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Ethics of Tax Evasion

Migration Trends & Globalisation of Accounting Bodies

Debate

Emotional Intelligence is the difference that makes the difference

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Corporate Reporting in Pakistan

The Institute of Chartered Accountants of Pakistan

CA PAKISTAN

Governance, Transparency and Service to Members and Students

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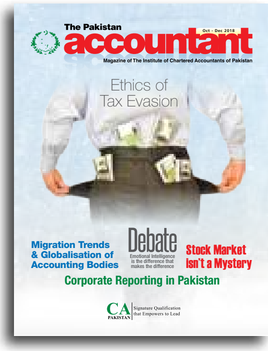
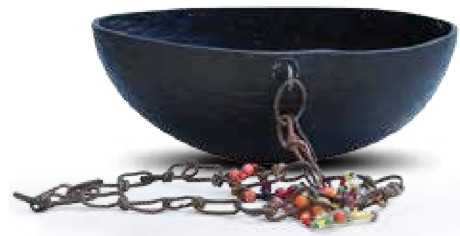











Editor's Letter

Everyone knows that strong tax structure of a country is essential for its economic development. The governments need sustainable sources of funding to foster economic growth and development. With the increased focus on taxation, the role of tax professionals has also become vital in the development of any country. Not only they act as intermediaries between the tax authorities and the taxpayers, but they also influence the ethical climate and level of compliance with taxation laws.

In Pakistan, ethics in taxation are hardly discussed and more often, the focus of the discussion is only corruption. 'Tax evasion' is a deliberate act of misrepresentation of true state of affairs to tax authorities and includes intentional non-compliance of taxation laws. While, sometimes, taxpayers reduce their tax payments through effective planning. The phenomenon of minimising taxes, using methods included in the tax legislations is known as 'tax avoidance.' It is commonly presented that tax evasion is illegal and tax avoidance is legal; however, the bigger question is that whether it is ethical. Simpler is the distinction between tax avoidance and tax evasion; where tax evasion certainly crosses the line into illegal behaviour. Certainly, the thin-line between the tax ethics and non-ethics forms individual choices with respect to payment of taxes.

In Pakistan, citizens sometimes do not evade taxes due to potential personal gains rather they believe that the state is incapable of proper utilisation of tax money and that the current political and tax system is inefficient or corrupt. It is important that the state has to gain the trust of its citizens in order to enhance ethics in tax payments and tackle tax evasion, by allocating its resources efficiently and by promoting political transparency.

The government's stance on tax evasion and avoidance is clear; it needs to be significantly reduced and the public at large should be benefitted from taxes being paid. The government should target those who persistently indulge in tax evasion or avoidance.

While one might argue about the reforms in the system, the first of many steps is the mandatory proper documentation at all levels, it will not only provide an accurate assessment of the national income but also pave a way for more realistic tax planning. The need is to develop a pro-documentation mindset because a lot of ongoing fraudulent practices can be curbed just by simply reporting all economic activities. Further, radical and innovative steps through policy and administrative reforms are required to streamline and strengthen the taxation system and the following underlying principles must be kept in mind while devising any reforms agenda: 1. Tax should be charged on all sources of income without any discrimination to any source of earning or segment of society while rationalising the tax rate; 2. Rules and procedures be simplified to facilitate the taxpayers for voluntary compliance; 3. Cost of compliance be reduced and it should be ensured that all persons make due compliances; 4. Incentives should be introduced for tax payers and persons assisting the government to collect taxes; 5. Most importantly, a stronger bond of public trust be established in the system; and 6. Last, but not the least, professionals are inducted in the tax collecting machinery.

We as nation fear taxation, mainly due to the inefficient and corrupt system damaging the public trust in the system. We need to develop a system that is accountable, transparent with a long-term strategy in place and provide confidence to the taxpayers that no undue harassment will be made by the authorities. There is a dire need for the masses to understand the importance of taxation and to be accountable. The road to economic recovery is long and bumpy and can only be completed with a firm resolve and determination.

The Institute of Chartered Accountants of Pakistan (ICAP) is committed to work for the national interest for building a thriving tax culture that will help Pakistan to achieve sustained growth. The Institute and its relevant committees have been constantly making efforts to identify areas of improvement. The committees also remain committed on the one hand to improve the general understanding of the existing laws through their various publications and participation in relevant forums and on the other hand by making continuous engagement with the revenue authorities for the simplification of laws and procedures and removal of anomalies and irritants.

Muhammad Awais, FCA

President's Page

Tax evasion is an economic and social phenomenon that has always been in the centre of public policy. Our taxation system, the pre-partition legacy carried forward by our predecessors, has not been able to evolve as quickly as required, suffering from the inefficiencies severed by adhocism and the absence of collective will, crippled by the lack of proper documentation of economy. Strategic vision is required with concrete steps taken in the right direction to inject life back into the ailing system.

Pakistan's tax to GDP ratio is on the lower side, which is compelling the federal government to strive for broadening the tax net and enhance the tax-to-GDP ratio. It is primarily essential to lessen the country's dependence on loans to fund the much-needed development projects. However, there is an immediate need to simultaneously look into the loopholes and weakness in the system to ensure that multiplicity of taxes is completely removed. The existing tax framework unless looked into and made strong will continue to cause unjustified hindrance and give way to fraudulent practices.

Taxpayers commit tax evasion when they believe that public money is not allocated efficiently from the government to the citizens. Therefore, transparency is important to taxpayers in order for them to believe that their contribution to public income is significant and essential. Thus, it is imperative for the government to have a strong legal framework that holds officials accountable for their actions and decisions regarding efficient management of public income. Also, rebuilding the trust between the citizens and government is important to tackle issues of tax evasion/avoidance.

Taxpayers also evade taxes when they believe that the taxes are not levied even handedly and some segments of the society are being unduly favoured by granting them unjustified tax exemptions. If those segments happen to be the power brokers also, the situation becomes more serious as the opportunities for doing business are also concentrated in that class. Thus the matter assumes a more serious dimension than a simple case of tax evasion by the deprived class and avoidance by the favoured class: it becomes a class struggle.

The twin devils, tax evasion and avoidance, has vast negative social and economic consequences, as it leads to uneven distribution of tax burdens and income and deprives the country of its basic source of revenue. This results in government raising existing tax levels, which in turn slows down economic growth and places additional burden to citizens who are consistent with their tax obligations.

To get back the country on the track to recovery, commitment from leadership is needed with a firm resolve to strategically realign the system, such that documentation is encouraged, benefits are translated to honest taxpayers, general training and re-training of revenue officials to handle the task at hand and baseless discrimination is eliminated. Needless to say conscious efforts should be taken to end the corrupt practices at all levels, both at institutional and individual.

Being the sole regulator of the profession in the country, The Institute of Chartered Accountants of Pakistan (ICAP) through its various committees has been a consistent advisor to the government in matters of economic policies, budgets and tax proposals. The Economic Advisory Committee includes a panel of non-governmental experts from business. It works on the current economic crisis and possible responses to it and forwards its report to the government institutions. Also, the Committee on Fiscal Laws reviews existing tax legislations to submit representations for new legislation or to revise existing legislation and participates in creating a proactive awareness of tax developments as well as sending the budget proposals to the Federal Board of Revenue (FBR). The Institute through its proposals highlights the need of tax reforms, including suggestions to simplify the law and remove ambiguities, broaden the tax base and effective measures for tax evasion and avoidance.

Jafar Husain, FCA

# of Tax Evasion

Taxation in the Mist of Ethics

by Badar Arshi

The rationale for an ethical duty to pay taxes is that the individual has a duty to other members of the society.

Have you ever thought as to why governments are giving tax holidays to certain businesses and establishing tax free industrial zones for five, 10 or even 25 years? Why are they giving this favour to them? Are they not encouraging these companies to setup businesses, generate employment, increase exports, earn foreign exchange, meet the local consumption requirement of goods and services and contribute to the economy to benefit the common person in the society?

If providing benefit to the public is the key aim of the government, then why should it be through tax? What is the purpose of taxing the corporations and individuals anyway? The answer is that it is the government which decides which benefit is to be given to the society and not the corporations or what people want. Hence, the government takes a portion from the earning of others to channel it to the areas which it deems important. The question is, is it ethical to force someone to slice away a portion of their earnings and give it to the government to do whatever it likes and others enjoying benefit in the form of tax holidays or exemptions at the cost of those paying taxes. Is it fair? Is it just?

The ethics issue revolves around the ethics of government as tax collecting authority and ethics of tax payers each having their own mandate to follow.

WHAT IS TAX

As per Chambers Dictionary, tax is a compulsory contribution towards a country's expenses raised by the government from people's salaries, property and from the sale of goods and services. A tax is a binding monetary charge levy upon the taxpayer by a governmental organisation. Refusal or resistance to paying tax is a punishable offence under the law.

The government levy taxes to raise revenue to meet the government's economic objectives, keep peace and security in the country, improve social welfare, invest in development programs, and payment of salaries to government employees, etc.

NATURE OF TAX

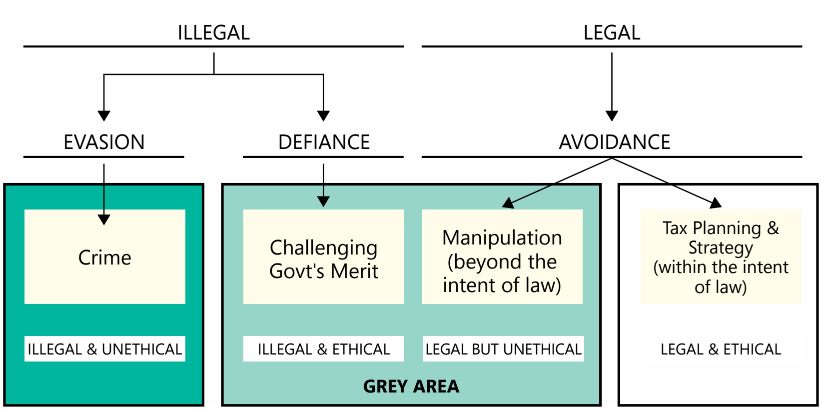
There are two opposing views on the status and nature of taxes. One view considers it as oppression by the government to snatch the taxpayer’s money while the other feels paying taxes is a moral obligation to help run the government. It will be helpful to understand both the positions briefly before proceeding further:

Coercive: One of the strongest proponents of coercive nature of tax is professor Robert W. McGee of Florida University who in his book, The Ethics of Tax Evasion, labels taxation as the ‘compulsory taking of property by government.’ He further asks, “Why is taxation permitted, while other similar violence is not?” All the forms of taxes essentially take away the property by force or through coercive tactics, without the owner’s approval and thus qualify the definition of theft. ‘Instead of labeling tax evaders as culprits, it would be correct to say that in fact the real sinner is the government who takes the property without the permission of the owners.’

Moral Obligation: The rationale for an ethical duty to pay taxes is that the individual has a duty to other members of the society. This view holds that individuals should not be taking advantage of the services the state provides while not contributing towards the payment of those services.

Legal position: Tax evasion is illegal while tax planning within the ambit of law to avoid or reduce tax liability is legal.

Tax Ethics Framework



CASE FOR THE ETHICS OF TAX EVASION

Supporters of coercive view of tax consider tax evasion as ethical on the following grounds:

Unfairness: Inability of citizens to pay tax due to unfair and high tax rates in proportion to their earnings.

Corruption and abuse of authority: The citizens do not feel obliged to pay taxes if the government is corrupt, misappropriate public money, do not deliver the benefits they pledged to the society and allow the money to go to corrupt politicians, their friends, families and to the concealed offshore accounts.

A popular argument is always made here that, is it ethical for a Jew living in Nazi regime to pay tax to the state to fund poison gas to kill him and his family?

Morality: In this context, there are a variety of subjects that comes under tax ethics. What if government is paying for a war from the exchequer which people see as unfair and unjust, or government provides financial assistance for family planning and abortion programs considered as killing and against religious beliefs of people. Is it ethical to pay taxes to finance these or to evade them?

The main issue to consider here is the dividing line between ethical and unethical tax evasion?

CASE FOR THE ETHICS OF TAX AVOIDANCE

The case of tax avoidance (sometimes called tax planning) by the corporations

is standing on the premise of its fiduciary duty to use all the tools and mechanisms which are available in the law to minimise their tax liability and to maximise the returns for shareholders.

The argument put forth by the companies is that keeping the tax cost at minimum using the tax advantages provided by the law and exploiting its loopholes, extending the benefits to the shareholders, investors, employees and other stakeholders, the corporations are just discharging their fiduciary duty without violating any law or going out of the dominion of ethics.

Tax evasion is illegal while tax planning within the ambit of law to avoid or reduce tax liability is legal.

Tax avoidance, while legitimate, is sometimes seen as aggressive when it involves bending the tax law, using overseas tax havens or using financial tools and instruments not designed or anticipated by the government as a tax advantage methodology. Businesses may therefore be functioning within the body of the law, but without its spirit.

There is a fine line between Tax Planning and Tax Evasion, arrangements that go beyond the intent of the law and involve deliberate approaches to exploit the tax system are not ethical and seems as aggressive while legitimate.

RESPONSIBILITY

Is the ‘Tax law’ – designed by legal framework, legislated by parliament and implemented through the judicial system – ethical or not? And if it is not, then who is responsible? If gaps or loopholes in the law, guiding to the practices of tax avoidance are available, they will be taken advantage of. Hence, it is the responsibility of the lawmakers to plug them, instead of expecting the businesses to point them out.

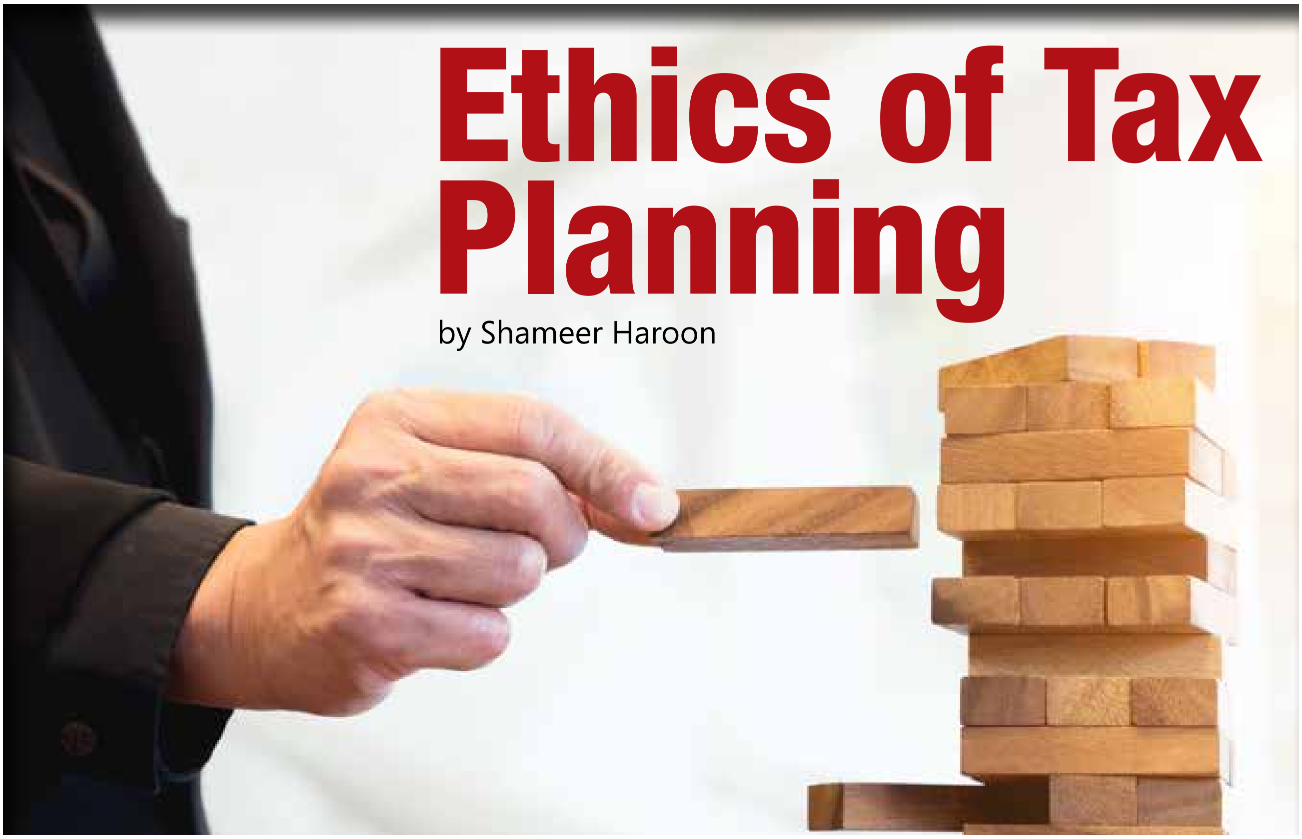
Concluding Comments: Concealment of income to pay less tax has moral and legal implications as it dries up or reduces the government’s revenue streams, and limit its ability to provide services and security to its citizens. On the other hand, the government often wastes or abuse public money due to incompetent and inefficient management. As a result, citizens turn away from paying taxes as they believe that government is not fairly allocating the public resources to the people.

It is therefore very important for the government to have a legal system which can hold political office bearers accountable for their decisions and actions regarding the management of public money. Government’s focus and serious efforts should be on building trust among people as it is the only way to handle tax evasion issue.

The writer is a chartered accountant working as finance manager at Etihad Airways Abu Dhabi.

Ethics of Tax Planning

by Shameer Haroon



In order to retain/achieve competitive edge and as part of the overall strategic planning, organisations often endeavour to reduce overall costs through various means including but not limited to tax planning. One of the main causes of seeking loopholes in legislature to avoid tax may be due to high tax rates. However, for Pakistan, in addition to high tax rates and other input costs as compared to regional countries, there are various other reasons which encourage or sometimes, force taxpayers to indulge in tax avoidance through tax planning, some of which are discussed below:

> Ethics is indeed hard to define. There are always grey areas, and ethics certainly falls under that category.

- Frequent changes in tax laws, lack of long-term perspective and weaknesses in enforcement capabilities of the tax department incentivises unorganised sectors at the cost of organised sector. Moreover, presumptive basis of taxation has since long been promoting informal economy and under invoicing.

> Ethics of tax planning becomes questionable when the tax is avoided through creative arrangements that are not intended by the legislature but which do abide by the letter of the law. This is formally legal but highly questionable and often unethical.

- Organised sector is seriously affected by high incidence of custom duties, income tax, sales tax and other levies like infrastructure cess, as against un-documented sector.
- Organised and compliant taxpayers are usually surrounded by all federal and provincial revenue collecting authorities like Federal Board of Revenue (FBR), Sindh Revenue Board (SRB), Punjab Revenue Authority (PRA), Khyber Pakhtunkhwa Revenue Authority (KPRA), Baluchistan

Transparency is of outmost importance to taxpayers as well as donors in order for them to believe that their contribution to government exchequer is utilised efficiently, effectively and for the actual benefit of the society as a whole.

Revenue Authority (BRA), Employees Old-Age Benefits Institution (EOBI) and Sindh Employees Social Security Institution (SESSI), etc. to meet their annual revenue collection targets by squeezing the already compliant and genuine taxpayers instead of broadening the tax base and collection through tax evaders, which discourage compliant sectors.

- In tax administration, accountability is absent, work culture is missing and slackness is apparent. High and even undue tax demands are generated and recovered from documented sector and that too without any accountability of the tax officer even in case demand is held to be illegal and absurd by appellate authorities.

While it is legal to minimise tax liabilities through effective tax planning, we must question the ethics of a system that makes the ultra-rich richer and leads to inequality around the world. The same ultimately increases burdens on other taxpayers and on society as a whole by limiting government's sources to finance its spending on social and other projects.

Along those lines, tax compliance increases when taxpayers believe that the tax and legal system are fair, clear and stable, and taxpayers' grievances are being effectively tackled. On the other hand, the general public expects corporations to pay fair share of the tax, but what constitutes a fair amount is subjective. Consequently, once all the issues discussed above, which are being faced by genuine taxpayers are resolved, Revenue departments would then be in a position to strengthen tax policies by the guiding ethical principles of accountability, transparency and consistency.

Having said that, even in presence of issues being faced by genuine taxpayers in Pakistan, tax planning arrangements that go beyond the policy intent of the law and involve deliberate approaches to exploit the tax system are not ethical. Ethics of tax planning becomes questionable when the tax is avoided through creative arrangements that are not intended by the legislature but which do abide by the letter of the law. This is formally legal but highly questionable and often unethical. Following the exact letter of the law may be considered as part of the regulatory compliance, however, restricting tax planning within the spirit of law is what's required to meet the ethical standard. Ethics is indeed hard to define in the instant case. It can have a different meaning for different people, and it is not like laws that have well defined consequences, if not followed. There are always grey areas, and ethics certainly falls under that category. While ethics as a whole may be hard to define, there is a core ethical principle that remains fundamentally consistent throughout all aspects of life, which states that one should treat others the way one would like to be treated. Based on this, the taxpayer, should atleast analyse the tax planning moves/schemes from the perspective of the tax department. The taxpayer must consider if he would have allowed/approved any tax planning arrangement if he was given the task to audit similar tax arrangements as part of the tax collecting authority? Moreover, in order to meet the minimum ethical standard, any tax avoidance arrangement should also be analysed with an unbiased mind with due consideration to the principles of fairness, transparency, integrity and responsibility towards the society.

There is a general understanding amongst taxpayers, which has been developed over the years through harsh tax recovery measures by government, that those paying more taxes are considered as a cash cow by taxation officers and consequently, such genuine taxpayers are discourages by forcing them to pay high, unreasonable and illegal tax demands just to meet revenue collection targets of tax officers.

While it is legal to minimise tax liabilities through effective tax planning, we must question the ethics of a system that makes the ultra-rich richer and leads to inequality around the world. The same ultimately increases burdens on other taxpayers and on society

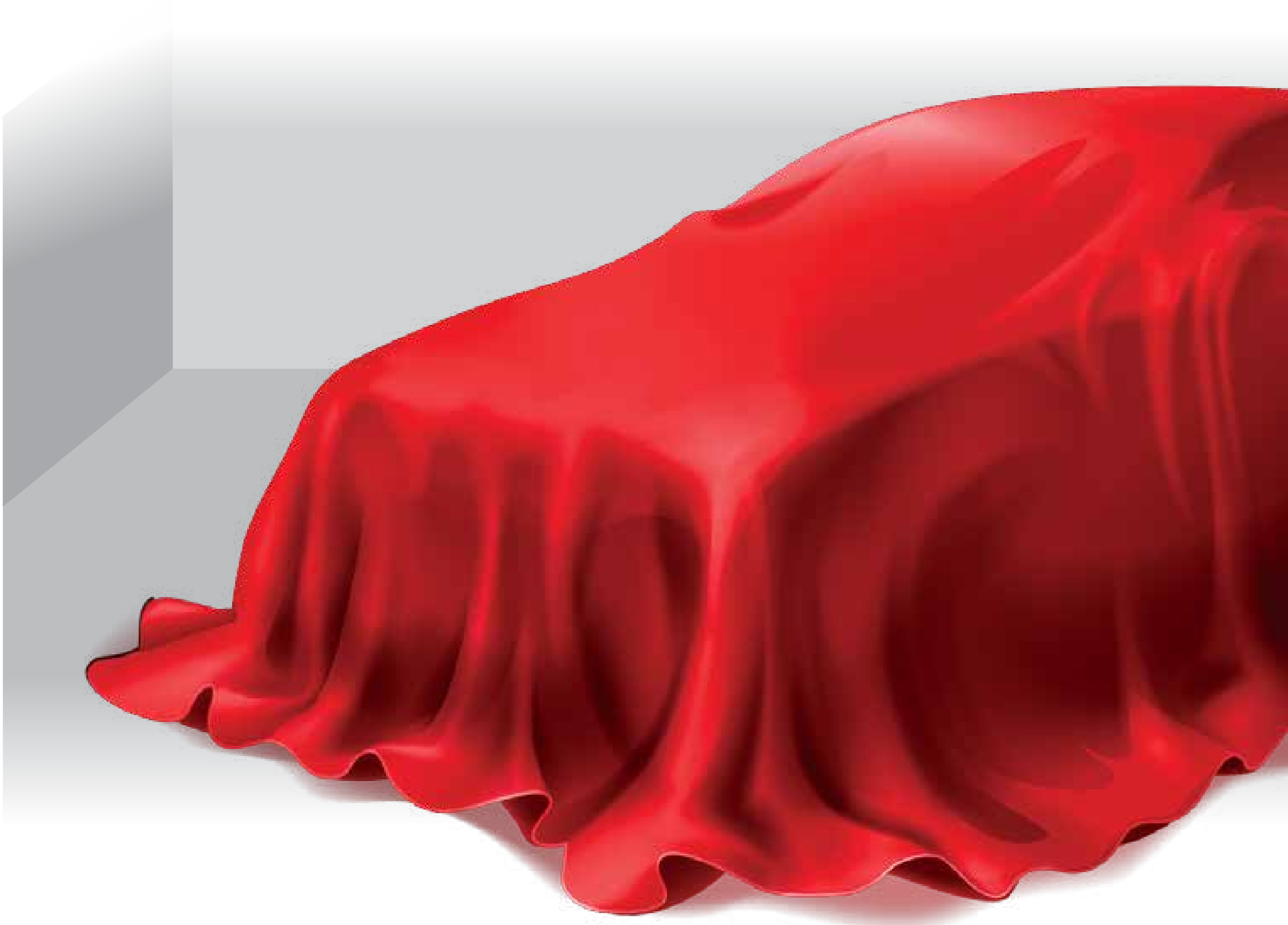
Majority of citizens of Pakistan are willing and since long been contributing towards the social welfare of the country, although not directly through tax but through contribution/donations to organisations/trusts actively looking after and resolving the day to day problems being faced by the residents of Pakistan. The only thing they want to ensure is that their contribution is being utilised for the actual benefit of the country.

as a whole by limiting government's sources to finance its spending on social and other projects.

Considering the present debt trap and liquidity crunch being faced by Pakistan, it is the need of the time for businesses to come forward and play their part by paying their fair share of taxes. However, there is a general understanding amongst taxpayers, which has been developed over the years through harsh tax recovery measures by government, that those paying more taxes are considered as a cash cow by taxation officers and consequently, such genuine taxpayers are discourages by forcing them to pay high, unreasonable and illegal tax demands just to meet revenue collection targets of tax officers. Therefore, in order to encourage such genuine taxpayers, government should also play its part by bringing some structural changes in tax laws in order to bring more transparency, equality and fairness in the overall taxation system. Moreover, taxpayers avoid taxes when they believe that the taxes being paid by them are not being allocated productively and efficiently by the government. Majority of citizens of Pakistan are willing and since long been contributing towards the social welfare of the country, although not directly through tax but through contribution/donations to organisations/trusts actively looking after and resolving the day to day problems being faced by the residents of Pakistan. The only thing they want to ensure is that their contribution is being utilised for the actual benefit of the country. The same can be corroborated from the welfare work, which is being run by Saylani Welfare Trust and Alamgir Welfare Trust by feeding thousands of people on daily basis in addition to free provision of free medical attention and free education to deserving students. One can also analyse the welfare work of Edhi Foundation by providing shelter to homeless persons and running country-wide ambulance services. Welfare work in the field of health is being looked after by hospitals like Sindh Institute of Urology and Transplantation (SIUT), Indus Hospital and Memon Medical Institute Hospital whereas Baitussalam Welfare Trust is looking after welfare activities on international level by extending helping hand to Syrian refugees in addition to local welfare activities in the form of ambulance service, assistance for water supply and water wells, burial, calamity relief, food bank and other related activities. All these organisations are engaged in activities which should have been taken care of by the government, and these organisations are being funded by citizens of Pakistan simply because of trust that the amount donated to them would be utilised towards the actual purpose of social welfare.

Accordingly, transparency is of outmost importance to taxpayers as well as donors in order for them to believe that their contribution to government exchequer is utilised efficiently, effectively and for the actual benefit of the society as a whole whereas our federal as well as provincial governments aren't even close to taking care of the poor in our society. This is where trusts like Saylani, Baitussalm, Edhi Foundation, SUIT, Indus and Memon hospitals come in. In order to bridge the trust deficit, it is important for the government to have a legal framework that holds politicians accountable for their decisions and actions regarding the management of public money. Rebuilding the trust between the government and the citizens is perhaps the only solution to tackle tax evasion and this is where the current political system should focus its efforts on. I firmly believe that tax collections can increase manifold once the government brings transparency and accountability in the overall political system and serious measures to avoid unwarranted use of taxpayers' money.

The writer is a chartered accountant currently associated as member of ICAP Fiscal Laws Committee and Alternative Dispute Resolution Committee constituted by FBR.



Tax Evasion or Avoidance?

by Owais Mukati

Ethical behaviour has grown increasingly important in business in recent years. One particular area that requires ethical decision making is that of tax practices, particularly related to differentiating between tax avoidance and tax evasion. When tax planning is discussed, the immediate thought that strikes the mind is that whether it relates to evasion or avoidance. Common understanding is that tax avoidance is legal unlike tax evasion. However, tax planning is the arranging of one's affairs to take advantage of the provision of the tax laws in order to maximise one's after-tax returns.

When tax planning is discussed, the immediate thought that strikes the mind is that whether it relates to evasion or avoidance. Common understanding is that tax avoidance is legal unlike tax evasion.

Tax evasion is an attempt to reduce taxes owed or increase refundable credits by illegal means, such as making false statements about income or deductions or destroying records. Tax avoidance, on the other hand, is perceived as ethical, taken as means by which tax payers reduce tax liability by planning their affairs so as to attract the least tax possible but still acting within the provisions of the tax laws.

Avoiding tax is avoiding a social obligation. Companies are seen as socially responsible when they pay their due share of taxes fairly. Not only general public at large but the companies also benefit from the services available at national level such as healthcare, education and infrastructure, funded by these taxes.

Avoiding tax is avoiding a social obligation.

It may be argued that tax planning keeps the costs to a minimum within the legal boundaries, but if we focus on the harm of tax avoidance to society, rather than how it is legally defined, then we can see that it contributes to growing inequality, increases tax burdens on other taxpayers and undermines state legitimacy. Furthermore, the government's accommodation of those procedures and laws that facilitate tax avoidance can also be used for terrorism and other criminal activities. It is therefore important that tax planning should take into account related issues – both legal and ethical and impact of corporate decisions on all of their stakeholders must be considered.

Tax policies should be supported by the guiding ethical principles of accountability, transparency and consistency. Tax planning arrangements that go beyond the policy intent of the law and involve deliberate approaches to exploit the tax system are not ethical.

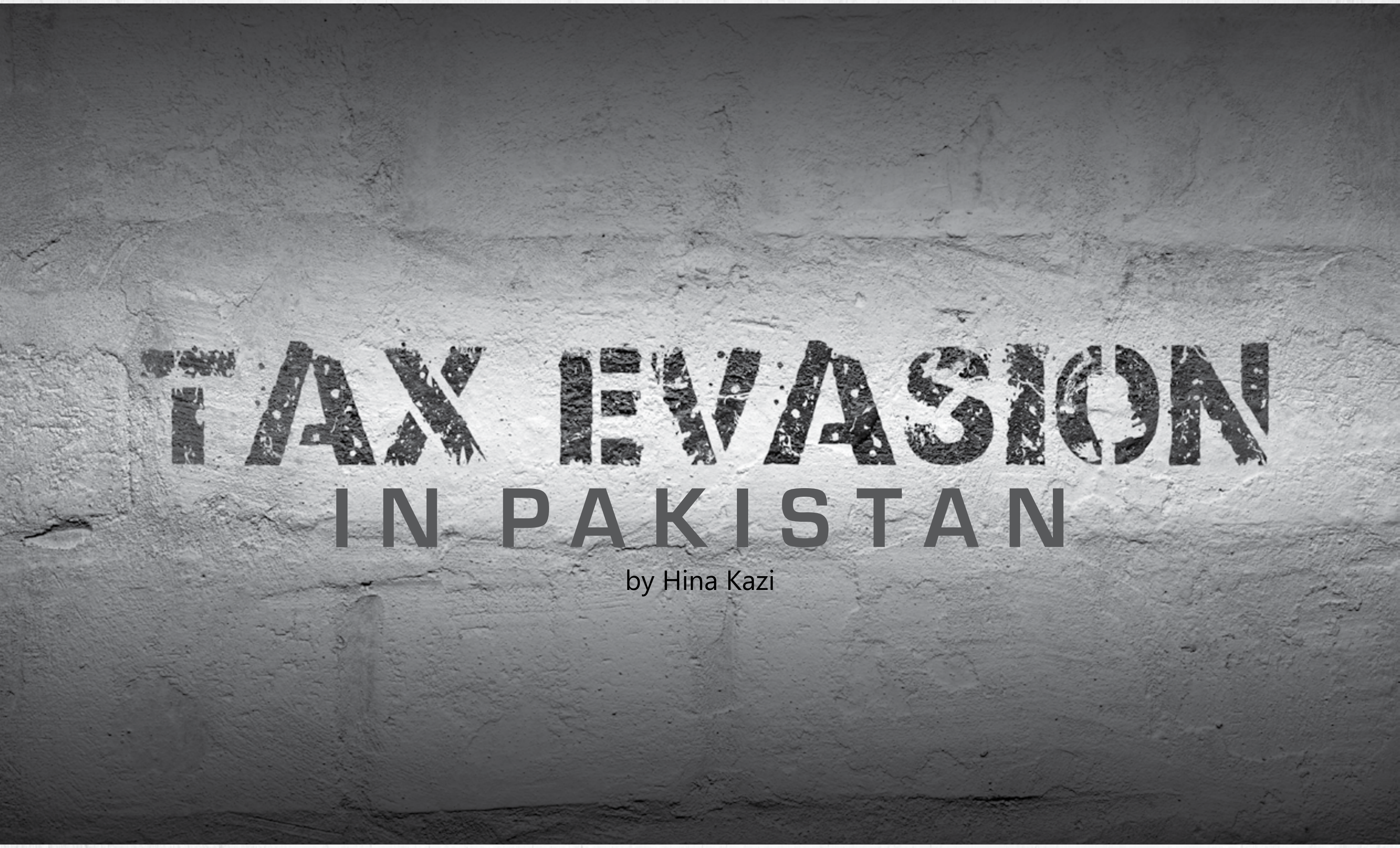
After Panama Papers in 2016, the Paradise Papers again have brought tax avoidance and its underlying ethics to the public attention. They reveal the ease with which multinational companies have been able to organise their wealth and income through the established global financial system, using offshore financial centers and a range of enabling legal business structures. There are a number of different ways in which multinational companies can avoid tax. The most significant of these involves shifting profits from one jurisdiction to another through the use of transfer pricing and/or thin capitalisation.

Pakistan has aligned its legal framework with the Organisation for Economic Cooperation and Development (OECD) in order to curb tax avoidance by multinational companies through shifting profits to tax havens and claiming higher expenditures. The Federal Board of Revenue (FBR) has recently made amendments to the Income Tax Rules 2002, making them compatible with requirements of the OECD. Accordingly, these rules bind multinational companies to maintain documents of the transactions that their associates undertake.

After Panama Papers in 2016, the Paradise Papers again have brought tax avoidance and underlying ethics to the public attention.

Although enforcement of law with effective monitoring would help, yet awareness of its negative impact on the society should be made part of disclosure in the corporate reports by companies following corporate social responsibility.

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



TAX EVASION IN PAKISTAN

by Hina Kazi

Ethics relate to the consciousness of moral duty and obligation by which one is governed. This makes it clear that people who evade taxes are governed by the moral principle that it is not a crime or wrongdoing.

Introduction

Tax evasion is an illegitimate or a criminal action by an individual or an entity intentionally avoiding paying a mandatory tax liability. Ethics relate to the consciousness of moral duty and obligation by which one is governed. This makes it clear that people who evade taxes are governed by the moral principle that it is not a crime or wrongdoing. They are the ones whose mindset convinces them that it is not their moral duty to abide by tax and other legal laws and so are justified in evading taxes. That is the area where the government and tax authorities need to work really hard and change the psychology and attitude of the common man and make them realise as to why they should come forward and voluntarily pay tax and file returns and disclose their wealth. Well, this is not an easy task and culture cannot be transformed overnight.

Unfortunately, we are living under an inequitable taxation system where tax is deducted at source on the income of salaried individuals; Contrary to that, the affluent classes who have high incomes escape the tax net easily and without any accountability.

The taxation authorities are run by conservative policies and procedures and orthodox culture in a bureaucratic environment. In its current state, it is part of the problem rather than part of the solution.

Reasons as to why the ethical values of the people are teaching them not to pay taxes

Tax evasion in the country is reflective of the incompetence and complacency of the government functionaries whether bureaucracy or elected representatives in ensuring compliance with tax laws. If we want people to follow rules, we should set examples by following the rules ourselves. There comes a big onus on the rulers of the country whereby they are expected to disclose their income, file tax return and pay the due taxes without any reluctance. Only then, they can expect people to do the same and will be successful in changing the mentality of the citizens of the country.

Taxation system in our country is viewed as being biased, discriminatory and regressive. Unfortunately, we are living under an inequitable taxation system where tax is deducted at source on the income of salaried individuals; they are the victimised ones who have no option but are given salaries after deducting taxes. Contrary to that, the affluent classes who have high incomes and are enjoying luxuries at the cost of less powerful ones escape the tax net easily and without any accountability. There is no proper system in place whereby these elite constituents are made to fulfill their moral duty of paying taxes and in the event of non-compliance, penalised for their act. Such a practice makes the one paying taxes and filing income tax returns discouraged and demoralised. This is a high level of injustice prevalent in the existing taxation system.

The taxation authorities are run by conservative policies and procedures and orthodox culture in a bureaucratic environment. In its current state, it is part of the problem rather than part of the solution. The need of the hour is changed. Wide ranging, credible and meaningful reforms of the taxation system desperately needs to take place. There is a dire need to have a full-fledged development program aligned with the defined mission and goals for a successful running of the taxation system. Qualified and honest staff, upgraded and integrated IT systems and platforms, ease of filing tax returns, benefits of being filer, etc. are to be offered to the existing masses. Only then people will have confidence in the system and will consider it their national duty to pay tax voluntarily and file their tax returns.

The taxpayer doesn't know where his money is being used for and what benefits he will get after paying taxes. It is just like giving money to buy something but you don't get what you paid for. This way, trust of the general public is lost. They are not interested in giving their hard-earned money as

The taxpayer doesn't know where his money is being used for and what benefits he will get after paying taxes. It is just like giving money to buy something but you don't get what you paid for.

General public is not interested in giving their hard-earned money as they know that it will go into the lockers of the affluent and powerful ones and will not be used for their social well-being and uplift.

Existing tax payers are made to bear the brunt of new measures as well as unreasonable demands via tax audit and their due tax refunds are illegally held and delayed in order to meet shortfall in revenue targets.

they know that it will go into the lockers of the affluent and powerful ones and will not be used for their social well-being and uplift. Rather, many prefer to pay their money in charity or donation than to the government in the form of tax. Not only this, but existing tax payers are made to bear the brunt of new measures as well as unreasonable demands via tax audit and their due tax refunds are illegally held and delayed in order to meet shortfall in revenue targets. The coercive and heavy handed-tactics against existing taxpayers by the tax authorities have earned it an unprecedented accusation of maladministration. This is the reward of paying taxes as felt by the taxpayer. If such situations persist, will a non-taxpayer be willing to be part of the system and will the existing ones continue to pay tax?

Several provisions in the Income Tax Ordinance 2001 are difficult to interpret and not easily implementable. One of the major reforms that need proper attention in the tax policy is the simplification of tax provisions and laws. The non-clarity of these provisions makes the tax authorities reluctant to process claims of tax credits and tax refunds under the said provisions and, thus, is a major source of discouragement for taxpayers.

Tax evasion and economic growth

A very small percentage of the population of our country pays income tax and files tax return. Even with the announcement of the latest tax amnesty scheme, a very few tax evaders and money launderers stepped forward to avail the said scheme; even though, it was such a golden opportunity to declare their concealed income and foreign and domestic assets by paying tax at significantly reduced rates. There are many restaurants and other businesses which accept payment on cash only; such a practice happens when they do not want to record transactions and pay taxes, although their business is earning substantially and at the same time, charging general sales tax to its customers. Under the withholding tax regime, persons who are responsible to collect or deduct taxes don’t deposit such revenue in the national exchequer. Also, some withholding tax agents don’t deposit the full amount of tax withheld. There are times when unregistered persons are wrongly treated as filers at withholding stage by the withholding tax agents as filers and are charged lower rates whereas non-filers are charged higher rates. Also, wrong withholding tax provision is being applied to evade the higher part of deduction or collection. Here, the authorities need to bifurcate between registered and unregistered taxpayers and between filers and non-filers and strictly ensure that correct withholding tax provisions are applied.

One of the major reforms that need proper attention in the tax policy is the simplification of tax provisions and laws.

Under the withholding tax regime, persons who are responsible to collect or deduct taxes don't deposit such revenue in the national exchequer.

The distorted tax policy and tax evasion has also given way to allocation of resources towards non-productive purposes such as accumulation of black money due to which millions of dollars of undeclared money is parked abroad in bank accounts and undeclared properties and offshore companies. Evaded tax money invested abroad reduces the country's capital stock. Higher tax evasion results in lower revenue for the government that places greater constraints on government spending on public goods and services, which hurts the economic growth of the country as well.

The authorities need to bifurcate between registered and unregistered taxpayers and between filers and non-filers and strictly ensure that correct withholding tax provisions are applied.

Tax revenue remains the leading source of funds for the government. Every year, the potential tax revenue is much more than the actual tax collection. The country is losing billions of revenue annually on account of tax evasion as the tax authorities are ineffective in dealing with the tax evaders in the right manner. The government's inability to collect the required tax revenue to meet its expenditure has resulted into major increase in the total outstanding internal and external debt of the country. On many forums in the past, the government has expressed its commitment to broaden the tax base, document the economy and bring the untaxed or under-taxed segment of the society into the tax ambit. But nothing has materialised so far. Owing to the current gloomy tax collection situation, tax gap will be further enlarged in the coming years if no measures are taken to bring about the non-filers in tax net and no resources allocated to limit tax evasion. All this will badly impact the economic growth of the country which, in turn, will increase the country's reliance on foreign donors and agencies. Tax evasion also compels on the honest taxpayers as they are to make up for evaded revenue from their own income.

Evaded tax money invested abroad reduces the country's capital stock. Every year, the potential tax revenue is much more than the actual tax collection. The country is losing billions of revenue annually on account of tax evasion as the tax authorities are ineffective in dealing with the tax evaders in the right manner.

Conclusion

To realise such a huge tax revenue target, the government is expected to work devotedly hard on rationalising the inadequate tax policy of the country, strengthening the enforcement mechanism and removing loopholes and deficiencies in the taxation system. It is high time that the government should implement a fair and equitable tax system in country and treat all classes of taxpayers fairly and impartially, only then, the country will be able to meet its tax gap and prosper.

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Ethics in Tax Planning – A Bilateral Action

by Wajahat Rehman

In a more dynamic environment, tax planning represents an art to design a transaction to avoid/reduce tax incidence in the first place. However, from an ethical point of view, tax planning has two main facets – organisational tax incidences and tax revenue collection policies.

Payments of taxes and other duties are routine activities for business organisations. However, taxes are cash incidents for an organisation and, in most cases, tax refunds are not conveniently processed, especially in developing countries like Pakistan. Therefore, it is importance for an organisation to efficiently manage its tax payments to minimise cash flow blockage that causes working capital hardship and often increase short-term as well as long-term borrowing cost. This efficient management is generally referred to as Tax Planning. In a more dynamic environment, tax planning represents an art to design a transaction to avoid/reduce tax incidence in the first place. However, from an ethical point of view, tax planning has two main facets – organisational tax incidences and tax revenue collection policies.

Tax planning also leads to tax evasion that involves misreporting, concealing and malpractices, which are illegal and, therefore, unethical.

Organisational tax incidences include payment of taxes on income and consumption (in respect of non-adjustable sales tax), some of them are adjustable and often create refunds. Refund processing involves a lengthy and chaotic exercise and cash remains stuck for a very long time. To avoid piling-up of refunds and to minimise tax payment exposure, organisations do tax planning. However, sometimes tax planning also leads to tax evasion that involves misreporting, concealing and malpractices, which are illegal and, therefore, unethical. Nevertheless, destructive tax avoidance is also considered professionally unethical because it involves aggressive interpretation of law to avail benefits that are not intended by the legislature.

Tax avoidance is also considered professionally unethical because it involves aggressive interpretation of law to avail benefits that are not intended by the legislature.

Government policies for tax collection are often ignored while discussing ethics in tax planning. Government requires revenue to facilitate its administrative activities. However, government revenue of Organisation for Economic Co-operation and Development (OECD) member countries is largely generated from taxes (Revenue Statistics 2017 – OECD). Therefore, government policies for collection of taxes are also very influential on organisational tax planning. Federal Board of Revenue (FBR) assigns tax collection targets to all units and their efficiency is monitored by their collection capabilities. This is itself a big question mark on the performance of FBR, as most of the efforts of tax officials are used to generate revenue as a short-term measure through knee jerk approach and issuance of demand notice on weak issues that are mostly turned down at appellate stage.

This article would attempt to highlight the circumstances and situations that affect degree of ethics in tax planning while discussing approach of tax authorities towards tax collection that affects professional ethics in tax planning.

Corruption is no doubt one of the main reasons behind unethical practices within the taxation system. It upsets tax collections by encouraging tax evasion and promotes illicit and mala fide practices to settle tax matters. Nevertheless, this is not the only case prompting towards unethical tax practices. In Pakistan, mainstream organisations tend to undertake their business activities within the legal framework as law-abiding citizens and try to avoid unlawful means to maximum possible convenience. However, they are reluctant in interacting with tax authorities because tax authorities are revenue oriented and create undue complications, even for genuine taxpayers. The point of concern is inappropriate and absurd performance measuring criteria that results in pre-set approach of tax authorities for revenue collection forcing tax officials to issue specious notices to taxpayers and raise illogical demands just for satisfying their budgetary targets.

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While granting legitimate approvals, taxpayers are asked to pay advance taxes, which are not sometimes even due. Raising

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demand on weak issues is also becoming a trend, especially since stay against recovery is only being granted after partial payment. This helps tax officials in meeting their budgetary targets, otherwise taxpayer faces threat of force recovery through bank account attachment. Not all these activities can be ruled illegal, but these arrangements are still unethical because they kill the very essence of the law and facilitate only those taxpayers who can facilitate tax officials in meeting their targets. Here, it is pivotal to mention that taxes are collected on *pro bono* basis – i.e. for the good of public, and not on *quid pro quo* – i.e. a favour for a favour, accordingly, facilitating only a class of taxpayers is itself an unethical act. Under these circumstances, it is not justified to expect taxpayers to perform tax planning with high ethical and moral standards. Because prevailing behaviour of tax officials and their approach to deal with taxpayers' matters is a significant factor that impairs ethics in tax planning.

In order to address afore-discussed issues, it is better to refine existing performance measurement criteria by breaking down the revenue targets into revenue generated through existing tax base and revenue generated by increasing tax base. This way, tax official would be bound to exert their intuition on increasing documentation of economy by exploring non-filers. Under existing criteria, a handsome amount is collected as tax on behalf of non-filers and their details are also available with revenue authorities. However, tax officials are not very keen to fetch them under tax net, otherwise, they can use the database to bring new taxpayers into the tax net.

However, in long run, revenue based performance indicators require redesigning. For the betterment of overall tax practices and for discouraging unethical tax planning, total administrative reforms are required to facilitate taxpayers as well as to upbring tax officials ethics and discretion. Facilitating taxpayers is mandatory because if taxpayers feel comfortable with tax incidences then they would not consider tax as a burden. For instance, an organisation has to bear FBR, Sindh Revenue Board (SRB), Punjab Revenue Authority (PRA), Khyber Pakhtunkhwa Revenue Authority (KPRA) and Baluchistan Revenue Authority (BRA) taxes along with various duties and cess for doing business in Pakistan. There are problems in inter-adjustment of federal and provincial taxes that create unnecessary friction in business activities. These circumstances require colossal simplifications in tax laws to facilitate existing taxpayers along with availability of immediate tax adjustments/refunds especially for export oriented and zero-rated sector because they have huge stuck-up refunds. Further, individuals, especially salary persons, should be dealt with due consideration. They represent majority of population and suffer heavily by direct as well as indirect taxes. Under self-assessment scheme, individual taxpayers should be allowed refund adjustment subject to post refund audit; this will

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also aid in increasing tax base and documentation of unreported economy.

Furthermore, mental and behavioural transformation of tax officials is unavoidable. They should be held accountable for improperly dealing and exploiting taxpayers. In case, demands raised by tax officials are deleted at appellate stage, an investigative audit against tax officials should be initiated to identify as to why they were not able to defend their findings and their performance should also be linked with it. Promotions and increments should be 100% performance based, seniority basis for increment and promotion allow inefficient workforce to hold senior posts, which increase inefficiency in the system. Additionally, tax policies should be allowed to execute for at least 10 years without any major disruption so that outcome of any policy can be materialised and proper corrective measure can be visualised.

Expecting ethical practices from taxpayers without reforming existing tax system is pointless because ethical tax planning is not a one sided act, it is a bilateral action undertaken by taxpayers as well as tax authorities simultaneously.

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It Takes Two to Tango

by Samir Ahmad

Tax revenue remains an issue, crippling the government in its effort to reduce poverty, and spend on projects that create jobs and distribute wealth.

It should not come as a surprise, and it makes sense. Pakistan suffers from a low tax-to-GDP ratio, which is also much below the global average if one were to look at World Bank data. For aficionados of numbers, depending on the year you look at it, Pakistan's tax-to-GDP ratio stood at 10.5% in fiscal year 2016-17, compared to the world average of 14.94.

It may have increased 70-80 basis points the next year, but for a young country heavily suffering from poor infrastructure, lack of proper healthcare, and absence of an effective education system, it would be safe to assume that there are necessities the government has been unable to provide due to insufficient funds.

In such a scenario, tax evasion is not a topic meant to be taken lightly. Why should it be? There are millions living below the poverty line in Pakistan. If figures provided by the World Bank and Asian Development Bank are to be believed, close to one-third of the population still lives below the poverty line. Of course, this is according to Pakistan's own definition of what is poverty.

Still, nearly 39% of Pakistanis lived in multidimensional poverty, according to a report of the ministry of Planning, Development and Reform that was launched in 2016. It is unlikely that substantial progress was made in the last two years, and it would be safe to say that the number of poor people is safely over 70 million.

Nearly 39% of Pakistanis lived in multidimensional poverty, according to a report of the ministry of Planning, Development and Reform that was launched in 2016. It is unlikely that substantial progress was made in the last two years, and it would be safe to say that the number of poor people is safely over 70 million.

So far, we have established that tax revenue remains an issue, crippling the government further in its effort to reduce poverty, and spend on projects that create jobs and distribute wealth. What does it do to keep prosperity and stability in not just its political atmosphere, but in the country's social fabric? It borrows. It goes out, and sells bonds to its own public, which is looking for risk-free investments. Another option it taps is taking loans from international creditors. It pays interest, adding to its cost of servicing debt, and then repays the principal amount. As debt levels increase, it raises sustainability issues for a country whose future cash flows are uncertain at a time of slowing economic growth. Its cost of servicing and obtaining debt increases. But it's okay since it will 'invest' that amount in its people, creating wealth that would stay in the country and add pace to economic growth.

Debt is not necessarily a problem for countries. In fact, it is okay to rely on debt to increase pace of growth. Sometimes, it doesn't matter whether the government spends on healthcare or education or even plain, old-fashioned infrastructure projects. In essence, it creates wealth for people within the country who spend it and add to incomes internally.

How does it repay debt? The government then accumulates funds by taxing citizens who have acquired wealth in this, and previous, cycles to redistribute across various sectors. In a way, it 'invests' in its people.

But what happens when people who have acquired wealth remain unwilling to pay their share of taxes. What is their argument? In my experience, it boils down to their greed, general lack of respect for authority, and their belief that they can get away with it. Additionally, while they may be philanthropic and end up doing more for charities and donations than pay taxes, their lack of faith in the government and its ability to spend tax money appropriately act as hindrances in them contributing to official revenue.

It should serve as a reminder at this point that tax evasion is usually committed intentionally and with the express purpose of saving money, cheating tax authorities by finding loopholes, and paying less than what the government determines you ought to.

Tax evasion can also occur unintentionally when citizens are unaware of their liabilities, and the amount they ought to pay because of lack of information. In this case, the onus falls on both parties – the government and the citizen. The former has to enforce laws such that citizens are informed, and then regulated to pay.

Tax evasion is usually committed intentionally and with the express purpose of saving money, cheating tax authorities by finding loopholes, and paying less than what the government determines you ought to. Tax evasion can also occur unintentionally when citizens are unaware of their liabilities, and the amount they ought to pay because of lack of information.

If the system is not enforced, those with high ethical standards are likely to still pay their fair share, while unwilling/greedy citizens would look to evade taxes. In such a scenario, a sense of inequality becomes more apparent, and threatens to disrupt the system, while also adding to the issue of low tax revenues.

At the same time, lack of information and knowledge on paying taxes is a responsibility of the citizen. But to instil that sense is the job of the government, making them aware on how important their contributions are, and what the government intends to do with them. The state can only effectively implement the system when it has some sort of moral authority, a reputation of upholding ethical standards itself, and has given some sort of evidence that it would not tolerate corruption.

These barriers are major reasons why Pakistan continues to suffer due to tax evasion. Governments have been unable to hold citizens accountable for tax evasion, in part because of its own low moral authority. When governments develop a reputation of misusing funds, it is likely the public would be unable to trust them with their money. Tax evasion and accountability – on both sides – suffer and you get weak enforcement. In such a scenario, tax evasion becomes rampant.

Additionally, citizens who elect the government make that choice largely because they expect lower ethical standards since they want that and, in turn, are more than willing to accept that.

There is a massive need for awareness and the importance of conveying the benefits of tax contributions. If the government can prove to its people and companies that contributing taxes would have a trickle-down effect on everyone, then the willingness to pay a fair share would increase.

After all, the public only contributes taxes so that the government can efficiently use and allocate it across different sectors and segments of society. For example, tax rates in western economies are higher, but they are what they are since governments either fund the public schooling system that is of higher quality, or on public transport that saves commuters' cost, or have developed a public healthcare system that adds to economic value for tax contribution.

While corporations remain major contributors, many still have the incentive to evade either due to their low ethical standards or the fact that inconsistent policymaking has swayed them to save money in times of need.

Tax evasion remains one of the single largest issues governments face, and it can take years to develop an efficient model. But using public funds appropriately can start earlier and proof can be given immediately. Pakistanis are a generous bunch, and contribute through philanthropy a lot more than they contribute to tax. They are of the view that personal oversight is necessary for appropriate utilisation. They need to be able to place that trust in the government that can then help the low-income groups. But the public and corporations need to realise this as well.

Both ends of the rope need to be tightened for a stronger bond. You will not have one without the other, no matter how tight one end is.

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

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Time to Tackle Taxation Jams

by Sana Quadri

Increasing the tax net is one of the many challenges the new government in the making of so called *Naya* Pakistan is faced with. The previous government had taken some evident steps in increasing the tax bracket of over two hundred million people of the country such as by introducing different tax rates for filers and non-filers, the controversial tax on cash withdrawals by non-filers that came down to 0.3% from 0.6% and then 0.4%, the tax reform of using National Identity Card Number (CNIC) to register tax payers and the commendable two Tax Amnesty Schemes on declaring local and foreign assets that helped collect over PKR 97 billion according to Finance ministry press release in July 2018. However, it is convenient to say there's a lot that needs to be done since Pakistan's tax laws have always been more inclined towards more tax collection rather than better tax collection.

The fiscal deficit of Pakistan reached up to 6.6% of Gross Domestic Product (GDP) in 2018 and a 67.2% of government debt to GDP in December 2017. As we look for a tax plan, the per capita income in FY2018 is USD 1,640.5 with an unemployment rate taken in 2015 of 5.9%, an average personal income tax rate of 20.77% and an average sales tax of 16.15% from 2006 to 2018.

There's a lot that needs to be done since Pakistan's tax laws have always been more inclined towards more tax collection rather than better tax collection.

The highest personal tax collection in China, India and Malaysia is 45%, 35.88% and 28% respectively, whereas the per capita income of these countries was USD 15,309, USD 1,964 and USD 11,521 respectively in December 2017. Among these countries, unemployment rate is the highest in China standing at 3.82% in the second quarter of 2018.

It would be wrong to say that not all Pakistani people pay taxes as we're bombarded with escalating sales taxes of as much as 27%. But the sales tax which is based on Value Added Tax (VAT) structure is hurting Pakistan, where according to World Bank 29.5% of the population was living below poverty line in 2014. Hence, the sales tax is depriving poor people of basic amenities so they're not able to contribute positively to the country's economy.

On the other hand, registered corporates in Pakistan are faced with a complex tax structure comprising: 1) minimum tax, 2) final tax and 3) the corporate tax or 4) the alternate tax along with 5) special tax and now 6) tax on reserves too. This regressive tax environment makes it almost impossible for the government to invite foreign direct investments and impractical to encourage entrepreneurship in Pakistan. In short, the fiscal laws don't convey a clear vision and show lack of direction.

Despite increasing the tax net being the topic of all tax forums for the last few decades, it is still the biggest obstacles the Federal Board of Revenue (FBR) has failed to overcome. Let's have a look at the major depressing factors and what can be done to achieve the target of better tax collection.

Despite increasing the tax net being the topic of all tax forums for the last few decades, it is still the biggest obstacles the Federal Board of Revenue has failed to overcome. The two basic obstacles are our tax avoiding culture and the cash economy.

The two basic obstacles are our tax avoiding culture and the cash economy. For years, our people have considered government an enemy and tax collection a way to fuel their corrupt bureaucracy. Much of this fear has led to unregistered economy and cash based trades. A smaller to medium businessman feels no need to file a record of his earnings and assets to the FBR; instead, he considers no shame in concealing all his money and the business details. The problem here is lack of education that should have been given instead to instill within the minds of the citizens the importance and the need of paying taxes. Also, the perception of government authorities and their representatives built over years is such that it appears more convenient to keep oneself away from dealing with them.

Additionally, cash economy paves way for illegal money circulation and money laundering is one practice that has been found to have significantly depressed our tax revenues. India, being our neighbour and dealing with almost same cultural issues had come up with a ban on high currency notes taken as a step to curb the illegal money troubles and get the unregistered to register. A study of the results of Indian government actions can help us understand the options available to us.

Comparing ourselves with developed countries – France, Spain and USA being the most travelled countries in 2017 have the progressive individual income tax brackets going up to 45%, 45% and 39.6% respectively. Developed countries collect a wider range of taxes in the form of income tax, social security taxes/municipal taxes/social charges and some even collect additional special taxes. These taxes are in addition to the capital gains and investment income taxes and the toll collected on roads. Yes, there are more income earning opportunities but again those opportunities were created by governments from the public money received in the form of taxes.

Cash economy paves way for illegal money circulation and money laundering is one practice that has been found to have significantly depressed our tax revenues.

The essential task however is educating the citizens that while comparing Pakistan with the rest of the world, a consideration of taxes collected from their people is imperative.

Another problem with the tax system here is the way FBR works. Despite the presence of many respectable tax officers, the presence of bureaucracy and corruption is not hidden from the eyes of a common tax payer. The long and detailed paperwork in this global era, with ancient organisational structure and data collecting and storing systems, FBR has half a century to travel to reach the international tax collection standards. It is only by restructuring the whole organisation and bringing user friendly culture and systems that FBR can encounter the developing needs and improve its tax collecting methods. These tasks may be time consuming but with Pakistan being now part of the Convention on Mutual Administrative Assistance in Tax Matters, Multilateral Convention to Implement Tax Treaty Related Measures to prevent Base Erosion and Profit Sharing (BEPS) as well as Multilateral Competent Authority Agreement on Automatic Exchange of Financial Accounts (MCAA) of Organisation for Economic Co-operation and Development (OECD), an aggressive policy needs to be implemented.

Another problem with the tax system here is the way FBR works.

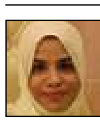
The third major issue is the existing fiscal laws which are mostly regressive rather than progressive. The Finance ministry needs to first agree that the tax net be increased by broadening the income tax base; that the sales tax, if based on VAT, should be significantly reduced to give breathing space to the poor or structured to charge high only luxurious goods and services; that a clear demarcation is required whether a particular sales tax be either collected by the federal government or provincial government, not both; and that the corporate tax be not over complicated. Another major flaw in the laws is the way some tax exemptions are given. Whereas tax exemptions to encourage certain businesses and particularly entrepreneurship in Pakistan are needed, long term unchecked and uncontrolled exemptions lead to a tax avoidance behaviour. Another larger area of development is capturing the income earned by individuals by working online and that by Pakistanis working outside the country. This has been particularly of concern to even the developed countries and that is one of the reasons the USA came up with Foreign Account Tax Compliance Act (FATCA) and the OECD countries with the BEPS. With improved functioning, FBR would also be able to reserve a spot on the OECD development center and interact better with the rest of the nations.

The long and detailed paperwork in this global era, with ancient organisational structure and data collecting and storing systems, FBR has half a century to travel to reach the international tax collection standards.

There are several other things that can be done by engaging the taxation and economic experts but these seem to be the first few steps towards a larger goal. Studies of countries with more or less same cultural barriers can be a good effort to begin with. A very relevant example is that of Malaysia, which is faced with almost the same cultural issues, just recently had elections and is planning on fiscal reforms to reduce its budget deficit by curbing government spending and diversifying its fiscal revenue. According to World Bank, “The historic outcome of Malaysia's recent elections provides an unprecedented opportunity for change.” And so can Pakistan’s.

Tax laws should be designed to create business opportunities and lock the back doors for tax evasion. With more businesses coming in unemployment will be reduced and with higher employment rate more income taxes would be collected, spending would go up and so will the sales tax revenues. That should be our goal.

References: Finance Ministry press releases; Pakistan Economic Survey 2017-2018; State Bank of Pakistan Economic Data publications; and World Bank Survey and Trading Economics, Inc. NY.



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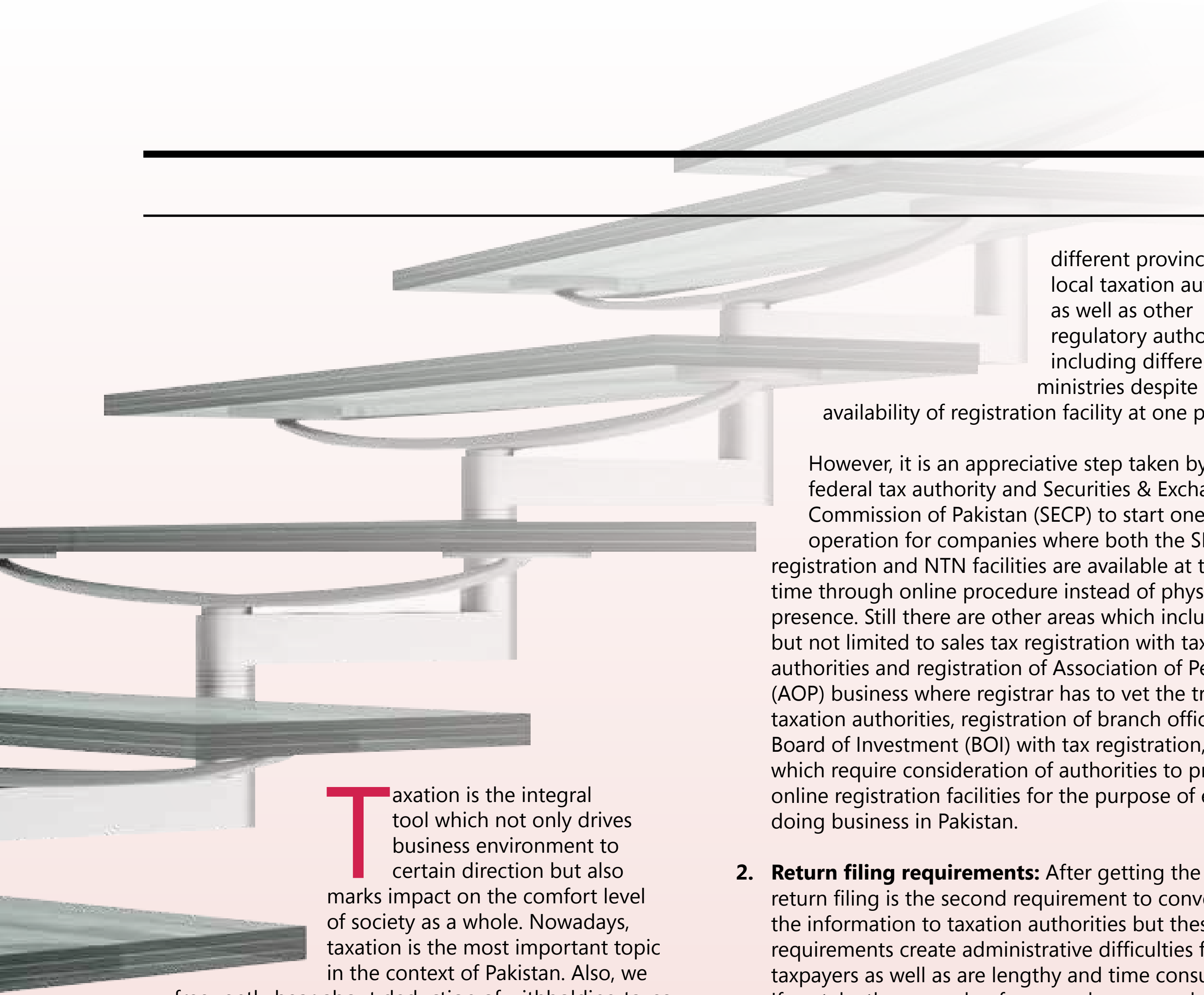
Attitude & Culture of Tax Department in Pakistan – Barrier to Broaden Tax Base

by Zafar Abdul Razzak



Taxation is the integral tool which not only drives business environment to certain direction but also marks impact on the comfort level of society as a whole. Nowadays, taxation is the most important topic in the context of Pakistan. Also, we frequently hear about deduction of withholding taxes on major financial transactions or steps including banking transaction, purchase of residential property, usage of mobile phone or even payment for registration of motor vehicle. Despite the burden of payment of various taxes at different stages even by a common individual with salaried income, there are many other procedural issues which create trouble while doing business with applicable taxation laws.

To highlight these issues faced by the common individual and corporate sector at the time of commencement of doing business, following are few glimpse of hindrances which a common taxpayer faces:

1. **NTN Registration:** The basic and first step is to establish relationship with the taxation department and to include one-self into the taxation net through obtaining National Tax Number (NTN). At this stage, while the taxpayer is trying to get registration for the purpose of taxation, he is required to submit various documents for example, original electricity bill in case of installation of sub-meter in the building or Bank Account Maintenance Certificate from bank before the issuance of NTN. Further, there are some other issues like non-presence of the particular staff responsible for NTN registration, hectic procedures for sales tax and Association of Persons registration, registration with different provincial and local taxation authorities as well as other regulatory authorities including different ministries despite the availability of registration facility at one place.

   However, it is an appreciative step taken by the federal tax authority and Securities & Exchange Commission of Pakistan (SECP) to start one window operation for companies where both the SECP registration and NTN facilities are available at the same time through online procedure instead of physical presence. Still there are other areas which includes, but not limited to sales tax registration with taxation authorities and registration of Association of Persons (AOP) business where registrar has to vet the trust with taxation authorities, registration of branch offices with Board of Investment (BOI) with tax registration, etc. which require consideration of authorities to provide online registration facilities for the purpose of ease of doing business in Pakistan.

2. **Return filing requirements:** After getting the NTN, return filing is the second requirement to convey the information to taxation authorities but these requirements create administrative difficulties for the taxpayers as well as are lengthy and time consuming. If we take the example of a normal company having presence in two provinces of Pakistan, then every year it is required to file 36 monthly sales tax returns (two provincial and one federal), 13 income tax withholding statements (12 monthly and one annual), four quarterly advance tax filings and one annual return of income. These all becomes 54 filings with the taxation authorities only, apart from filings under other regulation i.e. SECP.

   Due to the above difficulties of filing of various returns, tax payers are reluctant to come under the tax net and avoid complying with the taxation principles. If the tax department shows lenient attitude and ignores the minor non-compliance in this respect, then it will boost the confidence of the taxpayer and increase their willingness towards filing returns.

3. **Unnecessary show cause notices, orders and forged recovery proceedings:** After the filing of return, generally the tax department issues the show cause notice which usually contains the requirement of unexpected explanation. For example, justification and evidence of personal expenses in wealth statement (part of the annual return of income). Although, the said demand is not fruitful for the purpose of audit proceedings conducted by the taxation authority, because they merely concerned with the non-

disclosure of income in the return despite to require expense justification which is made out of the income that is declared in the return. Further, it is practically impossible to keep the supporting evidence of expenses for a long period.

Besides the issuance of unjustified notice, there is the issuance of order containing the undue demands of taxes on weak grounds. For example, if the Workers Welfare Fund (WWF) is not applicable to a particular company, the tax department impose the same and pass the order without giving due consideration towards the nature of business. Not enough to pass the order, the tax department also attempts towards the recovery of the said amount from the bank account of taxpayers. So, the taxpayer starts the process of filling appeals and refund proceedings, which in itself a time consuming process. This is another reason, in Pakistan's tax culture and attitude of the tax department, due to which taxpayers are generally reluctant to present their particulars and be the part of tax net. Due to all the above reasons the taxpayers are not ready to show their positive behaviour towards contributing to the economy.

4. **Adverse and delaying attitude of representative of tax department:** Delaying attitude of the taxation officer at the department is also a barrier due to which a major portion of the population is reluctant to join the tax net. Generally, it is perceived that citizen of Pakistan are willing to pay their due amount of taxes. This attitude can be perceived from the recently announced Dam Fund where people give billions of rupees or when people give charity to religious and social activities. However, collection of due taxes was negatively affected by adverse attitude of the taxation officer. Further, the unnecessary delays in deciding the matter are also observed in the attitude of tax department. For example, if the taxpayer applied for the exemption certificate on a legitimate ground with all supporting and documentary evidence, he faces unnecessary delays on routine matters.

   Based on the above, if the government intends to significantly enhance the tax base, it will require to give due consideration on this area by providing appropriate trainings and to formalise the policy to decide the case at the relevant level of the taxation officer within the prescribed time. By taking these steps, the taxpayer will gain confidence in joining the tax net.

5. **Unacceptable amendments and unclear provisions in taxation laws:** Non-availability of the clear-cut guidance also causes the taxpayer to act reluctantly or avoid becoming under the tax net. Most of the time unclear provisions under the taxation laws play their role to increase the confusion for taxpayers. Sometimes, frequent or unexpected amendments under the taxation laws cause trouble to the taxpayer to avoid the taxation net. Therefore, elements of uncertainty and unpredictability where clear-cut provisions or guidance are not available, refrain the taxpayers to accept tax net positively. Regulators should frame the taxation laws in such a way that they will be easy to understand by the normal taxpayer, in this way taxpayer will easily accept their responsibility to be a part of the tax net.

6. **Interaction with different department related to taxation:** The situation gets worse when notices come from different taxation departments, including federal and provincial authorities, and the compliance becomes time consuming for the taxpayer. Further, due to the unfamiliarity with all the applicable taxation laws, taxpayer faces significant problems and remains in trouble to respond the queries relating to compliance. Moreover, to respond the matter, the taxpayer is required to appoint a consultant which will become an additional cost in addition to the demands raised by the taxation authorities. Due to these administrative issues, the taxpayer usually avoids to contribute in this respect.

   If the taxation authorities and government want to enhance the tax base, then they must have to establish the knowledge center where the taxpayer can easily be guided with legal aspect of compliances to be made to taxation authorities at minimal cost. By providing such kind of facility, taxpayer will be encouraged to join the tax net.

Conclusion: Above areas require significant attention and improvement in order to get the desired results of broadening by the tax base by increasing the numbers of taxpayer and to change the mindset of taxpayer from reluctance to willingness.

Last but not the least, recently there have been few steps taken by the taxation authorities as part of their objective of ease of doing business which were appreciated not only by taxpayers but also by World Bank sixteenth edition report on ease of doing business 2019 which covers 190 countries of the world relating to the ease of doing business. As per the said report, the ranking of Pakistan has been improved by 11 ranks and jumped from 147 to 136 as compared to previous report due to reduction in regulatory complexity and cost by the introduction of new restructured procedures. Despite the said achievement, there is still a huge gap between the taxpayer's expectation regarding ease of doing business and taxation authorities to broaden the tax base.

The writer is a chartered accountant working as deputy manager taxation at KPMG Taseer Hadi & Co. Chartered Accountants.

Stock Market isn't a Mystery

by Samir Ahmad

While the government and officials of the Pakistan Stock Exchange tout its success, and how far it has come in terms of technology, products and services it offers, the fact of the matter is that there is very little awareness on its functions and importance.

The stock market isn't a mystery. It's definitely made out to be. Why else would there be less than 250,000 sub-accounts in the Central Depository Company of Pakistan Limited, a country with a population of around 210 million. While the government and officials of the Pakistan Stock Exchange (PSX) tout its success, and how far it has come in terms of technology, products and services it offers, the fact of the matter is that there is very little awareness on its functions and importance.

It doesn't help that a huge segment of the population is not highly educated. It doesn't help that a majority of the educated people still see the stock market as a place where nothing but speculation and gambling takes place. In their heads, vultures circle the stock market, and are out to get newcomers who arrive with their savings and hard-earned money. But is this how it's supposed to be?

Granted that the stock market is meant to give an advantage to the smart investor. It pays to know meaningful information before others do, and there is an incentive to cheat. In fact, one makes money over others and hence, the entire model of stock trading is quite competitive. You need to interpret information better than others, hope that the rest follow you, and that you make the first smart move. Of course, you will not always gain, but the idea is to get it right more times than not.

In theory, and practically, you make money when you buy shares at a lower price and sell them higher. You buy them from someone, who then stands to lose as he/she watches the share price soar as you hold it. You gain at the expense of someone else. Conversely, selling a share, and hoping that you sold it at the right time before its price starts to go down is wishing that there was a fool who bought it off you. In a nutshell, every trade creates a winner and a loser.

But this is not what the stock market is all about – i.e. it is much more than just creating winners and losers at every turn or each trade. Some argue that the stock market reflects a country's economic performance. After all, the companies listed on the stock exchange do operate in that country, and post their earnings/ profit and loss accounts to their shareholders.

If a country's economic performance is impressive, and the size of its market is growing, it is likely that companies operating in that atmosphere are able to churn healthy profits. In turn, wages grow, new companies look to invest and open business, unemployment falls, and ideally, inequality in income reduces. In this scenario, the stock market will be able to attract investors who would want to pour in money, optimistic that this healthy trend is to continue in the future. Foreign investors tend to take notice in this case, and are quick to divert their

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To control the current account deficit, the currency has lost close to 35% in a year, and inflation has increased. The interest rate has reached 10% already, and economic growth is set to slow down in the coming years.

cash as well. With further inflows, the stock market goes through what experts call a 'bull run' in which share prices are increasing, more money is being pumped in, and the benchmark index – in our case, the KSE-100 index – increases as well.

But this doesn't go on forever. At some point, there are no more gains to be had. When we assume the market to be efficient soon enough, it also means that it has now found its equilibrium, and unless fundamentals improve further, there is no more change left. It means prices will stay the way they are. Here, investors start to pull out because they see an opportunity elsewhere. Or they want to cash out. Or it could be because they need the money. Either way, the stock market is set to take a downturn, which is not necessarily a bad thing. The benchmark sees what experts call profit-taking or profit-booking, and it causes share prices to recede. These times are opportunities for some people to buy shares again, as they have now started to decrease. This trend then tends to stop once buyers have accumulated, and start to pump cash again. Now, the market will see another bullish streak.

Perhaps, this was the simplest way to explain how the stock market functions and how it's linked to economic performance. In the real world, there are several other factors that control and guide the flow of share prices, the benchmark, and predict a country's economic performance.

In Pakistan's case, the stock market has been on a bearish run for the last two years. Some of it has been profit-taking after a very long, sustained bull run in the last 10 years, during which it grew from 10,000 points to over 50,000 before falling near the 40k mark and now lurking around 36,000-37,000. A little of it has to be blamed on panic selling that has crept in due to Pakistan's economic ills that have started to take toll on its growth trajectory.

When you know that the government has taken on more debt than it can handle – especially from those who are not part of the economy – and will need to cut expenses as well as tax more, it puts a dampener on companies' earnings. In my opinion, indicators of an economy are determined in part by outlook, and in Pakistan, the view is not very positive moving forward.

Foreign exchange reserves, meant mainly to stabilise position in the external sector as well as give you a sense of comfort, have fallen to critical levels. Talks for loans are ongoing, but this is still debt. Exports have not risen to satisfactory levels, and much of the economic growth has been import-dependent. Some major banks have been penalised at an international level, and terrorism is still an issue in the country. The political atmosphere is not productive for effective policymaking. Both, policymakers and policies, are confused over who to benefit and who to penalise. Revenue has not been increased through new ways, and current taxpayers continue to bear the brunt. To control the current account deficit, the currency has lost close to 35% in a year, and inflation has increased. The interest rate has reached 10% already, and economic growth is set to slow down in the coming years.

With this said, the country's stock market is obviously going to take a hit. This is why it's linked to economic performance. Pakistan may get a bailout from the International Monetary Fund (IMF), but it is going to come at the cost of heavy devaluation. This will take toll on spending in the country, and therefore, reduce the prospects of growth.

At the same time, there are several avenues available for international

Pakistan may get a bailout from the International Monetary Fund, but it is going to come at the cost of heavy devaluation. This will take toll on spending in the country, and therefore, reduce the prospects of growth.

If concrete measures are taken that benefit the economy in the long-run, the stock market can then enjoy the bullish ride it has known so well this past decade. Promoting tourism, attracting investment and keeping policies consistent so that businesses can make long-term decisions are crucial strategies.Ad rei

investors to look at. Neighbouring countries are set for higher growth, and are more politically as well as socially stable. We may be the sixth most populous country in the world, but we are definitely not among the most stable. The stock market can see that. And it will show weaken signs in the months to come. There is very little the government can do, especially when it is afraid to take meaningful steps that hurt its vote bank.

But if concrete measures are taken that benefit the economy in the long-run, the stock market can then enjoy the bullish ride it has known so well this past decade. A huge issue for Pakistan is the outflow of funds and lack of meaningful foreign exchange reserves in the country. While the government is looking to address the issue through loans – not entirely a bad idea – it has to come in conjunction with policies that encourage people and companies to keep wealth in the country. Promoting tourism, attracting investment and keeping policies consistent so that businesses can make long-term decisions are crucial strategies.

Once a long-term vision has been enacted, and meaningful steps are taken in that direction, the PSX will see the 'return of the investor' and greater funds will divert to the market. While it is going to be a steady process and the increase would be gradual, it would definitely start.

This is not only going to help current companies on the PSX as well as the investors, it would attract potential corporations looking to raise money through the stock market to go public as well. In the last few years, listings on the PSX have been unimpressive, and with higher interest rates, borrowing from banks has become expensive. Perhaps, it is time that the stock market is tapped for one of the reasons it exists. Help raise funds for companies.

All you need to know about Right Shares

by Aamer Abdul Razzak

We all have studied in our college or university days that debt financing is cheaper than equity financing as the returns of the debt holders are secured. However, considering the current monetary environment of the country where the benchmark interest rate has been increased to 10% – its six years high level – companies are more inclined to raise finance from its equity holders. Even though the equity market itself has been lackluster for the last couple of years since the drama of Panama has surfaced, but it's still worth taking the risk. The advantages of equity finance is that you can control the timing of returns to be paid to the equity holders.

The funds from the equity holders can be raised in the following ways:

1. Issuance of right shares – ordinary shares.
2. Private placement which is also known as issue of shares other than right.
3. Internal cash generation by reinvesting the retained earnings – however, this can best be used to meet short term and small financing or working capital requirements.
4. Employee stock option scheme – mainly used to raise small amount of funds and provide incentive to its employees.
5. Initial Public Offering (IPO) – in this situation, the company sells stock directly to the public. Depending on the circumstances, equity offerings can raise substantial amounts of funds. The structure of the offering can take many forms and requires careful oversight by the company's legal representative.
6. Issuance of Preference Shares – these shares can be of different kinds, i.e. Cumulative/non-Cumulative, Participatory, Convertible, Redeemable/Irredeemable, Stepped and Zero dividend preference shares.

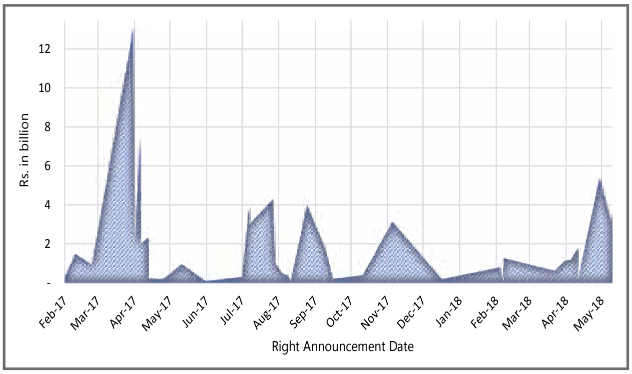
In this article, we will focus on the raise of funds through issuance of right shares as this is the most common and efficient method of raising funds.

Before we dwell into the requirements of the right issue, let's look inside the right issues in the past two years:

- During the last two years around 37 right issues have taken place in the market (2018: 11 and 2017: 26). The number of right issues in 2018 were low mainly due to the change of power in the country (election year).

- The total funds raised from these 37 right issues was Rs. 69,884 million (2018: Rs. 15,678 million and 2017: Rs. 54,205 million). The average issue size was Rs. 1,888 million (2018: Rs. 1,425 million and 2017: Rs. 2,085 million).
- The largest right issue in terms of funds raised was by Bank of Punjab in 2017 which raised Rs. 13,062 million, whereas the lowest right issue was of Rs. 75 million.
- Majority of these right issues were issued over and above their par value except for few which were issued at par. However, all of the right shares were issued at a discount to their prevailing market price. This discount varied from company to company ranging from as high as 98% to as low as 1%.

The timeline showing the money raised through right issues during the last two years:



On June 13, 2018 the Securities & Exchange Commission of Pakistan (SECP) through its SRO 769(I)2018 issued a draft regulation on Companies (further issue of shares) Regulations 2018. SECP asked comments from all stakeholders affected by the Regulation. Finally, on November 14, 2018 SECP issued these final Regulations through SRO 1399(I)/2018 which came into force at once. These Regulations provides the procedures for the issuance shares including right shares.

Readers can access the procedures for the issuance of right shares from SECP website (https://www.secp.gov.pk/laws/regulations/). However, I would like to highlight certain key steps and considerations for the issuance of right shares.

1. Timing of the right issue

The timing of right shares is important from the following two aspects:

- Right shares cannot be issued within one year of the issue of capital to the public or last right issue.
- The issue of right shares takes around three months' time for the funds to be available for use.

So, you need to carefully plan before you commit for the utilisation of these funds.

2. Issue price

As evident from the analysis above, most companies have issued shares at premium to their par value. The Regulations specify that a listed company can charge premium up to the free reserves per share as certified by the auditors of the company. Free reserves are a company's revenue reserve after adjustment of intangibles and fictitious assets which is not specifically set aside for any contingency or other liability.

However, in case any company wants to issue right shares over and above the free reserves per share it has to comply with the following:

- Directors and sponsors shall provide an undertaking to the Commission that they will subscribe the right shares to be offered to them;
- Remaining balance of right issue shall be underwritten by underwriter(s), not being associated company or associated undertaking; and
- Directors and sponsors of the company shall deposit the amount of their subscription before the book closure date.

The above restrictions are placed to protect the interest of the minority shareholders, who aren't charged a price which the sponsors or directors themselves are not willing to pay.

In general, companies issue the right shares at price lower than the market price to make it attractive for the shareholders to be subscribed. How much discount on market price you should give depends upon how your shares/company is perceived in the market.

3. Size and cost of the right issue

How much fund is required and what will be your issue size that your advisor or underwriter believes that can be marketed and subscribed by the shareholders. An analysis of the right shares issued during the last two years, the companies have issued as high as 750% of their existing paid up share capital to as low as 3% of their existing paid up capital. The higher the size of the right issue the higher will be its cost of issue which ranges from 1.5% to 2.5% of the funds raised.

Conclusion: Right issue has been the most used form of raising money mainly because its cheaper to raise money through rights; it is very simple, i.e. only the director's approval is required; it rarely fails as majority shareholders who are also on the board of the company approves it and subscribe it and it secure the existing shareholders that their shareholding is not diluted.

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Small and Medium Sized Practices: Challenges and Prospects

by Hina Kazi

As per the International Federation of Accountants (IFAC) Global SMP survey, more than two-thirds of the firms are undergoing the challenge of attracting new clients and retaining the existing ones.

What are Small and Medium Sized Practices

Small and Medium Sized Practices (SMPs) comprise of a massive number of global accountancy practices employing innumerable professional accountants playing a crucial role as accountants and 'survivors' to Small and Medium Sized Enterprises (SMEs). SMPs act as the real backbone of any healthy economy as their contribution is witnessed not only in terms of increasing the private sector Gross Domestic Product (GDP) and entrepreneur development but also providing employment opportunities to a number of professional accountants looking forward to associate themselves with accountancy practices. In broader terms, SMPs provide both the traditional audit services and other non-audit services such as accounting, taxation and regulatory requirements along with advisory and consultancy and Business Process Outsourcing (BPO).

Why do SMEs prefer SMPs?

The main customers for the SMPs are the SMEs which look up to them not only as the most suitable and preferred service provider but also as trusted business advisors who will cater exactly to their specific business needs and requirements. Why do SMEs choose SMPs? SMEs are usually small and proprietary businesses which are not equipped with competent professionals and adequate resources. Due to the lack of financial skills, they need to outsource and rely on outside accountancy specialists to assist them in their day-to-day functioning and execution of technical financial tasks. So, SMPs not only provide the regular audit to the SMEs but also accounting services, tax services, advisory and management consultancy and other non-assurance/related services.

In today's world, the main revenue of SMPs arises from providing advisory and consultancy and other non-assurance engagements rather than the conventional audit. Advisory and consultation services includes a wide range of services, like corporate advisory, strategic business planning and development, restructuring, insolvency and business recovery, forensic accounting, corporate reporting, etc. Such are the services that the SME owners expects to receive when they hire a professional firm of accountants in order to compete successfully in the complex market. And from here, a strong and trusted relationship is initiated between the company and the firm.

However, there are a few threats that is accompanied in this kind of relationship such as:

- **Familiarity threat:** The auditor becomes too intimate with the client and doing audit at the same time while providing advisory services, this might create conflicts of interest between the two roles. Long association with one client might bring a question of professional independence threat and ethical issues.
- **Financial dependency threat:** When providing multiple services to a single client makes the SMP rely on major income from that source only and in case of losing the client creates financial dependency threat.

Key challenges faced by SMPs globally

In today's competitive environment, the challenges faced by the SMPs at regional and global scale are manifold. As per the International Federation of Accountants (IFAC) Global SMP survey, more than two-thirds of the firms are undergoing the challenge of attracting new clients and retaining the existing ones. Also, keeping up-to-date with the ever-increasing regulations, laws, international and local standards and complying with other day-to-day updates is a big challenge for SMPs where there is a dearth of qualified staff and limited training facilities available in-house. Also, the pressure of charging lower fees from SME client is another concern. Due to a huge number of SMPs, there is a hard competition amongst them and the clients targeted by them are also SMEs which are unable to afford paying higher fees and one of their reasons for choosing SMPs is the attraction of paying smaller amount of fee. Many times, SMPs are unable to get fee increase and the same amount of fee is charged for years, therefore, maintaining or increasing revenue becomes a real hurdle. Faced by market, regulatory and other operational challenges themselves, these SMEs are under financial burden most of the times, and are unable to pay for the services acquired from SMPs on timely basis. This, in turn, makes the SMPs incapable of maintaining adequate cash flows to meet their regular business needs.

Not only employing qualified and experienced staff is a challenge but retaining them is a problem beyond control. A qualified professional accountant is looking for better growth prospects in terms of attractive salaries and perks coupled with good client exposure and learning opportunities. When SMPs are unable to fulfill the required demands of these professionals, they end up hiring the left-over chunk of the market. By any chance, even, if they are able to hire the right professional, it becomes very difficult to retain one in the absence of explicit succession planning.

Apart from these major concerns, there are many other challenges

Keeping up-to-date with the ever-increasing regulations, laws, international and local standards and complying with other day-to-day updates is a big challenge for SMPs where there is a dearth of qualified staff and limited training facilities available in-house.

The SMPs are under great pressure to find the best technology that is most suitable to their practice.

The SMP should differentiate itself from other practices by identifying its area of expertise where it can give the best service to its clients as compared to the other practicing firms and can create a niche in that space.

The future of SMPs is now very much dependent on the approach they undertake to compete in the market by not only shaping and modernising their contemporary business models but also utilising their available talent and resources in order to drive sustainable progress, innovation and improvement in their professional growth.

dominating the SMP industry, like the ever-increasing pace of technological developments. The SMPs are under great pressure to find the best technology that is most suitable to their practice. In order to compete with the market, they are required to re-invest in the practice, develop it and increase their appetite for risks by capitalising both time and money in latest information technology infrastructure and software (work in cloud computing environment, use data analytics and take concrete measures to enhance higher levels of cyber security).

How to make SMPs a Big Success

Despite the challenges, there is room where these small practices can grow and succeed well by adopting the following strategies:

- Developing a mission statement by emphasising on the fundamental standards, principles, ethics and ideals by which the practice is governed. Also, the vision statement should set a defined direction for the growth of the practice by providing a framework for all strategic planning and development.
- As accountants are well-known to have little or no skill of promoting or marketing their products or services, they should either train an in-house employee or hire an external marketing expert who can develop a plan and strategy for reaching out to the new clients and selling additional services to existing clients. Well, these days, social media marketing is a new tool offering the lowest cost and a widespread reach to the target customer base.
- SMPs should also develop personal and professional relationship with other accounting and non-accounting firms. Networking with peers in industry helps not only in client referrals but it is also easier to seek advice on technical matters and other clients' needs. In today's world, the growth of SMPs is also witnessed by merger of two or more small practices into one, thereby, availing the benefits of having a bigger practice with diversified resources and skilled professional staff.
- Keeping abreast with new emerging technological changes and advising clients of the same gives an edge to practicing firm. Automating processes and systems, working on audit software and moving to cloud is a one-time investment in time and money, however, one needs to continually update on changing aspects of technology. Advising clients of relevant technology to adopt may result in client operating more effectively and efficiently and, thereby, results in providing a value-added service to the client through proactive consulting.
- The SMP should differentiate itself from other practices by identifying its area of expertise where it can give the best service to its clients as compared to the other practicing firms and can create a niche in that space. This would actually set the practice apart from the rival firms and the firm would also be able to focus in that particular area and deploy resources to excel in there.
- SMPs should recognise that it has more potential in providing non-traditional services like advisory and consultancy where it can assist the client in strategy, structure management, new products, target markets, feasibility studies and operations of the company along with financial planning and risk management. By providing additional services and supporting client in running and operating business effectively results into a satisfied customer which, in turn, guarantees increased revenue for the practice.
- It is always said that the target market for any SMP is SME only as both share the same objectives and targets and are assumed to be meant for each other. However, a small practice by proper branding, employing the best staff available in the market and with strong networking skills and latest technology in place can win big and better clients apart from their customary small and medium sized ones.

Conclusion: The future of SMPs is now very much dependent on the approach they undertake to compete in the market by not only shaping and modernising their contemporary business models but also utilising their available talent and resources in order to drive sustainable progress, innovation and improvement in their professional growth and success.

Transparency - The Way Forward

by Sahibzada Muhammad Ezaz Ul Haq

Introduction

In its Corruption Perceptions Index (CPI) 2017, Transparency International (TI) has ranked Pakistan number 117 of 180 countries that were included in the index for the year 2017. The rank indicates a 'high' level of corruption in the country. The index ranks countries on a scale of 0 (highly corrupt) to 100 (very clean), and awarded Pakistan a score of 32 (2016: 32, 2015: 30). This index is measured on corruption in public institutions. Though, the report clearly mentioned that no nation in the world is corruption-free, but there are countries with much better performance than others. New Zealand is at the top of the list with the best performance and Somalia at the bottom with the worst.

CPIs for 2017 and 2016 highlighted press freedom, access to information about public expenditure, stronger standards of integrity for public officials, disclosure of relevant public interest information in open data formats, independent judicial systems etc. for overcoming the menace of corruption. Keeping in view the strong points mentioned by TI, we can safely say that everything is not lost for Pakistan.

Press Freedom

We have one of the most vibrant media in the world and it continues to point out corruption in government institutions day in day out. Though the media in itself is not supposed to eradicate corruption in a society, it does, however, have a responsibility to create awareness. Whatever its shortcomings, the media has undoubtedly made 'corruption' a buzz word in the 'Land of the Pure.' And as pointed out by the British novelist, J. K. Rowling, "Understanding is the first step to acceptance, and only with acceptance can there be recovery."

One thing which is strikingly missing in the media is the search for solutions. We have been listening to problems ever since private news channels commenced operations. I can't recall a single program on any news channel in the country which proposed or discussed any sort of system to put an end to corruption.

How do we end it? Where do we start the process? Which factors lead to a corrupt society and which ones counter it? Which departments are the most corrupt and why? Which are the best performing and how? What changes do we need to introduce to achieve this goal? What are the reforms adopted by nations that came out victorious from the clutches of corruption and created a fairer society? These are but a few questions which need to be answered and elaborated by the media for the masses to make a rational decision.

Access to Information

Pakistan has enacted Right of Access to Information Act 2017 which grants all citizens of Pakistan access to information held by public bodies. Further, the Act sets minimum information to be published (including online) by the public bodies. Punjab and Khyber Pakhtunkhwa have their own separate laws for Right of Access to Information.

The Act requires all public bodies to publish, among other information, 'detailed budget of the public body, including proposed and actual expenditures, original or revised revenue targets, actual revenue receipts, revisions in the approved budget and the supplementary budget.' There is no doubt that this legislation is a step in the right direction and must be appreciated. However, crucial information regarding public expenditure has not been included for automatic publication by the public bodies. In our economy, multi-billion rupee projects were completed – but no bid details like who approved the bids, how the money was spent by the contractors engaged, etc. were shared. These are the potential loopholes for corruption as funds are approved behind closed doors and spent without the knowledge of the masses – the true owners of that money.

In this era of technology and communication, this reporting can be achieved at minimum costs. A reporting framework needs to be developed for public expenditure in all four provinces and for the federal expenditure. The government needs to start preparing financial statements for citizens of Pakistan. (Finance ministry does report on the annual budget and other financial details but it does not report in a manner understandable by an average citizen.) Though this framework will need a lot of brainstorming, discussions and deliberations, we can point out few of the basic elements it may contain:

- A reconciliation of development and non-development expenditure with the annual budget of the country.
- Development expenditure divided into individual development projects.
- Each development project, as mentioned above, reporting details about bidders, bids, approver of the bids, i.e. government official(s); the relationship between the approver and the contractor; whether the approver or any of his/her 'related parties' had any interest in the contractor; and time taken to complete the project.

  Further, contractors will need to make their financial statements public like listed companies (preferably online) with an elaborate note on related parties giving full details about board of directors and shareholders of the company and complete financial information about public sector projects undertaken and completed.
- Non-development expenditure segregated into payroll (along with number of employees) and other expenses. Further, each government department will need to set Key Performance Indicators (KPIs) and report whether or not they were achieved.

These financial statements will then be supplemented by access to information law which will enable a common man to dig into details.

This reporting framework should include all the government departments, at least in theory, to avoid creating 'holy cows.' The systems are supposed to be fair, otherwise they collapse. These are rudimentary ideas, but they are essential in strengthening the accountability framework when federal watchdogs like National Accountability Bureau (NAB) and Federal Investigation Agency (FIA) are struggling in checking the corruption in the land.

Stronger Standards of Integrity for Public Officials

Stronger standards of integrity for public officials need to be implemented. Following the recent trends where social and mainstream media have shot honest bureaucrats to fame in a short period of time, while at the same time, those involved in obvious corruption have been thrashed quite wholeheartedly. A sociologist can better judge whether it will be helpful in any way.

However, we need to introduce system changes. Compulsory income tax return filing for all levels of civil servants, as well as their immediate family members could be a good starting point as it includes submission of wealth statement and its reconciliation with income of the individual. Second step is to audit these tax returns. NAB could be tasked to undertake the audit on sample basis, as done by Federal Board of Revenue (FBR) without a person being 'accused' as defined in the National Accountability Ordinance. Further investigation could be based on such audits.

The system also needs to take care of the output of government employees. Because when they don't get '*chai pani*,' they resort to delaying tactics forcing even an honest person to give bribe. 'Pakistan Citizen Portal' launched by the prime minister is an excellent step towards accountability of the civil bureaucracy and is a bridge between the citizens and the prime minister. However, the Portal is not an assessment mechanism for the bureaucracy but a complaint point for the citizens. Bureaucracy rates everyone's performance through Annual Confidential Report (ACR) while those being 'served' do not get a say in this matter.

How many files a given officer process in a given time? How is the quality of work measured? How is the output linked to his/her salary? How do the people served by the civil servant get to rate the quality of the service? How does this rating affect his/her career? These are but a few questions to answer while setting up an accountability framework for performance of civil servants.

Independent Judicial Systems

Independent judicial system was one of the goals of the lawyers' movement in 2007 and it did bring tangible changes. Most recent example of ousting of a sitting prime minister over non-disclosure of assets by a court is unprecedented in Pakistan (not delving in conspiracy theories at the moment). Though our judicial system is far from good, it surely is evolving.

After the 'Rebellion' in 1857 and nationalisation of East India Company (a history in itself) with formal annexation of the Indian subcontinent into the British Empire, the British parliament enacted various laws to govern the Indian colony. These laws formed the backbone of a judicial system designed to treat the masses of the colony purely like slaves – that is what they were actually. The system ensured that people dreaded the police as if they were their masters, and not the protectors, and courts prolonged cases for decades and generations. The judicial system worked as intended by the Empire.

Unfortunately, even after 'freedom,' the country adopted the laws of the Empire which resulted in the aristocracy occupying the position of the former rulers and masses, whether we like it or not, are still slaves of the state. Our judicial system still follows civil and criminal procedures made by the Empire. The result is evident – a disastrous judicial system making people fear disease and the police equally. "*Allah doctor aur wakeel se bachaye*." (May Allah save us from doctors and lawyers).

So what do we need to change? First of all, we need educated people in the parliament who have some idea about what they are supposed to do. Previously, it was observed through surveys that around 90% parliamentarians do not say a single word during their time (that is five years) in the parliament. So how do they make laws? Actually, they don't. This change is in the hands of the people whom law does not, and cannot, punish for electing an inappropriate person. Or should there be some law for punishing that error?

Secondly, we need a big debate on the topic of laws of the land. It does not mean that we do not have good laws at all but we need is to change the system to implement those laws. We need to compare our system with others and introduce radical changes which exalt the status of a common man from slave to a human being. Millions and millions of cases are pending in courts and the system is crushed under it. We need the big guns in the legal system to sit down and formulate strategy which brings us out of this imperial age. If National Database & Registration Authority (NADRA) can use technology to handle data of 200 million people, why can't the judicial system? There are numerous systems which deal with the work efficiently. We could use them to expedite the system of justice.

With the use of technology, the following information is available at any time:

- Number of cases pending in all courts of the land.
- Judges and police officers/civil servants dealing with such cases.
- Cases per judge and police officer.
- Specific laws under which those cases are registered (which crime prevails the most in the land).
- Time taken to resolve any given case and average time for such cases.
- Time elapsed for any given pending case and average time for such cases.
- Persons in jails and lockups and the crimes they are accused of.

These statistics will then help in dealing with the issues more accurately.

Further, we need to make compulsory biometric verification of all the persons in jails and lockups which will be recorded in an online database. This will ensure no one is picked up by the police 'off the record.' This practice of the police is reminiscent of the imperial age when they enjoyed supreme power without accountability leaving a common man practically a slave.

Internal communication of the judicial system has to be through electronic means. The paper system is as slow as dead. We are living in 2019 and following the processing time of 1857.

In the end, we need to think outside the box and start looking towards solutions. Whether debates are at the university or inside a TV channel studio, we need to include all stakeholders. No nation in the world was killed to eliminate the problems. Nations evolved and reached the highest of levels of success by implementing changes in their system according to their needs and demands. Let's start the process.

The writer is a chartered accountant based in Islamabad.

Migration Trends & Globalisation of Accounting Bodies: The Impact on ICAP and its Members

by Sarfraz Nadir

"Migration is an expression of the human aspiration for dignity, safety and a better future. It is part of the social fabric, part of our very make-up as a human family."
– Ban Ki-moon, former UN secretary general

Migration – why not? History is peppered with massive migrations, some undertaken to wage war, others to escape it. Most migrations are simply undertaken to find food, shelter or a better way of life. It's not just us humans who like to move around; some of the greatest migrations regularly take place in the animal kingdom.

As advancements in travel and communication make the world smaller, migration trends are changing accordingly. The most common form of domestic migration is from rural to urban areas, which has become a challenge in both developing and advanced countries. In Pakistan, the population of 10 major cities has increased by 74.4 per cent since 1998, when the last census was conducted, according to the data of recently concluded 6th Population and Housing Census 2017.

However, it is no surprise that a lot of Pakistanis also aspire to leave the motherland in search for better prospects:

It's not just us humans who like to move around; some of the greatest migrations regularly take place in the animal kingdom.

"More than 1.6 million Pakistanis proceeded to Saudi Arabia between 2011 and 2015 for employment purpose, making the country the largest market for Pakistani workers across the world. This makes up 49.9 percent of Pakistanis who went abroad seeking jobs, according to the ministry of Overseas Pakistanis and Human Resource Development. Nearly 1.3 million people (38.2 percent) proceeded to UAE for employment during the same period. Oman was the third largest importer of Pakistani manpower and 0.26 million (7.6 percent) job-seekers proceeded to Oman during 2011-2015, Pakistani media quoted a ministry official as saying. The illiterate and unskilled workers comprises around half of the total Pakistani migrant workers and only 1.76 percent workers are doing white collar jobs, the official said. Among the skilled workers, drivers are in the highest number, followed by masons, carpenters and tailors. Since 1971 till December 2015, around 8.77 million Pakistanis proceeded abroad for employment through the Bureau of Emigration and Overseas Employment (BEOE). Out of this total manpower exports, about 96 percent have proceeded only to Gulf Cooperation Council (GCC) countries, one percent to European countries and three percent to other countries for employment during the same period."
– Arab News 14 July 2016 (http://www.arabnews.com/node/953306/saudi-arabia)

(I have deliberately highlighted a few lines in the above excerpt from Arab News as this represents an opportunity for skilled and talented Pakistanis and The Institute of Chartered Accountants of Pakistan (ICAP) can play an increasingly important role, but more on that later.)

Unfortunately, due to the shifting political and economic situation in the Middle East, Pakistani migrants' numbers to these countries have started to fall now. Especially in Saudi Arabia where the numbers of the outbound have fallen year on year for the first time in history. Specifically, 460,000 Pakistani labourers were recruited by Saudi Arabian employers in 2016, an 11 per cent drop as compared to 2015, with a further decline expected in 2017 (Dawn, 3 April 2018 https://www.dawn.com/news/1399286).

So why has working in the Middle East started to lose its sheen? There might be several reasons:

- Greater focus by the Middle Eastern governments on employing local talent, especially Saudi Arabia.
- Declining pay, higher living costs and introduction of Value Added Tax (VAT).
- No prospect of attaining permanent status/passport.
- Limited rights and legal protection as compared to citizens.

As advancements in travel and communication make the world smaller, migration trends are changing accordingly.

Our talented workforce started looking beyond the gulf and towards the west a long time ago: UK in 60-70's, USA in 80's and Canada in 90's. UK and USA have a large Pakistani diaspora and moving there used to be relatively easier if you have a blood relative who is a national. The subsequent emergence of Canada as a destination for skilled migrants prompted a large exodus from South Asia and South East Asia, most notably China and India. Engineers, doctors and accountants moved to Canada in droves but they were not the only ones; a large number of crane operators, welders, nurses and teachers also joined the party.

> **Migration trends have been steady for ICAP members with almost one-third based overseas, a very high number given that we still have less than 8,000 members.**

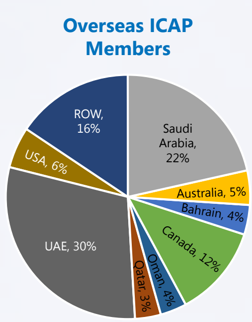
What made these places more attractive?

- Better infrastructure, law and order.
- Free/subsidised health and education.
- Employment (or unemployment) support.
- Egalitarian societies that protect freedom of expression, human rights and accountability in public offices.
- The power and travel benefits associated with a first world passport.

Migration Trends for ICAP Members

Migration trends have been steady for ICAP members with almost one-third (>2,500*) based overseas, a very high number given that we still have less than 8,000* members. The largest concentration of overseas members is in the following countries (listed alphabetically):

Australia	117
Bahrain	100
Canada	312
Oman	90
Qatar	88
Saudi Arabia	554
UAE	768
UK	212
USA	142
Rest of the world	~400



*Source: ICAP Directory of Members & Firms 2018-19

Thanks to the commendable efforts by our Institute, we have seen our qualification getting the recognition it deserves from counterparts in England & Wales, Canada and most recently Australia and New Zealand. I remember a time less than 20 years ago when it was virtually impossible for anyone in Pakistan to get an articleship contract with an audit firm in the UK. Back in the day, it felt grossly unfair that ICAP would award so many exemptions to members of overseas CA institutes which did not equitably return the favour to ICAP members. It is a much more even playing field now and the Pakistani CA qualification is building a name for itself in the first world. In most countries, we simply have to pass the tax and corporate law papers or one case study and it's all good. However, this reputation comes at the cost of brain drain. As ICAP moves up in the club of preeminent global accountancy institutes, its members will find more opportunities to grow outside Pakistan.

Take Australia for instance: ICAP's eighth and latest overseas chapter was inaugurated in Sydney in November 2018. The event was attended by over 60 ICAP members including the president and several former presidents. During the ceremony, I came to know that Australia has over 100 ICAP members – this number is bound to increase dramatically given that most CAs based in the Middle East are poised to move here or are considering it seriously. I am part of several WhatsApp groups comprising the ICAP community in Australia, one of which has over 230 members. If past trends are anything to go by, we should have around the same members as Canada very soon.

Global Alliances Between Professional Accounting Bodies

Global mobility for members of professional accounting bodies have steadily gotten easier, thanks to greater mutual recognition of each other's qualifications. Even in the 1990's, it was inconceivable that a CA from Pakistan could directly get a job in UK but all that changed in the new millennium when Big 4 firms in the UK hired dozens of ICAP members en bloc. That was the first large scale recruitment of its nature which allowed our CAs to prove their mettle in the developed world and set stage for many mutual recognition MOUs signed by ICAP with other accounting bodies.

So why do accounting institutes have this new found love for each other? Is it about globalisation, convergence and ease of preparing and auditing financial statements? A president of a global accounting body recently told me, it is also about prestige and influence. Professional accountants end up working in senior positions in practice, industry even government. As any accountant will tell you, there is money to be made also e.g. subscription fee, exam fee, books, Continuing Professional Development (CPD), etc.

Our talented workforce started looking beyond the gulf and towards the west a long time ago: UK in 60-70's, USA in 80's and Canada in 90's.

Estimated numbers for members and students of renowned professional accounting institutes are as follows:

Name	Country	Founded	Members	Students
ICAP	Pakistan	1961	7,900	100,000*
ICAI	India	1949	282,000	805,000
ACCA	UK	1904	208,000	503,000
ICAEW	UK	1880	150,000	28,000
CA ANZ	Australia & New Zealand	1928	121,000	23,000
AICPA	USA	1887	431,000	93,000**
CIMA/CGMA	UK	1919	109,000	127,000***

*Estimated. **CPA candidates. ***CGMA students

The Association of Chartered Certified Accountants (ACCA) has been particularly successful in this respect and doubled its membership base from 100,000 to 200,000 in 13 years, a remarkable feat, given that it took ACCA 100 years to get to the 100,000 member mark. In 2016, ACCA also entered into a strategic partnership with Chartered Accountants Australia and New Zealand (CA ANZ) after which ACCA fellow members could apply for CAANZ membership without sitting for any paper.

Similarly in June 2016, members of the American Institute of Certified Public Accountants (AICPA) and Chartered Institute of Management Accountants (CIMA) overwhelmingly approved the creation of a new global organistion to advance the entire accounting profession. This joint venture is collectively referred to as Association of International Certified Professional Accountants and members of both AICPA and CIMA can now apply to become Chartered Global Management Accountants (CGMA). Confusing? However, one thing is for sure: there is strength in numbers as this new alliance boasts over 765,000 members and students and will be a force to be reckoned with.

Thanks to the commendable efforts by our Institute, we have seen our qualification getting the recognition it deserves from counterparts in England & Wales, Canada and most recently Australia and New Zealand.

Pakistan with its 200 million plus people has far fewer CAs when compared with any of the listed bodies. Even on a per capita basis, we come up way short against our neighbour India. We have not seen an explosion of growth in membership – numbers have grown approximately 200 percent in the last 20 years which seems like a lot but amounts to around 5,000.

ICAP's Role

Despite the anti-immigrant rhetoric coming from many developed countries, the world will always have room for talented and skilled people. Organisation for Economic Co-operation and Development (OECD) nations with stagnating population rates will continue to look towards developing countries to fill the ever widening employment and skills gap. Our Institute must continue preparing its members to get qualified to work in developed economies – but not at the cost of creating a shortage at home. This can be accomplished by:

It is a much more even playing field now and the Pakistani CA qualification is building a name for itself in the first world. In most countries, we simply have to pass the tax and corporate law papers or one case study and it's all good. However, this reputation comes at the cost of brain drain.

- Adding essential new tools and skills to the CA curriculum. Mandatory new subjects like fintech, data analytics, financial modelling and risk evaluation need to be considered.
- Offering 'elective' subjects like banking, asset management, mergers and acquisitions, start-ups, IPOs, etc. Mutually beneficial collaborations can be forged with the Institute of Bankers, Securities and Exchange Commission of Pakistan (SECP) and reputed local universities which enable members to be eligible for diplomas, certificates and degrees. Such avenues also provide an alternate direction to students who are unable to pass their finals.
- ICAP has done a lot of work to introduce soft skills into its curriculum but these focus mainly on students' language (English) skills. If we want our members to have a truly global outlook they must be provided opportunities to learn more about workplace courtesy, understanding diversity, business ethics, organisational as well as international culture and customs.
- Assessing adequacy of member numbers: if our members mastered the latest global skills, there would be surge in demand for a talent pool that is already in short supply.

A comprehensive strategy would be required to grow ICAP's global footprint, starting from student enrollment, academic partners, articleship slots and exams.

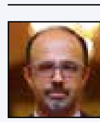
Summing it all up

ICAP with its relatively small member base has created a vibrant, close-knit community of skilled and dedicated professionals. Office bearers are easily accessible and the Institute's management is responsive, agile and helpful. Pakistani chartered accountants residing overseas present the softer, skilled and educated side of the country and are upstanding members of society. Our strength lies in the respect accorded by our peers.

ICAP with its relatively small member base has created a vibrant, close-knit community of skilled and dedicated professionals. Pakistani chartered accountants residing overseas present the softer, skilled and educated side of the country and are upstanding members of society.

The future looks promising as long as we remain relevant and respected around the world for our values, standards and competence. If we stick to that, the numbers will always be on our side.

Sources: AICPA/CIMA/CGMA report; ICAI member's statistics; Annual report of ICAI 2016-17; ICAEW 2017 annual review; and Annual report of CAANZ 2018.



The writer is a fellow member of the Institute who recently migrated to Australia. He can be reached at sarfraznadir@yahoo.com

Risk Management

by Muhammad Farrukh Siddiqui

Risk management is the process of identification, assessment, measurement and controlling of threats to an organisation's equity and earnings. These threats could stem from a wide variety of sources, including financial uncertainty, legal liabilities, strategic management errors, accidents and natural disasters among others.

Robust risk management division in an organisation will ensure the following:

- The individuals taking the risks clearly understand it.
- The organisation's risk exposure is within the limits set by the board.
- Sufficient equity is available as a cushion to take risk.

Another important misconception that exists is that the risk management is perceived as minimising risk rather in fact risk management is aimed at optimising the risk reward trade-off. So given below are the levels at which the risk management actually takes place:

- **Strategic level:** Includes risk management activities performed by senior management including defining risk appetite and formulating strategies and policies for risk management, etc.
- **Macro level:** Includes risk management activities within the business area, activities of risk review unit fall under this level.
- **Micro level:** It is the level where the risk arises such as front office of a treasury function or branches in case of the bank.

The risk management process encompasses different activities including:

- **Risk identification:** Identifying the risks involved.
- **Risk analysis:** Once the risk is identified the organisation then determines the probability of its occurrence and also the impact/consequences.
- **Risk assessment and evaluation:** After identifying the impact and likelihood of occurrence of a particular risk, the company now evaluates whether the risk is acceptable with regards to the risk appetite of the organisation.
- **Risk mitigation:** During this step, organisations identify their top risk and the mitigation strategies to deal with them or keeping them within the risk appetite of the organisation.

There are different risk management strategies that an organisation may adopt depending upon their size, complexity and other factors: Risk avoidance; Risk reduction; Risk sharing; and Risk retaining.

Another important aspect of risk management is that the person who takes the risk is not the person who monitors and evaluates the risk. Proper segregation of duties is a must for a robust risk management in an organisation. Further, it is also important that the risk management division of an organisation is given appropriate authority and independence to report and identify risks and their findings.

Nowadays, risk management unit/division has become the cornerstone of any organisation's success and every organisation is spending quite a lot of its capital on building a sound risk management division.

The writer is a chartered accountant working as assistant vice president in Habib Metropolitan Bank Limited, Karachi.

Emotional Intelligence is the difference that makes the difference

Muhammad Amin, ACA
Karachi

Yes, Emotional Intelligence (EI) is the key difference to convert a person into a successful leader who does not direct the people under him/her but instead is followed by them. EI does not only give the power to manage and control a person's own emotions but it makes that person capable enough to control the emotions of others as well. In other words, a person who has good EI can influence the emotions of other people in a way he/she wants. EI helps a person to be self-controlled/regulated and at the same time make him/her socially skilled to motivate and empathise with the people around. EI empowers the person to motivate others and has the tendency to generate optimum commitment from the followers and satisfy them. EI has now become a key factor in differentiating the successful and un-successful leaders of the world. To conclude, I would say that the world is changing and humans are being replaced by machines so is Intelligence Quotient (IQ) being replaced by Emotional Quotient (EQ).

Muhammad Ussama Khalil, ACA
Karachi

Emotional Intelligence (EI) is an individual's capability to control one's own emotions, and understand those of others.

Individuals with high degree of EI are not only effective in their professional chores, but also enjoy better quality of personal life. At professional front, these individuals communicate better, display higher performance quality, become better team players and lead people well. Ability to understand other's emotional situations and frames of mind enables them to empathise with each other, thus, they are able to reduce psychological noise barriers to their communications. Further, understanding of individual's own emotions and ability to control them, amplifies their performance, by being able to remain more focused towards their work, keeping themselves motivated and blocking any negativity that may hammer their performance and thought process. When such people are grouped, they form highly effective teams, with open and clear communications, adaptability, synchronised efforts towards common goal, and mutual respect for each other. Such people also form effective leaders and mentors. Their ability to empathise makes them a mentor who understands his team and guides them towards success. Further, they are emotionally stable, therefore, respond to situations impartially and open mindedly.

At personal level, people with higher EI are emotionally stable, and look at both sides of any situation. They are more adaptable and patient and have higher focus and understanding of their goals. EI enables individuals to block any negativity, be more understanding and cooperative, and have better human interactions and relationships. These individuals relate to other's problems, therefore, they are socially more aware and strive to contribute to well-being of society as much as they can.

Considering its wide spread advantages, EI can be termed as one of the most important soft skills an individual can possess, and certainly, it is the difference that makes the difference.

Muhammad Hunain, ACA
Karachi

If you think analytical skills, loyalty or competence is the key to success in workplace, it's time to rethink. Majority of organisational psychology experts now agree that those who climb up the corporate ladder are the ones possessing a higher degree of Emotional Intelligence (EI). EI is all about having an ability to make your emotions work for you by using them in ways that produce the results you want. Unlike IQ and other traditional measures of intelligence, EI can be developed and increased dramatically.

Development of EI can lead to employees who are more creative, fulfilled and enthusiastic. Its promotion throughout an organisation can improve productivity, ability to adapt change, improve retention of key talent and generally bolstering the organisation's competitive stance. Thus, the difference being generated through a very simple process – 'Emotions drive people, people drive performance.'

Tahir Khuwaja, FCA
Brampton, Ontario, Canada

It is rightly said that if you cannot control the situation, then control the way you react to the situation.

Emotional intelligence distinguishes one from others as it makes you a better team player, a team leader and an empathising person. Knowledge can be acquired by anyone through education but the ability to manage emotions is learned through knowledge of self and building stronger relationships. It's the relationships that count at the day end to get work done and rise to new levels.

Although used more in academic and office perspectives, emotional intelligence is also required at managing personal relationships and issues. In fact, these personal relationships and issues are the best learning grounds to polish the skills that can be better utilised in academic and office environments.

Adil Farooq Qureshi, ACA
Rawalpindi

I agree 100% with the concept. Emotional Intelligence (EI) is the next big thing for which a lot of work needs to be done in our local working environment. This can only be achieved through harmonious efforts of our teachers, trainers and working professionals alike. A simple three step plan for emotional intelligence with self-development:

- Gain control of your own self by de-linking with others. Recognise your own self and think that others' work/actions cannot give you peace of mind and heart. And if others can't give you lasting happiness, how can they inflict negative emotions upon you? This way you become cognisant of the fact that what goes on inside a person is more important than the outside.
- When you are not dependent on others for happiness or grief, naturally you are dependent on your own self for feeling good about yourself and everything in the universe. This forces you to think that your own actions and ideas are the real source of peace and happiness. This point highlights the importance of thinking positive.
- Love what you do. Whatever you are doing, identify certain specific areas of responsibilities in your broad spectrum of tasks which you love to do, find opportunities and willing to do again and again even when you are tired, sitting late or on weekends without remorse/anything in return. Working on your strengths will give you the courage to face your weaknesses as well continuously expanding your comfort zone and challenging yourself.

Qasim Abbas, FCA, FCMA
Toronto, Canada

In fact, Emotional Intelligence (EI) is a game changer. It indeed makes the difference – a big difference in various fields. In the business world, EI allows you to connect effectively with employees and clients and fosters better relationship with them. Also, it is a better way of responding to client needs without the client asking for the same. In social and family circles also, EI builds better relationship.

EI can be defined as identifying and managing our and others' emotions. It involves careful thinking and problem solving in a positive way. It includes, inter alia, motivation and social skills as well. It involves demonstration of humility, which creates mutual harmony and respect.

A principle of 'forgive and forget' in EI creates an atmosphere to move forward, and thus accomplishment of tasks and goals becomes easy.

EI is a psychological tool, mainly used to relate better with people in various fields. It builds trust and inspires others to follow the lead, which results in accomplishing desired tasks and goals with ease.

Usman Latif, ACA
Al Ain, UAE

Intelligence Quotient (IQ) contributes only 20% success in life. The rest is the result of Emotional Intelligence/Quotient (EQ), according to the seminal book Emotional Intelligence by Daniel Goleman, an American Science journalist. He argues that humans have two independently operating sections of the brain; one that thinks and one that feels. The rational mind lets a person contemplate and reflect while the emotional mind is whimsical and powerful. Usually, both minds work in harmony, but strong emotions (like anxiety) can cause the emotional mind to predominate the rational mind. We should strive to find balance between emotion and reason.

Emotional intelligence is analysed in five areas of self-awareness, managing emotions, self-motivation, empathy and handling relationships. IQ and EQ are not competing competencies, they work independently. One can be intellectually brilliant yet emotionally clumsy – an imbalance that can cause major problems.

Emotional intelligence affects the quality of our lives, including work, marriage, child raising, health, etc., because it influences our behaviour and relationships. The emotional content of a sales presentation may be more influential than the actual information. Similarly, in advancing careers, interpersonal skills may be more important than cognitive skills. Cultivating emotional intelligence can make a crucial difference to our success.

Zuhair Akram Shaikh, ACA
Karachi

"Emotional intelligence is the ability to sense, understand, and effectively apply the power and acumen of emotions as a source of human energy, information, connection, and influence." – Robert K. Cooper, an independent American scholar and leadership adviser.

According to Center of Creative Leadership, a leading executive education provider, some 75% of professional careers are disrupted for reasons related to lack of emotional competencies i.e. inability to handle interpersonal problems, unsatisfactory team leadership or conflict resolution or inability to adapt to change.

From an organisational perspective, self-awareness, self-reflection, self-motivation, empathy and social skills are considered as the core components of emotional intelligence and are much needed traits for individuals at leadership positions. Leaders with higher level of emotional intelligence are likely to take informed decisions, manage effectively and lead the organisations to new heights of success.

In my view, emotional intelligence is imperative for success within the organisation and an important personality trait that surely makes the difference. Daniel Goleman, a social science journalist puts it in this way: "CEOs are hired for their intellect and business expertise and fired for a lack of emotional intelligence."

Waqas Bin Tariq
Kingdom of Bahrain

This particular phrase can be described as, 'the ability to identify and manage your own emotions and the emotions of others' and generally includes three skills: emotional awareness; ability to harness emotions and apply them to tasks like thinking and problem solving; and ability to manage emotions, which includes regulating your own emotions and cheering up or calming down other people." I am no good at this.

For starters, the ability to control oneself is 'remote' these days and the ability to control others is another huge question. At the end of the day, we are so consumed and exhausted with what we do and what we undertake, there is no energy left within us to 'sustain' ourselves or others. Is it a good thing? Obviously not. By our very human nature we like to indulge, make a conversation, make friends, fall in love, help others. But do we really have time left for practicing this emotional intelligence?

For a fact, there are people who are not only 'emotionally sound' but possess mental intellect or ability to not only control themselves but console others also. This emotional intelligence is both rare and scarce and this is something you should look for when deciding on a mentor.

The ability to know and understand one's own emotional state and to empathise with others is what makes good people and great leaders, it makes a person a people's person. Giving someone the appropriate guidance in a disturbed state not only inspires confidence but also gives them the impetus to go the extra mile and do more. To be honest, this is fairly a new concept but has been long admired by large corporates and societies in one way or the other. The question is what should we do to make the difference? The initial step to this road of emotional intelligence includes admitting/accepting/realising that something is wrong that needs help or assistance. Then you can gradually pick up your pace and improve all the way. We are all warriors and fighters in our own stories. Once we are comfortable in embracing our emotional states or positions and have learnt how to deal appropriately, surely we can start helping others, all we have to do is to overcome this particular fear of not being able to 'control' ourselves.

This particular Ayah always helps me and will help you too: "Do not fear, I am with you, I hear and I see." (Quran 20:46)

Muhammad Badar Arshi, FCA, FCIS, ACMA, MBA
Abu Dhabi

There are multiple angles to observe and analyse a situation, a slight change in the degree can swing the whole perspective about the situation and can result in a big paradigm shift. Yes, Emotional Intelligence makes the desirable difference, as it is the ability to manage not only your own emotions effectively but also the emotions of others who deal with you. Emotions are designed and framed through the input one gets from the circumstances, surroundings, relationships and through instinctive feelings. If emotions belong to the heart, then intelligence belongs to the mind and the balance between the two results in an advantageous differentiation. Emotions create distinct results when the information they provide is attended to, understood precisely, incorporated into thinking and attitude, and managed effectively. These actions prepare us to respond to the event that caused the emotion to occur from an enlightened perspective to make a difference in the outcome of a situation.

Emotional Intelligence always makes real and positive difference as it stands on the four cognitive legs of reasoning, logic, empathy and knowledge.

Ahmad Jabbar, FCA
Faisalabad

Emotions and feelings vary from person to person depending upon nurturing and grooming, where a family background matters much and anxiety also plays a pivotal play in the context. The rise of automation and robotics in the workplace is driving a greater need for people who possess qualities that can't be replicated by machines. Emotional Intelligence (EI) elaborates the basic capabilities, measured differently from others, which subsequently leads to the unsurpassable success. EI leads toward creativity, adaptability and problem-solving even in the field of chartered accountancy. Today's accountants strongly rely on skills that include management, business advisory and new business development. Seeking to learn and practically applying intangible assets in such a way that could help them to empathise, collaborate, influence and build trust with clients to create better professional business relationships based on more than financial transactions that can set a firm apart in a crowded and commoditised market.

The one thing that now and into the future will differentiate one accountant from another is not numeracy, but their ability to manage client relationships.

Hina Kazi, FCA
Karachi

Emotional intelligence is the art of understanding and managing your own set of emotions as well as the emotions of others. It brings an impact on both the personal and professional life of an individual. An emotionally intelligent person is continuously aware of his feelings, moods, thoughts and judgements, thereby, giving way to a sensible and mature behaviour. Also, he is able to inspire and influence others, communicates clearly, manages conflict, stimulates positive behaviour and emotional well-being, exhibits self-confidence and brings about greater interpersonal effectiveness. At workplace, he would bring about enhanced productivity and decision-making, thus, resulting into improved job satisfaction.

In day to day life, one's emotional intelligence plays a bigger role than the intellectual aptitude as very rightly said by Daniel Goleman, American author and science journalist, "The emotional brain responds to an event more quickly than the thinking brain." The intellectual ability will get one into a good educational institute or a good employment but sustaining being in there requires a person to be able to manage stress, build strong personal relationships, and achieve goals. Even though one is very knowledgeable and competent but lacks the skill of handling work burden, unable to deliver on time, possesses poor team management skills, etc. would be disastrous not only in terms of losing job but that may lead to hazardous physical and mental health issues. Similarly, an emotionally weak student would flunk an exam if unable to handle the pressure in the exam hall. That's why it is generally observed that smarter people are more successful than academically strong ones. Emotional intelligence is an ongoing skill and needs to be worked upon constantly and demonstrated as per the situation in hand.

Shahbaz Farooq, ACA
Abu Dhabi, UAE

It's a blessing when you are able to manage your emotions especially in tough situations. In technical language, we call this Emotional Intelligence (EI). This is not a new skill, but scientific development has made this a separate field, which makes it easy for us to understand and leverage on latest research.

EI is highly beneficial in both personal and professional life. Those who clearly understand their emotions can manage stressful and challenging situations far better than others. If this skill is taught through our education system and/or mass media, we can witness a reduction in impulsive crimes in the society because EI shall abstain people from resentful actions.

In terms of organisation management, an individual with strong EI can achieve objectives in-spite of a tough boss, poor political structure and non-supportive colleagues. EI allows an individual to assess his stimuli and ensure that emotions are not impacting response. Therefore, learning this skill really makes a difference, you can manage easy to extreme circumstances with exceptional performance.

Shiraz Noordin, FCA
USA

Emotional intelligence is defined as the ability to identify and manage one's own emotions and those of others. To put it differently, it is our emotional intelligence which allows us to read our instincts and feelings, and those of others. While significant attention has often been placed on IQ to determine one's intelligence, and hence, success, most evidence suggests that it is our emotional intelligence that often leads to higher success rates and career accomplishments.

Emotional intelligence has to do with how one can collaborate and engage with others, as well as engage them and connect with them.

Emotional intelligence is the power to expand one's happiness. At some point, everybody experiences pains and struggles in life. Emotional intelligence is what allows us to become aware of the difficult situations we face, adapt to them, and learn from them.

Even in one's professional life, we often come across bright and talented individuals who may not attain as much success as initially thought of. And we will come across a few individuals who may not have the highest IQ but they end up attaining significant career success. The difference is that successful individuals possess high emotional intelligence, which allows them to adapt to and work with different people and different emotions, while at the same time being aware of their own emotions and feelings.

Muhammad Fahad, ACA
Karachi

Intelligence of any kind is a blessing for human beings; it is an irreplaceable trait gifted by the Almighty which makes any person stand out from others. Same is the case with Emotional Intelligence (EI). In professional world, we tend to meet different people every day who have different emotions and there is a need to deal with different people according to their emotions and behaviours. People only want to listen what they like to listen and react negatively when something is said to them which they don't like, hence, dealing with such people is an art which is directly related to emotional intelligence. People who can understand different situations and different emotions attached with each situation have an edge in today's world but that doesn't guarantee success.

Emotional intelligence is the part of intelligence science on which one's success in based. People are more socially connected and sound in today's business environment through the use of technology.

Muhammad Ilyas, FCA
Lahore

Howsoever difficult a task may be, it is the fanatic will and attachment to the cause which ushers in success. Ordinarily, a wise man is one who adapts himself as per circumstances prevailing around him, and a mad man desires circumstances around him to change and be as per his desires and wishes; therefore, all progress in the world is because of mad men. The unflinching faith in the cause and the unbounding attachment to the dream make the road for the emotionally intelligent to walk on where the angels fear to tread. History has always admired those who knew their mission and the cause, showed it to their friends and followers with sacerdotal sincerity and finally led the struggle setting the standards with their own body and spirits. The story always begins with the abstract of emotions that may be virtuous or vicious though only the virtuous succeed. The story goes on. Historians finally conclude that emotional intelligence was the difference that made the difference. This has always been the key to social dynamism and shall always remain so.

Anum Imtiaz, ACA
Karachi

Emotional Intelligence (EI) plays a significant role in unlocking human potential. Nowaday's emotional intelligence is also important together with intellectual intelligence. Intellectual intelligence helps one to get into university but with EI he/she will manage the stress in assessments. The first step towards improving emotional intelligence is to learn how to relieve stress. Basically, EI is the ability to recognise, understand and manage our own emotions as well as to recognise, understand and influence the emotions of others. EI revolves around self-awareness, self-regulation, social awareness, relationship management, motivation, empathy and social skills.

EI can make a difference in our professional and personal areas as it can help us to direct the social intricacies of the workplace as well to excel in career. High EI enables an individual to build and drive successful teams and to be alert and responsive as needed. In the same way, low level of EI can be harmful at the workplace and result in insensitivity, arrogance or even aggression and volatility. When one learns to manage stress, he/she will feel more comfortable reconnecting to strong or unpleasant emotions and changing the way he/she experience and respond to his/her feelings.

Muhammad Uzair, ACA
Dubai, UAE

From ‘walls have ears’ to ‘ears have walls,’ we have lost one main essence of life – empathy. People are no longer considered as people, perhaps in a working environment they are considered as machines and in social life as connections or followers.

It goes without saying, emotional intelligence is important. It was important in the past, and has become even more important now. Today’s world is technology driven. Technology has reduced physical interaction out of normal lives, that is why we often fail to understand feelings and emotions of people, sometimes even if they are right in front of us.

A person usually spends one-third of his time at his/her work place. Keeping empathy out of the work place is not a good idea, as appreciation leads to motivation, which in turn leads to good results. Moreover, a kind person earns respect of peers – a valuable ‘intangible’ asset. Emotional intelligence is one of the key aspects of becoming a leader. Emotional intelligence makes employees love their work, have sense of ownership and loyalty towards their company.

Sometimes it becomes hard to explain what is going on in a person’s life. Even the closest ones are not aware if someone from their family or friends is suffering in silence. Kind hearted people make things easier for others.

Danish Akbar, ACA
Islamabad

Professionals of the current era are undoubtedly qualified enough to act as experts of their subject matter. Their expertise entails the ability to solve even the most complex of their day-to-day problems by the mere application of their acquired knowledge. However, are they emotionally intelligent in their professional or personal dealings? This question would probably be answered with a negative in the case of majority of the professionals.

The organisational dynamics of our society requires us to be able to read and express emotions i.e. being ‘Emotionally Intelligent.’ Not exactly like a psychiatrist but conceptually similar, it is quite an advantage to be able to act and react by observing the emotions around you. Imagine your subordinate working day in and day out, but staying indifferent, not wanting to excel, not being so open to talk about his work life. A truly successful manager would be the one who would notice this behaviour and the emotional vibe expressed by the employee. He may then act to uplift his spirit by employee recognition, job rotation, learning and development, etc. This would not only encourage his subordinate to work at new unprecedented levels with an all-out effort, but would also spread positivity within the team culture. Such a manager would definitely excel in his professional dealings because of being different than others around him and because he is emotionally intelligent.

Corporate Reporting in Pakistan — Raising the Bar through Best Corporate & Sustainability Report Awards

by Abdul Rahim Suriya

Transparency is considered as an important principle of good governance.

Introduction

This century has seen a significant shift in corporate reporting. This article examines improvement in corporate reporting in Pakistan. It also looks at the role of Best Corporate & Sustainability Report (BCSR) Awards in improving the quality of corporate reporting in Pakistan.

Corporate Reporting

Focusing on key strategic, social, governance and environmental risks, and long-term business sustainability in particular, is fundamental to good governance. Good corporate governance is essential for companies to create trust and engagement with its stakeholders. Qualitative corporate reporting facilitates good governance.

Traditionally, corporate reporting focusesd on historical financial information and did not provide a holistic picture to enable informed decisions. However, the requirements of the stakeholders have significantly been changed. By considering the requirements of the stakeholders, the Organisation of Economic Co-operation and Development (OECD) released its set of corporate governance principles in order to help OECD and non-OECD governments in their efforts to create legal and regulatory frameworks for corporate governance in their countries.

Under the ‘OECD Principles of Corporate Governance,’ the corporate governance framework should ensure that timely and accurate disclosures are made on all material matters affecting the corporation, including its financial situation, performance, ownership and governance. These disclosures are made through the annual report.

Being the users of financial information of the corporate world, we know that financial information alone does not tell the whole story, and scrutiny should be extended beyond the bottom-line to examine what businesses are doing, how they’re doing it, and the impact they are creating on the environment and the society. Also, mere compliance with reporting regulations does not necessarily mean that reporting is effective. In fact, reporting disconnected with the business strategy, raise questions in the minds of stakeholders about the capacity of management and quality of governance.

Businesses and organisations are, therefore, expanding their thinking and reporting beyond the traditional financial focus. This includes reporting on environmental, social, governance, strategy, risks and other non-financial matters.

Transparency

Transparency leads to accountability. Transparency in corporate activities helps in building trust, and increasing business resilience and long-term sustainability. Transparency is considered as an important principle of good governance. Excessive secrecy can undermine the quality of decision-making and make the accountability process difficult.

Public sector companies should be accountable for how they spend taxpayer funds, and what social targets they achieve. They should be inquired to report on outputs, impacts and outcomes. Similarly, not-for-profit organisations whether registered under Societies Act 1860 or Trust Act   or under Section 42 of the Companies Act 2017 **need to be transparent and tell providers of funds as to how they used specific funds particularly Zakat funds.**

Sustainability Reporting

Ian Ball, board member of the International Integrated Reporting Council (IIRC) and principal advisor and ex-CEO of International Federation of Accountants (IFAC), said that “Sustainability reporting relates to one important aspect of a company’s performance, without which an integrated report would be incomplete.”

Sustainability reporting encourages the corporate world to focus beyond single bottom line financial performance to triple bottom line: economic, environmental and social performance. This reporting is about communicating the organisation’s approach to managing these issues. Global Reporting Initiative (GRI) standards provide the most comprehensive sustainability reporting framework.

The Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP) have been honouring companies with a separate award for Best Sustainability Reporting since 2011, but participation by Pakistani companies is very low.

Integrated Reporting

An integrated report is a concise communication about how an organisation’s strategy, governance, performance, and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long-term. It combines the information in a single report and explains how the firm creates value.

Integrated Reporting <IR> is about communicating how the company manages its long term value creation by taking an integrated approach to both traditional risks and these wider sustainability risks. It shows how the company integrates environmental and social

Financial information alone doesn’t tell the whole story, and scrutiny should be extended beyond the bottom-line to examine what businesses are doing, how they’re doing it, and the impact they are creating on the environment and the society.

thinking into its business. Investors, shareholders and particularly institutional investors are the primary audience of <IR>. To put it simply, <IR> aims to align information about an organisation's strategy, governance systems, performance, and future prospects.

The <IR> Framework has been developed by the International Integrated Reporting Council (IIRC) which is a global coalition of regulators, investors, companies, standard setters, the accounting profession and Non-Governmental Organisations (NGOs). <IR> aims to:

- improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital;
- promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time;
- enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social & relationship, and natural) and promote understanding of their interdependencies; and
- support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.

Reporting disconnected with the business strategy, raise questions in the minds of stakeholders about the capacity of management and quality of governance.

Fundamentals of sustainability reporting are a must for integrated reporting. Companies should set up strong systems of sustainability reporting practices in order to fit into the integrated reporting framework.

World renowned expert on corporate governance and sustainability, and chairman of IIRC Prof. Mervyn King continues to champion the cause of integrated reporting, highlighting that integrated reporting is not about how much money an organisation makes but how it is made and the impact it has created socially, environmentally and financially.

It is anticipated that over time <IR> will become the corporate reporting norm. No longer will an organisation produce numerous, disconnected and static communications. This will be delivered by the process of integrated thinking, and the application of principles such as connectivity of information.

The <IR> Framework has been developed to meet this need and provide a foundation for the future. It covers three aspects:

- Fundamental Concepts
- Guiding Principles
- Content Elements

Fundamental Concepts

An integrated report explains how an organisation creates value over time. Value is not created by or within an organisation alone. It is:

- influenced by the external environment;
- created through relationships with stakeholders; and
- dependent on various resources.

The best way to create value is through a combination of quantitative and qualitative information.

Capital – Categories and Descriptions

All organisations depend on various forms of capital for their success. In <IR> Framework, the capitals comprise financial, manufactured, intellectual, human, social & relationship, and natural. However, organisations preparing an integrated report are not necessarily required to adopt this categorisation. Rather, the primary reasons for including the capitals in the <IR> Framework are to serve:

- as part of the theoretical underpinning for the concept of value creation; and
- as a guideline for ensuring organisations consider all the forms of capital they use or effect.

For the purpose of <IR> Framework, the capitals are categorised and described as follows:
Financial capital: The pool of funds that is:
- available to an organisation for use in the production of goods or the provision of services; and
- obtained through financing, such as debt, equity or grants, or generated through operations or investments.

An organisation's financial capital is increased when it makes a profit, and the quality of its human capital is improved when employees become better trained. There is a constant flow between and within the capitals as they are increased, decreased or transformed.

Human capital: People's competencies, capabilities and experience, and their motivations to innovate, including their:
- alignment with and support for an organisation's governance framework, risk management approach, and ethical values;
- ability to understand, develop and implement an organisation's strategy; and
- loyalty and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.

When an organisation improves its human capital through employee training, the related training costs reduce its financial capital. The effect is that financial capital has been transformed into human capital.

Manufactured capital: Manufactured physical objects (as distinct from natural physical objects) that are available to an organisation for use in the production of goods or the provision of services, including:
- buildings;
- equipment; and
- infrastructure (such as roads, ports, bridges, and waste and water treatment plants).

Intellectual capital: Organisational, knowledge-based intangibles, including:
- intellectual property, such as patents, copyrights, software, rights and licenses; and
- 'organisational capital' such as tacit knowledge, systems, procedures and protocols.

Social and relationship capital: The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being. Social and relationship capital includes:
- shared norms, and common values and behaviours;
- key stakeholder relationships, and the trust and willingness to engage that an organisation has developed and strives to build and protect with external stakeholders;
- intangibles associated with the brand and reputation that an organisation has developed; and
- an organisation's social license to operate.

Natural capital: All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organisation. It includes:
- air, water, land, minerals and forests; and
- biodiversity and eco-system health.

Guiding Principles

The guiding principles underpin the preparation and presentation of an integrated report, informing the content of the report and how information is presented – these are:
- Strategic focus and future orientation
- Connectivity of information
- Stakeholder relationships

Businesses and organisations are expanding their thinking and reporting beyond the traditional financial focus. This includes reporting on environmental, social, governance, strategy, risks and other non-financial matters.

An integrated report is a concise communication about how an organisation's strategy, governance, performance, and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long-term. It combines the information in a single report and explains how the firm creates value.

- Materiality
- Conciseness, reliability and completeness
- Consistency and comparability

Content Elements

It relates to the disclosure requirements of <IR> and includes the following content elements:

- Organisational overview and external environment
- Governance
- Business model
- Risks and opportunities
- Strategy and resource allocation
- Performance
- Outlook
- Basis of preparation and presentation and in doing so, takes account of general reporting guidance

The content elements are fundamentally linked to each other and are not mutually exclusive. The order of the content elements as listed above is not the only way they could be sequenced; accordingly, the content elements are not intended to serve as a standard structure for an integrated report with information about them appearing in a set sequence or as isolated, standalone sections. Rather, information in an integrated report is presented in a way that makes the connections between the contents.

Best Corporate Report Awards in Pakistan

Best Corporate Report (BCR) Awards competition was launched in 2000 jointly by ICAP and ICMAP. The Corporate Reports are judged based on criteria for BCR developed by the Evaluation Committee, a joint sub-committee of ICAP and ICMAP.

The objectives of the BCR award are to encourage and give recognition to excellence in annual corporate reporting and to promote corporate accountability and transparency through the publication of timely, factual and reader friendly information.

This competition has resulted in a significant improvement in the quality of corporate reporting in Pakistan. Indeed, in some cases the corporate reports in Pakistan are considered better than reports of the companies in the developed world.

Participation in BCSR 2017 Award Competition

There were about 350 active companies as of December 31, 2017, listed at Pakistan Stock Exchange (PSX). However, only 132 companies participated in the BCSR 2017 Award competition. Five years ago 228 companies participated, hence a drop of 40% in number of participants is alarming. Usually only listed companies compete for the awards. The Evaluation Committee would like to see more participation from:

- Not-for-profit organisations
- Public sector companies
- Mutual funds

Categories for the BCR Award

The entities are grouped in 13 categories:
Financial Sector: 1. Banks 2. Insurance 3. NBFC
Non-Financial Sector: 4. Chemical and fertilizers 5. Pharmaceuticals 6. Fast Moving Consumer Goods (FMCG) 7. Engineering 8. Fuel and energy 9. Textile 10. Sugar 11. Cement 12. Not-for-Profit Organisations (NPOs) 13. Miscellaneous.

Although, there is a separate category for NPOs, only 'The Citizens Foundation' participates in these awards. Pakistanis are a generous nation. A study conducted by Pakistan Centre for Philanthropy (PCP) shows that Pakistanis gives around Rs. 240 billion (more than USD 2 billion) annually in charity.

NPOs receive most of their funding on account of Zakat where transparency is much desirable.

Consultation Process for Developing BCR Criteria

The Evaluation Committee holds consultative sessions with stakeholders to ensure that Corporate Reporting meets the need of users. On September 29, 2018, a consultative session was arranged with CFOs of various listed companies to unveil the 2018 BCR Criteria. The purpose of the session was also to encourage and guide them in developing the transparent corporate reports.

At the BCR award ceremony held on August 7, 2018 the guests of honour expressed their views on Corporate Reporting. Richard Morin, CEO Pakistan Stock Exchange, talked on 'Transparent Reporting - Importance for Investors/Capital Market,' Dr. Tariq Hassan, chairman Audit Oversight Board and ex-chairman SECP, spoke on 'Transparent Reporting - a need for NPOs and Corporate world' and Dr. Zeeshan Ahmed, dean Karachi School of Business & Leadership (KSBL) expressed his views on 'Transparency - Importance in Islam.'

Excerpts from their speeches made at the award ceremony are reproduced below:

> "A complex and opaque financial report gives no idea about the risks involved or real fundamentals of the company. As is the case for the corporate world, there is also an increased need for transparency in reporting for the NPOs. NPOs are formed to serve a purpose rather than generate profits. There is increased pressure on the NPOs to demonstrate high level of transparency and accountability similar to that of the corporate sector. They have an ethical responsibility of being accountable in terms of how the funds raised were used and what difference they have made."
>
> **– Dr. Tariq Hassan, chairman Audit Oversight Board**

> "Promotion of corporate transparency is very important as it leads to build investors' confidence. In turn, it contributes to capital market development which is essential for economic growth. It contributes towards capital formation, and in a country like Pakistan with a very low savings rate that's surely needed."
>
> **– Richard Morin, CEO Pakistan Stock Exchange**

> "Seeking accountability is not just the job of Securities & Exchange Commission of Pakistan (SECP) or State Bank of Pakistan (SBP) or perhaps the chief justice of Pakistan taking sou-moto actions, the accountability can come from an ordinary citizen. We are all aware of the incident that took place when Hazrat Umar RA, one of the caliphs in Islam, delivering Friday sermon was prompted by an ordinary man by raising his hand and asking him about the clothes that he was wearing made out of fabric distributed among muslims. As the size of distributed fabric was short for a tall man's clothings, the man asked the caliph, who was a tall figure, if he took more fabric than a common man. Before the caliph Umar could explain the reason, his son stood up and clarified that he gave his piece of cloth for his father's clothings.
>
> **– Dr. Zeeshan Ahmed, dean Karachi School of Business and Leadership**

The BCR Criteria 2018

The BCR Criteria has now been revamped and it comprises:
1. Organisational overview and external environment;
2. Strategy and resource allocation;
3. Risks and opportunities;
4. Governance;
5. Performance and position;

Integrated Reporting aims to align information about an organisation's strategy, governance systems, performance, and future prospects.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6. Outlook;
7. Stakeholders relationship and engagement;
8. Specific disclosure of the financial statements;
9. Sustainability and corporate social responsibility;
10. Business model;
11. Striving for excellence in corporate reporting; and
12. Assessment based on qualitative factors.

BCR Criteria 2018 can be downloaded from the websites of both the institutes at:
http://www.icap.net.pk/wp-content/uploads/bcr/BCRCriteria2018.pdf
https://www.icmap.com.pk/News_Pdf/evaluation_criteria_BCRA_2018.pdf

The Basis of the Criteria 2018

The criteria are inspired by the 'Content Elements' (disclosures) of <IR> Framework. The objective is to encourage companies to understand and adopt Integrated Reporting. The other two elements of <IR> i.e. Guiding Principles and Fundamental Concepts, are being addressed by adding a narrative guidance as a supplement to the criteria and the objective evaluation would be covered through independent assurance. Companies are encouraged to adopt <IR> fully by applying the 'Fundamental Concepts' and 'Guiding Principles' of <IR>. The criteria has been developed based on the following:

- Content elements of the <IR> Framework.
- IASB's Practice Statement Management Commentary.
- ISA 720, The Auditor's Responsibilities Relating to Other Information.
- Best practices around the world for corporate reporting.
- Local practical needs of the corporate reporting.

Fundamentals of sustainability reporting are a must for integrated reporting.

Key additions and changes in the criteria for the year 2018 are as follows:

- Qualitative assessment of annual reports.
- The time for authorisation of financial statements increased from 30 to 40 days.
- Unreserved compliance of IFRS.
- Adoption and statement of adherence with <IR> Framework.
- Summary of the analyst briefing
- Analysis of financial statements to cover ratios for free cash flow, Economic Value Added (EVA) and break-up value of shares including investment in related party at fair/market value.
- Separate cash flow under direct method for specific funds e.g. Zakat.
- Business rationale for major capital expenditure/projects during the year and for those planned for next year.
- Status of the projects in progress that were disclosed in the forward-looking statement in the previous year.
- Source of information and assumption used for projections/forecasts in the forward-looking statement and assistance taken by any external consultant.
- Highlights of the entity's performance, policies, initiatives and plans in place relating to the various aspects of sustainability and corporate social responsibility.
- Certifications acquired and international standards adopted for best sustainability and Corporate Social Responsibility (CSR) practices.

Conclusion: The BCSR Awards have contributed towards improving corporate reporting standards in Pakistan. There is, however, always room for improvement. The responsibility for further improvement in the reporting standards is not limited to listed companies. Other entities, including Public Sector Companies, regulators and NPOs, should also participate in this effort, and place the reports on their websites.

The writer is a chartered accountant working as partner at Suriya Nauman Rehan & Co. and past president of The Institute of Chartered Accountants of Pakistan.

Implementing ERP: A Practical Approach

by Uzair Aziz

Information Technology (IT) is growing rapidly from day to day basis and is continuing to penetrate in our lives. And why would we not indulge in the arena of IT? It bombards our minds with information, brings ease to our tasks and puts the universe on our finger tips. Just as it is important for us to get updated regularly with what changes we are subjected to, it is as vital for businesses. No organisation could prosper without a proper set of information to let it plan for future and decide to move on to a best available course of action. For this purpose, businesses have to have some tool: ERP – Enterprise Resource Planning.

What is ERP?

ERP is a business software that allows entrepreneurs to monitor their business performance in the most sophisticated and comparative manner. ERP offers organisations the potential to integrate various operations that may be spread over several geographical locations, with a flexibility to interact using different apps. It also allows control over workflows, thereby providing real time reporting for analysis and decision making. Financial management, customer relationship management, supply chain management, inventory, human resource (HR) and production are some of the few functions among many that ERP can facilitate.

Getting Ready

Many business enterprises globally, including Pakistan, have implemented or are implementing some kind of ERP. It must, however, be considered that not all ERP implementations become successful. According to Panorama Consulting's 2017 ERP report, 26% of the ERP implementation suffered failure and on average, implementation itself took approximately 17 months. Factors that play a vital role in achieving the set objectives have been discussed in this article.

Success is never a one-step task; rather it is a series of progressive actions bit by bit towards the target.

Before moving for the ERP, entrepreneurs must set requirements that they expect to achieve out of ERP, and determine with the assistance of a qualified ERP technician whether the existing software can be modified or updated according to their requirements. The next step requires establishing what modules the accounting system would need with relevance to specific business and structure of the entity, along with number of locations to spread it over and number of users to be involved taking account of future developments. Flexible as it is, ERP can be adjusted with additional modules, locations, users and workflows at later stage. Resources to finance and accommodate the project must be identified so as to determine whether to go for on-premise, Software as a Service (SaaS) or cloud-based system and to determine which ERP would be suitable in the circumstances. Currently, there are various ERP software, generalised, as well as specialised, available in the market; SAP, Oracle and Microsoft Dynamics are some of the widely used examples.

It is very important to brain storm with all the stakeholders about specific requirements and circumstances, taking account of expected future prospects before choosing ERP, vendor and allied matters so as to lay the first brick to avoid drastic failure. Entering into a detailed agreement with the vendor for initial setup, training, customisation, implementation phase, duration, duration over-runs, post implementation services, breakdown of costs and other matters is crucial to circumvent misunderstandings. Taking into confidence and involving key executives or head of departments for the planned restructuring would suffice to preventing possible disruptions during the implementation phase. A two-way communication is always necessary to identify possible threats to success, whether due to organisational culture, technical competence and change resistance, and brings about a plethora of wonderful ideas to mitigate them.

Structuring up the System

Chart of Accounts (COA) is one of the main things in which transactions are recorded so as to form Trial Balance (TB) for the preparation of financial reports. Therefore, an attentive mind and foresight is the precondition for structuring COA. Designing a COA is an elaborative process as the coding structure developed in the initial stage is carried on for as long as the system is continued to be adopted by the entity. The account codes in ERP are generally designed with separators, each of which can be set to represent a part of the overall enterprise. For example, segments in the code can denote a company in a group, locations of the company, cost centers, units and actual account heads. Further:

- To add database in the modules for accounts receivable (AR), accounts payable (AP), inventory, tax structure, cash and bank details, fixed assets categories, HR, and so on.
- To link each modular transaction category to the control accounts in the TB.
- To establish connections among the modules, workflows or walkthrough mechanisms, authorisation matrix, user's database and setting up of responsibilities charts so that the system can be initiated for use.
- To develop manuals for the users to get support references from, other than the training.

Gearing Up

Training sessions for the users should be planned and organised to ensure development of system knowledge and competency. Ways should be demonstrated to tackle anomalies due to human errors, bugs or new requirements and where to get assistance from. The more and more practice, the better the understanding with the system will be and the better solutions for the complex issues will be arrived at. However, practicing without confirming the desired impact would only mean to walk a path blindfold. Evaluating the results and ticking off the checklist of achievements would render a great source of motivation and accomplishment at all levels. Success is never a one-step task; rather it is a series of progressive actions bit by bit towards the target.

Cut-over Strategy

Cut-over strategy is the way the project managers plan to migrate to the new system. The three types of cut-over strategies are:

- Parallel run: Data recording is started in ERP without shutting down the previous system for a time till the operating effectiveness of the new system is assured.
- Big bang: Also referred to as surgical cutover, is migration to the ERP in an instant by cutting out the previous one.
- Phased approach: Individual modules are made effective at a time till the whole ERP is operationally active.

Each of the above strategies has its own pros and cons but the big bang is used by only a few because of higher risk involved in case of failure. A combination of the above strategies may also be used depending on the organisational dimensions and the planned approach.

Go-Live

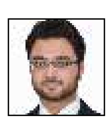
Going live means to actually start using the system practically to record business activities with an intention to migrate from the old system. A cut-off date would require to be decided to upload carried forward balances from the existing system to the new ERP so that the new transactions could be added to them. A disaster would be to banish the previous software at go live as it would not allow the managers to compare the data from both systems for any errors and achievability of the desired results. The parallel run strategy enables to secure a back-up just in case the new ERP does not work as desired within the set timeline. Once the objectives are appeared to accomplish as desired, then the prior system can be chosen to shutdown at a predetermined cut-off date after getting a sign off from all the stakeholders.

Developing Reports

Report developing is an activity that will never stop showing off creativity as long as requirements for more and more valuable data in summarised or detailed form including financial statements is required by the users. Reports act as a mirror to monitor the transactions for accuracy and completeness, for reconciliations, for tracking business performance and as a tool for decision making. Graphical presentation of data can also be added to increase understandability of data even at novice level. Once any report is developed, it needs to be regularly checked for bugs and errors against corroborative data for its effectiveness until it is concluded to be working as required. However, the report even after finalisation may produce errors at a later stage specifically because of new patterns that may appear in the data set underlying the report. In such case, ERP report technician is the right person to divert the query to get new instructions added in the back end of the report.

Change Management

Throughout the implementation of ERP, change management is a technique that carefully needs to be applied by the implementation agents to deal with all kinds of conflicts, reluctance, resistance, demotivation, impatience, failures and long working hours so that the vision that was imagined in the pre-implementation phase can be realised. Change management cannot be effectively applied without studying human behaviour at both individual and collective level throughout the hierarchy. It would be very unjustified to write all about change management in a single paragraph and it cannot be done as well. However, in a few words, planning, patience, empathy and hard work are the key to success.



Uzair Aziz is working as manager accounts at Nagina Cotton Mills Limited.

RPA: The Last Thing We Accountants Wanted

by Humayun Gul

Like other technological enhancements, Robotic Process Automation (RPA) will surely eliminate some jobs. Accounting, being a cost center, was never a desirable department or function and entrepreneurs kept looking for ways to give them value addition work.

While robo-accounting is paving the path, accountants still have a lot to do. We'll have to design, implement and, yes, monitor and maintain the bots executing human like functions on command. From one perspective, it's going to replace the very people who will implement it; from another, it's going to change their jobs to review and monitor it's performance rather than doing mundane, error prone tasks.

Any organisation can reap the benefits as several of the transactional level functions including approvals could be automated. Banking sector seems to be the vanguard in exploiting it. In one analogy, credit account creation which requires logging into multiple applications and populating several fields doesn't have to wait anymore – a task that a human clerk would do in 20 minutes is getting reduced to mere 45 seconds.

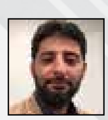
Audit is another beneficiary. Sampling will soon be a thing of the past, when transactions profiling will be fed to a bot which will scrutinise 100% transactions at lightning speed to have results ready for a qualified auditor's review. The automation of assurance function will enable internal audit to shift focus toward consulting services. Likewise, external auditors will benefit immensely, for example, while testing design, implementation and effectiveness of controls since bots don't deviate the given instructions.

Needless to say that this efficiency is not free. A plausible comparison could be to the level of full time equivalent of human resource it is going to obviate. Instead of hindering, small organisational structure should provide the impetus. The smaller the setup, easier the deployment and smoother the growth without increase in cost.

There are two broad categories of the RPA solutions: one is simple desktop recording similar to a macro working across multiple applications and second is hard coding. The esoteric desire the latter which has the edge of scalability. The benefit of the former is end user computing and lesser cost for rather simple tasks. Before re-engineering the processes, organisations must make sure that they utilise all capabilities of their current software methodology; especially, Electronic Data Interchange (EDI) is still relevant.

Big audit firms have joined the list of vendors providing consultation to their customers for development; some provide generic low cost solutions for simple items like expense reimbursement reports while others provide somewhat fancy services like Accounts Payable (AP) function with line level invoice processing.

Automating doesn't necessarily require Artificial Intelligence (AI) or machine learning. Linear programming suffices. Therefore, the concern described by Stephen Hawking, theoretical physicist, doesn't apply here. We are way behind when AI will eventually evolve into Artificial General Intelligence (AGI) to lay foundation for singularity. For now, because of its turbulence, RPA is the last thing we wanted.



The writer is a chartered accountant working as regional controller M&R Hotel Management, New York.

Positivity

by Altaf Noor Ali

"Surround yourself with positive people, it will make your life more pleasant."

Why is it not so frequent for us to talk about good things in life? I recently met a friend who went on almost uninterrupted for thirty minutes about what is wrong with everything around him. For example, he was incensed about the fact that he was not earning well, how expensive it is to put children through colleges and universities, how pricey if one seeks a medical treatment, how one needs money to get things done at every step, how people around us have become more dishonest, etc. Yes, most of what he said may be true. However, I could not convince myself that airing them so bitterly would help one feel good!

You will notice that when one person starts whining, the rest also start doing the same. It is like playing soccer, you take the ball a few paces and pass it over to the next one.

I am not asking anyone to feign good times, but how fair is it to talk about everything that is wrong but not mentioning or narrating (or forgetting) things which are good in our lives. I can see that my friend is more fortunate than most of us in his life. He has so much to talk about that is good in his life, his family, his kids, good health, foreign holidays, elite club memberships, shopping sprees, expensive personal effects, etc.

Should we be bothered if our conversations are not balanced? Only if we may also talk about the good things in our life, it would make us feel better. You do not tell me that your business is booming, you are looking for a new place to expand, you recently bought a new car, you went for holidays to a dreamland with your family, etc. That's fine... but do not go on harping about things that gives me an impression that you are the most miserable person in this city, if not the country.

Sure, we do not get to choose the people around us, as in case of colleagues, relatives, and... in-laws, but living with such people around you is definitely stressful. Such people sap our energies rapidly. You will notice that when one person starts whining, the rest also start doing the same. Within no time, what one says is forwarded with an equally miserable note by another to third one. It is like playing soccer, you take the ball a few paces and pass it over to the next one. Unless some one dares to bring sanity with a positive note.

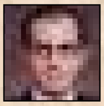
Why is it so difficult to look out for the good in our lives?

One may certainly wish that such conversations end at the earliest, but at times the negative mindsets are so much entrenched that it seems beyond you. Why is it so difficult to look out for the good in our lives, you may rightly wonder. Surely, there's plenty if someone wants to see it. When it gets too much, one may try interjecting with something positive, if that fails, give yourself a break and head for the lux – this is what I do!

I have a clear preference for people who are positive. People who converse mostly in positive terms and who think positively to a greater extent. They energise you, motivate you with their positive body language. If you are with such people, you will start feeling great yourself in no time. You will feel confident and happy.

People who are positive energise you and motivate you with their positive body language.

I openly say that I actively seek such company and value it so much. Not only that, I try to do something similar when I am online, watch television, or do my reading. Create space for positives and none for negativity. Let's make a conscious effort to surround ourselves with positivity, it is not in short supply.



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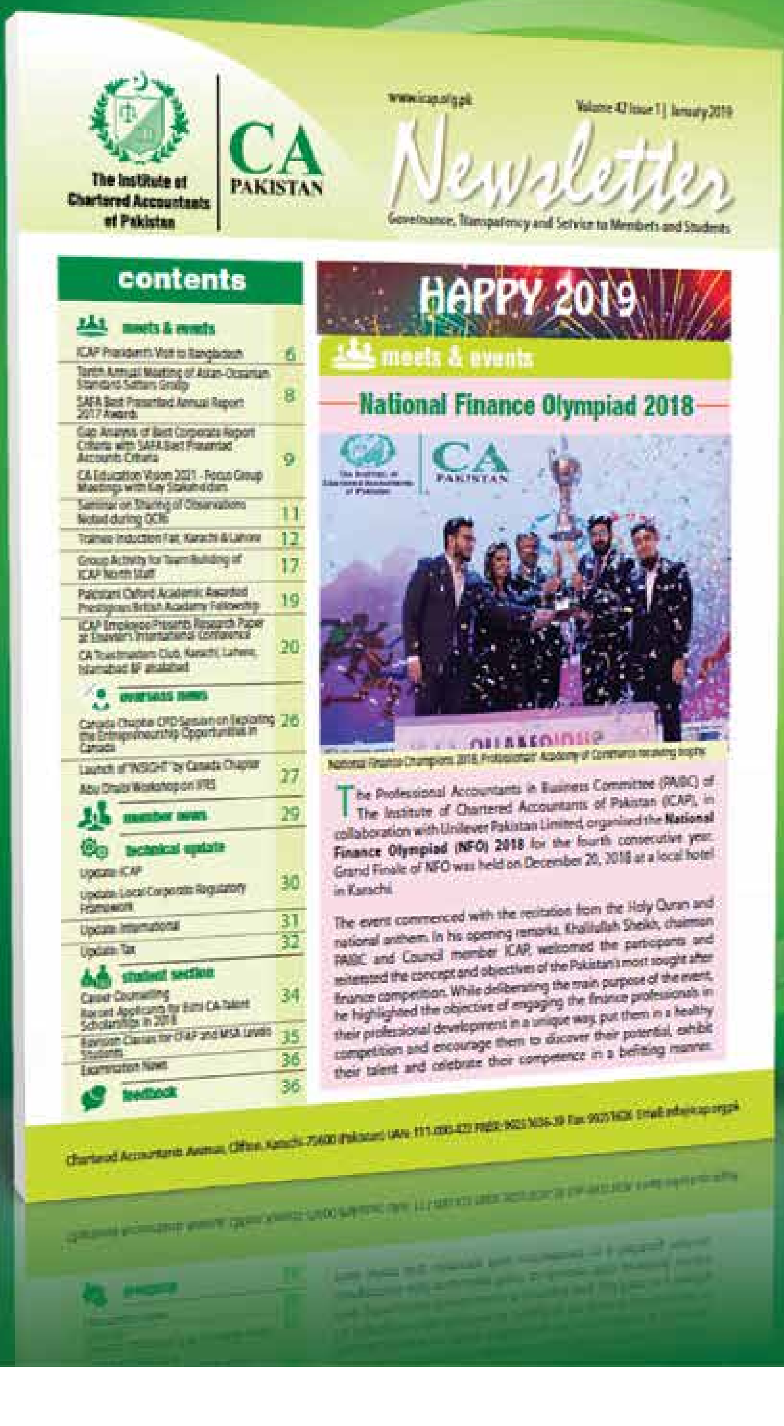

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