what you eat and what you store in your homes. In this there is surely a sign for you, if you are (truly) believers."  
– Verse 49, 3 Surah Al Imran.
- Hazrat Anas ibn Malik narrated: A man said, "O Messenger of Allah, should I tie my camel and trust in Allah, or should I leave her untied and trust in Allah?" The Messenger of Allah, PBUH said, "Tie her and trust in Allah."  
– Sunan al-Tirmidhi 2517.
- "Hajj is to be performed in the months that are well-known... Take provisions along, for the merit of (having) provision is to abstain (from begging), and fear Me, O men of understanding."  
– Verse 197, 2 Surah Al Baqarah.

Islam says that if a Muslim family faces problems, it is the responsibility of other Muslims to support this family financially in such a way that they can live with respect. But unfortunately we Muslims are not doing so. Irregular charity and zakat do not serve this continuous purpose.

The foundation of Takaful is based on the concept of mutual insurance. For example, there are 100,000 families living in a village/society out of which 1000 families become face financial affiliates every year. The families decide to contribute money as per their status to a fund pool with the intention to use it to support financially such unfortunate families.

Muslim scholars do not agree with the concept of mutual insurance and give acceptance to Takaful, which is strictly Islamic shariah complied as it eliminates weaknesses of conventional insurance as discussed below:

## 1. Risk Transfer

Under conventional insurance, which is a bilateral contract, risk is transferred from the policyholder (the insured) to the insurance company (the insurer) in consideration for the 'insurance premium' paid by the insured. Takaful, on the other hand, is unilateral contract and is based on mutuality, hence, the risk is not transferred but shared by the participants, who form a common pool. In Takaful, the

company acts only as the manager of the pool (Takaful operator).

## 2. Gharrar

Muslim scholars believe that conventional insurance contains the uncertainty element (gharrar) which is forbidden in Islam. There is an uncertainty as to when any loss would occur and how much compensation would be payable. Under the Takaful arrangement, the element of uncertainty is brought down to acceptable levels under Shariah by making contributions as 'conditional donations' (tabarru) for a good cause to mitigate the loss suffered by any one of the participants.

## 3. Maysir

Muslims also believe that conventional insurance contains some elements of gambling (maysir) wherein a policyholder (insured) pays an amount (premium) to expect gain (compensation/payment against claim). If the anticipated loss (claim) does not occur, the policyholder loses the amount paid as premium. If the loss does occur, the insurance company (insurer) loses a bigger amount than what was collected as premium and the policyholder gains. In gambling, one party gains with same amount what the other party loses. However, when it comes to Takaful, the participant pays the contribution (tabarru) in the spirit of *ne'ea* (purity) and brotherhood; hence it obviates the element of maysir as there is only one party that is the participant and the company is just a Takaful operator under Wakalah Waqf arrangement.

## 4. Investment

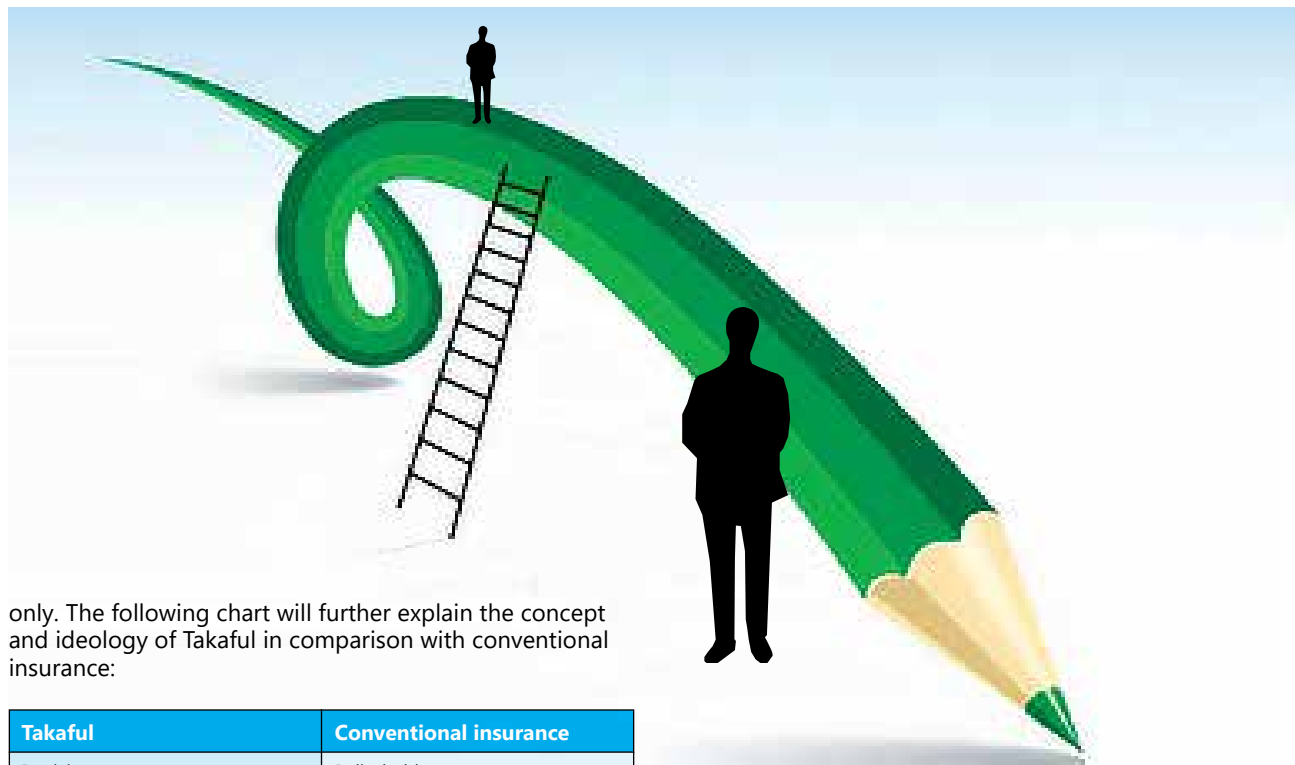
In conventional insurance, funds are mostly invested in fixed interest bearing instruments like government bonds, bank deposits, securities, etc. which are regarded as containing the element of 'riba' (usury) which is forbidden in Islam. With Takaful, however, funds are only invested in non-interest bearing, (riba-free) instruments like Islamic bank, approved equity, Sukuk (Islamic bond), joint venture and business sharing companies, Islamic Real Estate Investment Trust (REIT), etc.

## 5. Profits

Surplus or profit generated by a conventional insurance company belongs to its shareholders. The policyholder (insured) is also covered during the policy period but is not entitled to any return at the end of such period. In Takaful, surplus belongs to the participants and is accordingly returned to them (in proportion to their respective share of contributions) at the end of the accounting period.

## 6. Applicable Laws

Takaful is subject to Shariah law and government law while conventional insurance is subject to government law



only. The following chart will further explain the concept and ideology of Takaful in comparison with conventional insurance:

Takaful	Conventional insurance
Participants	Policyholders
Pay contribution in pool.	Pay premium in insurance company.
Less: Administrative expenses fee to Takaful operator.	Less: Administrative expenses fee to insurance company.
Pool share in investment portfolio, invest in interest free and Islamic shariah complied investments.	Investment portfolio, invest in both interest and non-interest investments.
Less: Pool share for Wakalee fee for investment management to Takaful operator.	Less: Investment management fee to insurance company.
Add: Profits from investments.	Add: Profits from investments.
Less: Payment from investment portfolio for maturity or surrender (or death/accident as per terms and conditions) to participants.	Less: Payment from investment portfolio for maturity or surrender (or death/accident as per terms and condition) to policyholders.
Pool share in Participant Waqf Fund (PWF) with seed money.	Policyholders fund, separate from Shareholders Equity.
Less: Payment from PWF on death or accident to participants.	Less: Payment from policyholders fund on death or accident to policyholders.
Less: Pool share for Wakala fee for PWF.	Less: Fund management fee.
Less: PWF carried forward to next year for existing participants based on actuarial calculations.	Less: Policyholders fund carried forward to next year for existing policyholders based on actuarial calculations.
Surplus or profit to participants.	Surplus or profit to shareholders.

To begin with, a Waqf account has to be established by the Takaful operator within the Takaful Fund. To this effect, the operator is required to relinquish some kind of 'seed' money as waqf to generate the said Waqf account. This Waqf account of the Takaful fund will be invested.

There is no zakat on family Takaful Participants Waqf Fund. However, zakat is to be paid on unit value of investments. For general Takaful which deals in assets, theft and disasters, there is no zakat as it is 100% Waqf Fund and element of investment is not there.

**Conclusion:** Takaful is *halal*, which provides barkat and prosperity to families and businesses as it is strictly Islamic Shariah complied and free from riba, gharar and maysir.

In USA and Europe, more than 90% families are insured while in Pakistan less than 10% are insured or Takaful covered. It is need of the hour to create awareness among Pakistani families and businesses to cover their financial risk to mitigate unforeseen losses and hardships and live with peace of mind.



*Syed Imtiaz Abbas Hussain is a Chartered Accountant with 27 years of experience in different capacities - Head of finance & accounts, audit partner, management and business & life assurance/Takaful consultant.*

# The Things You Say

Dania Ehtesham Zahid

**T**he race is about to start, all the athletes are ready, in position, focused on the finish line, eyes narrowed, breathing steadily, muscles flex, body tightens, all sounds are blocked, crowds blur; the only sound the runners are waiting for is the sound of the gun, signaling the start of the race.

In that moment, all the runners are telling themselves one thing, just one thing: you can do it! Don't give up, you will do it, you are the best. A few, for more motivation, might be visualising holding the winner's trophy but that's also a way of telling yourself you can win this. If you ever hear the winner's speech no matter which sport it is, no matter what field of life it is, they all say the same thing, "I kept telling myself..."



This is how the story starts; what do you say to yourself? How do you talk to yourself? Which words echo in your head? Which movie plays in your mind over and over again? We all have an internal map through which we work subconsciously and express ourselves to the world. Our behaviours, our emotions, our efficiency, dreams desires, goals everything is based on the conversations we have with ourselves.

Self-talk is an important leadership skill. According to Erika Anderson, founding partner of Proteus, a firm focused on leadership development and author of three books: *Leading So People Will Follow*, *Being Strategic*, and *Growing Great Employees* says:

“Listening and mastering Self-talk are critical skills for leaders.”

## **Self-talk which is pulling you down is definitely something to be avoided.**

She says, two of the most important skills to have as a leader are listening and managing self-talk. It's a powerful tool to be able to recognise and shift negative self-talk into positive and constructive talk about yourself and your circumstances. It allows you to be in much more control over how you respond to what happens within you and around you.

So, how do you talk to yourself? What story or excuse do you give to justify not showing up or rising to the occasion?

Self-talk which is pulling you down is definitely something to be avoided.

## **The one who deserves the most kindness is 'you.' If you're kind towards yourself, it will radiate outwards and encompass others too, without much effort.**

These are a few ways in which we can become our own best friend through good conversations:

1. **Watch the 'Thinker':** Be mindful of what you are thinking. Most of us are addicted to thinking because that's how we identify ourselves. Remember Descartes, "I think; therefore, I am." I'm sure what Descartes would want to tell us now is having the ability to think just proves we exist and not that we go on overdrive! When you hear a voice in your head talking to you, telling you, you messed up or you could've done something in a better way or you're no good, don't pay much attention to it, try listening to it impartially. Try and free yourself from your mind.

2. **Clarifying Beliefs:** Beliefs are assumptions which we hold as true. They can be limiting or empowering but they determine how we show up in the world and how we interact. For instance, one of the limiting beliefs maybe 'I am not good at meeting deadlines.' Now check, if this belief is justified. Ask yourself this, has there ever been a time in your life when you did meet a deadline (could be a deadline outside of your office/in personal life or college or school)? If yes, then it means it's a limiting belief and you need to rid yourself of it. If, by any chance, it's a belief based on your past experiences, then what you need is a calendar and some discipline!
3. **Stay in the 'Now':** In his book 'The Power of Now,' Eckhart Tolle, German-born spiritual teacher, has beautifully explained the concept of 'now.' He explains that time is a delusion and our mind is trapped in this delusion. It brings about a compulsion to live in either our past or future. We miss the whole point of 'the present' moment. It creates a preoccupation which we find difficult to let go of. An interesting point made in the book is, if you ever find yourself sad or depressed, check your thoughts and they would be of the past. Similarly, if you find yourself stressed, or excited; your thoughts would be of the future. The train of such thoughts leads to unwanted chatter in the mind. Staying in the 'present' is difficult but trying to make a conscious effort will slowly help. A simple way to experience 'Now' is to notice your surroundings, listen to the different sounds around you, smell the air, and notice your breathing. Bring your attention to yourself.
4. **A little kindness goes a long way:** We've always been told to be kind to others, but what about ourselves? The one who deserves the most kindness is 'you.' If you're kind towards yourself, it will radiate outwards and encompass others too, without much effort. Think about all the things you say to yourself. Would you say them to your friend? Would you use the same tone? Talk to yourself as if you would to a friend.
5. **Failure is feedback:** Don't be afraid to make mistakes. You only learn if you make mistakes. There is no such thing as failure, take it as feedback and try doing it better the next time round. Allow yourself to fail/to fall. No one got to the top without falling down a couple of times. Fear of failure stops us from making mistakes and hinders our personal growth. This same fear feeds negative thoughts in our mind. Don't say "I can't do this," technically, you can do anything you want; the question would be, do you want to or not? So, always try saying, "I don't" instead of "I can't."

## Don't be afraid to make mistakes. You only learn if you make mistakes.

6. **Me-time:** Taking a timeout from everything is very important. Unwind yourself mentally and physically. Everyday take some time for you. Choose a time of day where you know no one will disturb you. For successful people, mostly early mornings are their preferred time. Do some exercise or meditate, spend time with you.
7. **Let it out:** Be aware of feeding yourself positive thoughts. One way of ridding yourself from negativity is writing down your negative

thoughts on a paper. This is one way of dissociating yourself from those negative thoughts. They will feel less a part of you once they are out on the paper. Once out on paper, you can then decide how to change these words into something positive, which would hold true for you. Change your 'I can't's' into 'I don't.' Then think, why are they 'I don't' and is there a way to change it into an 'I can'. For example, instead of saying "I can't wake up early in the morning" say, "I don't want to wake up early in the morning." See the shift in perspective after this switch.

## Taking a timeout from everything is very important. Unwind yourself mentally and physically.

Reprogramming your thought processes won't be easy but slowly, steadily and by being mindful of what goes on inside your head, it will change. Once the shift has been made, you'll realise it'll even help in changing lifelong mental patterns; such as being distrustful, making unnecessary negative judgements on people and situations and even with having limiting beliefs about yourself and your capabilities.

As a leader in any organisation, changing your self-talk in a positive way, will help you lead in a better way. It will allow you to be mentally and emotionally available for your team and a high payoff learner who can even thrive through change and along the way support their people to do that too.



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# Talent Retention – Key Factors

Khayam Nasim FCA



## **Flexible working hours improve employees' engagement at work, increase their productivity and enhance their satisfaction.**

**E**“employees don't leave companies, they leave managers.” This is the first lesson a professional is taught when he starts his managerial career. With the passage of time, it is stressed and emphasised repeatedly that it becomes second nature. So, whenever a company faces the challenge to retain employees, all focus is shifted to the behaviour of managers. Several studies show that the major reason for workers to quit a job is a bad supervisor. But is this the only reason? Are there circumstances whereby people leave their jobs despite having ideal bosses or prefer to stay in a company although their supervisors are not good. It's witnessed in some cases that an employee survives a couple of early

years under a bad manager and then becomes a star performer for the company later in his career. It depicts that good supervisors are vital for retaining employees, but it is not the only factor which influences the decision of an employee to leave or stay in a company. There are many other important aspects which a company must consider to make sure that their best talent is not flown to other companies. These are mostly related to the overall organisational environment and governance rather than an individual supervisor.

**Positive culture:** A positive culture must prevail in an organisation. It is essential that any negativity must be

## A positive culture must prevail in an organisation. Any negativity must be controlled immediately and strongly.

controlled immediately and strongly. The management must identify the reason and address it quickly otherwise it could lead to destructive results. These problems could result from bigger challenges like political stretch between different power pillars to smaller issues of having certain employees gossiping and spreading rumours. Don't let a few spoil the culture and impact productivity of others. People should be encouraged and provided with an environment to utilise their energy and time constructively. Unhealthy environment results in unnecessary stress and forces employees to look for opportunities outside the organisation.

**Talent retention in today's world is one of the major challenges for any organisation. High performing employees are the biggest assets for a company and all efforts should be made to reduce their turnover.**

**Freedom for creativity:** William McKnight, a famous business leader, quoted that "if you put fences around people, you get sheep. Give people the room they need." A company's culture should be tolerant enough for peoples' mistakes while trying something new. If the management is extremely critical for mistakes or errors, then they kill the urge for innovation. People want freedom to do things in their way and as long as they are essentially right, any effort to control them within narrow boundaries will eventually make them fly from the company. The management must ensure encouraging behaviour for initiatives and appreciate new ideas.

**Challenge to stretch:** A company should drive willingness amongst the employees for continuous improvement. Set the goals which test the skills of an employee, let them strive to achieve it and enhance their ability to the next level. This should be a continuous cycle. A healthy competitive environment with reasonably challenging goals motivates employees to excel in their careers and bring exceptional results for the company.

**Fairness:** Fair treatment is vital for creating a high-performance atmosphere. People going the extra mile should be rewarded while bad performance should be reflected in evaluations and increments. If this attitude does not prevail, the company would not only carry the extra baggage of low performers but also impact the enthusiasm of others. Recognition and reward systems must be robust enough to incentivise extraordinary performance on one hand while should be able to address performance issues right away on the other.

**Respect and equality:** Employees must be treated with respect and equality. No one should feel preferred or less privileged. Policies must protect the basic rights of each employee irrespective of the position. Bad behaviour and attitude which hurt the self-esteem of employees should not be tolerated. Everyone should have the right to speak and express their concerns. Similarly, all employees should get equal opportunity to perform and excel in their career and there should not be any discrimination.

**Training and development:** Management must focus on individuals' development plans. Employees should be provided with relevant training and skills enhancement programs. Learning is a life long journey. It will be beneficial for both employee and employer if the worker will improve his skills continuously. The company should encourage the learning behaviour amongst all levels of employees.

**A company should drive willingness amongst the employees for continuous improvement.**

**Growth opportunity:** The employee must get a reasonable opportunity to grow. There should be a clear path and set standards for promotion. If an employee has visibility like how he moves up on the ladder and grow professionally and financially, he would plan his long-term career in the company. In order to achieve that goal, he would focus on his performance and would bring the best results for the company.

## Fair treatment is vital for creating a high-performance atmosphere.

**Certainty and stability:** Uncertainty in any organisation impact the overall environment and demotivate employees. It impacts performance, spreads negativity and results in rumours. People are affected by the environment and make up their mind based on perception. As a result, the employee turnover rate increases. Sometime difficult decisions are bound to be taken. In that situation, it must be planned carefully, managed tactfully and executed quickly. As much as it lasts, the performance graph goes down, and people feel stress. As a result, they could start looking for other opportunities. Stability and certainty are byproducts of the broader vision of top leadership and their ability to guide the organisation through tough times.

**Employees must be treated with respect and equality.**

**Right staffing:** Hire the right talent, develop them and let them grow. Hiring the right people (and the right number of people) for the right job should be the fundamental rule of hiring policy. This cannot only avoid the turnover problems at a later stage, but also help the company's growth at a faster pace.



**Competitive remuneration:** A company hardly succeeds in retaining its employees regardless of the excellent environment and leadership if their pay structure is well below the industry par. Good remuneration is a vital, if not the most important, factor for any worker. Be it a manager or labour, competitive package along with a healthy environment ensures the employees' satisfaction.

**Health and wellness facilities:** In addition to remuneration, other perks and allowances including health benefit packages play an important role in employee retention. An attractive medical facility for self and family covering longer range of treatment, reasonable life insurance coverage and vacation policies (sick leaves,

maternity and paternity leaves) can be a vital tool to manage employee turnover. Some organisations also provide child care services (in-house daycare) for toddlers. This is an emerging concept in the corporate world, and most employees consider it an attractive facility.

**Flexible working hour:** It is a proven fact that flexible working hours improve employees' engagement at work, increase their productivity and enhance their satisfaction. It allows work life blending and integration. People can manage any personal emergency and other essential work during working hours while they remain connected and handle their official tasks during off hours.

**Management must focus on individuals' development plans.**

**Effective communication:** It is important that employees should trust their management. The high level of trust and confidence makes employees feel secure and increases their performance. Clear and transparent communication is the key to achieve in that level. It drives from top to bottom and a part of the healthy culture. Good employee communication process makes them feel a part of the organisation and motivates them to work towards a common goal together.

To conclude, talent retention in today's world is one of the major challenges for any organisation. High performing employees are the biggest assets for a company and all efforts should be made to reduce their turnover. A satisfied and motivated employee not only boosts his own productivity but also drives energy and positivity in the organisation. I don't disagree with HR gurus when they say that people join companies but leave supervisors. A manager's role is most crucial and there is no second opinion about it. However, I tend to emphasise that it is also important to consider additional factors and manage them effectively across the organisation. Otherwise, excellent managers alone cannot achieve the objective of retaining best talent.



*Khayam Nasim is a Chartered Accountant working as Finance Manager in a multinational company.*



# Purpose Over Profit

Zainab Asif

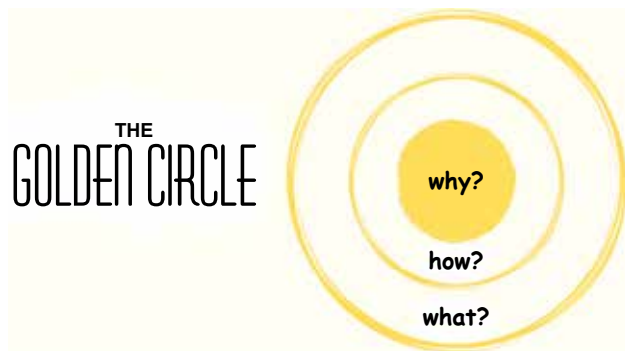
**W**hen you think about what purpose a company or organisation has, it is usual to think that making profit is the purpose. Although, it is the reality of many companies and organisations operating today. The purpose of an organisation should be unique to each organisation and not profit making alone.

Think about waking up each day with a job you're not passionate about, but that earns you a decent salary. You could do so much with the resources you have but would you be satisfied? For how long would you be able to wake up excited and motivated? Not for long. What

you would be lacking is the purpose, the purpose behind doing the job, the purpose to go forth with gusto and the purpose to persevere. Organisations are a lot like the individuals that work for it. A purpose-driven organisation has a reason to be. Imagine being part of an organisation where you're told, "We have to reach our profit target of X million Rupees." You might get a pay rise on achieving the profit target, but would you be motivated? Now imagine an organisation where you're told, "You're part of this movement/you're a changemaker." Your perception about yourself would change as you would see yourself as an empowered and a motivated individual. You would start loving more what you do.

In the business world, many organisations define their purpose based on the marketplace or their perceived competitors. Due to this thirst for high numbers, many organisations fail to reach their potential and sustained growth. If profit or the marketplace or your perceived competitors are your basis for defining your purpose, then you may end up forming an organisation that duplicates what other organisation does and due to the element or risk involved, you might not be able to gain a firm footing in the market. Profit and other financial measures are not a good guide in developing a product or strategy, nor do they inspire employees or enhance customer loyalty.

So, what is this 'Purpose'? In order to gain a more coherent image of what purpose is, let's take a look at the diagram below which Simon Sinek, British-American author, calls 'The Golden Circle.'



What? – this is what the organisation is. Whether it is a petroleum company or a marketing agency.

How? – this is how the organisation carries out its operations. It entails all the wheels that turn to operate that organisation.

Why? – this is the purpose of the organisation, which many organisations perceive to be profit.

Now, before I dive in further detail, this Golden Circle applies to people and organisations. Simon Sinek in his TED Talk said that the most influential leaders and the most successful organisations, do not start with 'What?' Instead, they start from the core. 'Why they want to do something?' or 'Why does an organisation exist?' and then proceed to 'How?' and then 'What?'

According to Aaron Hurst, founder of Imperative, 42% of non-purpose led companies have shown a drop in revenue while 85% of purpose led companies have shown positive growth. Why is this? In an article with the Harvard Business Review, Simon said, "Profit isn't a purpose. It's a result. To have purpose means the things we do are of real value to others." Here's the thing, companies that operate with purposes of making others' lives easier tend to make profit

as they satisfy a need or want such as convenience, unlike companies that only strive to make profit.

The following table mentioned that companies that are purpose-driven value their customers and hence are able to make more profits.

Features	Profit Focus	Purpose Focus
<b>Sales Narrative</b>	I need to meet my quota. I'm here to close the deal.	I am here to add value, Customer-Impact is our endgame.
<b>Marketing Messaging</b>	I need to get the attention of potential customers.	I want to show customers how their lives will be different after doing business with us.
<b>Leadership</b>	We need to improve the bottom line.	We need to deliver better results for our clients.
<b>Customer Service</b>	I help customers & solve problems.	I help our customers to be successful.
<b>Operations</b>	I enable the business to function.	I improve our clients' businesses and lives.

Furthermore, purpose-driven companies have a higher level of employee satisfaction and motivation with a purpose that differentiates them from the competition.

Businesses that value long-term positive impacts over short-term profits have been able to generate profits and withstand shifts in the economy as they are based on a purpose (that differentiates them from others) rather than profits. Such organisations are able to do so due to the positive implications of purpose-driven organisations on their employees and the consumers. As this philosophy of purpose over profit permeates the business environment, if it is adopted by organisations, the potential to improve the world is limitless.



Zainab Asif is an entrepreneur.



# Debate

## The power of negative thinking



**Shiraz Noordin, FCA**  
USA

Negative thinking has no power at all. It consumes your mind, tarnishes your attitude, and lures you into a vicious cycle of self-doubt and underestimating yourself and your abilities. Do a simple search on google for quotes and/or scientific studies arguing for the power of optimism and positive thinking and you will see for yourself why positive thinking is better than negative thinking. Additionally, negative thinking has been linked

to anxiety and depression, which can have serious mental and physical consequences. So, it is simple that either we can let the negative thoughts consume us to the point of mental paralysis and depression or we can choose to take away the power from these negative thoughts and instead choose to focus on positive thinking, change our attitude, and subsequently gain mental and physical benefits along the way. According to an American author Norman Vincent Peale, "There is a basic law that like attracts like. Negative thinking definitely attracts negative results. Conversely, if a person habitually thinks optimistically and hopefully, his positive thinking sets in motion creative forces and success instead of eluding him flows toward him."



**Danish Akbar, ACA**  
Islamabad

Pessimism has long been one of the defining aspects of human nature. You look around and find out that people are often strong critics towards the events which engulf them. Similarly, when you look towards the published or social media, you would realise that bad news spreads like wildfire, while positive notes are relatively like an underdog amongst people. That's the power of negativity; Sale-ability, Swiftiness and Attractiveness.

Instead of talking about negativity, I would like to highlight an interesting effect it has on other people. Experience quotes that while negative thinking takes you down, it brings down others along with you as well - the neutral ones. But an amazing aspect I've seen, is that it has quite an opposite effect on the optimists. Such people receive more strength and all the more reason to be positive towards life. Debating with pessimists, they tend to reinforce their positive beliefs even more. Listening to the other side of the story, they realise that they can appreciate life, its blessings and the one who bestowed them on him. It's rare seeing a pessimist turn to an optimist or vice versa, but a clash between them has often resulted in strengthening of their individual beliefs. And for me, it's a blessing that I'm on the sunny side of the hill.



**Izz Ghanaa Ansari, ACA**  
Islamabad

How many times have you seen a minor mistake in work or exam transform into a doomsday monster in your mind, before someone breaks your reverie and says, "Oh, stop overthinking!" Why is it that whenever we supposedly over think, we are usually thinking about the negative consequences of a particular event?

And this, unfortunately, is the greatest power that negative thinking wields – the power of being easy and convenient to carry. It takes conscious and continued effort to focus on the positive, because the feeling of 'fear' is always more overpowering than 'hope.' This is also one of the reasons why you come across a higher percentage of people who are more vocal to criticism but less expressive to appreciation. It goes without saying that excessive negative thinking can wreak havoc in our lives. However, at times, only if we can maintain the precarious balance between 'prudent' negative thinking and 'excessive' negative thinking, it can actually galvanise us into action.



**Muhammad Faizan, ACA**  
Karachi

Positive or negative thinking is a state of mind, in fact, negative conception can be resembled with smart thinking. It's a way of how one perceives and reacts to it. It is not under the control of any human being, however, one can transform negative thoughts into a positive attitude by recognising the fundamental solutions to the situations that may ascend if those probable negative visualisation substantiates to be certain. Negative thinking shall not be taken as an impediment that may come across towards the attainment of goals, but a pathway towards success and a tool to evaluate the state of affairs more critically with deleterious mind. At the same time, too much destructive thoughts can lead a person towards depression or apprehension which would alter his or her state of mind. It's true that a person shall always have a constructive approach but at the same time, one should contemplate the influence of the situations that may ascend if the actual execution does not go as premeditated which can merely be evaluated with a negative visualisation. Balanced approach needs to be followed bearing in mind both sides of the coin, positive as well as negative to be a factual critic for one's own self.



**Muhammad Fahad, ACA**  
Karachi

For me, the most powerful thing in this world is negativity as it will destroy a person, a community, a society or anyone because once a negative thought comes in your mind it will wipe out every positive thought. Thus, everything done afterwards will be done on the basis of that negativity and will result in poor performance, poor behaviour and poor outcome of the process.

In the corporate world, while making strategies, it should be made very clear down the line that there would be no negative thinking while implementation of it in the organisation as if it is implemented with even 1% of uncertainty or negativity, results will not be achieved as expected.

Our brain is a superlative form of the computer that does not sleep and keeps on making equations and processes 24/7, but it should not be clouded with negative thinking.



**Sarfraz Nadir, FCA**  
Australia

There is no power in a thought that focuses on finding the worst in every situation. Thankfully, the eternal optimist in me prefers to use the term 'skeptical thinking.' As accountants and auditors, we are required to employ professional skepticism in our work which also permeates into our personal lives. It means we do not accept the status quo, ask the right questions and speak out when it is most needed. Such a positive approach to negative thinking ensures generation of great ideas and their realistic implementation.



**Syed Muzahir H. Kazmi, ACA**  
Lahore

We, humans, know about the good and the evil and we can easily differentiate it in our daily lives. Negative thinking is a trait we possess as an instinct; which we freely utilise and its outcome decides whether it is wrong or right. Its power can be judged by the mere fact that it is 'anti' of positive thinking and without it, we cannot judge positive thinking. Our curiosity may lead us to doubts, which may lead us towards knowing the reality. A well-structured negative thought process can build a better scenario about 'what could go wrong.' Obviously, it is better that the awareness of the worst is expected to counter it more effectively than in case worst is taken for granted. On the other side, if we let our mind free to think negative, we will ultimately face a series of bad decisions. Therefore, the power of negative thinking can only be utilised optimally, if it is in a controlled manner.



**Muhammad Tabish Anjum, ACA**  
Karachi

To be a productive and dynamic Muslim, it is necessary that we inculcate a mindset of positivity. A mindset of positivity leads towards increase in beliefs on Allah Almighty and eventually creates a strong bonding with Him. In contrast, if we remain negative and self-loathing, having no hope than that power of negative thinking becomes strong and directs us towards shirk and hopelessness.

Negative thoughts and depression are like birds. We cannot stop them from flying near us but, we can stop them from making a nest in our minds by offering prayers to Allah and having a compassionate approach.

Positivity can be applied at every sphere, be it academically or professionally. During life, one person faces multiple failures. If something goes wrong, it will probably lead to something good as we, Muslims believe that everything happens for a reason and there is a right time for everything. With a positive mindset and a strong belief, we should set towards our goals, and success will be inevitable. As Jalal-ud-Din Rumi rightly said, "Be silent, only the hand of Allah can remove the burdens of your heart."



**Farjad Ashfaq, ACA**  
Lahore

When I recall the final months of my CA articleship, I am reminded of all the negative thoughts that came with being jobless. For me, all thoughts have immense power but negative thoughts contribute more in transforming the apprehension into action; making us anticipate the worst and get prepared for it and exert on our hunches. Thoughts, either positive or negative, if not processed rightly, can be counterproductive. A negative thought at its adversity can be toxic but a positive thought acted without base can be equally dangerous. Thoughts are like fireworks, it's important how to use them, either to destroy ourselves or use them to create spectacles.



**Waqar Butt, ACA, ACCA, UAECA**  
Dubai, United Arab Emirates

Everyone has heard statements like 'Why do you think negative?' or 'just look at the bright side.' Negativity will decrease your enthusiasm and motivation. It will not let you make the right decision. It will divert you from your goals and ultimately you will become a failure. See the glass as half full rather than seeing it as half empty. Applying these lessons in real life is difficult but not impossible.

Nobody tells us that negative thinking is crucial for our survival. The negative thinking about our health, our relationships, our careers, makes it clear to us that there is something wrong. It allows us to focus on the things that need our attention. Simply put, negativity is a protective mechanism. Thinking about everything that could go wrong and processing these negative possibilities,



negative thinkers can avoid those pitfalls which they are likely to face. Positive thinking can help some people achieve something, but it can be harmful to others, leading to the worst sort of failures they wouldn't have imagined. Sometimes, it's good to say 'I'm going to fail', against the pain of failing to meet expectations of our loved ones.



**Usman Shahid, ACA**  
Lahore

Let us make things easier first. The word 'power' means 'the ability or capacity to do something;' the word 'negative' means 'not desirable' and the word 'thinking' means 'the process of considering or reasoning about something.' So, we can say that the power of negative thinking is basically 'the ability to consider and reason about something which is not desirable.'

Let's apply this above definition of negative thinking in our daily routine activities. Suppose, we have some goals that we want to achieve in our life and for that we will make an action plan. We consider every possible way to achieve that goal. In this way, we can find the best possible way to overcome all snags by first considering all the scenarios which are not desirable during the course of an action plan and then formulate an appropriate strategy to address those obstructions. So, in my opinion, the outcome of the power of negative thinking is always positive.



**Jalal Anwar Brohi, ACA**  
Karachi

We have always been sold the notion of the power of positive thinking, but never the power of negative thinking. We are never told bad thoughts can also have good results.

A behavioural study conducted by Newcastle Business School showed that if you have a team that focuses only on the positive, then they just agree with each other and look for points that they agree and not points of difference. Tension sparks better decisions because team members look for problems in their reasoning and then find evidence to support or reject their ideas.

Negative thinking can also keep us grateful. Nothing is certain but death, and thinking about death can be considered the most negative of thoughts, but a research done by Eastern Washington and Hofstra universities revealed that when one is fully confronted with the reality that life 'might not be', then life itself is seen as a limited

resource that one is not entitled to, and thus appreciation for life increases.

So, negative thinking itself isn't that bad as people think it to be. We live in a world, where everything is unpredictable. So, at times, it is this negative thinking, which makes us prepared to face unexpected challenges and failures in life.



**Ali Raza Tremazi, ACA**  
Karachi

Negative thinking is often triggered by a specific array of happenings, each one prompt us to form a pattern causing exaggeration of the severity of a situation.

Negative thinking, in current times, has a considerable impact on our professional life and most importantly our career choices. Professional qualifications demand strenuous efforts but nothing should be at the cost of overshadowing one's ability to think straight and in most cases right. Negative thinking deludes us into believing that there is no better hope, plunging oneself into diffidence, it derails us from plausible solutions right into the pit of despair and disappointment.

Religion without doubt appeases and to a larger extent erodes negative thinking. It is the religion that has inculcated hopes in our lives, ascertaining that with constant hard work along with utmost patience, whatever we pursue could be achieved. Secondly, the people we surround ourselves with contribute a lot, for that matter one should choose their circle wisely as this plays a crucial role in dealing with difficult situations that trigger negative thinking.



**Muhammad Mohsin Siddiqui**  
Lahore

We are prone to hearing common shared thoughts revolving around 'be positive, think positive', etc. The concept upon which it is based is important i.e. positivity. It is a general status quo that makes us believe that positive results are the outcome of a positive mindset. However, in practicality, this may back fire instead, as a two decades long case study conducted by New York University has recently unveiled.

As the name suggests, negative thinking is generally perceived as wrong or inappropriate course of behaviour.

However, it surprisingly turns out to be a blessing in disguise. First, when you are predicting a worst case scenario, you are in fact planning to overcome any sort of challenges that may unleash, in contrary to someone who is thinking otherwise and therefore, lacking that level of planning. Second, your conscious moon steps can take you ahead of someone who doesn't think like you, it's not that you can control things, but at least you can be prepared to face whatever comes your way. The power of negative thinking, if handled appropriately and taken as a challenge, can do wonders, provided you don't waste time worrying and focus on planning.



**Muhammad Ahsan Abdullah, ACA**  
Karachi

Negative thinking is considered to be pernicious. However, we all indulge in it on a daily basis, and to imagine life without negative thinking would render it meaningless. The beauty of anything in life rests in its balance.

Similarly, negative thoughts are not essentially bad or destructive, it's actually the clinging of the mind to that negative thought that embeds destructiveness. For example, take a moment and try focusing on the things that are brown in colour near you. You will notice that there are so many of them. So it's the focus that causes impact, not the thoughts itself. Your reality is the product of your mind. Feed the mind negativity, and your surroundings will adhere to it. Avoiding negative thoughts does not mean to ignore reality, rather it only means to stop the mind from foreshadowing the future based on past stimuli. Negative thoughts stem either from the past or the future, to avoid it, simply be in the present.



**Waqas Bin Tariq, ACA**  
Tel Aviv, Israel

An American author H. Jackson Brown Junior rightly said "Protect your enthusiasm from the negativity of others."

We live in an era where negativity is around us, be it home, workplace, social media, etc. We live in a world where we seek validation for our acts in terms of 'likes,' 'reviews' and 'tweets', so everyone's opinion matters. Similarly, negativity matters as well, even if it comes from the last person you like. This leads to stress, tension and craziness. If you google for the effects of negativity, you will find things ranging from hormone imbalance to actual brain damage. We should also bear in mind that the human

brain is the most powerful organ that has ever come into existence. There is nothing which can't be achieved with dedication and sincere efforts.

Closing on positivity, an extract from Sura-e-Duha, "And your Lord is going to give you and you will be satisfied."



**Safdar Ali, ACA**  
Haripur, KPK

The negative thinking power of the brain is a positive foundation. The power to think to the extent of a belief of negating all but Allah to be worthy of worship and negation of no Prophet after Muhammad (SAW) forms the basis of Islam. In various professions, negative thinking also provides the basis of that profession. For instance, in the audit profession, the power of negative thinking that the financial statements may be materially misstated due to fraud or error provides a basis for the founding concept of professional skepticism of the profession. Similarly, considering that the financial statement may be materially misstated due to fraud is thought by the fraud risk factors in the financial statements. In order to give milder effects to the human power of negative thinking, the same concepts are stated in a verbose manner in internationally applicable standards. Other professions also follow suit and apply tests say in medical and engineering sciences to negate the possibility of negative thinking of the human brain. Hence, the human brainpower of such thinking provides the base for various ideologies and professions around the world.





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