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Cloud Computing

Seeing through the clouds

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CONTENTS

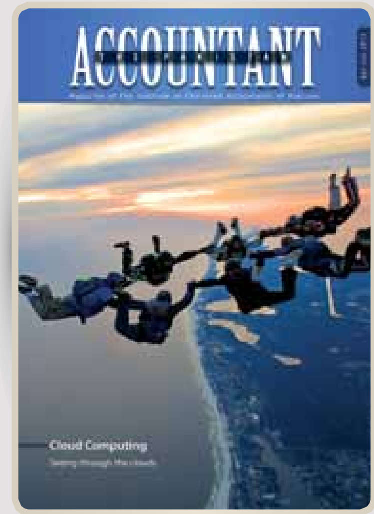
11

29

17

31

Compliance Audit
Buying Peace of Mind



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Editor's Letter

The IT industry is constantly bombarded with new technologies and new words and phrases to describe them. CLOUD computing is the hottest buzzword in IT today. But, unlike many shooting stars CLOUD computing is significant because it encapsulates a range of different technologies that have developed through the history of commercial computing. It is an important evolutionary step.

The importance of the CLOUD can be seen from the world wide statistics which shows that 2 billion people worldwide are using the Internet which represents almost 30% of the world's population of 6.8 Billion people and the number continues to grow. In addition, smartphone users are expected to exceed 1 Billion worldwide by 2014, right now only 30% of current users are the stereotypical young and tech-savvy aficionados.

The others are pragmatists who are budget-conscious, middle-aged users who prefer mobile email service over Internet access. Similarly Facebook has over 900 million users, and 200 million of them are in US while over 425 million users interact with this application using their mobile devices. Consumer computing preferences, as has been the case is setting the standard and driving the adoption by enterprises.

CLOUD concepts promise a cost-effective realisation of the utility computing principle, allowing users and providers easy access to resources in a self-service, pay-as-you-go fashion, thus decreasing cost for system administration and improving resource utilisation and accounting. Over the last few years, the CLOUD has generated a major impact on the global IT ecosystem, giving rise to new markets and new user communities.

The concept of CLOUD is thereby not a novelty in itself – in fact, the principles arose from a direct industrial need to improve resource utilisation without impacting on consumer requirements, i.e. use the available resources more efficiently. Initial data centres and server farms employed load management mechanisms not unlike the base CLOUD principles, to ensure high availability according to current usage.

Many users and consumers feel compelled to migrate to the CLOUD in order to stay competitive and to benefit from the assumed improvements offered by the according infrastructure. When you connect the dots, CLOUD Computing is not a fad. It is the next inevitability for every enterprise, although it is not a slam dunk. Without a clear knowledge about CLOUD environments, there is a high risk that an inexperienced user estimates the capabilities and hence the usability of CLOUDs wrongly, leaving him unsatisfied with the actual capabilities he gets from the CLOUD.

Resistance is futile. We are all moving, inexorably and incrementally, in that direction. As Canadian cyberpunk author William Gibson said nearly 20 years ago, "The future is already here — it's just not very evenly distributed."

Adnan Zaman, FCA

President's Page

Cloud computing is on everybody's mind as all the major tech companies now offer some form of cloud storage and computing for consumers and businesses. Even though it's everywhere, people still don't really grasp it.

Do you remember the time a couple of decades back when in flowcharting, a cloud like shape was used as a symbol for internet or a network of connected servers? It still is the case today. But who would have thought that this cloud like shape would actually one day come to life as original as a real cloud – holding vast amounts of data in virtual space. Today when we access our emails on the go on our mobile devices, we are heavily dependent, reliant and grateful to the cloud computing in play. It is the data stored in the "cloud" which enables us to pull that information anywhere we are. The document file on our hard drive in the PC in our home however remains inaccessible until we get back home. This alone serves as the biggest case in point for cloud computing which essentially means "the practice of using a network of remote servers hosted on the internet to store, manage, and process data, rather than a local server."

The path to the cloud continues to dominate business strategy, proving its value and confirming it is not a passing trend. As clouds grow, companies looking to transition must ensure their needs for connectivity, security and scalability – all necessary for a successful cloud environment – are met, while simultaneously keeping costs manageable.

In the business world, there is always hesitancy to accept new ideas especially when they involve IT because senior management at times remains crippled with the indecision of embracing technology or "going safe" with the status quo. Typewriters gave way to desktops and then laptops and now to tablets. But there has been resistance all along in the corporate world who feels that the cost of IT infrastructure and initial outlay might not immediately realize the "bang for the buck." While the hesitancy is natural, cloud computing has come about with a unique curve ball where embracing it actually reduces the IT hardware, infrastructure, manpower and other. costs. With the cost argument mostly out of the equation, clouds are expected to help management focus more on their core business by doing away with the physical IT infrastructure issues!

Just to balance the argument, there remain many issues which cloud computing still need to address. This includes issues of privacy, security, compliance, legal, vendor dependability and the underlying assumption of uninterrupted internet connectivity.

Ready or not, clouds are here to stay, and will continue to impact how businesses manage their data.

In the end I leave you with a very simple quote from the first CIO of United States of America, Vivek Kundra: "There was a time when every household, town, farm or village had its own water well. Today, shared public utilities give us access to clean water by simply turning on the tap; cloud computing works in a similar fashion. Just like water from the tap in your kitchen, cloud computing services can be turned on or off quickly as needed. Like at the water company, there is a team of dedicated professionals making sure the service provided is safe, secure and available on a 24/7 basis. When the tap isn't on, not only are you saving water, but you aren't paying for resources you don't currently need."

Ahmad Saeed, FCA

Join the Discourse

This issue's topic is
Counting What Counts: Collecting the right numbers is the key to organizational performance.

Umair Azizullah, ACA
Singapore (R # 6459)

Unfortunately collection of Data in this era is still one of the main dilemmas for the entities evolving in the developing countries. Such countries are still the major growth centric points across the world. The longer the data mining and crunching time, the longer it takes for decision making & strategizing. Accuracy, there have been numerous examples of bad decisions being taken in the recent past based on the most accurate data and also cases where brilliant executions were based on fairly accurate data and counts ranging not less than 80%. This rule can be applied for all speedy management decisions and for achievement of results in this pacy evolving environment where actions and reactions are awaited and anticipated by everyone. On the contrary, accountants need not to live on any KPI (Key performance Indicators) less than 100% accuracy, on which they are evaluated and is important for all stake holders.

For organizational performance, processes should be elevated, improved and altered with the objective to achieve on hand accurate data and in a speedy manner only under strict governance, so as to reply more on system & save time. The time saved can then be ploughed back on organizational performance drivers instead of ensuring the accuracy of count and data. Just let all the collection be based on process so as to free up the minds of the organization think tanks!

Muhammad Najam-ul-Saqib, ACA
Bonn, Germany (R # 2929)

It is rightly said "If you cannot Measure you cannot Control and If you cannot Control than you cannot Sustain". So Counting it Right is the Key to sustainability! Finance acts as a Navigator to the Business and helps in positioning any Enterprise rightly into the economic world. One of the most important tasks of Finance is to collect, record, analyze and deliver financial information on the business' financial performance to the Management on timely basis. This supports management's decision-making by focusing on the most important Key Performance Indicators (KPIs) and by providing financial transparency on the entity level. An effective cooperation with the other functions within the organization is essential in order to gather the information. All this is unachievable if we do not correctly account for the financial transactions. Companies are required to report on their financial activities for regulators, creditors, investors and management as an accurate disclosure of financial data is enforced. Creditors use this information in order to evaluate an entity's ability to meet scheduled debt payments. Investors and analysts base their decisions and recommendations to buy, sell or hold stock on this financial information. Most important however, are internal stakeholders. The management of a company relies on financial reports to monitor the performance of the business. In general, Right accounting is a base to proper financial reporting which serves the basic organizational performance evaluation needs. Right number are a Big Support to Management's decision making process at all relevant levels. Just imagine an Enterprise building up its operational plan or executing a substantive capacity enhancement plan where the key input for the underlying assumption is based on the historic financial data or even take a scenario where Management is discussing the monthly performance of the organization by looking at the derived KPIs. Not properly accounted data could lead into a catastrophe. Just consider now the ever demanding need for proper Accounting. It now even goes beyond to conventional Financial book keeping. In the recent years Carbon Accounting has emerged as an important area and is gearing more and more attention by the Regulators and Supervisory Boards. It will change the way transportation industry do the business now. So the companies will need to create a reliable system that consist of processes and IT applications, governance and role definitions as well as guidelines and policies. All this things will have an impact on the operational ability of the Company as they all will have a Carbon Quota and regulators will ensure that' its rightly (ac)Counted! In the end I would retreat the importance of "Right (ac)Counting" by quoting John F. Kennedy "To state the facts frankly is not to despair the future nor indict the past. The prudent heir takes careful inventory of his legacies and gives a faithful accounting to those whom he owes an obligation of trust."

Muhammed Kamran, FCA
Manama, Bahrain (R # 3161)

Performance measurement is the key to the success of an organization as it provides a comparison between actual results against intended objectives and enables the management to take appropriate actions to ensure that the organization is managed effectively and its objectives are achieved. It is indeed a fact that those organization where appropriate performance measurement system is established are often more successful than the organizations where there is no such a system. The foremost aspect of performance measurement is to establish predetermined criteria, whether in form of Budgets, Standards, Key Performance Indicators (KPIs) or Key Performance Measures (KPMs), against which actual performance is gauged. The benchmarks to be set should be relevant to the organization, industry and environment in which it operates and, the ones that can be measured and reported in cost effective and timely manner. The second aspect is to measure actual results. In this regard it is essential to devise an effective system of collecting, analyzing and reporting the actual data to make it possible to get relevant, accurate, timely and comparable information. It is also equally important that the measurement of both intended and achieved objectives should be on consistent basis to make both the information comparable with each other. Therefore, development of performance measurement system should include establishment of relevant measurement criteria as the indicator of performance. In order to achieve this, a deep analysis of organization's objectives should be done and, the industry and environmental benchmarks should be evaluated for their appropriateness to the organization. The end result would be effective performance measurement criteria against which actual performance can be measured.

Faraz Hasan, ACA

Dublin, Ireland (R # 5719)

The preconceived notion that bottom-line growth is the best indicator of organizational performance often leads management to become fixated on making the numbers 'look' right rather than actually getting them right. Too much focus on budgetary targets and performance based compensations sometimes paves way for adoption of aggressive accounting policies which, although make the numbers look good, are in fact masking underlying errors which may be immaterial but might lead to dire consequences in future periods. A good example of this is an entity's conservative stance on providing for doubtful debts. Such a stance might make the current year performance look better but might also result in bigger write-offs in a future period if the transactions fail to fall through thereby skewing the results in such later period. Therefore, I agree to the statement that collecting the right numbers in the right period is the key to organizational performance.

Ali Akbar Syed, ACA

Oslo, Norway (R # 6010)

We are the ultimate bridge between the business and the owners of the business (shareholders). Business starts and ends with the numbers, as after all it's financial return or numbers that owners (shareholders) of the business seek. Collecting the right numbers at the right time is therefore vital for not only organisational performance but also for the survival of the organisation.

Mudassir Iqbal , ACA

Karachi (R # R 4544)

Yes I agree. It is absolutely essential for organizational success that you know the financial facts of every aspect of your business. Here you need numbers and most importantly accurate and timely numbers for taking key decisions. Numbers tell you the story of the organization which gives you business insight and to a certain extent futuristic view of their performance. With proper collection of right numbers you can build a more secure and profitable future and there will be no more unexpected financial results.

Syed Fasih Ur Rehman, ACA

Karachi (R # 7146)

The fact that collecting numbers in terms of profitability and production is important for an organization's overall success, however figures alone do not reflect the whole picture. There are lots of other intangibles factors involved as well which need to be taken into account such as Employee Satisfaction, Corporate Social Responsibility and Environmental Sustainability etc. Organizations which look for employee fulfillment as well as Social responsibility are the ones which excel in the long run otherwise companies with high employees turnover (for eg) may not reach the heights it could have reached had there been low turnover.

Jahid Ahmad, ACA

Lahore (R # 6564)

Collecting the right numbers is the most important part of assessing the current as well as future organizational performance. The fate of management's decisions is lying on the information available to it in the form of management reports, the better the right numbers are identified and presented in relation to a subject matter the more likely is the success of the underlying management's decision. So one must be very careful while selecting and calculating the numbers for any particular subject matter and should use analytical skills and knowledge of the business in the most proficient manner as all the numbers collected, calculated and presented in the form of management report will ultimately lead to a decision relating to the subject matter having effects on cash flows and performance of the organization.

Fozia Hussain, ACA

Karachi (R # 4540)

Organizational performance, among other factors depends on how promptly and how correctly actions are taken to bring it back on track, in case performance deviates from the set standards. And this can be achieved only if there is right information available at the right time. Historical data available only once a closing exercise is completed and that too relate to a period that has passed and need not necessarily represent the upcoming scenario is no more going to lead the direction for today's dynamic business environment. The concept of right numbers to drive the performance has taken a shift from "accurately and timely accounted for transactions" to "Business Intelligence". Andy Grove- Ex CEO of Intel Corporation said; "There is at least one point in the history of any company when you have to change dramatically to rise to the next level of performance. Miss that moment - and you start to decline." Capturing that point in order to avoid a decline is the precise objective of "right" numbers in the performance management of an organization.

Farhan Tahir, ACA
Karachi (R # 4150)

Collecting right historical data is key to measure past performance; because performance cannot be improved if it cannot be measured. However, historical data is or can be made available to everyone. What is more important is the brain and sense that use the historical data for moulding the still unknown short, medium and long term future factors in his favour, on both micro and macro level. Even right historical data is of no use if it is not used to minimise the adverse and maximise the favourable future uncertainties.

Shuja Ul Mulk, ACA
Karachi (R # 5352)

The complexity and uncertainty surrounding organizations has made "organizational performance" not just a milestone for senior management or limited stakeholders in financial markets. We have unconventional stakeholders in today's world who have active touch-points with organizations and are affected by the processes, products and outcomes of an organization. Now that organizational performance has a wider audience: it is of utmost importance to focus on actions that drive and boast such performance. That is to say managerial decisions and organizational practices should not be driven solely by financial ratios and industry data: focused only on maximizing shareholders wealth or increasing profits. Managerial decisions and organizational practices instead need to go beyond the conventional data sources and foster and practice an evidence-based organizational culture. The organizational decisions have to be informed by both best available research and organizational information- collecting the right numbers. This has to be done thorough understanding of organization and its functions, problem-based case studies, experimentation and redesigning of practices etc. Bottom line: to survive in this ever changing global market; get a healthy mix of best evidence, individual expertise, ethics, reliable business/ organizational facts; duly considering impact on stakeholders.

S. Iftikhar Ali, FCA
Karachi (R # 805)

The organizational performance to meet planned targets is based on team members that have relevant qualifications, skills and experience relevant to the business, to function in seamless manner to optimize resource ulilization, required for the line of business. The unique top management, supported by appropriate staff operating the processes required for line of business with appropriate quality controls and timely execution is what counts. Counting numbers is historical in finance and management, it is about vision goals for the period and excelling in delivery to customers delight.

Marryam Balouch, ACA
Lahore (R # 4938)

In the public sector of Pakistan counting counts merely nothing. Our governments, our ministries are managing the whole country without considering the appropriation accounts and financial statements. These financial statements and appropriation accounts are never presented before any Public Accounts Committee. Nevertheless, statistics counts a lot in monitoring the organizational performance...but it cannot be considered as a key to the organizational performance. Need of numbers and financial data arises when business is expanded up-to a certain level. However, it would be merely impracticable to expand a business without effective monitoring and numbers made it easy to keep an eye on every aspect of the business. Yet, a blind reliance on numbers may be disastrous as evident from the Enron, World Com, Adelphia, Xerox etc.

Saeed Akhtar Chughtai, ACA
Islamabad (R # 6718)

I am reminded of MasterCard's current advertising campaign. The tagline of the campaign is "Priceless" and the slogan associated with it is "There are some things money can't buy. For everything else, there's MasterCard." The credit card company, using humour has effectively addressed public concern at the increased materialism and commoditisation of the society and has tried to demystify numerical significance. But then, in order to gauge performance, whether organizational or any other, in an objective way, it has to be compared with a certain standard. The comparison could be with a similar organization or with the past performance of the organization itself. Dr Robert S. Kaplan and David P. Norton have put forward a concept of "The balanced scorecard (BSC)". BSC is considered a pivot in a holistic strategy execution process. It provides a framework that not only provides performance measurements, but helps planners identify what should be done and measured. In essence one has to collect the right numbers. Even from religious perspectives our good deeds are valued in terms of numbers. May I quote a hadis "Verily, Allah recorded the good deeds and the evil deeds. Whoever decided to do a good deed but he did not do it, Allah records it with Him as a complete good deed. And if he decided to do it and actually did it, Allah records it with Him as ten good deeds up to seven hundred up to many times over. If he decided to do an evil deed but he did not do it, Allah records it with Him as one complete good deed. If he decided to do it and he actually did it, Allah records it as one evil deed." (Recorded by al-Bukhari and Muslim). The concept of the right numbers again!!!! It is thus submit that collecting the right numbers is the key to gauging performance whether organizational or personnel.

M. Asad Mirza, ACA
Karachi (R # 6900)

Good quality and reliable information is the life blood for any organization since it forms the basis for most of the important and strategic decisions. Management needs reliable, timely and up to date information for financial analysis, evaluation of different options, costs optimization initiatives and many other business decisions. A high quality analysis of organization performance is highly dependent on the quality of its information systems and how accurately and quickly it processes the transactions. The individual transactions will be collected, compiled and consolidated and form the basis for the internal financial reporting to the Management and external reporting to all Stakeholders. Incorrect financial information may lead to incorrect analysis and consequently leads to wrong decision being taken and will have adverse consequences for the organizations. Even the effectiveness of many non financial decisions is heavily reliant on the availability of quality financial information. Therefore, organization performance is interconnected with effective decision making and majority of the decisions are dependent on the availability and meticulousness of 'Numbers' and its significance is irrefutable.

Irshad Ali, ACA
Karachi (R # 6927)

Yes up to some extend, it indicates the performance of the Organization / department / business units. These numbers cannot be used as an exclusive benchmark or performance tools for measuring the results. Some numbers may represent short term view while others may show long term perspective, therefore, it depends on stake holder / management decision to which it gives importance.

Ahsan Saleem, ACA
Lahore (R # 4802)

Yes, I fully agree with the statement that collecting the right numbers is the key to Organization Performance. It is pertinent that the things which matter the most should be counted instead of the things which are easier & obvious to count. This has been made easier by the advent of PC & ERP age. Now the same numbers can be recorded & collected with lots of different dimensions attached to the same set of data with the help of a good ERP and can be used for informed & better decision making. Another dimension to counting the right numbers is that it provides solid foundation for effective forecast into the future. So it is true that bean counting era is now over and bean counters need to ensure that data is recorded, collected, summarized and presented in a way along with insight into the data that it provides a strong foundation for the informed decision making for strong organizational performance.

Mudassar Ghulam Nabi, ACA
Islamabad (R # 6036)

I think collecting the right numbers is an indication that organization is willing to perform and rightly proceeding for it.

- Collecting the right numbers (counting what counts e.g. Performance Indicators);
- Expecting the right numbers (count what to be counted e.g. Budgeting and Strategy); and
- Delivering the right numbers (count what counted e.g. Actual Performance).

All these collectively make a success cycle where each right pedal is a next step of success ladder. Bottom line is that each one of them is a key leg (of a key to Organizational Performance).

Bushra Sana, ACA
Lahore (R # 6842)

It is not only number game that affects the performance indicators but a right attitude at the right time can do much a lot. A positive mind set and a forward looking thought can turn out a failure to be, into a long lasting success. Believe of a person in his Creator and in himself is another name of this attitude.

Mohammad Ashfaq Tahir, FCA
Lahore (R # 2599)

I agree and want to add that the numbers should be relevant, accurate and timely. If any of them is missing, we may get distorted results which may not correctly portray organisation's performance. I have seen managers providing irrelevant data and numbers to window dress their performance. Sometimes they use these numbers (even accurate) to justify their poor performance - for instance, they will justify raising payroll cost as they are bringing sustainability in manpower and few leavers in the organisation, etc.

Bushra Aslam, ACA
Islamabad (R # 2601)

The term "Organizational performance" implies the actual results of an organization as measured against its intended goals and objectives. These actual results include financial performance, product market performance and shareholder return. Now-a-days many organizations use balanced scorecard methodology (BSM) and other methods to evaluate organizational performance. BSM evaluates performance in multiple dimensions such as financial performance (e.g. shareholder return), customer service, social responsibility (e.g. corporate citizenship, community outreach), internal business process (their effectiveness and efficiency in terms of cost), and employee satisfaction. So in my view Collecting the right number is one of the steps required to measure organizational performance and it is not the key to organizational performance.

Cloud Assessment

Benefits vs Risks

Michael Gabriel Sumastre

Much has been said about Cloud Computing. The concept has been relatively popular among businesses, often touted as one of the most promising ideas for enterprises as they face the future.

Principally, Cloud Computing is recognized as a great eliminator of the hefty costs and complex processes that come with evaluating, purchasing, configuring or managing software and hardware essentials that are necessary for enterprise applications. Using the Cloud, these applications are delivered by providers over the Internet "as-a-service."

Cloud employment has radically changed the way businesses are run, with many players pushing for enterprise cloud adoption. Unsurprisingly, Synergy Research Group's latest Cloud Market Share Report reveals that for the first six months of 2011, the cloud equipment market sales figures have exceeded $17 billion. The growth of Private Cloud platforms is escalating at more than 30% annually, while Public Cloud – which accounted for the largest share of Cloud equipment spending, was up by 56% during the same period.

The Enterprise Cloud Service Models

Cloud computing as a service is essentially categorized under three major layers: Infrastructure-as-a-Service (IaaS), Platform-as-a-Service (PaaS) and Software-as-a-Service (SaaS). These models – which are characterized by enhanced management of IT services with lessened flexibility and control – vary according to the IT service levels that each provides alongside the levels of control enterprises must hand over to the Cloud service provider.

Taking into consideration their "as-a-service" functionalities, SaaS essentially caters to end users in an organization. SaaS providers are tasked to determine the resources that should be devoted to the use of an application, which include the virtual machines, the servers, and the network equipment, among many others.

IaaS, on the other hand, belongs to the opposite end of the enterprise Cloud spectrum. IaaS providers offer the virtual machines or storage resources for organizations that want to take control of their own software environment, including its maintenance, but do not look to acquire any servers or similar physical equipment.

Somewhere along the IaaS and SaaS spectrum is PaaS, which provides application developers with specific tools to develop a certain platform. Driving a new age in mass innovation, PaaS offers the infrastructure necessary to run Internet-based applications.

As the Cloud service models IaaS, PaaS and SaaS are enjoying wider adoption from businesses and consumers alike, it is believed that deployments of Public Cloud will substantially increase in the years to come. In a recent finding, **Cisco Systems Global Cloud Index** projects that by 2015, Cloud computing will have a 12-fold ascension in terms of traffic, which in turn, will account for over 30% of data center workloads in the year 2014.

Weighing the Pros and Cons

While highly celebrated as the next big thing in the IT enterprising arena, Cloud Computing has become a common subject of debate – owing to its benefits and disadvantages that many industry insiders believe are worth digging deep into. As with any new technological innovation that comes with merits, the Cloud does accrue its own share of consequent drawbacks.

Some benefits that come with the adoption of Cloud Computing to a certain degree may include:

Improved Accessibility

With a business network on the Cloud, people are able to access data or take them everywhere. In most cases, secure logins – which constitute a username and a password – let people access information from desktops, laptops or even smart phones.

Enhanced Collaboration

Cloud-based collaboration tools enable all IT employees to contribute to the conceptualization of projects and their development. With better information and data access, the workplace essentially experiences better connectivity, which translates to boosted efficiency and productivity.

Better Scalability

Perhaps one of the most illustrious benefits of Cloud adoption is its ability to enlarge or shrink network capacity to tailor-fit business needs.

Significantly Reduced Cost

The cost benefits that moving to the Cloud presents essentially point to reduced one-time purchasing expenses. For instance, companies that employ SaaS only pay subscriptions, and do away with often costly upgrade purchases. An IT department that moves to the Cloud entails outsourcing of the network, which may mean trimming down the staffing costs. Similarly, enterprises eliminate the costs and time issues that usually come with investing in, operating and maintaining physical infrastructures.

Eased Communication

The utilization of Cloud Computing creates a constant flow of information, which in turn, creates improved communication between the outsourced and the outsourcing. Unlike most other remote systems that struggle with data flow because of outdated database communications, the Cloud offers ease in the way information is accessed.

The drawbacks that have been identified by Cloud Computing non-supporters are essentially related to:

Security

With some hacking and other forms of malicious online intrusions remaining unresolved, the Cloud-based model is being frowned upon for failing to address security issues. Companies dealing with sensitive information are concerned about the possibility of becoming vulnerable to these security threats and data breaches.

Reliability

With sensitive information relegated to the Cloud, some are not very convinced that they can have total peace of mind about the processes involved in data backup using Cloud Computing. On the client-provider end, the idea of entrusting the guardianship of data to third parties makes enterprises skittish enough.

Ownership and Intellectual Property

With innovations on the rise, a company that creates or invents something new may look to and integrate the Cloud as part of the development of that product or service. In such a case, arguments may arise regarding possible invention claims from the Cloud provider.

Data Conversion or Portability

If in case a client is unhappy with the Cloud provider's services, switching to another may be an option. However, some are wondering if it may be too difficult to retrieve, convert and transfer data. Will such a scenario not prove to be costly?

Businesses that need to take Cloud Computing on a balanced view are out of the question. It is a logical step for any organization to ascertain whether or not to jump on the bandwagon. A business may be lured to the newness of the concept – but may in fact be unprepared for the problems that are most likely to arise.

About the Author:

Michael Gabriel Sumastre is a skilled writer and technical blogger with more than seven years of professional experience in Web content creation, SEO and research paper writing. He has written more than a thousand articles, and ghostwrites books / e-books, he is also an expert in web mastering.

Original source: http://www.trainsignal.com/blog/cloud-computing-benefits-risks.

Cloud Computing

Seeing through the Clouds

Kirstin Gillon, ICAEW IT Faculty

For decades, managers have wrestled with the question of whether to keep IT functions in-house or contract them out to a specialist provider. Cloud computing is a new solution to that problem, harnessing the internet to deliver IT services that may be more flexible, more efficient and cheaper than a business's own data centre can hope to be.

But is it the right solution for everyone and for every IT process? And does it pose threats as well as present opportunities? This article outlines the main benefits and risks to consider when looking at a possible move into the cloud.

What is the cloud?

At its simplest, cloud computing has the following attributes:

- It enables IT resources and services to be bought on-demand from external supplier sources.
- Services are delivered via the internet.
- Services are scalable (up and down) in a completely flexible manner based on business need.
- The customer no longer needs to buy and manage physical hardware or software licenses; instead, services are paid for on the basis of usage.

While it is similar to traditional IT outsourcing, cloud computing has the potential to be more transformative to businesses. The services are provided using shared computing resources, enabling economies of scale to reduce costs. As there is no longer the need to maintain large capital budgets to fund and operate IT equipment and staff, the model can lower the cost-of-entry barriers to new businesses. The on-demand access to data also enables all kinds of mobile and collaborative working across and between organisations.

Many of us already use cloud computing without being aware of it. For example, one of the first cloud application services was the Hotmail email service, launched in 1996. A more recent arrival is the Google Docs productivity suite, which provides tools such as a word processor and spreadsheet over the internet – the end-user can access the applications and their saved data from anywhere, needing only an internet connection.

Cloud applications have been employed, then, by individual users on an ad hoc basis for some years. But what is changing is that organisations, large and small, are starting to consider moving substantial parts of their IT operations to the cloud.

Types of cloud

Cloud computing is a very broad term and there are many different types of cloud models. Therefore, when considering a move into the cloud, it is important to be clear about what is being put into the cloud and the extent to which it will share computing resources with other users.

There are three main types of service that can be put into the cloud:

- **Applications:** a business can use ready-made online applications and software suites in the cloud. These are typically charged per user per month and known as Software as a Service (SaaS).
- **Platforms:** a business can use cloud-based tools and components for developing bespoke applications. These can be charged by user, application, data storage and data transfers and this is known as Platform as a Service (PaaS).
- **Infrastructure:** a business can use fundamental computing resources in the cloud. This includes virtual servers, networks, data storage and data transfers, and will be charged on a pay-as-you-go

basis. This is known as Infrastructure as a Service (IaaS).

There are also different ways of delivering cloud services, based on the extent to which users share computing resources (and costs) with others.

- In a public cloud, you share computing resources with other organisations, which may include your competitors.
- In a community cloud, you share computing resources with trusted organisations that may have similar or related concerns to yours.
- In a private cloud, disparate departments and offices in your organisation benefit from a shared pool of computing resources managed internally.
- A hybrid cloud is a private cloud that can expand securely into a public cloud when additional resources are required.

The benefits and risks of these different models vary considerably – sharing basic infrastructure services across a single business in a private cloud is very different to sharing an application with your competitors in a public cloud. Therefore, understanding the type of cloud being adopted is crucial to achieving the benefits and managing the risks of cloud.

Building a business case

The model of shared, on-demand and scalable computing resources should provide many potential benefits for business. Some of the most commonly cited business reasons for moving to cloud computing are:

Less time spent administering non-core commodity IT systems internally.

- Faster development and deployment of applications.
- Data storage and computer resources which scale up or down with your business needs.
- Faster entry to new markets using cloud-based software delivery and content distribution services.
- Fewer hardware assets and software licenses to track.
- Instant access to the latest version of cloud-based software with no upgrade costs.
- Mobile services, online collaboration and remote access.

In particular, the growth of mobile devices in recent years has driven widespread adoption of the cloud, as mobile applications are usually cloud-based.

The great promise of cloud computing for many businesses is cost reduction. The shared model should provide economies of scale and reduce the costs of services. Pay-as-you-go IT, which typically requires less capital expenditure and fewer overheads, is a particularly attractive proposition for smaller businesses with limited resources.

However, the economics of the cloud are based on providing identical services to a large number of customers. The lack of variation in the services helps the provider to keep down procurement, installation, operational and support costs and maximise efficiency. As a result, the cloud model is unlikely to be suitable for computing services that have very specific and unusual requirements. Even if it is technically possible to provide these services in the cloud, it may be cheaper to keep them in-house.

The financial benefits of public clouds may also not be so clear-cut for larger organisations. Furthermore, sharing computing resources with others may not be a viable option for regulatory reasons. Instead, a private cloud, where different departments can benefit from a shared resource pool, may replicate some of the benefits across a single organisation.

As a result, the financial pros and cons of moving to the cloud are not always easy to ascertain and the business case needs to be looked at closely. In particular, while pricing and service guarantees from the cloud provider may appear to be transparent, it can be difficult to compare these on a like-for-like basis with the in-house data centre.

For this reason, many organisations prefer to explore cloud computing by launching a new IT project there, avoiding the need for capital expenditure and with a reasonably clear picture of the costs that would be involved in pursuing the project in-house.

Managing the security risks

While there may be significant benefits from the cloud model, there are also risks that need to be considered when making a decision about moving to the cloud, especially around security. These include:

- Attacks from outside the cloud, such as malware, denial-of-service and hacking attempts.
- Attacks from inside the cloud by employees of the cloud provider.
- Inadequate separation of cloud customers, so that shared data and processes are affected by the actions of other customers.

In addition, cloud services are dependent on network access. Therefore, where reliable power and good connectivity are not available, cloud is unlikely to be a viable option.

Of course, cloud computing is not unique in carrying security risks; conventional local area network computing carries many potential risks too. And nearly all cloud-related risks can be guarded against. Indeed, many cloud providers claim that they have more expertise in security and can spread the costs of good security across many different customers, thereby increasing the overall quality of computer security. With disaster recovery, for example, a cloud supplier is more likely than an individual business to have multiple data centres which can be used in the event of a major system failure.

However, while the risks may be no greater than the risks to the business's own data centre, and the provider may have greater security expertise and resources, the organisation is entirely reliant on the cloud provider to manage the risks. Audit access or site visits are likely to be entirely out of the question due to the disruption they would represent.

The best guarantee of security, therefore, is a detailed evaluation of potential cloud providers, as well as continuous, proactive monitoring of services. Recommended steps include undertaking a risk assessment upfront, understanding the specific risks based on the proposed cloud model, ensuring appropriate provisions in the Service Level Agreement and encrypting sensitive data before moving it into the cloud.

This is particularly important in industries with specific legal requirements about the protection of data, such as personal data. Although data resides in servers owned by the cloud provider, the customer remains responsible for ensuring that it is stored and used in compliance with legal regulations. It is therefore essential to ascertain where the servers are physically located and consider all the implications of data storage and transfer between any territories involved.

Making the move to cloud

There are many aspects to consider when deciding whether to move IT services into the cloud. Regardless of how it is done, though, ultimate responsibility for managing the IT function (cloud and non-cloud) remains with the business. In practice, it is likely that some rather than all IT processes will move into the cloud. This is particularly true with larger business, with complex IT requirements, not all of which will be suitable for migration.

And, as with any major change, it is beneficial for leaders in every department to understand the main factors driving it and the expected benefits. There may resistance to the change. There may fears that the organisation is handing too much control to external providers as well as concerns about possible job losses. The impact of cloud may also spread far beyond the IT department. For example, it can be very easy for non-IT departments to purchase cloud services and new procurement policies may be needed which specify what authorisation is required.

Finally, a business should prepare for the option that the service does not meet expectations or the supplier goes bust. Consequently, any move to cloud should include an exit strategy. This could include provision for parallel running of old and new systems for a period of time, as well as being prepared to extract data in a structured form because you decide to move to another cloud supplier. Considering the possibility of exit can also help to manage risk of being locked into a cloud supplier that is not suitable.

Summary

In conclusion, cloud computing is an important trend which has the potential to transform the way that IT is bought by businesses and the way that businesses access and share data. It is not a single technology, rather a mix of technologies and business models that provide a different way of providing IT services.

Cloud computing can provide significant business benefits. It will cut the costs of many – but not all – IT functions, especially where IT services are commodities. It will improve the agility and speed of IT's response to business needs and ensure that upgrades and maintenance are seamless and transparent.

However, it brings new risks and does not replace the need for businesses to manage IT functions effectively. Furthermore, businesses must continue to ensure the security of data and compliance with regulations. Therefore, cloud requires rigorous governance to manage the risks, a clear plan of action and definition of IT requirements, and strong staff and management buy-in.

This article draws on material from a series of publications on cloud computing by the ICAEW IT Faculty, including *Cloud Computing: A Guide for Business Managers, Making the Move to Cloud Computing, The Business Case for Cloud and Security and Assurance in the Cloud*. ICAEW's IT Faculty provides products and services to help its members keep up to date with IT issues and developments and make the best possible use of IT.

The Economics of Cloud Assessment

Adnan Hassan Usmani
IT Professional

Cloud Computing

Cloud Computing is the term given to the use of multiple server computers via a digital network as if they were one computer. The 'Cloud' itself is a virtualisation of resources – networks, servers, applications, data storage and services – which the end user has on-demand access to. These resources can be provided with minimal management or service provider interaction. Cloud Computing is used by major organisations including Google, Apple and Samsung. Discover what Cloud Computing really is and the benefits it could bring your business.

Benefits of Cloud Computing

Cloud Computing offers the end user resources without the requirement of having knowledge of the systems that deliver it. Additionally, the Cloud can provide the user with a far greater range of applications and services. Therefore the Cloud enables users and businesses scalable and tailored services.

Cloud Computing brings with it many benefits to the end user. These include:

- Access to a huge range of applications without having to download or install anything
- Applications can be accessed from any computer, anywhere in the world
- Users can avoid expenditure on hardware and software; only using what they need
- Companies can share resources in one place
- Consumption is billed as a utility with minimal upfront costs
- Scalability via on-demand resources

There are several differences from traditional hosting to cloud hosting. The main differences are:

- Cloud Computing is sold on demand
- The service is managed by the provider
- User can determine the amount of service they take
- Users can log on to the network from any computer in the world

Types of Cloud Computing

Cloud Computing has brought together a range of technologies that can deliver scalable tailored and virtualised IT resources and applications over the Internet. There are 3 main types of Cloud Computing which are:

- Software as a service (Saas)
- Platform as a service (PaaS)
- Infrastructure as a service (IaaS)

Risks of Cloud Computing

Cloud Computing has many benefits, however there are also some associated risks with using Cloud Computing.

These include:

- Users do not physically possess storage of their own data, which leaves the responsibility and control of data storage with the provider
- Users could become dependent upon the cloud computing provider
- With data held externally, business continuity and

disaster recovery are in the hands of the provider

- Data migration issues when changing Cloud provider
- What happens if your Cloud provider goes out of business?

Why Use Cloud Within Your Business?

When is the cloud right for your business? That depends on the state of the business's current IT environment. Few enterprises will leap wholesale into cloud computing, nor should they.

Cloud computing makes immediate sense for most small and medium-sized businesses (SMBs). The economic argument between in-house IT and cloud computing has already been settled in favor of the cloud, which can provide more capabilities and access to greater IT expertise than most SMBs could ever afford in-house at tremendous cost savings.

Larger enterprises, on the other hand, should approach cloud computing in stages. If the company owns highly underutilized assets, there is less impetus to move to the cloud as long as those assets can be utilized over time without significant additions to IT staff. Even in this case, creating an internal cloud will be more cost-effective than the traditional IT model of delivering discrete silos of technology.

Internal clouds will represent an interim phase in enterprise IT migration to hybrid and public cloud services. Traditional, siloed IT shops will struggle to compete with cloud-computing providers in the areas of cost, flexibility, and scalability unless they virtualize their own operations. In addition to the near-term financial benefits realized by deploying an internal cloud, the process also assures cloud readiness. The philosophy of "Don't outsource what you don't understand" should still apply if you get your processes right before you move to the cloud, you'll be well-positioned to make the transition successfully.

Issues with trust and security remain as short-term challenges, but in reality it is no more likely that a hacker will invade a cloud than your in-house data center. Nonetheless, these concerns will persist for a while, and they are probably the reason some organizations will opt for internal clouds first.

All organizations should stay informed about the evolution of cloud computing, and reevaluate the potential benefits of cloud against their current IT services delivery and consumption model. For organizations ready to adopt cloud services there is a five-point roadmap to help enterprises embark on the most essential elements of a cloud-computing program:

1. Optimize the current IT environment by providing an internal set of cloud services and enabling the incorporation of external services. This will become the services roadmap. Depending on the maturity of the IT organization, start with consolidation, move into standardization, and then virtualize. Once company starts virtualizing, it begins to develop service delivery models and manage its IT assets as sets of services rather than discrete technologies. Then it'll be able to look at adopting cloud services for production environments. The company will experience cost benefits by optimizing the infrastructure and increasing utilization of existing assets.

2. Identify cloud services opportunities based on business needs, value proposition, and the ability to adopt/support those services. This will become the services portfolio. Build a portfolio of end-user services and recommendations for how they should be delivered. Evaluate how they will be delivered as an external service versus delivered internally.

3. Communicate with the business units about cloud services and the roadmap and process for incorporating them into the architecture, whether the services are internal or external. This will become the communications plan. Communication is vital because independent software vendors (ISVs) are not meeting with IT to sell their products and services, they are talking directly to the BUs. So let the BUs know what should be communicated.

4. Experiment with and pilot various services, internally and externally, to identify where the real issues will arise. This will be the test bed. Take advantage of opportunities that require quick development work to test the cloud environment, and look to cloud-based providers for discrete functions such as CRM to test the concept.

5. Designate a cross-functional team to continually monitor which new services, providers, and standards are in this space, and to determine whether they affect the roadmap. This will be the sensing and strategy-evolution function. It's better to discover where the bumps are in a test environment than in a production environment.

And, of course, iterate and refine your operating model constantly as it relates to consuming, delivering, and supporting cloud services. This five-step process allows the organization to achieve cloud readiness for either the public or private cloud.

Conclusion

Cloud computing has tremendous potential to benefit businesses, industries, and entire economies, but substantial challenges stand in the way. We have to take the first step that is defining potential actions for industry and governments to consider in order to accelerate in cloud adoption and generate benefits for all stakeholders – individuals, businesses, governments, and society as a whole.

Adnan Mufti, FCA

Sales Tax on Services Harmonise or Pack Up

Bill Maher once quoted US Fed Chairman Alan Greenspan, joking that *"Bush's budget is such a mess that we're going to have to either cut spending, raise taxes or start a national sales tax. You know what that means -- war with Syria."*

We are not different either. Fortunately the Gillani led Government in Pakistan did not go for war; rather paved way for provincial sales tax after miserably failing to build a national consensus for a national integrated Goods & Services Tax (GST) or Value Added Tax (VAT). This started when the Parliament passed the 18th Amendment of the Constitution on April 8, 2010. Accordingly, under Entry No. 49 of 4th Schedule of the Federal Legislative List, the authority of the provinces regarding Sales Tax on Services was accepted and re-asserted by adding the words *"except Sales Tax on Services".*

Sindh took the initiative by enacting the Sindh Sales Tax on Service Act 2011 (SSTSA) on June 10, 2011. SSTSA deals with levy of tax on services provided, rendered, initiated, received or consumed in the Province of Sindh. With strong IT support and penetration, the Sindh Revenue Authority (SRB) rapidly brought the service providers into the tax net. SRB was also able to address the teething problems arose in every new system implementation. Punjab followed suit in Year 2012 by legislating Punjab Sales Tax on Services Act 2012 (PSTSA) with an experienced sales tax officer as Chairman heading the Punjab Revenue Authority (PRA).

However, despite all the most powerful constitutional support, political and administrative aid and experienced tax team, both SRB and PRA have not been able to demonstrate enough acumen and wisdom that the taxpayers of this country expect from tax authorities. Resultantly, not a single difference of opinion, overlapping or shortcoming between the 2 provincial tax authorities has so far been solved; instead the list is growing day by day. The sole beneficiary of such scuffle if no one but – Federal Bureaucracy especially Ministry of Finance and the Federal Board of Revenue (FBR) !

Federal Excise Duty

The most astonishing row between federal and provincial bureaucracies initiated when sales tax was levied on certain services under SSTSA but previously levied Federal Excise Duty (FED) thereon was not withdrawn by the Federal Government. This immediately caught the eyes of taxpayers and tax advisors only to be followed by issuance of a 'press release' by the FBR assuring that *"the federal government has decided to withdraw legislation for collecting FED on services which are separately taxed under SSTSA to avoid double taxation upon taxpayers".* What is more surprisingly and thought provoking is that despite lapse of almost 2 years since the issuance of such 'press release', necessary legislation has not been made in the statute to give legal protection to FBR's press announcement.

Later on, FBR's former Chairman Salman Siddique is on record to have admitted that GST on services had become a domain of provinces after the passage of the 18th Amendment. However, he claimed that as per an agreement, Sindh would only collect GST on standalone services, which included beauty parlour, clinics, slimming centres, laundries, etc. On the contrary, Sindh started collecting sales tax on all financial, logistics, advertisement, contractual and other services under the vires of SSTSA.

Incidentally, the SRB did not take into stock of the apparent confusion or disagreement between Centre and Province and its consequences. Thus, SRB kept collecting provincial sales tax. With the passage of time, this issue cropped further with deepening row between FBR & SRB. Consequently, the poor service providers of SRB are facing the wrath of SRB's ignorance and silence as FBR started not only issuing notices but creating demands on banks, financial institutions and other sectors for non payment of FED since Year 2011, notwithstanding payment of Sindh Sales Tax by such sectors into the coffers of SRB. All such matters are presently pending into litigation.

Withholding Tax

This scribe has reviewed a couple of VAT laws across the globe only to find out that Pakistan is the unique country to have introduced withholding sales tax on goods and services. It simply means collection of indirect tax is being also being made in a further indirect manner.

The concept of withholding sales tax was introduced in Year 2007 with the issuance of Sales Tax Special Procedure (Withholding) Rules 2007 under Section 3(7) of Sales Tax Act 1990 (the Act). The original SRO was SRO 660(I)/2007 dated 30 June 2007 whereby autonomous bodies, government departments and public sector organizations were made liable to STWH @ 1/5th of the sales tax charged by registered persons and 15% (or more), if they procure taxable goods from unregistered sector. This mechanism was primarily adopted to compel the unregistered sector to enroll into tax net. However, with the passage of time and as expected from weak tax machinery, the tool of withholding tax became the source of revenue for the government. Realising the importance of such a revenue yielding device, both the SRB and PRA also introduced withholding tax laws in their respective jurisdictions.

Now taxpayers have started receiving notices from both provincial authorities for not withholding sales tax on cross border services received by them. Such a notion does not find enough support even from senior tax lawyers who vehemently assert that provincial withholding tax rules of a province cannot be invoked or implemented in another province for the basic reason of their geographical limitations and constraints, envisaged in Section 1(2) of SSTSA and PSTSA. Such an opinion finds strength from the fact that for sales tax laws, both Sindh and Punjab are like 2 distinct countries. In the absence of a specific treaty between 2 countries, tax laws of 1 state cannot operate in another state. However, both SRB and PRA have done little to overcome such an issue.

Franchise

SRB has always believed that any person having registered office in Sindh and making the payment of franchise / royalty from its registered office is deemed to be a registered person under Section 9(2) of the SSTSA and is required to pay sales tax @ 10% on franchisee fee on entire amount that is being remitted from Sindh on account of franchise / royalty service received or consumed not only in Sindh but rest of Pakistan. The SRB had also assured the taxpayers that in case of any adverse reaction from FBR at any later stage(s), SRB would protect the taxpayer by taking up the matter directly with FBR so that the taxpayer may not be exposed to double taxation on this account.

On the other hand, PRA holds a different and contradictory stance, which says that royalty / franchise fee paid by the business to non resident foreign franchiser is largely computed upon the turnover of the business, earned across the whole of Pakistan. On this analogy, PRA opines that service recipient is liable to pay sales tax @ 16% on franchise / royalty services attributable to its turnover earned in Sindh and Punjab; while it is liable to pay Federal Excise Duty (FED) to FBR on identical services for the rest of the country. Such an understanding is based upon the concept that royalty / franchise service cannot be construed to have been rendered to the registered office alone (situated in Sindh, Punjab or rest of Pakistan), from where the service recipient makes remittance to franchiser; rather it relates to the franchise / royalty arrangement (in the shape of formula, technical support, trade mark) which helps the business in making sales across the country.

In terms of Serial No. 11 of Table II to the First Schedule of Federal Excise Act 2005 read with Rule 43A of Federal Excise Rules 2005, franchise services are charged to FED @ 10%. In the backdrop of 18th Amendment in Constitution of Pakistan whereby provinces were authorised to levy and collect sales tax on services, this scribe made several written representations to FBR regarding the issue of payment of FED on franchise / royalty services, basis of computation thereof, bifurcation on the basis of territory / geography, etc. and sought FBR's ruling / viewpoint in the matter. However, to-date FBR has not clarified the issue in writing. In the wake of distinct excise / sales tax laws being implemented in respective Provinces and territories, businessmen operating from more than 1 location is facing sever confusion over the mechanism of payment of excise / sales tax on franchise services, basis and bifurcation thereof among FBR, SRB and PRA.

On the contrary, FBR field formations have started making assessments of duty where the taxpayer paid sales tax on account of franchise / royalty to SRB and PRA instead to FBR. To-date, several identical cases are pending before the Appellate Tribunals or High Courts on this account.

Export Refunds

Sales tax refunds have been a matter of serious concern for exporters for a very long time. With the passage of time, the blocking of refunds has also been extended to taxable services.

SRB & PRA taxpayers issue sales tax invoices to registered exporters in Pakistan and charge provincial sales tax thereon. However, such invoices are not being validated by STARR system administered by FBR for (un)known reasons. As a result thereof, refund claims of millions of rupees are not released to genuine exporters by FBR. Such an adverse situation is also causing substantial damage both to exporters and service providers, in terms of both business and reputation.

Initially, it was conceived perhaps such refunds were not being processed and sanctioned due to non-data integration of database of SRB / PRA and that of STARR. However, later on FBR and SRB accorded their respective consents to PRAL to grant access to each other's data. Despite such an accord, PRAL officials contend perhaps the issue is not merely that of a procedure; rather PRAL awaits a policy decision from FBR to address such taxpayers' concern.

SRB and PRA appear to be working hard to resolve such bottlenecks but the most adversely affected is taxpayers who are facing severe liquidity crunch considering that FBR has not released a single penny against sales tax invoices issued by service industry registered with SRB / PRA.

Principle of Origin & Reverse Charge

Vide Section 4 of PSTSA, the Punjab Assembly legislated a unique concept of 'Principle of Origin' of Service. This principle implies that if a registered person is providing taxable services outside Punjab through a tax invoice to an unregistered recipient of Punjab, the service provider shall pay the amount of related sales tax to PRA. Likewise, if such recipient is himself registered under PSTSA, he shall withhold / deduct the whole amount such sales tax and deposit the same to PRA. On the other hand, both Sales Tax Special Procedures Rules 2007 and SSTSA do not acknowledge or reciprocate this legal position adopted by Punjab Assembly. Accordingly, when a service provider issues a tax invoice either in Islamabad or Karachi, he is legally obliged to pay sales tax thereon to FBR or to SRB respectively, irrespective of the territory or Province where such a service would be enjoyed or consumed. This anomaly in 2 provincial tax laws has created a lot of confusion for the business community.

To address unending queries on the issue by service providers based in Sindh, the SRB issued its Circular 8 of 2012 dated September 24, 2012 over Principle of Origin envisaged under Section 4 of PSTSA. In such Circular, SRB stated that it has already taken up this matter with FBR and PRA with the request that *status quo* may be maintained until the issues arising pursuant to the enactment of Section 4 of PSTSA are clarified. Therefore, SRB advised registered service providers and withholding agents to act as per the provisions of SSTSA in relation to services provided or rendered by them in Sindh or from Sindh and to continue to e-deposit sales tax on origin basis. The SRB also clarified that if, as a result of settlement between FBR, SRB & PRA, it is determined that tax payment deposited by the service providers and withholding agents was actually payable to PRA, such payment shall be appropriately adjusted between SRB and PRA directly.

However, soon after the issuance of above Circular, PRA issued a counter representation to SRB on September 25, 2012 wherein PRA has differed with SRB's Circular and termed it as misapplication of VAT's principle of origin. While disagreeing with SRB's interpretation of the Principle of Origin, PRA referred towards 'Record Note' dated September 27, 2010 signed between the Federation and the Provinces on Principle of Origin based upon consumption doctrine, i.e., tax will go to the Province where service is consumed and incidence of tax is borne irrespective of the place of its rendition. PRA maintains such tax is an inalienable right of the province where service is consumed and incidence of tax is eventually borne because identifiable consumption or expense of one province cannot be taxed by another province. PRA contends that mere request or suggestion of SRB to PRA / FBR to discuss / resolve the issue does not mean that PRA has agreed on any understanding with SRB on the continuation of the previous legally unsustainable practice. On this analogy, the PRA has termed SRB's Circular as factually and legally unacceptable to PRA and called for its withdrawal.

The above position clearly depicts the deep tug of war of both Sindh and Punjab over and signals ongoing frictions between the two tax authorities on the issue of sales tax collection where service is rendered in 1 province / territory and crosses into other Provinces / territories. Obviously, the taxpayers are exposed to penal action under either of the provincial sales tax laws.

Taxability of Food

In line with Chapter 98 of Pakistan Customs Tariff, both SRB and PRA started taxing services provided or rendered by hotels, restaurants, clubs, caterers / suppliers of food and drink. In this respect, both provincial tax authorities place their reliance on FBR Circular wherein FBR had termed the supply of food as 'service'.

The matter was confronted by various restaurants through food association. In this respect, SRB also approached FBR to exempt the federal sales tax on services provided by restaurants in the Sindh. As expected, FBR partially disagreed and opined that presentation and serving of food may be considered as a service but supply of food falls within the definition of goods under Sales Tax Act

1990. The latest ruling issued by Ministry of Law and Justice, Government of Pakistan also portrays a divided and complex proposition in the matter which will not go well with provincial tax agencies and the taxpayers. Despite this rift and divergent opinion, SRB and PRA adhere to their earlier views and require all restaurants operating within their jurisdiction to pay sales tax with them.

Tax Credits

Except for very few countries, all across the world VAT or GST operates with a central mechanism whereby all inputs of goods and services are repaid to taxpayers against their procurements / imports.

When SRB started implementing its law in Year 2011, it specifically disallowed all tax credits inputs which were not exclusively used in rendering taxable services in Sindh. This compelled service providers, having nationwide operations, to start claiming such inputs from FBR in their tax returns covering services for rest of Pakistan. On its part, PRA introduced a much narrower law which disallows input tax credits except which are exclusively related to rendering of service in Punjab.

The surmise of the foregoing conjectures means the service provider with nationwide operations may only claim such indirect input tax credits in FBR returns filed in respect of services rendered in Islamabad, Baluchistan and Khyber Pakhtunkhaw. The most likely picture of such tax returns could be that as against output tax / duty attributable to Islamabad, Baluchistan and Khyber Pakhtunkhaw, the service provider may be claiming input tax pertaining to all its business including that conducted in Sindh and Punjab which was specifically debarred in SSTSA and PSTSA, e.g., tax credit on hardware, software, ERP solutions, fixed assets, etc. which may not be associated or linked with any particular Province. This way, the FBR may receive a much lesser revenue as compared to the tax credit it would award to taxpayers. This is another emerging development and gap among the 3 tax administrations and may become a burning tax dispute among all 3 agencies.

Besides the foregoing issues and differences, there are certain other matters which have become bottleneck among the provincial and federal tax authorities and it is only the taxpayer which is suffering out of such complexities.

Conclusion

Ever since the Parliament passed the 18th amendment and passed on the service tax rights to Provinces, the federal bureaucracy did not accept this shift in letter and spirit. The increasing heat between FBR and SRB started from July 1, 2011 onward also nourished such mindset which was further fuelled by row of disagreements initially between SRB and PRA and then among SRB, PRA and FBR.

This scribe was a speaker in a Conference organized by SRB in May 2012 to evaluate its experience, weaknesses and strength as a tax administrative body in its 1st year of operations. Though at that point of time, SRB was only 11 months' old; yet sensing the mood of federal bureaucracy and emerging disputes with FBR, Dr. Kaisar Bengali, Former Advisor to Chief Minister Sindh on Finance and Member NFC from Sindh had warned serious threats to the existence of SRB. Mr. Bengali had also warned that in view of depleting forex reserves and growing budget deficit, the country might again look towards the international donor agencies like IMF, which will not facilitate GOP for its failing to introduce and implement a broad based GST or VAT across the country. Dr. Bengali recognized that such situation could be made a basis by GOP to pack up the provincial sales tax mechanism and resort to federal and single collection of sales tax on services. Accordingly, he had then suggested that provincial sales tax should be in single digit and without any adjustment / nexus against the federal sales tax, if provincial sales tax regime is desired to remain in existence.

The apprehensions and concerns shown by Dr. Bengali, if viewed in the light of foregoing growing disputes among SRB, PRA & FBR, warrant immediate review of all existing and emerging issues between SRB and PRA. There is a dire need that wisdom and sense prevail in both provincial tax bodies and efforts may be made to harmonize SSTSA and PSTSA to the benefit of all stakeholders including the taxpayers to avoid any 'administrative adventurism' from any quarter. This calls for harmonization between SSTSA and PSTSA before a pack up call rings.

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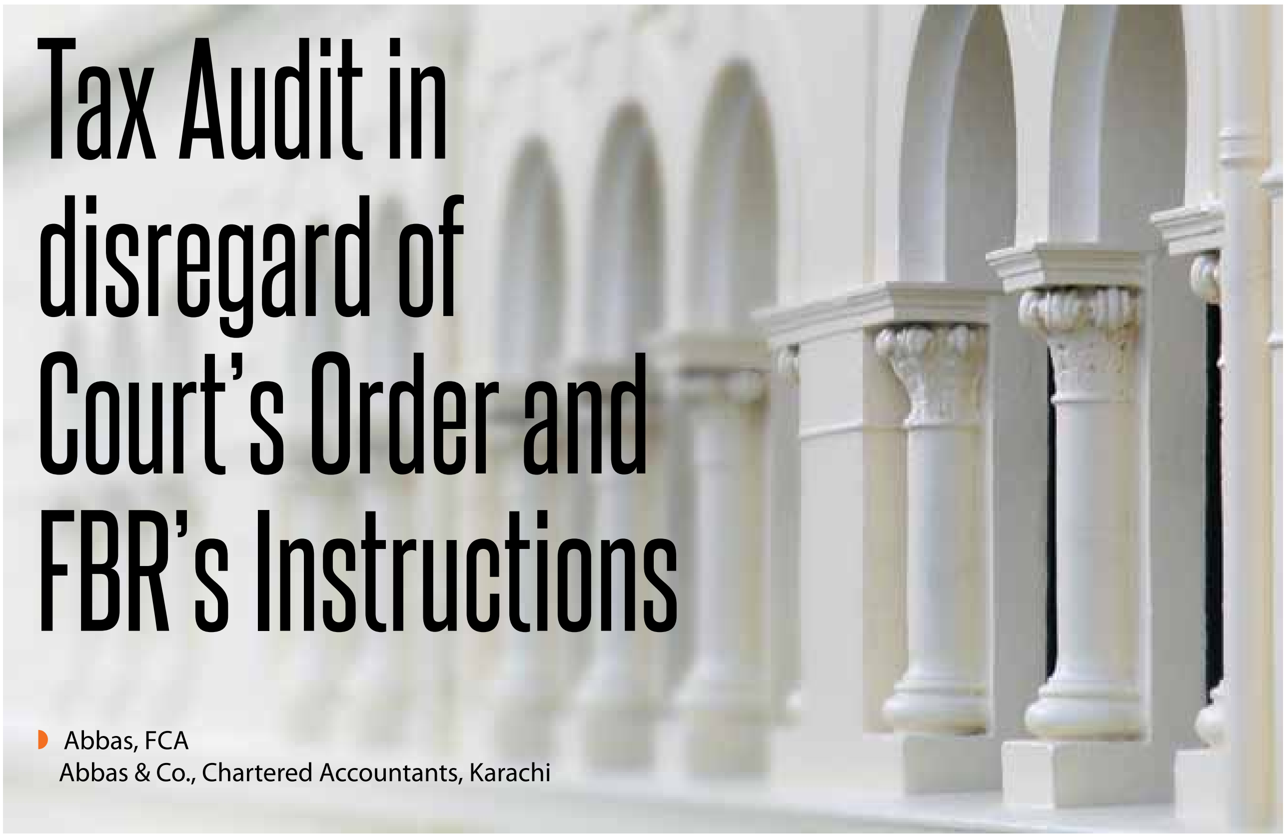


Tax Audit in disregard of Court's Order and FBR's Instructions

Abbas, FCA
Abbas & Co., Chartered Accountants, Karachi

The honourable Lahore High Court clearly held in in W.P. No. 11460/2012 decided on May10, 2012.

Quote
"As a conclusion, for the above reasons, Section 177(1) of the Ordinance, Section 46(1) of FEA and Section 25(2) of STA are read down and shall provide the machinery provision to conduct audit after the taxpayer is selected for audit of its tax affairs by the FBR through computer ballot which may be random or parametric."

For the above reasons, the impugned notices issued by the Commissioner under sections 177, 25 and 46 of the Income Tax Ordinance, 2001 Sales Tax Act, 1990 and Federal Excise Act, 2005 purportedly calling for the record of the petitioners but in fact selecting the petitioners for audit of their tax affairs are declared unconstitutional, illegal and without lawful authority and therefore, set aside. Resultantly, this petition and all the petitions mentioned in Schedule A are allowed with no order as to costs."

Unquote
Federal Board of Revenue issued instructions as per letter C.No.1(150)/TPA-II(Ballot-2011)/2012/157125-R Islamabad, dated December 07, 2012 to all sub-ordinate authorities of every jurisdiction in compliance with the Order of the hounarable High Court.

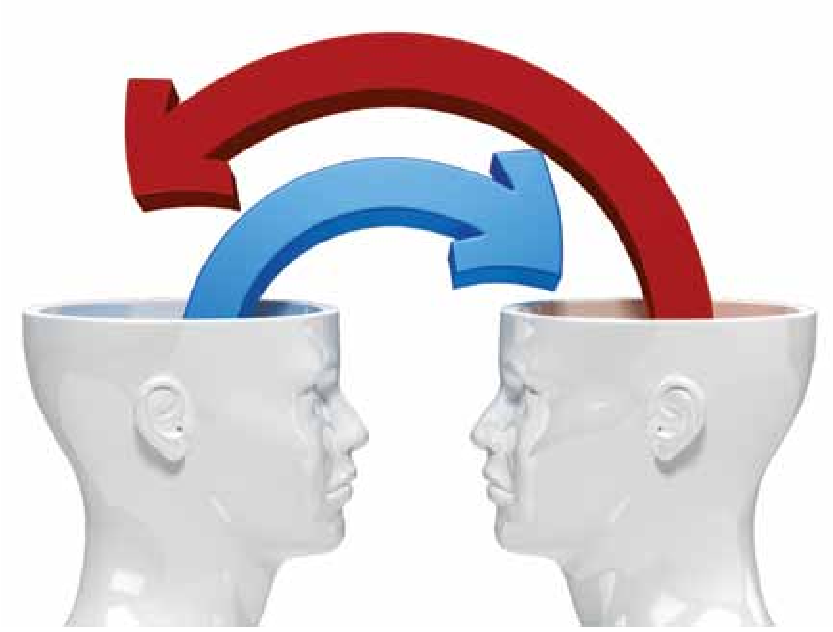
Despite the above clear-cut order of the honourable Court and instructions of FBR, the departments of inland revenue are bent upon harassing the taxpayers by issuing notices demanding the entire records u/s 25 of the Sales Tax Act usually called for while conducting an audit. At times no specific reason is given for calling information and records of the taxpayer. Or the reason cited for calling information and records are apparently based on conjecture and surmises. The specific reason sometimes cited are generally given as a matter of routine an example of which is stated below:

a) Your suppliers (various tax periods mentioned) have not paid output tax against the input tax claimed by you. And or

b) You have short declared or not declared the supplies against purchases shown by your customers."

While confronting (a) and (b) above, the concerned official does not even bother to see/check at his end, the natural and per se mismatch of data of the two registered persons due to differences of reporting period. The supplier and the recipient showing their transactions in the returns of different periods for all valid reasons. My above argument is supported by the provisio to section 7(1) which reads "provided that where a registered person did not deduct input tax within the relevant period, he may claim such tax in the return for any of the six succeeding tax period". So it is possible that the supplier has charged output tax in one period and the recipient/buyer can claim input tax in the same period or any of six succeeding period.

The department often faces embarrassment at the appellate forum because of this reckless approach. However, in this type of observations the taxpayer has no choice but to address the above so called concerns of the tax official. But in any case, the powers of the departments are restricted to call for limited records and evidence to address the above specific queries/ desk observations only and not beyond.



Post Refund Audit

The department has found yet another way to defeat the purpose of the honourable High Court's Order and FBRs instructions by bothering the genuine and honest exporters in the name of 'post refund audit'. In this case they ask for almost entire records as if they were to conduct a routine audit. The question then devolves upon as to whether the department can conduct the post refund audit even after the above order and instructions.

The department draws their strength to conduct such audit based on Rule 36, Chapter V of Sales Tax Rules, 2006 which is reproduced below:

36. Post-sanction audit of refund claims. —

(1) After disposing of the refund claim, the officer-in-charge shall forward the relevant file to the Post Refund Audit Division for post-sanction audit and scrutiny; which shall, inter alia include verification of input tax payment by respective suppliers and compliance of section 73 of the Act.

(2) The officer-in-charge of Post Refund Audit Division shall send his findings to the concerned Refund Division for further necessary action, as required under the law.

If we read the rules 28, 29, and 38 of the above Chapter V, it would be abundantly clear that the taxpayer's sanctioned refund had already passed through a through scrutiny/ audit duly supported by all substantive documents. The only evidence that was probably not checked at pre-refund stage was the compliance of section 73 of the Act (the refund department have now started to ask for this evidence also before sanctioning the refund).

In the presence of above procedures for verification of refund before sanctioning the same, releasing of fake refund is generally speaking impossible without collusion with the refund department. In order to guard this aspect of loss to the exchequer, probably the Post Refund Division was established under sub-rule 4 of the Rule 27 of Sales Tax Rules, 2006.

Considering all the above, the post refund audit so far as the taxpayer is concerned has to be restricted to the verification of compliance of section 73 by the registered taxpayer. To this extent the department can draw the strength from the rule 36 for a targeted post refund audit rather a restricted verification of compliance of section 73 and no more. The department's right to demand the entire records from the taxpayer may be justified, however, if the letter addressed for post refund audit to the taxpayer specifically states that a fraud or material irregularities in the refund section has been detected as a result of post refund audit of the departmental records, pertaining to the refund sanctioned to the taxpayer, and in this regard a departmental inquiry has already been initiated against the concerned persons who have sanctioned the refunds.

Value Addition Tax without Exemption from Audit of Commercial Importers

Sub-section 2 of section 7A of Sales Tax Act, 1990 was added by the Finance Act, 2004. Later, Chapter X, "Special Procedures for Payment of Sales Tax by Commercial Importers" was inserted in Sales Tax Special Procedures Rules, 2007. (Word "Commercial" was later deleted in July 2008. By virtue of above legislation the importers falling under Rule 58B and Sub-rule 2 of Rule 58E read with sub-section 2 of section 7A were charged sales tax on value addition/higher rate at import stage and were given exemption from audit save with the permission of the Board. The sub-rule 2 pertaining to the audit exemption was deleted in June 2012. On this half-strength the department took the opportunity to issue audit notices to the importers who have paid higher tax at import stage and have not dealt in goods other than the imported goods. In my view, the exemption from audit cannot be withdrawn in the presence of sub-section 2 of section 7A. The respected member legal is requested to take notice of the same.

If my observations are taken up positively by the high-ups at FBR, it would enable the departments to save their time, efforts and money and would also place them in a better position to target the real culprits and tax evaders.

Sustainability

Challenges and Opportunities for SMPs and SMEs

IFAC Publications

Small- and medium-sized entities (SMEs) might think that sustainability is only relevant to large companies. Maybe they think they cannot afford to be sustainable, that measuring and managing environmental performance amounts to a costly and unnecessary burden. Moreover their accountants, both those employed by the business (accountants in business) and those providing services to the business (accountants in practice), will tell you it is a hard sell getting SMEs to embrace sustainability. However, SMEs that integrate sustainability into their core business strategy can benefit from lower costs, reduced risk, and new opportunities. And their accountants, typically operating in small- and medium-sized practices (SMPs), can play a key role in their journey.

SMEs and the Benefits of Sustainability

SMEs are crucially important to the health and stability of the global economy: they account for over 95% of all businesses and for the majority of private sector gross domestic product (GDP), wealth and employment creation, and social and environmental impacts. Meanwhile, there is immense pressure on the natural environment and a recognition that finite resources are fast depleting. Today, SMEs are increasingly being faced with pressure to measure and manage their impact on the environment. They are an integral part of the supply chain where there is a growing demand for sustainability management both from customers and suppliers, especially for those SMEs seeking to secure contracts with governments or larger companies. SMEs also need to ensure they have access to the resources they need to be able to continue offer their products and services in the future.

That said, many SMEs may still feel they can delay addressing sustainability issues. Our **global SMP poll** indicates there are other more urgent issues preoccupying businesses, including economic concerns and keeping up with new standards, prompting sustainability to slide down their list of priorities. This may explain why few SMPs are presently offering sustainability services. But in the longer term, the sustainability issue is here to stay.

The good news is that there is **growing evidence** that sustainability initiatives, such as those to reduce an SME's carbon footprint, can also help improve their bottom line. SMEs of all shapes and sizes—for profits and not-for-profits, public or private, across all industrial sectors—stand to yield significant benefits from adopting sustainable business practices. The initial cost of integrating sustainability into the core business strategy, and reporting on it, can be more than offset by cost savings, reduced risk, positive brand association, and the ability to meet consumer, investor, and supplier demand for environmentally conscientious products and services. In this way, the initial cost is more an investment.

Opportunities for SMPs

Accountants working in SMEs can help their employers at each step of the way, from advising on the costs/benefits of behavioral changes aimed at reducing waste, to investment in new equipment and alternate sources of energy, to developing a comprehensive environmental management system (EMS). However, many SMEs lack the capability to this without outside help. They will likely seek the help of someone they trust, their accounting firm, a demand that can generate new revenue opportunities for SMPs. But first SMEs need to know that they can expect assistance of this nature from their accountants.

Given that SMEs are keen to realize the financial benefits of adopting more sustainable practices, a starting point for SMPs might be to offer to help their clients implement the plan-do-check-act method for the control and continuous improvement of processes and products. This advisory service could include improving business opportunities and creating efficiencies, identifying the risks to cash flow that social, economic, and environmental change will present, and ensuring that clients or employers take advantage of the cost reductions, minimize any cost increases, and maximize the potential revenue by adopting business strategies that identify and address those sustainability issues that are most relevant to their particular business circumstances. In addition, SMPs might wish to encourage their SME clients or employers to have an **EnviroReady** Report, an engagement based on **ISRS 4400** that confirms that the business has an environmental management system (EMS) in place that meets the requirements in ISO 14001:2004.

Some accountants might also help SMEs do some form of sustainability reporting, such as the **Global Reporting Initiative's Level C**. They could employ a step-by-step approach of making a public commitment to take action, assessing the business's impact, setting targets for reducing impact, acting to reduce impact, and publishing the business's policies and actions. Some SMPs are already helping their clients to develop metrics and the systems needed to capture and report on the metrics. If reporting is deemed valuable, SMPs could progressively do more, culminating in getting some form of assurance on what the client/employer reports, perhaps using the IAASB's **ISAE 3000** series of engagement standards, such as **ISAE 3410** for greenhouse gas emissions.

Initial Steps in Offering a Sustainability Service

An **ACCA report** suggests that SMPs take the following steps to ensure they have the prerequisite expertise to offer a sustainability service:

1. Build partnerships—SMPs should establish collaboration with local environmental sustainability experts in order to gain local access to credible knowledge.
2. Gain experience—This begins in the SMP's own business. Practitioners should review the environmental sustainability of their own business and then use that valuable experience to have rounded, relevant conversations, based on genuine experience, with their clients.
3. Seek information—Practitioners should familiarize themselves with information sources that they could recommend to others or use to broaden their own knowledge.
4. Formalize commitment—Where appropriate, practitioners should formalize their commitment to offering environmental sustainability advice through marketing and awareness raising in newsletters, their documentation, and website.

Ultimately, offering a sustainability service can help SMPs both add value to the services they offer and help their clients/employers improve the way they run their businesses. Applying the same principles to the practice itself can help accountants improve the way they run their own businesses as well. **Does your practice offer a sustainability service? If so, we'd love to hear about it. Please describe your experience and any advice you would give.**

IFAC Resources

Good Practice Checklist for Small Business (this now includes a separate section on environmental management on page 20)

IFAC Sustainability Framework 2.0

To access additional SMP resources (all free of charge) see the curated sustainability links on our Delicious page and the SMP area of the IFAC website www.ifac.org/SMP.

ICAEW looks at the future of IFRS in new report

Dr. Nigel Sleigh-Johnson
Head of Financial Reporting at ICAEW

ICAEW's Financial Reporting Faculty's latest thought leadership report on *The Future of IFRS* has attracted a good deal of international attention as stakeholders around the world ponder where the project to create a global set of accounting standards goes from here.

A universal 'financial language' offers many well-documented advantages. Cross-border businesses benefit from reduced preparation costs, and cross-border trading in securities increases as international investors can more readily compare the performance of companies based in different countries. In turn, it is argued that this results in increased market efficiency and a reduction in the cost of raising capital for companies, which ultimately helps to boost growth.

The rapid spread of IFRS around the globe in the past decade means that those benefits are no longer theoretical as a growing body of research shows they are increasingly evident in practice. Today well over 100 countries – including more than two-thirds of the G20 – require or allow their listed companies to prepare annual financial statements based on IFRS. But momentum has slowed as major projects have stalled and the US and other significant economies have become hesitant as they consider whether or not to commit to IFRS. Against this backdrop, a range of important questions are now being asked about where the IFRS project goes from here.

At this important juncture ICAEW's Financial Reporting Faculty (icaew.com/frf) has published a seminal report entitled *The Future of IFRS* that takes stock of the progress made towards developing a global financial language, identifies barriers and challenges that must be overcome if the use of the standards is to continue to spread, and provides recommendations for moving forward.

Key Recommendations

The report sets out a number of key recommendations, including:

- **Improve G20 leadership** – standard-setters create the standards, but adoption is determined by governments. The G20 should end its calls for convergence and play a more active role in promoting adoption of IFRS. As a minimum, all listed companies should be given the option of reporting under IFRS.
- **Get regulators behind IFRS** – the IASB needs more active and consistent support from regulators, including through the International Organization of Securities Commissions (IOSCO). Regulators worldwide should collaborate to deliver consistent enforcement, while ensuring that the exercise of professional judgement is not stifled.
- **End convergence** – the 10 years of work to align IFRS with US accounting standards has brought the two sets of standards much closer together. But it's time for the IASB to listen more closely to its other global stakeholders.
- **Accept less than 100% uniformity** – the goal of the IFRS project should be to ensuring that financial reporting facilitates international investment and trade by meeting the evolving needs of international investors and businesses, rather than achieving complete uniformity across the globe.
- **Minimise complexity** – the IASB must remain committed to principles-based standards and simplify its standards wherever possible. The complexity of some IFRS requirements may discourage some countries from fully embracing the standards.
- **Innovate the IASB institution** – the IASB must become a truly global organisation. It must decentralise its responsibilities, experimenting with ways of demonstrating that it is a global body that belongs to and is responsive to its national stakeholders, without embedding inefficiencies or layers of due process that in time might paralyse effective decision-making.

Some Conclusions

We stand at an important crossroads. Success is not guaranteed. But if the IASB evolves into the type of organisation we envisage, listening and learning as much as leading, and backed by the G20 governments and the right sort of regulation, we may well in due course look back on the IASB's second and third decades and conclude that they were was just as successful – if not more so – than its first.

Find out more

The *Future of IFRS* is downloadable from: www.icaew.com/futureofifrs. Queries should be addressed to nigel.sleigh-johnson@icaew.com or eddy.james@icaew.com

Read the latest news and preview selected technical content providing practical help in IFRS. For more information, visit icaew.com/frfapp or to download the free app, simply visit Apple's App Store or Google Play and search for 'ICAEW Financial Reporting Faculty'.

Real Estate Accounting

Aamer Abdul Razzak, ACA

Agreements for the construction of real estate are widespread and may relate to residential, commercial or industrial developments. Construction often spans more than one accounting period, may take place on land the buyer owns or leases before construction begins and agreements may require progress payments.

In a common real estate arrangement a buyer enters into a sales agreement with a developer to acquire a housing unit upon the completion of the contract term. The buyer generally pays some advance payments for booking, periodic installments during the term of the contract and a final payment at the time of taking possession or transferring of title.

The accounting treatment for the said arrangement varied from one developer to another, some were doing the accounting under the IAS 11 "Construction Contracts" by recording the revenue and costs by reference to stage of completion and others were recording revenue and costs at the time of handing over of the unit to the buyer.

The International Accounting Standards Board has issued **IFRIC interpretation – 15 "Agreements for the Construction of Real Estate"** which deals with the accounting of revenue and associated expenses by entities that undertake construction of real estate directly or through subcontractors. The interpretation deals with two issues i.e.:

1. Is the real estate agreement is within the scope of IAS – 11 "Construction Contracts" or IAS – 18 "Revenue"?
2. When should the revenue from the construction of real estate be recognized?

The interpretation assumes that before deciding on the above issues entity should make sure that their agreement with the buyer contains the clause that the entity will retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the constructed real estate to an extent that would preclude recognition of some or all of the consideration as revenue.

Also check whether the contract includes any separately identifiable component, if yes than the considerations of scope and revenue recognition should be applied to both the separately identifiable component individually.

The criteria to determine whether the agreements are within the scope of IAS 11 or IAS 18 is very simple, the entity should check whether the buyer is able to specify major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress (whether or not it exercises that ability). If yes than it's within IAS 11 and if not than it is with in IAS 18.

In case the agreement is within the scope of IAS 11, revenue will be recognized with reference to stage of completion only if the outcome can be estimated reliably.

In case of IAS 18 the contract can be either for rendering of services or for sale of goods. If the entity is not required to acquire and supply a construction material the agreement may be only an agreement for the rendering of services. In the case of rendering of services revenue associated with the transaction shall be recognized in the same way as recognised in IAS 11 i.e. with reference to stage of completion only if the outcome can be estimated reliably.

If the entity is required to provide services together with construction materials in order to perform its contractual obligation to deliver the real estate to the buyer, the agreement is an agreement for the sale of goods. In that case revenue recognition criteria for sale of goods under IAS 18 will be applied which are:

a. The entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

b. The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c. The amount of revenue can be measured reliably;

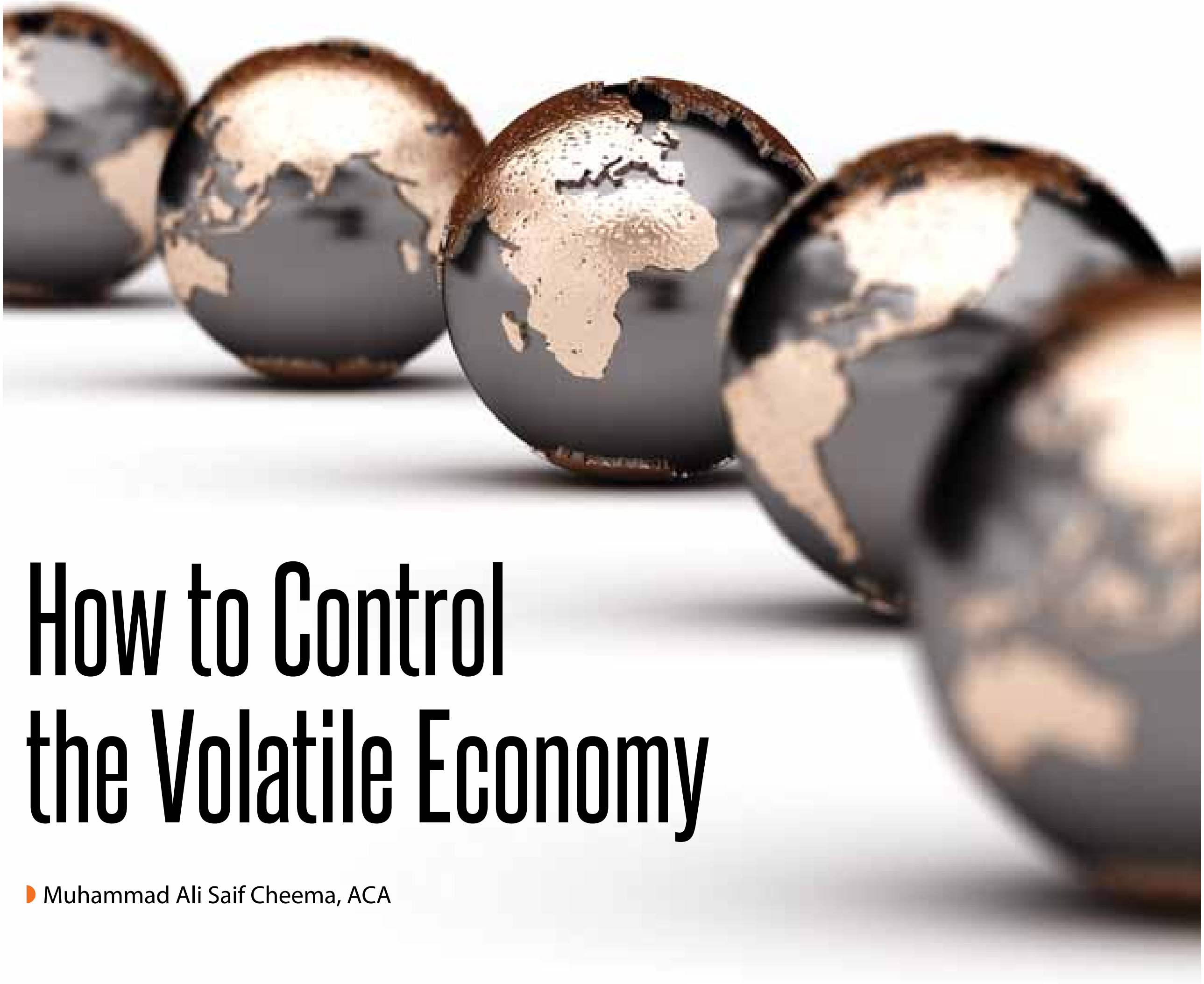
d. It is probable that the economic benefits associated with the transaction will flow to the entity; and

e. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue can only be recognized if all the above conditions are met. If the entity intends to transfer the control and related risks and rewards to the buyer during the work in progress than revenue should be recognized with respect to the stage of completion and the requirements of IAS 11 related to recognition of revenue and its associated expenses is to be followed.

If in case the entity is required to perform further work on the real estate already delivered to the buyer, it is required to recognize a liability and an expense for the work to be performed. If the amount of expense (work) cannot be estimated reliably than any consideration already received for the sale of the real estate has to be deferred (and recognized as a liability).

IFRIC 15 was issued in July 2008 and has been effective for annual periods beginning on or after January 1, 2009. Even though we do not have highly developed/ regulated real estate industry in Pakistan, however, it has had its impact on the accounting being done the established developers. The introduction of IFRIC 15 has made the developers to revisit their revenue recognition policies and analyze their agreements with the buyers, as to whether the agreements are within the scope of IAS 11 or IAS 18 and account for the revenue and costs accordingly.



How to Control the Volatile Economy

Muhammad Ali Saif Cheema, ACA

In the recent years, all of us have witnessed inconsistencies around us and economy is no exception to it. Now there is a situation when it is actually difficult to predict the next move of economy. Although volatility in economy provides some opportunities too but it always shakes the confidence of investors, which is surely not affordable for growth of a country as a whole.

Despite of inconsistencies all around, we remain consistent in certain areas; i.e.

- Consistent corruption in Public Sector Institutions
- Consistent losses in Public Sector Institutions

- Consistent high level of Public Sector Spending
- Consistent Government Borrowings
- Consistent Energy Crisis
- Consistent Law and Order Situation

Which is really unfortunate and it adds to the miseries which all of us are already facing.

After having consensus on the fact that the stability in economy is necessary for achieving macroeconomic goals, besides addressing the above mentioned core issues for which a credible government is required, our priority should be to attain the investor's confidence which is vital for the growth of economy.

We categorize investors into two categorize;

- Local Investors
- Foreign Investors

First of all, we need to focus on Local Investors as they are our asset, we need to encourage the local investors, particularly small scale investors as they will provide the strong base to the economy and which will significantly lower down susceptibility of change and will reduce the effect of speculation in the economy. Now for achieving their confidence we should look into the concerns of small scale investors.

Energy Issues

At this point of time biggest issue of small scale industrialist is availability of energy. Uninterruptable energy at subsidized rates has to be provided to the industrialist.

Consistent Monetary Policy

Another significant issue from which small scale investor has suffered a lot is inconsistent monetary policy. Over the last decade we have experienced too much fluctuation in availability and cost of capital from high availability of capital at low price to very low availability of capital at very high price. Small scale investor cannot handle such fluctuations in the availability and price of capital. A clear and consistent monetary policy with affordable pricing is required for small scale investors.

Availability of Capital

A significant problem that local investors particularly small scale investors faces is availability of capital, Currently only available resource providing capital to local investors is financial institutions, which provides capital at very high cost and financial institution do not carry capacity to fulfill the needs of local investors as major lending of financial institutions is being made to public sector enterprises.

For this purpose, there is a need to establish alternative investment markets for providing finance to small scale investors. In Pakistan we have only Stock Market which is not accessible to small scale investors and is not true indictor of the performance of economy, which is evident by the fact that in the last 15 years, less than 150 companies got listed in all the stock exchanges of Pakistan.

Preference of Manufacturer over Distributor/ Retailer

For creating more jobs in private sector, we need more manufacturing concerns. Preference has to be given to manufacturer over others while formulating economic policies as he is the one who gives jobs and is rather more exposed to the issues i.e. Energy shortages, High cost of capital, Human resource issues etc.

Foreign Direct Investment

Sizeable new projects bring lot of opportunities for SMEs in terms of business. Mega Projects with foreign investment are required to mobilize the local investor.

As I have already said that foreign investment is also one of the conditions to be met for attaining stability in the economy but for that purpose besides addressing the above mentioned issues, we need to address the following core issue for attaining the confidence of foreign investor.

Law and Order Situation

This is the most obvious hurdle in attracting foreign investment to the country. We are facing this situation for the last decade. Huge waste of financial resources and loss of lives have been made till to date. We need to get ourselves out of this situation for attracting foreign investment into the country.

Another significant factor that enhances destabilization in economy is high level of Public Sector Borrowing Requirements causing Government part of problem, which is supposed to be a solution provider. That is mainly because of mismatching Government Revenues with Expenses. Solution to the problem is obvious i.e. reducing cash outflows and increasing cash inflows but it is certainly difficult to attain.

As far as cash out flows are concern certain major areas of expense are difficult to cut down in short term i.e. **Debt Servicing and Defence related expenses**. A long term policy is required to cut down these expenses. However certain areas which also cause substantial cash outflows may be handled in short term i.e.

- Subsidies
- Loss in Government Owned entities

Good Governance can be tool to solve these issues in short term. Further unnecessary imports should also be discouraged for achieving positive balance of payments.

While looking above, we have the feeling that we face limitations in cutting down expenses beyond a certain level, so we are left with the only option to resolve the issue and to bring stability in the economy i.e.;

Increase Tax Collections

Our country has one of the lowest Tax/GDP in the world, which indicates poor governance in the country but at the same time it indicates the opportunity to get out of this economic instability by focusing on this particular area. How to achieve this increase in tax collection is a different topic to debate but most of us agrees on the point that certainly Tax/GDP can be increased to a level which our neighboring countries are already maintaining.

I again emphasize on the fact that our country needs growth & stability at this point of time to provide equal opportunities to its citizens, which is only practicable in a stable economic environment.

An Interview on The Role of Ethics in Restoring Confidence

IESBA Chair Jörgen Holmquist

Jörgen, in an *IFAC News* interview from last August when you became the first independent chair of the International Ethics Standards Board for Accountants [IESBA], you indicated that the board has a clear role to play in responding to the global financial crisis, specifically in terms of helping to restore the reputation of the profession. Since the crisis, regulators and other policy makers have been actively exploring ways to enhance audit quality, including measures to increase the transparency of the audit process and to further safeguard auditor independence. At the same time, we have continued to witness a number of high profile accounting frauds in some jurisdictions. Some have said that the global financial crisis has led to a crisis of confidence in the accountancy profession. How can the IESBA's *Code of Ethics for Professional Accountants* [the Code] help to restore the reputation of the profession?

JH: While the profession has not received as much criticism as the rating agencies and banks in relation to the global financial crisis, the profession is certainly not viewed as favorably as it was five years ago and there is still much work to be done. What many people outside of IFAC's membership may not know is that professional accountants are committed to abiding by strict ethical requirements—the Code presents an internationally robust and comprehensive set of rules and guidelines for professional accountants. However, some accountants may choose not to follow the rules, and therein lies the problem. A relatively small number of accountants commit fraud, but that's all you hear about in the news, and they end up hurting not only those directly involved, but the reputation of the entire profession.

What can be done about that?

JH: By increasing awareness of the Code and continuing to develop credible, reasonable solutions, we hope that the general public will come to realize that professional accountants are committed to acting ethically and in the public interest, and that fraudulent accountants constitute a small minority.

In some jurisdictions, the ethical requirements in the Code have been written into laws and regulations. However, there are some other incentives to follow the Code, regardless of legal requirements. It is in the best interests of all professional accountants, as members of a highly regarded and trusted profession, to help maintain the reputation of the profession. There are always going to be pressures—from management or potential financial gain, for instance—to stretch or break the rules. The Code includes guidance for professional accountants on how to deal with those situations. We expect that they will choose to do the right thing. Another motivator for firms and individuals to self-enforce the Code is that abiding by the Code can help them improve the consistency of their services and meet the high expectations of clients and employers.

How can the Code help in this way?

JH: As a global set of standards, the Code establishes a recognized benchmark for consistent ethical behavior by professional accountants worldwide. Clients and employers are rightly entitled to expect that professional accountants will act with integrity and objectivity, exhibit appropriate competence, due care, and professional behavior, and abide by the duty of confidentiality in carrying out their roles and responsibilities. Ethics standards can help professional accountants understand and meet their clients' and employers' expectations and therefore better serve them.

Do you agree that some of the recent accounting scandals that made headline news such as Olympus in Japan and ERA Mining Machinery Ltd in China were caused by compromised ethics?

JH: First, I should say that I, of course, do not have all of the information surrounding the cases you mention. Much of the information comes from the media. However, even when the news sources are highly respected, they may get the facts wrong or give incomplete coverage of events. While it looks like poor ethics played a role, I think it would be oversimplifying what happened to say that those scandals were caused mainly by a failure of the professional accountants involved to comply with ethics standards. To fully identify the causes would require a deep understanding of the particular facts and circumstances and the complexities of what occurred. At the same time, there is no doubt that those cases have hurt the standing of the profession in many jurisdictions. But it is important to distinguish between legal and ethical issues. Scandals usually become headlines because of suspected illegal activity—but acting illegally is of course very unethical.

Do you believe that ethics is something that cannot be taught, that it is inherent to each individual?

JH: I think most people have a personal code of conduct that they follow and it's probably determined by how they were brought up, the morals and beliefs that were instilled in them from a young age, etc. I feel that ethical conduct is part of a person's moral upbringing, so yes, part of it is inherent.

However, codes and rules in general, help the individual to adhere to ethical principles by supporting their intent to act ethically and guiding them in applying general ethical principles with concrete examples. The IESBA Code sets out the fundamental principles, a conceptual framework, and specific prohibitions. All professional accountants must be aware of the parts of the Code or their member body's Code that are relevant to their work, which will be of help to them when they are facing issues of an ethical nature.

Can you give us a brief update on what the IESBA has going on right now?

JH: We recently released final revised provisions in the Code that address conflicts of interest, breaches of a requirement of the Code, and the Code's definition of the term "engagement team." The changes will be effective in 2014.

These projects were closely followed by a number of stakeholders from the regulatory community, and I was pleased that we were able to effectively engage with them through different forums. I was also pleased that we were able to successfully coordinate with the International Auditing and Assurance Standards Board [IAASB] in finalizing our project on the definition of engagement team, as this project was closely linked to the IAASB's project to revise its International Standard on Auditing 610, *Using the Work of Internal Auditors*.

In relation to our current agenda, we had our first deliberation last month regarding the significant comments to our Exposure Draft on responding to a suspected illegal act, our most important project. Certainly, there are a number of challenging issues that respondents have raised. We will work diligently, systematically, and thoroughly through all the responses as we determine a way forward. We also discussed a number of new projects and initiatives at our March meeting.

See more information on the **March 2013 Meeting Page**, which includes the meeting highlights and a **podcast** summary.

Turning Failure into Success

Huzaima Bukhari & Dr. Ikramul Haq

According to Press reports, the Federal Board of Revenue (FBR) is facing huge shortage in revenue collection despite resorting to all sorts of negative tactics and highhandedness destroying the already fragile economy. The Chairman FBR, on assumption of charge made the tall claim of surpassing the revenue target of Rs. 2381 billion by "using extraordinary managerial skills, IT tools and innovative amnesty schemes". However, a few weeks before the exit of Hafeez Shaikh, the revenue target was reduced to Rs. 2190 billion. During the first eight months of the current fiscal year, [July 2012 to February 2013], FBR collected only Rs. 1,107 billion, requiring further Rs. 1087 billion in the remaining four months to achieve the revised target of Rs. 2190 billion. There are reports that even this substantially reduced target will not be met and shortfall would be as high as Rs. 400-500 billion. Such a shortfall will certainly cripple the new government financially, starting its tenure with a collossal fiscal deficit and an almost collapsed economy. The caretaker government for two months will also face an uphill task to generate sufficient revenues to run the day-to-day affairs.

The Federal Tax Ombudsman (FTO), Dr. Muhammad Shoaib Suddle, on March 19, 2013 warned FBR "to refrain from making any attempt of withholding refunds to show higher tax collection in the remaining period of 2012-13". He revealed that recently his office called a team of FBR "to ensure timely payment of sales tax refunds particularly in the last months of the current fiscal year."

The FTO categorically conveyed to the present FBR team, "be careful and do not resort to blockade of refunds." He claimed to have informed FBR that "if it tries to withhold refunds, taxpayers would react and then FTO Office would certainly take immediately cognizance of the wrong doings of the tax department". He assured the taxpayers that the cases of maladministration e.g. delay in refund payments would be taken up by the FTO Office and prompt action would be taken on the complaints of the taxpayers."

In 2011, the FTO took suo moto notice [complaint number 982/2011] of figure fudging by FBR through unlawful "borrowing of funds" in July 2011 by the Large Taxpayer Units (LTUs) from some companies to show higher collection. This undesirable act of showing higher figures of collection on the part of FBR still continues as it has no will to crack down on tax evaders. On the contrary it is as usual, preoccupied with extending full support to tax evaders and smugglers.

Take the example of ongoing amnesty scheme for smuggled vehicles. It has led to daily inflow of thousands of vehicles through porous borders. Legal cover given to criminals is encouraging further smuggling resulting in loss of billions of rupees to the national exchequer—the main beneficiaries of this scheme are smugglers of vehicles as more and more luxury vehicles are being cleared by charging nominal duty. In the past, similar tax amnesty schemes were abused by tax evaders to launder their untaxed money through state patronage and, under all such amnesty schemes so far, government has failed to collect even a fraction of the black money.

According to a news item, "the Pakistan People's Party-led government has left behind a multibillion tax refund scam—one of the biggest scandals in the Federal Board of Revenue—to be dealt with by its successor interim set-up." The revelation came a day after Premier Raja Pervaiz

Ashraf celebrated the 'victory of democratic forces' as the PPP-led coalition government completed its five-year term. The Press report stated: "The FBR added Rs.190 billion as sales tax in the exchequer but then also gave Rs.600 billion worth of refunds to influential people which amounts to a big fraud", Saleem H Mandviwalla, the former finance minister told this to journalists on 17 March 2013 adding that "this trickery of over refunds in the FBR was unearthed during my 24-day tenure as finance minister".

We are all aware about massive sales tax evasion coupled with under-reporting and non-reporting of incomes in Pakistan. The challenge is how to bridge the tax gap of billions of rupees. Issue of documentation is lingering on for years. During its five year rule, the PPP-led government did not take any action to check leakages in tax collection. On the contrary, unprecedented amnesties and concessions were given to tax evaders and looters of national wealth.

Shamelessly in the last days, members of Sindh Assembly and the Speaker of National Assembly were busy adopting laws to secure life-long benefits, perks and privileges—creating a class of Lords in the Land of Pure where millions are undernourished and forced to live below the poverty line.

After failing to get Tax Amnesty Bill passed from the National Assembly, despite all out efforts till the last day, FBR is now planning to get it promulgated through a presidential Ordinance—if done, it will be a suicidal step for the PPP in the election year.

Tax evasion is so rampant in Pakistan that size of informal economy is twice that of documented one, if not more. Take the recent case of Suddle Commission in Riaz Malik—Arsalan Iftikhar scuffle. Transparency International Pakistan (TIP) in its letter of 8 December 2012, addressed to the Chairman FBR, demanded:

> *"...provide information to TIP on the total value of assets of Malik Riaz as assessed by FBR in accordance with Income Tax Ordinance 2001, including the Income tax and Capital Value Tax paid in 2009 on assets worth over Rs 225 Billion (US 3 Billion). In case these assets have not been declared to the FBR in 2009-2010 returns of Mr. Malik Riaz, TIP request FBR to take action according to the law. TI Pakistan is working for FBR to become a zero tolerance against corruption organization".*

Even after seven reminders sent to the Chairman FBR, TIP was not informed about tax collected on the publically declared assets of Rs. 225 billion by Mr. Malik Riaz himself. Reportedly, he offered 10% to his protectors "if tax amnesty scheme is announced giving him a chance to get his untaxed wealth whitened by paying just 1% to the national kitty".

According to the Suddle Inquiry Commission Report submitted in the Supreme Court of Pakistan on 6 December 2012, tax evasion of Rs. 119.4682 billion was determined, and reported in the Press as under:

- Alleged tax evasion of Rs. 51.3 million by Dr. Arsalan Iftikhar.
- Alleged tax evasion of Rs. 119.4 billion by Malik Riaz Hussain.
- Alleged detection of undeclared bank accounts in the name of Ahmed Khalil showing deposits of Rs. 306 million. Without any declared income, Ahmed Khalil has been found owner of assets worth Rs. 677 million.

The TIP asked Chairman FBR to take immediate measures in accordance with the law, rules and regulations to recover Rs. 119.4682 billion from Malik Riaz, Arsalan Iftikhar and Ahmed Khalil on account of tax evasion determined by the Commission. However, no action has been allegedly taken till today either against them or the officers who failed to collect taxes from them causing substantial loss to the national exchequer.

Amid this bleak scenario what is the way out? The answer is: a clean and determined leadership that takes the tax evaders to task. The caretaker premier can set the ball rolling for the coming government. The only way to check massive evasion in customs, income tax and sales tax is implementing an integrated Tax Intelligence System (TIS), which is capable of recording, storing and cross-matching all inflows and outflows. For collecting taxes, the following measures are inevitable:

- All in-bound and out-bound containers should be scanned/x-rayed to check evasion of customs duties and determine inflows.
- Encouraging, rather forcing, payments by credit cards/cross cheques for business purchases exceeding Rs. 25,000, and giving incentive for reporting transactions to FBR—at least 10% as refund of the amount paid as VAT. The procedure for claiming refund should be simple, i.e. payer should email evidence to the Central Tax and Refund Depository, which authorises refund directly to the credit card/bank account used after verification of genuineness of the invoice (by checking sellers' registration number; or alternately;

- Any person who pays and reports VAT may be allowed to claim against income tax liability 10% of total amount.
- In this scheme, the people may choose not to claim full credit of VAT paid since they might not be able to justify the sources of their expenses. For broadening of tax base, the government can announce immunity for 3 years from scrutiny of expenses declared through VAT invoices alone—it would go a long way to document the economy yielding more and more revenues in the coming years under income tax regime.
- This scheme would encourage people to obtain VAT invoice for each transaction, which is presently not being insisted upon. Evasion of sales tax is mutually beneficial. If VAT payers are given the above incentive, they will insist on invoice and the government without expending any money or making extra efforts would be able to substantially increase the number of return filers.
- Such schemes were successfully implemented in Taiwan, Turkey and Venezuela. In India, the government of Kerala introduced 5% sales tax for all retail sales with incentives to both the shopkeepers and buyers. The shopkeepers get a 10%-15% refund of tax collected and paid to the government and the buyer retrieves a coupon of Rs 5 for every purchase of Rs 100. Every week, a draw is held and coupon-holders win lucrative prizes. This scheme has boosted retail sales of shopkeepers who are willing to get registered with the government. There has been tremendous increase in government revenues with the introduction of this scheme.

In Pakistan's peculiar milieu, innovative measures would have to be employed to restructure the tax system and restore public confidence in tax system. A State that has miserably failed to protect the life and property of the citizens, people say, lacks moral authority to collect taxes. Thus, even a good tax system will not work unless the prevalent situation—restoration of writ of state—is not established. This is an important prerequisite for any kind of reforms that political parties in election times are talking about.

The new government, after taking charge, should first of all introduce Taxpayers' Bill of Rights containing provisions that money collected from the citizens would be spent on their welfare and not for the benefit of a few. Secondly, there should be taxation of all incomes irrespective of their source (agricultural or non-agricultural). Thirdly, broad-based and harmonised VAT, covering all goods and services, at a low rate of 6% to 8% should be implemented.

Tax collection and compliance cannot be improved without the implementation of integrated Tax Intelligence System (TIS) that can correlate VAT collections with income tax returns and monitor all transactions. It should be coupled with a speedy refund system, which is fair and transparent—while enforcement should be strict and stringent, refunds should be paid expeditiously. There must be no sacred cows, amnesties, exemptions or concessions. Tax compliance cannot be enforced unless all the goods and services — barring a few essential eatables, books, children's garments, education tools —are brought into the VAT net and all persons having income of Rs. 500,000 or more are taxed and compelled to file returns (electronically or manually) with declaration of assets and liabilities and personal expenses.

Law should be passed requiring mandatory publishing of directory of taxpayers every year so it can be seen how much tax is paid by high-ranking civil-military officials, judges, politicians, public office holders, rich professionals and businessmen and how much wealth is owned by them. The existing taxes, sales tax at exorbitant rate of 16% to 19.5% with lots of exemptions, excessive withholding taxes, presumptive and minimum taxes and non-taxation of agricultural income has created distortions—the system has failed to create equity, besides not being able to generate the desired tax-to-GDP ratio. To improve the tax-to-GDP ratio, all kinds of exemptions and concessions must be withdrawn. All persons earning income of Rs 500,000 or more—from whatever source— should be taxed.

At the same time, FBR should be made an autonomous body insulated from outside political, financial and administrative pressures. Parliament should devise, through a democratic process, a rational and consensual tax policy after taking input from all the stakeholders and experts in the field. This alone can help in improving tax compliance and improving tax-to-GDP ratio to a respectable level — India and Iran have achieved the level of 17% and 16% respectively by adopting the same measures in recent times.

It is by no means an easy task in Pakistan. But now the public is becoming increasingly critical of political motives behind so-called 'reform agendas' and getting better informed about the impact of undisciplined public finance. Unless all of us start paying our taxes honestly and diligently, rather than just criticizing the government, there can be no hope for change. After fulfilling this obligation, people should demand that the revenues collected must be spent for the welfare of the masses and not for the luxuries of the rulers and the civil-military bureaucrats—their perks and privileges should be monetized forthwith. The ruling elites—political and bureaucratic—should be compelled to live like ordinary mortals rather than thriving on taxpayers' money shielded behind iron curtains in palatial houses.

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Why Boys Fail in CA?

Mohsin Abbas, ACA

It was our first day in college after the result. We were sitting in a Module D lecture. The teacher entered to take his class. Silence spread in the air. He stood silent behind the decorum for some moments. His face had the expression that he had seen the result. He looked a little worried but it seemed that these expressions were not new for him, he was used to it.

Only two persons in our class of fifty had passed Module C completely. The rest had either passed two or a single paper (most of them). Some were still left with Module B papers so could not continue their classes after result. The principal asked us the reason for such a result.

"The paper was very difficult" we replied. Here the principal made a statement that I could not forget and his words still rest in my mind.

"Who said that papers come easy in CA?" He asked. We had no answer. The class remained in silence. After a deep thought I realized that he was right, no one had actually told us about it! Actually what he meant was that saying that the paper was difficult is the most lame excuse that one can make as there is no mandatory condition for the paper to be easy which if breached would allow us to criticize it.

'Difficult' is basically not a word which can describe CA education because of its inherent limitation of being highly subjective and relative. The word is **'Different'**. CA is different from every other field and this attribute only makes it sometimes the most inexplicable dilemma for students.

Note: The article is meant for girls in the same way as for boys.

CA requires you to complete 4 modules (12 papers) in 2 years and then pass 2 modules (8 papers) together with a 3-3.5 year of professional articleship in a CA Firm. The CA inter syllabus is quite extensive and requires you to comprehend vast subjects especially if you have no background knowledge. The articleship then requires you to work in the day (many times night too) together with studying to prepare for the papers. These attributes surely make it a different field which students realize when they take the ride.

The reason for sky rocketing failures and such a low passing percentage needs to be addressed as no qualification likes to produce failed graduates!

There is a psyche of most students who carry a misconception (khushfehmi) that they had done very well in the exam and it was quite unjust and selfish of the examiner to fail them. These students fail to realize that they could have been actually wrong to have failed and it would be a better idea to estimate their abilities again. Although it is sometimes not easy to calculate your error-some areas but this does not undermine its dire importance. Most students, when they fail at 49, say that "Oh! I just remained by 1 mark". They fail to realize that they had not failed by a single mark but by 51 marks! This ideology restricts us to only progress by a single step, thus we fail to muster up for the giant leap!

Following are some of the common reasons that I figured out being the reason for failures, in continuity:

1. One of the most important reasons for failure is **focus disorientation.** Focusing on irrelevant stuff, easy and not tough, summary and not source, tomorrow and not today. Your focus from day one

should be to pass the paper. I have seen students saying "O I just started preparation three days before the paper, still I attempted most of it…!" or " I just prepared the whole of it in one week..!". If you are focused, you will devote most of your time to your subjects. It's better to study to pass rather than just thinking how to pass!

2. Another typical reason would be **rote learning**; learning words and not concepts. In fact words are only remembered for a short term, it is the concepts that are learned and thus are easy to retain if understood. Testing focuses on concepts and awards conceptual minds.

3. Students face difficulty in changing their behavior. A failed attempt requires **change of behavior** and not a blame game against ICAP; doing more than what was already done, seeking help where problems are being faced and arousing confidence and motivation. Most people end up in blaming that ICAP does not want to pass them and they had done all that was required. Certainly, blaming ICAP is not an option, whatever it does, whatever the criteria for passing is, all students pass through the same process and that puts you to an equal advantage because the students who are passing are also being judged by the same process. An important strategy is to De-learn the past approach and practice, reinforce a new thought process (after discussing with seniors/trainers), restart from step one and stick with hard work. Think ahead rather than thinking about the past.

4. When you study a paper you have to **understand the examiner** and his style of testing in order to know how to manage it. This can be done through past paper analysis, suggested solutions and most importantly examiner comments (written by examiners themselves). The examiners are professionals and want us to produce precise, to the point and objective replies. This also requires keeping our answer sheets **professionally sound** and not amateurish as it is that piece of paper based on which we are judged for how professional we are. Most examiner comments state that student replies are unprofessional in terms of language as well as concepts especially at Final stages. The examiner would not like to award generously to such replies.

5. Most papers have an extensive syllabus and are to be covered in a limited span of time. This requires **covering as much as there is, not as much as one can**. It is the human psychology that when something is done repeatedly it gradually occupies more space of our involuntary brain and thus becomes easy to retain and memorize. Studying continually daily therefore, helps shaping the cognitive thought process. Also writing down thoughts and concepts is a good exercise as it sharpens our expressions and also helps managing writing time; making way for examinations when all we have to do is write down what is stored inside our mind.

6. Some students have school habits of **relying totally on trainers**. Whatever they have taught is considered enough and what they have left for us is ignored in totality. Teachers have absolutely no exact idea what will come in the exams. One should have a clear apprehension of the syllabus contents of each paper and should realize a responsibility to ensure at the end of training

session that he has covered all there was and that there is no grey area left. Also trainers should not be held responsible for any result. There task is to show us the door, it is our duty to reach up to the door and struck it open!

7. **Time management** is a very important cause of failures. Time has to be managed effectively when studying and in exam hall, especially the time between the end of training session and exams in ca inter, and the leaves period in articleship has to be precisely managed. It is not easy to manage office and study simultaneously but a well defined approach can fill the gap. The best way is to make a **routine**, e.g. studying some hours before going to office daily may become a good routine allowing you manage both things effectively. For papers, a timetable should be there, before the start of leaves, for each day and each hour (if possible) showing what has to be done and in what time. This not only ensures that each topic is covered and gets its due share of time but also helps as a control check by showing the gap between planned and actual so that proper mechanisms can be used to cover the gaps and complete the course in time. Time should be properly allotted for revision as well. You have to be an efficient manager to produce effective results! As an example, the Module E leaves (max

50) get about 11 days approximately for each paper. In this limited time, for AAFR, one has to efficiently cover all reporting standards together with other syllabus material. If you have not done homework on Financial Securities standards for example, you cannot dream of covering it in your leaves and would most probably end up in leaving the whole topic at the end only because you were unable to manage it!

8. Another major reason for failures is **nervous problems**. ICAP has used this tool to play with results. Whether you are prepared well or not, if you lose your nerves in exams you will not be able to attempt the simplest questions and hence most students state afterwards that had they not lost their nerves they would have successfully attempted many questions. The best approach is to reinforce a thought process that the hard questions are hard for everyone. First of all gather what is attemptable, what you know, be happy with it, however less it is, grab the easy part and off you go. Once you are done with it you know that you have at least something in your plate, now come to the relatively tough ones, take deep breathes, think positive, that's the most important part of it. Passing a paper not only requires preparation but also sensible management in the exam hall. To improve your stress management try to face it in prep leaves, exert yourself to stressful exam situations (especially at same hours as are for exam papers) and calculate your position over cumulative tries, this would definitely help monitor and control stress and nervous habits.

9. Another reason which can be associated with this phenomenon would be **lack of empathy**. Imagine you are in a cricket ground, on the pitch facing the bowler. To be a successful batsman you ought to predict the next move of the bowler with reasonable accuracy otherwise you will be left with the last moment decision when the ball is in the air and you have only a moment to take the move. Similarly in exam situations, to analyze the situation you need to take your glasses off and look from the examining body's, what should the examiner demand, what maturity and practice level the examiner will be looking for, what you should have learned at this stage and how they want you to produce it. This can be achieved by observing past papers and examiner comments as we have currently no other interaction with the examiner available. You ought to form a general idea of what can be tested, what difficulty levels the examiner tests and how the examiner will treat your replies. The students who blame examiners for not passing them are sometimes unable to understand what the examiner had demanded and how it was to be produced.

10. **Lack of confidence and over confidence** are too dangerous attributes which lead astray. You need to believe that you are good, good is what is required, but you are not perfect whether you have a clean history or a history of merit certificates/medals. Also do not indulge in lesser beliefs that you will not be able to deal with the paper despite having reasonable preparation. Passing a paper does not only mean preparing well but also a right mix of confidence, commitment and motivation that you need to devolve in yourself to achieve your goals and which should be reflected n the exam hall.

11. **Last minute preparation phobia** can be seen in a lot of students. When they have time they waste it and when papers approach they wish if they had some more time they would have done tons better. This is a common human psyche and has also been a subject of discussion as a human attribute in Quran by Allah as well. What students need to evolve in themselves is a belief system that any time utilized now will provide the fruit in future however far it may look like. Starting studying at the last moment pushes one in more problems as then time also becomes an enemy, when it was, a could be used weapon, earlier. This dilemma of managing more material in less time should not allow one to blame his circumstances as everyone has the same number of hours available, the passers, the failures and the medal earners as well! You have to start preparing from day one and revise it again and again so that it becomes a part of your cognitive mind and you become a master of your abilities!

12. An important reason for failure is being **unable to comprehend the question requirement**. Most students remain in sheer disbelief about what was actually required out of the question and produce a detailed reply as per their understanding of the topic; this enigma of failure is then revealed when they view the suggested solutions and the examiner comments or realize somehow that they were on the road but in the wrong lane!

13. Lastly, another ground for unsuccessful result is **seeking help from similar patients rather approaching the doctor**. Do not ask for help from those who have similarly failed as they might have developed unreasonable and pessimistic views about it. Someone told me that he had failed in Advanced Auditing because some senior advised him not to study the standards as he was already working in audit and the paper was quite general; however not consulting the standards turned against him in the exam hall! Never take advices from everyone, that's the rule. Only the trainers or the ones who can be considered reliable because of their track record should be approached.

It can be established from the above mentioned reasons that it's a matter of belief, motivation, commitment, some good luck and true hard work that produces success. It's certainly a matter of decision. Once you have decided that you want to succeed, you will leave no stone unturned to achieve it and one day success will be at your doorstep knocking the door for you to open!

Forget Me Not

Altaf Noor Ali, ACA

In a country where trained human resources are scarce and there are only about 6,000 chartered accountants, out of which about 10% are senior members retired from active service, should the Institute have a forum for creating opportunities for such senior members who would like to contribute with their skills acquired over a life-time in a different role for strengthening and betterment of the profession on paid and voluntary basis? As we move on to consider both the sides of the story let me first count some important facts that will influence our analysis.

First, our senior members possess a treasure-trove of life-time skills and wisdom. Should that be allowed to wither away, especially for those who would like to share it?

It is true that every senior member may not have the necessary skills to share their professional experience. The proof is that we hardly have many renowned fellow professionals who have many acclaimed publications to their credit. However, we can always train those of our senior members who would like to give it a shot, starting from authoring short articles or to be public speakers. How about announcing a competition with an award for the best biography by a senior member? The technology now makes it possible to distribute such gems of wisdom by e-books?

Second, we may rightly assume that most of our members at the time of retirement from business or practice may not be taking up an opportunity because of financial compulsions. But given the tough economic conditions, absence of a post-retirement financial sustenance, and unique family circumstances, the possibility is there. May be our members may have financial compulsions but do not have many opportunities to go for.

The financial affairs and circumstances of a person are very sensitive and at times are not even shared with one's own family. In such a constraining situation, to know that there is a mechanism available to match job requirement and skills is reassuring. One knows that the retirement is not necessarily the end of a career. In short, we are talking about a specific employment bureau or job center dedicated to our senior members who are willing to take up a job, assignment, position, etc.

Third, it is possible that there are certain positions available but a member may be willing to take up a position but needs to be retrained as much has changed in the profession in the last ten to fifteen years and what members know may be outdated. There may be significant level of retraining involved.

Perhaps all the initiatives suggested above are possible. And it is fair to ask how much and who is going to incur its cost? Also, is it's more effective to spend these resources elsewhere and obtain better results? For this we need to look at some facts from ansemployer's point of view. Anyone who would be interested in employing a senior member would know that such members do not have a lengthy life span. Factor in the physical fact and the situation becomes clear. It is also true that some may consider the ability of senior members to deliver to be limited by health issues that invariably emerge in such age brackets. This may have serious consequences on member's ability to deliver.

Fifth, as a member of the profession, they have contributed in every sense financially and by their efforts to the cause of our profession in Pakistan throughout their professional lives. On the positive side, we will be channelizing such precious human resources in the service of the country and profession for a longer period. We will be able to enhance the professional life span to upto seventy-five years of age. The retirement age of sixty is not a final word and a professional can work easily for an additional ten to fifteen years.

We will be able to create a forum that would give not only those who have retired but who are nearing retirement a ray of hope to be gainfully or voluntarily contribute towards the profession. Quite rightly, what can a retired professional do? In my opinion, a lot. Such members can be a non-executive director in a listed company or even an author. They may be involved as financial experts in pubic accounts committees or in special projects. They may be even sent abroad on secondment if any professionalsinstitutes wish to acquire their services on voluntary basis. They can be paid or voluntary mentors of young chartered accountants.

The other side of the picture is that very few of such members would be interested in taking up such roles post-retirement. Fair enough, we may assert so based on our experience and feeling. But how about conducting a survey to be more exact about the expected response of our senior members to such initiatives? One can even go on to think that if it is such a good idea how come it never occurred to anyone before? After all, as an Institute we have a track record of more than fifty years. True, but it's never too late to bring into place such mechanisms that directly benefit our members, and especially senior members who have contributed so much to where we are today. Some may also question if it would be an effective allocation of resources to spend it on senior members when there are so many other priorities for the Institute. There may not be a simple answer to the questions we have raised here. What we can do is to examine the issue systematically. We may initiate a study or task force to study what other professional institutes are doing on this front? Is it a priority for them?

For me personally, it is not hard to imagine that when we can have in recent years a forum for the CFOs and women chartered accountants why not bring into stream and make the most of our senior members. I am positive that such forums can be very helpful in providing a regular forum for interaction amongst the senior members at minimum. We can also celebrate an official senior member day to honour such members. Whatever we do, we must not forget them as a fellow professional, they exist.

Creating Self Awareness

Zeeshan Raza, ACA

About twenty years or so have gone by, an epic book was written by Daniel Goleman entitled “Emotional Intelligence”. This was i believe first time ever, the idea of IQ testing and using it as a guide for someone’s success or failure was challenged. He cited various cases in this book where he proved that people who had very high IQ had actually failed many times in life’s challenges. The point he made was more than intelligence shown in an IQ test, its really a person’s ability to manage his or her’s emotions that lead one to success in life. A lot more research has taken place after that in this area but the concepts he introduced hold true to date.

In simple terms, when you are faced with any situation in life, the question is how you react to it. Is your reaction to various stimuli in life is on the spot, uncontrolled, outbursts. Or is there a time lag between you being faced with a scenario and your reaction to that scenario.

Lets take an example. You are sitting in your office and one of your sub-ordinates walk in and starts shouting at you. She is talking about a problem that has arisen with one of the customers and she is blaming that the problem resulted because you recently introduced a new system. Now there are two ways of reacting to this offense;

Option A: You think how dare your subordinate barge in and shout at you. How can she blame something on you when she herself does not understand the process properly. You yell back at her with even a louder voice than hers. Both of you end up in an argument. She goes to your boss to complain.

Option B: You let her finish talking. You give her time to get it out of her system. Then you repeat the problem in your words removing the blames and other aggressions she had used originally. So if i understand correct, is this the problem and you restate your understanding. She would either agree or make modifications. The next thing you need to figure out is why did she behave in that manner. What is bothering her. Many times people get frustrated when they are asked to step out of their routines and do something different. Most likely that’s her frustration. Or, she didn’t understand the process clearly in the first place. You can establish that by saying I just wanted to confirm if I explained the process properly. Then you repeat the process again. All along your tone of voice is calm. In almost all circumstances, this will get the issue resolved right there.

Now my question to you is what option you would have chosen if you were in the above situation. If you do not have any sub-ordinates, in this example, imagine its your boss who yelled at you.

Many a people would chose Option A. Thats the reason why we are reading this today.

I usually say. “The difference between losers and winners is. The losers either do not recognize their faults or although they recognize them, they never do anything about it. The winners on the other hand, not only recognize what’s holding them back, but they take powerful actions to help them overcome their limitations”.

Developing from the above scenario, we saw two ways of reacting to a particular situation. The situation could be different. It could be an argument between a husband and a wife, a parent and a son and so on. The underlying questions is, how would you react or rather, how should you react. And more important question is how do you develop the attitude to react in that way.

There is one particular technique to develop such an ability. However, before going into discussing that, i would like to discuss something else. This will end up linking in the end.

Scientists have been studying this world of ours for many many years now. I am referring to modern science. What they have discovered is every thing that surrounds us is made of energy. You might have already read about this or saw it on TV etc. What they found is energy when vibrating at different levels creates different kinds of matters. The main three classifications that i read in my school days were solid, liquid and gas.

Basically, nothing really exists on its own. That goes for us human beings as well. Our body parts. Our thoughts as well. All is made up of energy vibrating at different frequencies. If that is the case. If the real core of everything that we see and feel is energy, there are no separations. There are no differences between you and me. You belong to the same energy that i do. What i am getting at, in modern society, we have developed this idea about "ME". I want this. I want that. How could he say that to me. But in reality, we are all one and the same and connected. So if some one does something bad to us, he is really doing it to himself as well. On the same principal, if we do good for someone else, we do good ourselves.

The only thing different is then how we perceive things. You would have noticed that we are extra kind to people we love. We overlook their faults, we do not complain about their mistakes and so on. But if our relationship with the same person takes a wrong turn, we don't let a small thing go away. We are looking for things to nitpick. The difference in behaviour is because early own, we saw them as our extensions. We felt as they were part of ourselves. But later, we disconnected them and therefore become more harsh with them.

The reality is, we are not disconnected. Its like the power line running through our apartments, offices, houses etc. That's the energy. We are the devices like printers, TVs, Game consoles, home appliances. We are all connected and we work only when we are connected.

What this all boils down to is our mind created egos are illusions. These egos create all sorts of problems and what Danie Goleman referred to emotional intelligence is really the realization that we are all one and thus we can create the ability to control our reactions and deal with people as we would deal with ourselves.

Technique

Lets start with an example.
You are driving in slow traffic and there is a sudden "Thug" at the back of your car. You look back and the driver of that vehicle is getting out of the car. You get out in rage as you are thinking, there is already traffic jam and this stupid driver didn't put his foot on the brake and now your insurance will go up and on and on. However, when you get out of the car, you see he is your best friend. He apologizes, says he will get it fixed. You are smiling and saying its ok. You will take care of it.

Now lets analyze this situation. How can one who was so angry and upset about this got so nice and pleasant. That, my friend, is controlling your emotions. We do it every day. All we need to do is to learn how to do it more often. If you can master this, you would have developed the skill that only a few have been able to.

Lets take another example. You come back from office and see an unpaid bill which was due yesterday still lying on the couch. You ask your spouse if she paid it and she says no. She tries to say something but before she can, you start yelling as to what all your are supposed to do, there is so much going on at work etc. When you finish. She says "Honey you told me yesterday you will take care of it". You now become sheepish. Say sorry etc.

Again, observe the change in behavior. That again is you controlling and moving your emotions from anger to a more subtle loving and caring one.

So we are doing it day in and day out.

One very important point to note here. Controlling your emotions does not mean that you suppress your anger, your anxiety. It means that you feel connected with others. Thats why you try and understand why others behave in a certain way. You will try to come up with explanations of others behaviors even if you do not know them. When you do that, you do not feel the hate against others since now you see them as your extension. Suppressing your feelings is very harmful and is not suggested at any level.

Exercise

Here is an exercise that you should do for 7 days. Create a log of your interactions with others when you expressed some kinds of emotions. These could be anger, being upset or frustrated with some one, showing love and affection, being sad, being cheerful and happy etc. The purpose of this exercise is to create an awareness within you of what your current situation is. The log is not judgemental. You do not need to show it to any one so be truthful about it. I have given an example below for you to understand how this works.

Date	Situation	Reaction
16 Mar 2013	A friend pulled out of your birthday party very last minute citing some urgent matter he can't discuss right now	Got really angry and upset with her. Told her not to call me again. Was disgruntled and hard to get along throughout the party.

What you need to do is when you are logging these events, you would have passed that moment. Now think with those events in the past, how you think you should have reacted. Keep in mind the discussions we have had that we are all connected, Egos do not exist in reality and what we send out to others does come back to us.

Thought the field of Emotional Intelligence is a lot deeper, we have just touched upon the surface of it. For the purposes of this article was, our focus is one's ability to recognize when they are faced with a certain situation and then drive their reaction controlling it all the way rather than flowing through the ride of emotions with no control at all.

Move from More to Less

Ayesha Arif, ACA

Audit Report - should auditor convey more than less - move from binary model to all inclusive model to enhance the communicative value and relevance of the auditor's report

When the history books are written, will 2011-12 be remembered as a year when audit profession seen a change in a way they communicate the result of audit they performed to the outside world.

Companies produce financial statements that provide information about their financial position and performance. This information is used by a wide range of stakeholders (e.g., investors) in making economic decisions. Typically, those that own a company, the shareholders, are not those that manage it. Therefore, the owners of these companies (as well as other stakeholders, such as banks, suppliers and customers) take comfort from independent assurance that the financial statements fairly present, in all material respects, the company's financial position and performance.

The fundamental purpose of the audit is to provide independent assurance that management has, in its financial statements, presented a "true and fair" view of a company's financial performance and position. It underpins the trust and obligation of stewardship between those who manage a company and those who own it or otherwise have a need for a clear and objective view. Company audits are highly valued and have a major impact in influencing investment decisions.

Audit plays an important role in establishing and increasing market confidence in companies' financial reporting. So clearly the audit supports the quality of financial reporting. And auditors themselves add to this quality through their communications to board members and audit committees, as well as to the outside world. The recent financial crisis has shown just how important audit work is in underpinning trust and providing insight.

Today's audit underpins confidence in financial reporting. Its value rests in the trust investors and others place on the audited financial statements in making economic decisions pivotal to the effective functioning of capital markets. The audit report is the visible interface between auditors and users and inevitably influences users' perceptions of audit quality and relevance.

Today's auditor's report is, in most jurisdictions, a short standardized report. The cornerstone of this is the auditor's opinion – often referred to as a "pass/fail" model. It is a long-standing model in many countries and is acknowledged to have many benefits.

The fall-out of the financial crisis still reverberates around the world. In many ways, the crisis has fundamentally shifted the way the world views the capital market systems. The financial crisis also served as a trigger for

a fundamental review of the role of the audit. Perhaps the loudest demand for a change in auditing following the financial crisis is the call for change to the auditor's report. In recent years, the content of financial statements has become increasingly complex and voluminous. Developments in audit need to track these complexities and auditing standards are updated on an on-going basis. While many areas have changed, the audit report has not and now is the time for change. The key aspect of current auditor's report is the binary 'pass/fail' true and fair opinion. The audit is a long and complex process and yet what's visible to shareholders is a one-page report that includes one opinion and a lot of standard wording. Investors say they want auditors to provide greater insights, less standardized wording, and much more entity-specific information.

The one-page report has, at times, been derided for being an unremittingly dull description of how the auditor has discharged its duties that is seen as being primarily boilerplate description couched in standardized wording shed no light on subjective matters in financial statements.

Investors in a number of jurisdictions have become more vocal during the financial crises in seeking more informative reporting from auditors. Fuelled by the turbulent events of the global financial crisis, investors are demanding additional, and more pertinent, information about entities and the processes that support the quality of their financial statements. Part of the focus has been on the auditor's report, with investors and other stakeholders arguing that the current 'binary' audit opinion fails to provide any insights into an entity's financial reporting that they believe would add value. While the audit and audit opinion are valued, many argue that much of today's standard audit report is not useful or informative.

The current auditor's reporting model identifies the financial statements that were audited, describes the nature of the audit, and presents the auditor's opinion about whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the company in conformity with the applicable financial reporting framework. The current auditor's reporting model is commonly described as a pass/fail model because the auditor opines on whether the financial statements are fairly presented (pass) or not (fail). Investors observe that auditors have a wealth of information and insight into companies and their financial reporting as a result of the audit, but it is not shared with investors – even though the audit is for their benefit.

While users certainly support the current –pass/fail audit opinion, many believe there is scope for expanding what auditors say about the audit that was performed. Auditors are-the on-the-ground eyes and ears-acting on behalf of investors and other stakeholders; they understand the areas of the financial statements that pose the greatest risk for misstatements, as well as the areas that are most subjective and judgmental; and they bring to bear their expertise and professional judgments in formulating their opinions. So, many are asking auditors to give more insights about their work [Dan Montgomery- IAASB Deputy Chair]

Is current auditor reporting, in particular the audit report, helpful to shareholders?

It is clear that the current restrictions on the role of audit to giving only a binary opinion on the financials is no longer enough to satisfy stakeholder needs. The role of audit, while proven to be valuable in giving reassurance as to the financial figures, could and *should be expanded into other areas. 'We want more from you – give us more. What do you think of the company?' A way has to be found to increase and widen communication of audit findings. A quiet word with the audit committee or a management letter restricted to a select few is not enough. When a company is hitting problems investors need to know. They are, after all, paying for the audit.*

As a profession, it has not done a good job of explaining what an audit is, so it can hardly complain if auditing is not well understood. For too long, there has been a significant "expectations gap" between what financial statement users expect an audit is delivering and what the audit profession believes it is providing. This gap becomes particularly problematic for auditors when there is a "business crisis" and attention is directed to the role of the auditor. The expectation gap relates to the "difference between what users expect from the auditor and the financial statement audit, and the reality of what an audit is", while the information gap relates to "the existence of a gap between the information they [users] believe is needed to make informed investment and fiduciary decisions, and what is available to them through the entity's audited financial statements or other publicly available information". The rise of the expectation gap in auditing may be attributed to the changing role of audit. In past attempt has been made to reduce expectation gap by including paragraphs that describe the respective responsibilities of management and the independent auditor. However, those generically-worded paragraphs do little, if anything, to bridge the expectations gap relating to the financial statement audit.

Auditor reports for audit committees are one part of an interactive dialogue with committee members. But the same opportunity to interact does not exist with shareholders and other stakeholders. What changes to audit reporting could help plug that communication gap? Some investors and analysts in particular, however, view the auditor's insight into the entity and its business obtained through the audit of the entity's financial statements as being especially relevant information for their needs and contend that it is important that such additional information to be delivered directly from the auditor to users. In their view, the fact that such information would be communicated by the independent auditor adds a degree of credibility to the information communicated, and would impart an important—and possibly different—perspective that has been informed through the ongoing discussions and communication between the auditor, management and those charged with governance. However, there were strong feelings that financial report complexity should be addressed by the accounting standard setters and other regulators responsible for corporate governance, not by auditors explaining financial reports to users. The consensus was that demands for additional information about the risks and business model of an entity should be met by management and those charged with governance (TCWG). Traditionally auditors have provided assurance on information provided by management and TCWG; they haven't provided new information to the users.

Users recognize there is richer information about the entity and about the audit itself than is currently being provided through the audited financial statements and other corporate disclosure mechanisms, and through the auditor's report. Users wish to obtain this richer information directly from the entity and/or through communications about the auditor's insight into such matters. They believe such information would assist them in assessing the financial condition and performance of the entity, as well as the quality of its corporate reporting and the quality of the audit. This is referred to as the-information gap. This is not the same as the–expectations gap, but overlaps with it. **[Enhancing the value of Auditor Reporting: Exploring Options for change—Consultation Paper by IAASB]**

The trust deficit is clouding the true value of audit service and having a negative impact on audit profession. Trust deficit is a threat and rebuilding trust is a key. However, it is only possible if International Auditing and Assurance Standard Board (IAASB) come up with viable alternative to current reporting model. Although Companies audited are highly valued and stakeholders take comfort in knowing that financial information they got is audited, however, there is strong appetite among them that current reporting format needs to be evolved so that it remains reliable, relevant and valued. External users of audit services are looking to drive the maximum value from an audit. They believe there is more that can be obtained than just the standard pass/fail report on historical financial statements. Auditor reporting is going to change and now it seems inevitable but it's important to ensure that those changes add value to users.

"More than ever before, users of audited financial statements are calling for more pertinent information for their decision-making in today's global business environment with increasingly complex financial reporting requirements. Change, therefore, is essential"

Arnold Schilder, Chairman of the International Auditing and Assurance Standards Board (the IAASB)

A Draw You Don't Want to Win!

Waqas A. Latif

Introduction

Ask any winner of a draw or a ballot and you will usually find him high in spirits, surprised as if found a precious stone in sand and extremely joyful. Considering himself being one of the luckiest person on earth. But, seldom you would find a winner of a ballot asking in anguish and distress, "why am I being that lucky", wondering what kind of balloting is this. Guess what; it is balloting hold by Federal Board of Revenue (FBR) for Income tax, Sales tax and Federal Excise Duty cases for audit.

Reports are FBR has hold computer based balloting on February 25, 2013 at FBR House, Islamabad, in the presence of various corporate and non corporate stake holders and representatives for the selection of cases for audit of Income tax, Sales tax and Federal Excise Duty for the Tax year 2011.

Need for Audit

Currently, self assessment scheme for filing of returns is in place under the Tax laws of Pakistan, whereby details provided by the tax payer in his return to the tax authorities is deemed to be assessment of his return by the tax authorities. So, in order to keep check and balance, to prevent and detect mis-declaration of information and to promote voluntary tax laws compliance culture, audit is carried out by the FBR of selected tax payers.

In this respect, the Board (FBR) uses powers under section 214 C of the Income Tax Ordinance 2001, section 72B of Sales Tax Act 1990 and Section 42B of the Federal Excise Act 2005, which empowers the Board to select person or classes of person for the audit of records and documents through computer ballot which may be random or parametric as the Board may deem fit. Further, in order to be objective and unbiased in selection of tax payers for audit, FBR usually goes for parametric selection in which certain risk parameters are devised and selection is carried electronically based on such parameters.

FBR has selected 12,609 cases out of total of 1.7 million tax payers which represents 0.75% of the total tax payer community, which reinforces the basic idea of using audit as a deterrence tool against evasion rather than a step to generate revenue on part of FBR.Further, it has selected around 5% of returns filed by corporate taxpayers, 15% of returns filed in Large Taxpayer Units and 2% of returns filed by non-corporate taxpayers in Regional Tax Offices.

Details of parameters

For the first time separate risk parameters were devised for Income tax, sales tax and federal excise duty cases which were approved in Board-in-Council, the highest decision-making body of the FBR. The details of such parameters are as follows:

Parameters - Income Tax – Corporate

1) Value of imports in Customs differ from declared Imports in Income Tax returns by 5%
2) Sales decline >10% over last year
3) Refund Claim >Rs.10 million
4) Persistent decrease in net profit over last three years by more than 5%
5) Cases claiming credit under sections 65B & 65C exceeding Rs.10(M)
6) Cases indicating addition in plant and machinery exceeding Rs.200(M)
7) Cases showing addition in machinery and plant/ depreciable fixed assets in Tax Year 2009 without corresponding increase in turnover for Tax year 2011.
8) Tax deducted u/s 233A (cash withdrawal) without business related cost of sales/P&L expenses
9) Deduction of tax on services rendered above 50 (M)
10) Adjustment of BF losses/unabsorbed depreciation above 500 (M)
11) Exempt income –other sources, capital gain, business and property > 5 (M)
12) Where addition or deletion to/from assets or transfer from Capital Work-in-Progress to assets is >100(M)
13) Increase in turnover does not reflect proportionate increase in income (with a margin of 5 percent)
14) Financial cost is more than 5% of turnover

Parameters - Income Tax - Non- Corporate

1) Opening stock not Matching with Closing stock of Previous year
2) Cost of Sales >80% of Total Sales (other than distributors/suppliers)
3) Continuously declaring Loss for the last three years
4) Continuously declaring decreased Income for the last three years
5) Total sales are less than previous year by 10%
6) Net tax paid is less than 10% in comparison of previous year
7) Value of imports in customs differs from declared imports in income tax return by 5%
8) Refund claim >5(M)
9) Claim of exempt income – salary, business, property, capital gains, other sources and unclassified >2(M)
10) Tax on services as minimum tax-over 1 (M)
11) Non-filers of wealth-statement
12) Increase in turnover does not reflect proportionate increase in income (with a margin of 5 percent)
13) Financial cost is more than 5% of turnover
14) Hotels/Restaurants with cost of sales over 70% of turnover / net sales

Parameters - Sales Tax – Corporate

1) Imports in Customs differ from declared Imports in S/Tax returns by 5%
2) Decline in value of supplies >10% over last year
3) Consistent decrease in output tax / input tax ratio over last three years (total 3%)
4) Decrease in proportion of taxable supplies to total supplies in last three years by 10% in each year
5) Sales tax carry forward above 100(M)
6) Where more than 30% purchases are from 'unregistered persons'
7) Where more than 30% sales are to 'unregistered persons'
8) Supply to blacklisted / suspended persons >50%.
9) Purchase from blacklisted / suspended persons >50%.
10) Non-filer, short-filer, nil-filer or null-filer for more than 6 months in the year
11) Manufactures showing value addition of <10%.

Parameters - Sales Tax - Non-Corporate

1) Total value of Supplies is less than previous year by 10%
2) Net sales tax is less than 10% in comparison of previous year
3) Registered persons (other than exporters) claiming refund consecutively for the last 12 months
4) Import purchases differ from value of imports in customs data by 5%
5) Refund claim >5(M)
6) Where more than 50% of purchases are made from 'unregistered persons
7) Where more than 50% sales are made to 'unregistered persons'
8) Supply to blacklisted / suspended persons >50%.
9) Purchase from blacklisted / suspended persons >50%.

10) Non-filer, short-filer, nil-filer or null-filer for more than 6 months in the year

11) Manufactures showing value addition of <10%.

Parameters – Federal Excise Duty - Corporate

1) Imports in Customs differs from declared Imports in ST/FE returns by 5%

2) Supplies decline >10% over last year

3) Consistent decrease in output tax / input tax ratio over last three years (total 5%)

4) Decrease in proportion of taxable supplies to total supplies in last three years by 10% in each year

5) Where more than 50% of purchases are made from 'unregistered persons'

6) Where more than 50% of sales are made to unregistered persons

7) Supply to blacklisted / suspended persons >50%.

8) Purchase from blacklisted / suspended persons >50%.

9) Non-filer, short-filer, nil-filer or null-filer for more than 6 months in the year

10) Manufactures showing value addition of <10%.

Parameters - Federal Excise Duty - Non Corporate

1) Total Supplies is less than previous year by 10%

2) Net FE duty is less than 10% in comparison of previous year

3) Import purchases differ from value of imports in customs data by 5%

4) Refund claim >5(M)

5) Where more than 50% of purchases are made from 'unregistered persons'

6) Where more than 50% sales are made to unregistered persons

7) Supply to blacklisted / suspended persons >50%.

8) Purchase from blacklisted / suspended persons >50%.

9) Non-filer, short-filer, nil-filer or null-filer for more than 6 months in the year

10) Manufactures showing value addition of <10%.

(Press Release by FBR dated February 15, 2013)

Analysis of Risk Parameters:

There are various merits of these risk parameters which are as follows:

- More efforts now will be diverted towards high risks cases which have reported significant variation in tax affairs as compared to prior year.
- FBR auditors will have a starting point and right direction as more focus will be on subject matter on the basis of which a particular case is selected.
- Non filers will be selected.
- Separate risk parameters for corporate and non corporate cases have ensured better selection of cases.
- This has minimized personal involvement in selection of cases removing doubts about harassment of tax payers without any underlying reason.

But, this risk parametric selection has certain draw backs as well which are as follows:

- There is a danger that in future years that tax payers will be reluctant to declare significant variations in their tax affairs because of increase risk in getting selected for audits.
- Person who falls under the ambit of tax laws will be reluctant to get them registered because of fear of audit.
- This may lead to increase in corruption because of the perceived opportunity for both regulator and tax payers.
- Due to limited available resources by FBR, to carry out audits of such no. of cases with ensuring quality would be extremely difficult.

Conclusion:

Although, this audit process by FBR is important step to keep check and balance over correct declaration of tax affairs by the tax payers. But, a lot more needed to be done to promote tax paying culture in our society like the recent step by Election Commission of Pakistan (ECP) for filing of tax returns for past three years by candidates wanted to contest in elections. Atleast, it will ensure people who are at the helm of affairs at governmental level comes under the ambit of Tax laws of Pakistan.