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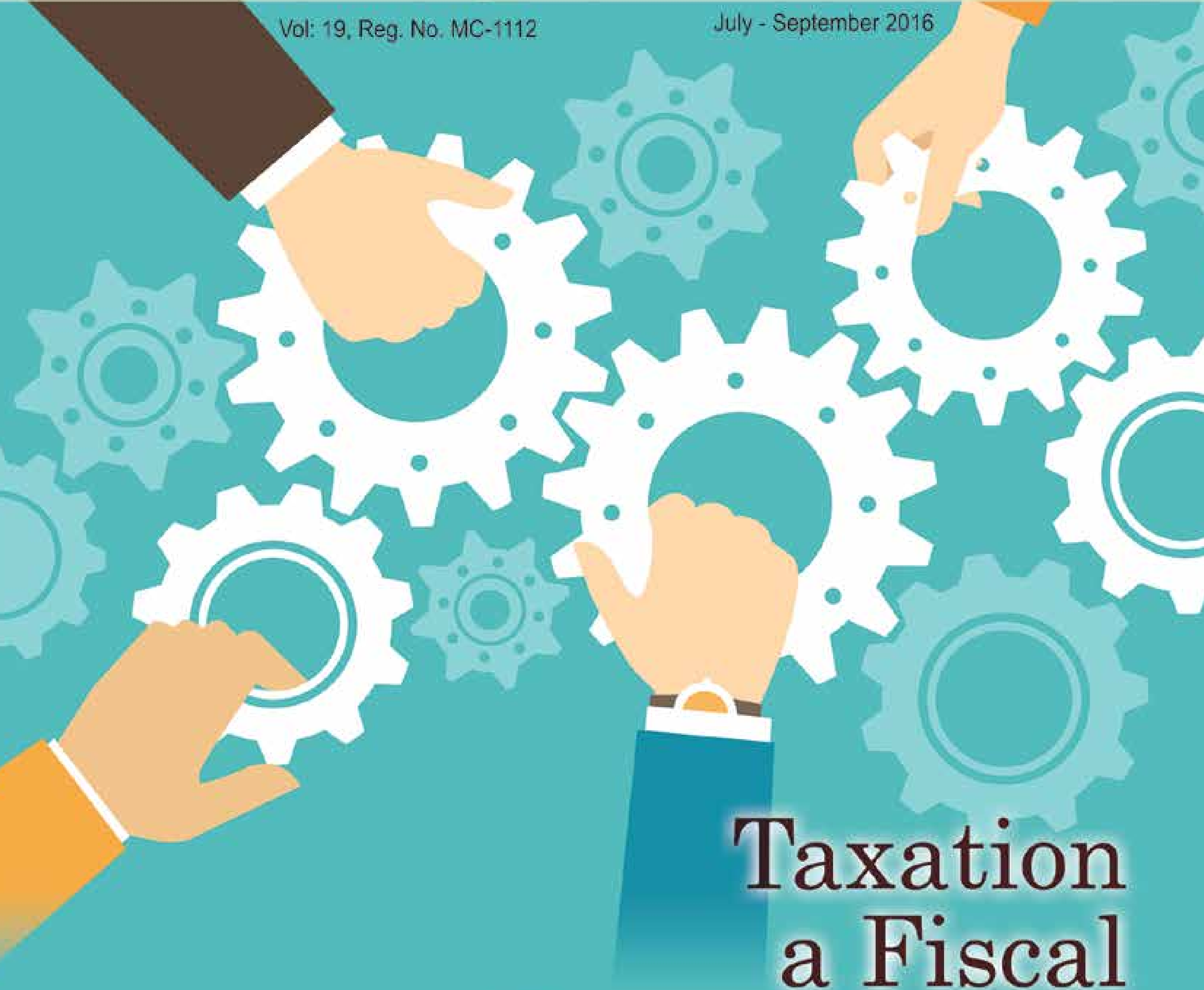

Taxation a Fiscal Responsibility

Pakistan Institute of Public Finance Accountants

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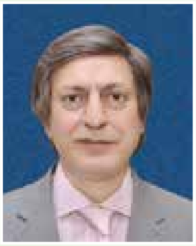

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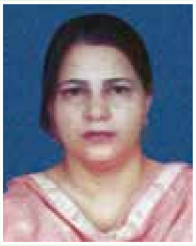

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It is my immense pleasure and honor to present you the 19th volume of our Journal on theme, Taxation- a Fiscal Responsibility. The true fiscal reasonability of the State is to utilize taxes in order to maximize real outcomes like full employment, improve living standards, ensuring health/ education facilities and protect life and property of the citizens.

The citizens expect Government to provide better standards of living e.g. infrastructure, hospital, schools, providing utilities at affordable cost and employment opportunities. Government finances its expenditure from taxes that we pay. The revenue generated from taxes is used for remunerating all the government representatives, officers, administrators and employees and for all other expenses related to the running of the government authoritiess and welfare of general public. The fiscal status of tax payer determines tax rates and taxable income-technique for calculating the tax. Taxpayers are categorized as companies, association of persons (AOP) and individuals.

The Articles in PIPFA Journal Vol-19 recommend self-assessment, selective audit, expansion of tax base and upgrading of information management, emphasizes reduction of discretion and direct contact between tax collector and taxpayer. The fiscal crisis in Pakistan is deteriorated and cannot be tackled easily. The Tax collection of Pakistan is insufficient to meet the expenses of defense, interest payments of debts and to provide better standards of living. There is immediate need to increase tax to GDP ratio, ensure good governance and to ensure the delivery of public services at affordable cost. Tax reforms are needed at government level that focuses on business organization, human resource management, reducing corruption and management information system. The revenue organization comprises of a well trained and devoted individuals, with transparent process, extensive information system and educating tax payer. An equitable national tax policy requires that every individual and every sector with a potential tax liability should be taxed. The powerful political and economical elite must demonstrate their social responsibility to share the Government burden.

Muhammad Sharif

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On behalf of the entire Publications and Seminars Committee of PIPFA, I am honored to present the 19th volume of our quarterly journal with a theme elaborating collective fiscal responsibility of taxation. As the foremost source of funds to run a country, taxation plays the role of being epicenter of development as evident from the analysis of the Tax to GDP ratios of the developed and the developing economies. Some exceptions such as the oil rich economies have managed to fund their developmental budget appetite from the export revenues. Pakistan has a Tax to GDP ratio of around 10% which is very low and the toll is our hampered state of economic affairs including underdevelopment, unemployment and inadequate educational and health services. In a recent working paper issued by the IMF, Unlocking Pakistan's Revenue Potential, it has been highlighted that our tax revenue is lower than other emerging market economies although study has shown that our economy has the potential to nearly double the same. The need to further introduce comprehensive tax reforms has been accentuated.

A collective responsibility of tax involves not only responsible citizens contributing with taxes to the national exchequer but also responsible tax practioners that advise their clients of fair and honest tax practices, dedicated and honest tax administration authorities that promote fairness, equity, trust & accountability and most importantly, the government/state that leads the economy with utmost fiscal responsibility and transparency.

PIPFA- as an accounting body for Public Finance Professionals has a very relevant and responsible role in contribution to the efficient management of fiscal responsibility including taxation. In this regard, the Institute has been very active in educating and training of its members and students in various areas of taxation through pre and post budget seminars and workshops. With this theme based Journal, PIPFA has once again endeavored to highlight this matter by inviting articles from its valued members.

We are grateful to all the members who have contributed their valuable articles in this journal and encourage them to continue to grace us in future. We acknowledge the support of our branch committees and the dedicated work of our Publications Team. We are thankful to our sponsors for choosing our Journal as a forum to promote their products and services.

Usman Ahsan

Fiscal Impact of Tax Evasion

By: Syed Ali Ameer, APFA

Economic development is an essential factor for every country in the world where as the governmental services and public infrastructure are also an integral part of economic development. It has also been observed that governments of various developing countries have failed to provide adequate public services due to numerous reasons. The foremost important of them is the deficit tax revenue. Tax revenue in a country serves as life blood for the government. The ratio between average revenue and gross domestic product (GDP) in developed countries was almost 35% in 2005, whereas in developing countries, this ratio was almost 15%, and in third world countries tax revenue ratio was 12% of gross domestic product. This gross domestic product (GDP) gap can be elucidated to some extent through this fact that demands more increase in public services than the increase in demand for income.

On the other hand, it is also perceived that both tax avoidance and tax evasion are linked with shadow economy. According to Schneider and Enste (2000), shadow economy is that economy in which people do not show their real income and taxable income that they have earned through legal activities including barter and monitory activities in order to avoid paying tax. Tax avoidance and tax evasion also exist in Pakistan and it is considered as one of the major problems for the Pakistan and this hampers the government machinery to provide the services to general public. Tax avoidance can be described as the activity of tax payers in which they try to find out different ways to lessen or eliminate their tax liability and do not show their legal income without violating law, whereas, tax evasion can be said as the activity of taxpayers in which they wayward premeditated infringement of law for the purpose of escaping tax payments, which has been indisputably inflicted by the tax authority. These two evil spirits have generated a gap among probable and actual government revenues. Government has protested against these two above mentioned evils on number of times but corporations and all other persons whose income is taxable. They make use of the tax avoidance strategies to get away or curtail the taxes and willfully employ fake techniques with the support of the tax officials to evade the total tax.

Alligham and Sandmo (1972) conducted study in order to examine the behavioural determinants of tax evasion by introducing a seminal theoretical model. In this study, they explained that the behaviour of tax evasion was actually based on level of risk aversion, amount of penalty imposed, and probability of being audit-

ed. Moreover, study found an ambiguous relationship between marginal tax rate or income and tax evasion. Orewa (1957) conducted study and investigated the characteristics of tax evasion. Study found that high degree of inter-district mobility is the main reason of tax evasion on the part of taxpayers and argued that mobility of wage earners, salaried persons and self-employed persons with permanent and known addresses is an important factor of tax evasion because they keep themselves in movement from one place to another in order to earn legal money. He also found the reasons of partial evasion such as resentment toward illiterate persons who present only their salaries and wages as taxable income, and traders maintain inadequate records.

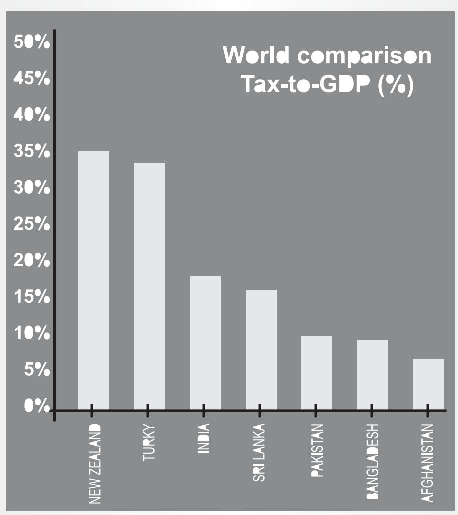
Chaudhry & Munir (2010) indicates that major hurdle in the economic development & one major justification of high budget deficit in Pakistan is Low tax to GDP ratio. They try to figure out the determinants of low tax return in Pakistan by using time-series econometrics methods over the period of 1973-2009. They examine different factors which are responsible for the variation in the tax revenue collection of Pakistan. They found that basic reasons for low tax revenue in Pakistan are narrow taxation, more dependence on agriculture sector and foreign aid low level of literacy. In the end they concluded that Pakistan can generate high tax to GDP ratio by increasing literacy level and controlling tax evasion & tax exemptions.

Pakistan's economy has experienced many ups & down since last sixty years. Government of Pakistan earns less revenue resulting from the influential use of tax evasion, excuse and exemptions. Less than 1.7% of 175 million citizens pay any sort of income tax, and country's tax-GDP ratio is less than 9% (2010). Tax evasion signifies that lesser resources are available for essential social services. Tax reform can increase government's revenue, but rich & powerful people always oppose such reforms.

As per Federal Board of Revenue (FBR), fewer than 0.5% citizens of Pakistan pay income tax; they are almost 750,000 persons out of 180 million people. Other countries who have same per capita income like Pakistan, have 14% of their revenue from tax whereas Pakistan has

Tax-to-GDP Ratio Trend Year	Tax-to-GDP Ratio
2000-01	9.4%
2001-02	9.2%
2002-03	9.6%
2003-04	9.2%
2004-05	8.9%
2005-06	9.4%
2006-07	9.7%
2007-08	9.8%
2008-09	9.1%
2009-10	9.0%
2010-11	8.6%
2011-12	9.1%

only 9%. Unless Pakistan can get enough revenue from tax, it will be highly dependable on loans & foreign aid. Currently Pakistan's debt is almost $60 million which shows that almost 60% of Pakistan's federal revenue spent on paying these debts.



Analysis of Reasons of Tax Avoidance and Evasion

1 Absence of tax morality
2 High tax rates
3 Illiteracy of tax calculation
4 Lack of adequate enforcement for default
5 Lack of adequate tax incentives
6 Non-existence of an equitable & efficient tax system
7 No public enlightenment campaign
8 Poor Relationship of Tax Payers & Authority
9 Poverty
10 Proliferation of taxes

Recommendations to stop Tax Evasion & Tax Avoidance:

- A tax census should be conducted in a country to know about the actual number of taxpayers either they are individuals or businessmen so that tax evasion incidents should be reduced.
- An audit unit should be established and tax clearance certificates should be issued to the taxpayers by the audit unit so that corrupt activities of tax officials could also be stopped.
- Incentives should be announced to taxpayers on timely payment of tax without adopting any way of tax avoidance and evasion.
- New policies should be developed not only to remove reasons/causes of tax avoidance and evasion but also reduce size of shadow economy because shadow economy is that economy in which people do not show their real income and taxable income that they have earned through legal activities including barter and monitory activities in order to avoid tax.
- Government should inform to the taxpayers about need for compliance and changes made in tax legislation by using different means of publicity like walk-chalking, posters, banners, television, radio massages etc. Further, revenue courts should be established that can punish tax evaders and avoiders through criminal sanctions and heavy monetary penalties.

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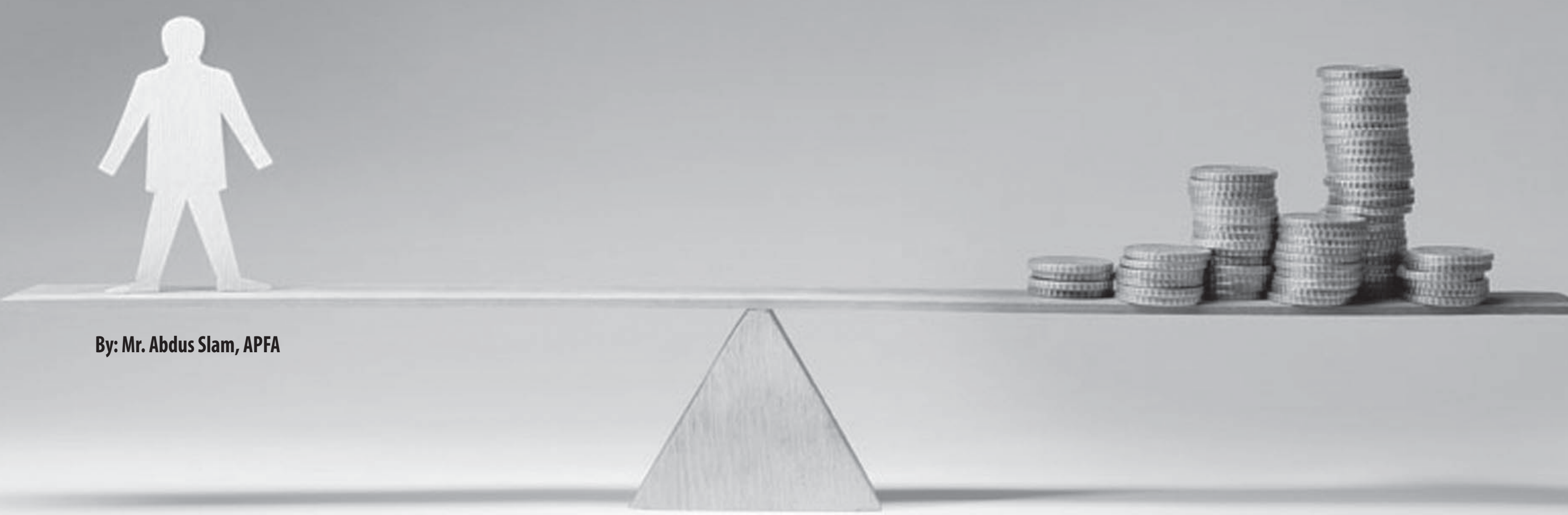
Fiscal Discipline



By: Mr. Abdus Slam, APFA

Introduction & Scope

Fiscal discipline or fiscal responsibility is a key matter in the budget preparatory process. A well planned budget requires a thorough fiscal discipline. Let us examine as to what fiscal discipline means in relation to our national exchequer. It is a process to employ sound principles of fiscal management. This implies that to produce a budget which is not aggressively financed by public debt or government borrowings. If fiscal discipline is not practiced by a government, then it would spend more money on expenditures than its income and the difference will be financed by the borrowings. This, in another way, is termed as fiscal deficit. A Government has option either to finance the deficit from local or foreign lenders. The latter option should be used very prudently as more the government is indebted to foreign lenders; there is an increased foreign intervention in policy matters as a result of debt related covenants. One of the prime foreign lenders for developing countries is the International Monetary Fund (IMF) which sets macroeconomic targets for the governments including the GDP growth rate, Inflation target, trade and budgetary deficit, tax reforms including broadening of tax base and other areas requiring fiscal discipline and determination by the government. Apparently fiscal deficit is not awful as even the developed countries of the world have deficits in their budgets. However, positive outcomes from fiscal deficit rest with the governmental decisions to spend more on socio-economic development and growth. The spending on education and health in the social sector and on energy, infrastructure, agricultural development and industrial growth in the economic sector always breed prosperity and development of the country. In simple words, fiscal responsibility determines what kind of future we are moulding for our generations ahead.

Legal Framework

A conclusion can be drawn from our initial discussion that a government should practice effective fiscal discipline. For this, the Fiscal Responsibility and Debt Limitation (FRDL) Act, 2005 has been promulgated in Pakistan. The primary objective of this legislation was to introduce some policy measures in the area of fiscal and debt management for the government and to curtail the debt within some boundary as to restrict the government to borrow locally or through foreign counties or organizations beyond certain limits. This law contains significant policy measures legislated in 2003 and was further amended in 2005. However, the outcome is not so admirable due to noncompliance by the governments.

The FRDL Act 2005 can be analyzed in two portions; one portion figuratively restrains the Federal government to follow fiscal discipline and the second portion covers various policy measures.

There are many rules based constrains on the government but we will focus on two major constraints;

(1) To nil the revenue deficit (the difference between current expenditure

and current income) by the end of June 2008; and

(2) To restrict the total public debt to 60% of the GDP by the end of fiscal year 2013.

We will examine the compliance report published by the government on the aforementioned fiscal indicators at the end of this article.

The FRDL Act 2005 as per above discussion requires sound policy formulation and implementation. The said law requires under section 4 to lay before National Assembly each year the following policy statements:

i. Medium term budgetary statement

ii. Fiscal policy statement

iii. Debt policy statement

For a better understanding let's briefly explain each of the above policy statements;

i. Medium Term Budgetary Statement

The medium term budgetary statement shall set forth a three year rolling target for economic indicators.

Section 5 of FRDL Act, 2005 states, "Federal government shall include a medium term budgetary statement, consistent with the principles of sound financial management, in the annual budget statement to be laid down before the National Assembly each year not later than the 30th June".

ii. Fiscal Policy Statement

Section 6 of FRDL Act, 2005 states, "The Federal government shall cause to be laid before the National Assembly the fiscal policy statement by the end of January each year."

iii. Debt Policy Statement

Section 7 of FRDL Act 2005 states, "The federal government shall cause to be laid down before the National Assembly, the debt policy statement by the end of January each year."

"The purpose of the debt policy statement is to allow the assessment of Federal government's debt policies against the principles of the sound fiscal and debt management and debt reduction path."

Even though Pakistan promulgated sophisticated fiscal discipline law but the problems in fiscal management were not minimized. The indicators given below show the fiscal indiscipline faced by the Pakistan.

Trend of Important Economic Indicators

Fiscal indicator	2013-14	2014-15	2015-16
Fiscal deficit % of GDP Source: Fiscal Policy Statement 2015-16	5.5	5.3	4.3
Total public debt % of GDP Source: State Bank of Pakistan	64.8	64.6	66.1 March 2016

Compliance Report on FRDL Act, 2005

Let's examine the compliance of the FRDL Act 2005 on rules based constraints

Requirement

(1) Reduce revenue deficit to nil by the end of June 2008 and then maintain revenue surplus afterwards.

Compliance

This has not been achieved by the end of June 2015. Fiscal policy statement review report exhibited revenue deficit at 1.7% of GDP.

Requirement

(2) The provisions of FRDL Act 2005 requires that within a period of ten financial years beginning from July 01, 2003 and ending on June 30, 2013, the total public debt shall be restricted to 60% of the GDP until June 30, 2013. Thereafter maintaining the total public debt below 60% of gross domestic product for any given year.

Compliance

The public debt stands at 66% of GDP quarter ended on March

2015-16. This was 64 percent in fiscal year ended on 2013-14. Public debt includes loans from the IMF amounting to US$ 4.1 billion or 1.5 percent of the GDP as on June 30, 2015. Fiscal Policy Statement 2015-16 published by the finance ministry states that in the medium term public Debt to GDP ratio is expected to be less than 60 percent in accordance with the provisions of the FRDL Act 2005 through effective fiscal and debt management. On the other hand, government is going to amend the FRDL Act 2005 to get additional time to comply with this provision.

Fairness in Taxation

By: Sania Ahsan
Executive Mar-Com PIPFA

Essential taxation system is a strong indication of a civilized society. The efficiency of taxation system is depending upon the manner tax is levied, charged and administrated. Governments are facing difficulties from dematerialization of economy, growingly sophisticated and mobile taxpayers, maintenance of their tax bases and are still accountable for public spending based on revenue generated from taxation.

As we all know, the effect of globalization is affecting each and every factor and indicators of economy, but the taxation system is still based on obsolete methods and techniques, it does not adhere cross border profits and new business practices emerged from mobile capital and intangible assets. A drastic change is observed in dynamics of politics, belief and understanding of general public in a very short span of time. Similarly public has a rigorous debate on drawing a line on efficient tax planning and where the tax avoidance is taken place and it's no longer acceptable. The outcome of all this is that in recent years many Governments came up with a strong international commitment and cooperation in an area of taxation which were never seen before. The acceptance and fairness in system of taxation that has emerged is bitter public debates in many countries, having the risk of reputational defamation of individuals who are taxpayers and comply by the law of the state.

This subject is becoming extremely complex day by day, and it should not be decided by taxation authorities, I believe that the tax payers, their professional advisor and public should decide what represent quarrelsome and unacceptable tax planning/avoidance. It requires affirmation of all relevant functions (legislators, tax payers, taxation authorities and profession) of their responsibilities in determining the attitude and constitute of tax planning.

In my opinion, the change must be brought by our legislation authorities because they are in the position to control the matter. It should consider the perception of mankind to establish a fair and coherent taxation system which is logically and easily understandable and clearer in its objective. In order to clarify the objective and to remove probability of misinterpretation, it must be drafted intelligently by legislators.

The collection of tax is indeed the duty of taxation authorities assigned by the legislator. There is a need to change the law if tax due amount is unclear from the law, and it always remains uncertain when it should be left to be decided by the courts.

The administrative measures must equally target towards all tax payers by the taxation authorities in order to abide the legislator system by the general public/ all tax payers. Taxation authorities must consider all tax payers that their advisors are honest in nature and are willing to fulfill their obligations. However, mistakes are part of human life and as taxation system is very complex and tax authorities can do mistake. Therefore, they should not presume every failure as a fraudulent or willful.

Taxpayers are liable to pay taxes by the law. So there is a need of determining tax amount fairly because it reveals the importance of clear tax legislation.

The tax evasion must be respected and fraud should be treated as victim based crimes. Those taxpayers who are not paying their shares are robbing other taxpayers.

Now coming toward most debatable and complex question of aggressive tax avoidance or planning. This is not illegal, the number of groundswell are raising and can be misguided through an artificial arrangement that beats the motive of legislation. A bitter scenario of our various societies worldwide is that people of various countries and constitutions find moral dimensions in their respective taxation system.

The taxpayers hardly come up with such type of provision without consulting various professional tax advisors. The most of the tax advisers are qualified professional accountants and abide by global code of ethics.

Accountancy profession is considered as the most difficult profession around the globe; it's like sandwich between its duties (confirmed court of law) to clients, they demand to pay least possible tax and it is expected by taxation authorities to act as an unpaid tax inspector.

Taxpayer become increasingly argumentative when they realize that the accountant has failed to provide suitable advice against aggressive tax avoidance scheme. The accountancy profession should not embrace on such type of societal behaviors because the accountants play a significant role in efficient and smooth execution of taxation system in various countries. The accountants also assist the taxation authorities in managing and collection of tax compliance.

It's a duty of accountants to serve their clients in the best interest/possible way. But "best interest" should be interpreted as managing risk, practices and social impact and should not be measured in terms of monetary benefits.

This is not a suppositional concept but can act as a real risk in the world which is a swift interface and can cause reputational and financial damage. The "fairness" role in taxation is an endlessly prolonged debate. The current situation predicts in future taxation; fairness will play a vital role.

The accountancy profession is performing in the best possible way for public interest with profound ethical principles. Accountancy profession perceived distinct high standards which are self imposed. They need to stick with these virtues, and follow it by acting so in general around the world.

Inevitably, the profession led the disagreement of tax planning and unacceptable tax avoidance. But they must consider the consequences of such type of promotions against "aggressive" tax palming as it can lead to cancellation of licensee to practice and can harm their reputation in future.

Lastly, the profession must be straightforward in addressing the censure of tax evasion. It will give an insight to the general public that accountancy profession is totally against the tax evasion.

Laffer curve: The Relationship between Tax Rate and Tax Revenue

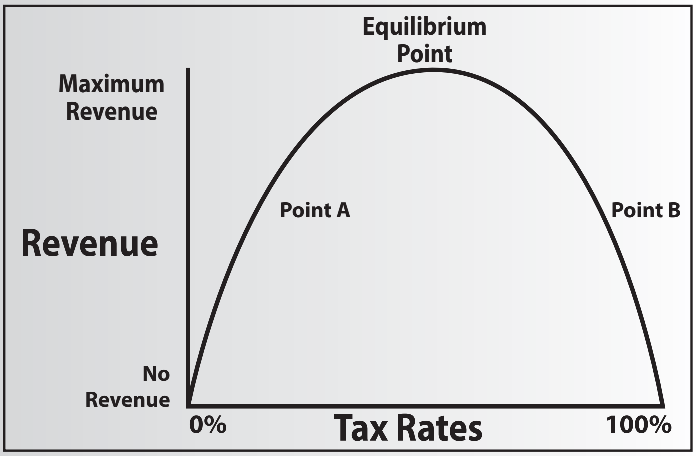
By: M. Faizan Anis Motiwala, APFA

Introduction:

The Laffer curve is a theory developed by Arthur Laffer (supply-side economist) to explain the relationship between the amount of tax revenue collected by governments and the tax rates. The curve basically is used to illustrate the concept of "taxable income elasticity", which is the idea that government can maximize their tax revenue by setting such tax rates at an optimum point and that neither a 0% tax rate nor a 100% tax rate which will generate government revenue. Although the underlying principle was known since the time of Ibn Khaldun's Muqaddimah but the curve was popularized by Arthur Laffer.

The Laffer curve - Explained

The Curve suggests that, higher the taxes increase from low levels, higher would be the tax revenue collected by the government but (up to certain point here in referred to as the equilibrium point). It therefore shows that the tax rates increasing after a certain Equilibrium point (P) would cause people not to work as hard as they could or not work at all, consequently reducing tax revenue.



The curve is most understandable at both extremes of income taxation—zero% and 100% when the government collects no revenue. At one extreme, a zero% tax rate would mean the government's revenue is zero. At the other extreme, if tax rates reached 100% (theoretically), shown as the far right on his curve, all people would presumably change their behavior in response to the tax rate by choosing not to work at all and avoid taxes because it would be clear that everything they earned would go to the government, so the government collects 100% of nothing. Somewhere between 0% and 100%, therefore, lies a tax rate percentage that will maximize revenue which would be ideally between the Point A and Point B as shown in the figure. Governments would like to be at the equilibrium point (as shown in the figure), because it is the point at which the government collects maximum amount of tax revenue from the Tax Payers while people continue to work hard.

The point at which the curve will achieve its maximum will vary from one economy to another and depend on elasticity of demand and supply. Here Laffer also argued that the more the money is taken out from the business in the form of taxation, the lesser the money it would have to invest in the business. Any business is more likely to find the ways to protect their capital from taxes, or to re-locate part or all its operations overseas. If a larger percentage of their profits are taken through taxes then Investors are less likely to risk their own capital. They will lose incentive to work hard when they would see the increasing portion of their pay-checks being taken away in taxes.

In the context of the above mentioned theory and its explanation, three critical points should be discussed that is regarding the size, timing, and location of tax cuts.

Tax Cuts - Size

People work and invest to earn after-tax income and they consume to get the best buys after tax and not to only work, consume, or invest to pay taxes. Therefore, people are concerned with after-tax results.

The higher the tax rates would be, the greater would be the economic (supply side) impact of a given %-reduction in tax rates. Similarly, under a progressive tax structure, an equal across the board %-reduction in tax rates should have its least impact in the lowest tax bracket and greatest impact in the highest tax bracket.

Tax Cuts - Timing

The second and important concept of tax cuts is concerned with the timing of those Tax cuts. In the quest to earn after tax income, tax payers can change not only how much they work but also when they work, when they invest and spend. As people shift their activities into relatively lower taxed future out from the relatively higher taxed present, the Lower expected tax rates in the future will reduce taxable activity (economy) in the present.

Tax Cut - Location

At the final point, people can also choose as where to earn their after-tax income, where to invest their money, and where to spend their money.

Summary

The Laffer curve is often used to illustrate the trade-off between tax rates and total tax revenues collected by the government in actual.

The economic effect recognizes the positive impact that the lower tax rates has on work, employment and output. This provides incentives to increase these activities by the tax payers. On the Contrary, raising the tax rates penalizes people for their engagement in these activities.

Although it is true that the tax rate cuts will lead to more growth, income for citizens and employment desirable outcomes leading to greater opportunity and prosperity. There is after all, more to fiscal policy than to simply maximizing the government revenue.

The Role of Professional Accountants in the Proper Functioning of Taxation Systems

By: Russell Guthrie, Executive Director Professional Relations, and CFO, IFAC

There has been much recent debate in many sectors of the economy and among politicians about the role of taxation in society, the extent to which tax planning is appropriate, and taxpayer behavior.

Throughout the world, accountants —with their technical expertise and professional and ethical training—play a key role in assisting client and employer taxpayers regarding tax obligations. A 2007 report by the Forum on Tax Administration (consisting of Tax Commissioners from 45 countries) acknowledged the crucial role that intermediaries such as accountants play in ensuring tax systems function properly.

So what role should accountants play?

At one extreme, it is clear that tax evasion—which is illegal—should be condemned by all parties and no professional accountant should ever be associated with it. At the other, leveraging tax incentives in the way they are intended by governments is certainly appropriate. Between the two extremes lies the complex question of "tax avoidance", which is by definition legal. This poses a difficult dilemma for taxpayers and, thus, for the accountancy profession.

The nature and extent of the tax debate is very different in different parts of the world; even in countries where the debate is the most intense (some parts of Western Europe and the US, for example) there are varying views.

For the profession, it is ultimately most important to recognize that professional accountants:

- **Are**, and should be, a force for consistency and stability in their economies, and have an important role to play in the functioning of sound and effective taxation systems. They help employers and clients understand their fiscal and regulatory obligations in relation to taxation and advise them on how to comply;
- **Ensure** that their employers and clients understand the options available to them and assist them to be as tax-competitive as possible (thus creating economic wealth and employment), but should also ensure that they understand the consequences of each option (including potential reputational consequences);
- **Are** obliged to comply with strict ethical principles (e.g., the international Code of Ethics or the codes of national professional and regulatory organizations), and are guided by the fundamental principles of integrity and professional behavior; and
- **Play** an important role in combating tax evasion. For example, accountants in public practice help clients comply with their legal obligations. If a client is unwilling, an accountant considers options, such as resigning from the account; in some circumstances, accountants may have a reporting obligation to revenue or regulatory authorities.

Clearly, accountants play an important role—in effective tax systems, employer and client education, business advisory, ethics, and more. And taxpayers, of course, must make the ultimate decisions about their activities and compliance. But it is paramount to recognize that governments are responsible for promulgating and implementing taxation laws that are clear, fair, and appropriate for our global economy. They must carefully consider the consequences of their decisions about taxation laws (including, potentially, unintended consequences) and amend them if the results are not as intended.

As this debate continues—as there is little doubt it will—it is important to recognize that governments, taxpayers, and professional accountants each have important responsibilities and crucial roles to play in efficiently functioning taxation systems.

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Fraud Triangle and Red Flags in the context of Fraud Auditing and Forensic Accounting

By: Sammer Ahmad
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When times are good, people steal. When times are bad, people steal more!

There is no blinking fact that there have always been a number of people who are bent in their own morals, ethics, psychological makeup, sociological structure and sense of justice. They are willing, ready and capable of committing offenses of all types, including white-collar crimes. But hard economic times appear to increase the chances to commit a fraud.

Some experts are of the opinion that forensic accounting is one of the oldest professions and dates back to the Egyptians. The 'eyes and ears' of the king was a person who basically served as a forensic accountant for Pharaoh, watchful over inventories of grains, gold, and other assets. The person had to be responsible, trustworthy and able to handle a position of authority.

Fraud cycle essentially begins with the plans of the fraudster leading up to committing the act of fraud. Once committed, the fraudster usually conceals the fraud by converting the asset into cash. The existence of a fraud usually comes to light through (1) an allegation, complaints, or a rumor of fraud brought by a third party (a disgruntled supplier or a fellow employee); (2) an investigator's intuition or general suspicion that something is awry; (3) an exception from an expectation of a person senior to the suspect (an unacceptable condition, profits, sales, costs, assets, or liabilities are too low or too high); (4) the accidental discovery that something is missing---cash, property, reports, files, documents, or data; (5) results from an audit; (6) results of controls, especially antifraud controls. Based on some reliable statistics, an average of 60% of all frauds reported, were discovered either by a tip or accident, indicating the need of more effective and pro-active detection methods, such as internal controls and internal audits.

In the lexicon of accounting, terms such as fraud auditing, forensic accounting, fraud examination, fraud investigation, investigative accounting, litigation support and valuation analysis are not clearly defined. Some distinctions apply between fraud auditing and forensic accounting. Fraud auditing involves a specialized approach and methodology to discern fraud; that is, the auditor is looking for evidence of fraud. The purpose is to prove or disprove a fraud had been done. Historically, forensic accountants, however, have been called in after evidence or suspicion of fraud has surfaced through an allegation, complaint or discovery.

The term forensic accounting refers to the comprehensive view of fraud investigation. It includes preventing frauds and analyzing antifraud controls. Forensic accounting would include the audit of accounting records in search for evidence of fraud; a fraud audit. A fraud investigation to prove or disprove a fraud would be part of forensic accounting. It also includes the gathering of non-financial information, such as interviews of all the related parties to a fraud, where applicable. Forensic accounting includes writing a report to management or court. Serving as an expert witness and litigation support are part of forensic accounting. The term forensic in the accounting profession deals with the relation and application of financial facts to legal problems. Forensic accounting evidence, therefore, is oriented to a court of law.

Forensic accountants are experienced, trained and knowledgeable in all the different processes of fraud investigation including: how to interview people (especially the suspect) effectively, how to write effective reports for clients and courts, how to provide expert testimony in court and rules of evidence. In recent years, the broadest of these terms in the antifraud profession is forensic accounting, which typically refers to the incorporation of all the terms involved with investigation, including fraud auditing; i.e. fraud auditing is a subset of forensic accounting. Fraud investigation usually encompasses about the same thing as a fraud audit except investigation typically involves a lot more non-financial evidence, such as testimony from interviews, than a fraud audit. So, fraud investigation includes fraud audit but goes beyond it.

The skills fraud auditors require, include all of those that are required of financial auditors, plus the knowledge of how to gather evidence of and document fraud losses for criminal, civil, contractual, and insurance purposes; how to interview third-party witness; and how to testify as an expert witness. Fraud auditor must know what a fraud is from a legal and audit perspective, an environmental perspective, a perpetrator's perspective, and a cultural perspective.

Fraud triangle

In order to detect, prevent, and respond to a fraud, anti-fraud stakeholders need to understand why fraudsters commit a fraud. No model or framework has been more useful than Donald Cressey's Triangle in providing that understanding. He interviewed more than 200 embezzlers in prison and his findings are: (1) Pressure (sometimes referred to as motivation and usually a non-shareable need); (2) rationalization (of personal ethics); (3) knowledge and opportunity to commit a crime. Below mentioned points are the corners of the fraud triangle.

- **Pressure (or incentive, or motivation):** It refers to something that has happened in the fraudster's personal life that creates a stressful need that motivates him to steal. Usually that motivation centers on some financial strain, but it could be symptom of other types of pressures. For example, a drug habit or gambling habit could create great financial need in order to sustain the habit and thus creates the pressure associated with this aspect of the fraud triangle. Sometimes people commit fraud to aggrandize their egos, put on airs, or assume false status. Sometimes they deceive to survive politically, or have a burning desire for power. Motives to commit fraud in business usually are rationalized by the old saying that "all is fair in love and warand in business", which is amoral, anyway. There is one further category of motivation, however. It might be called psychotic, because it cannot be explained in terms of rational behavior. Included in this category are; the pathological liar, the professional confidence man, and the kleptomaniac.
- **Rationalization:** Most fraudsters do not have a criminal record. In fact, white-collar criminals usually have a personal code of ethics. It is not uncommon for a fraudster to be religious. So, how do fraudsters justify actions that are objectively criminal? They merely justify crimes under their circumstances. For instance, many will steal from employers but mentally convince themselves that they will repay it (i.e. 'I am just borrowing the money'),others believe it hurts no one so that makes the theft benign. Still others believe that they are entitled to the benefits of the fraud and are simply taking matters into their own hands to administer fair treatment (e.g. they deserve a raise or better treatment). Many other excuses could serve as a rationalization, including some benevolent ones where the fraudster does not actually keep the stolen funds or assets but uses them for social purposes.
- **Opportunity:** According to fraud triangle theory, fraudsters always have the knowledge and opportunity to commit the fraud. The former is reflected in known frauds. Some research studies say that the employees and managers tend to have a long tenure with a company when they commit a fraud. A simple explanation is that employees and managers who have around for years know quite well where the weaknesses are in the internal controls and have gained sufficient knowledge of how to commit the crime successfully. A prerequisite to opportunity is that the perpetrator should be in a position of trust. Remember triangle theory was about trust violators. It is difficult to commit a fraud without being in a trusted position over assets. But the main factor in opportunity is internal controls. A weakness in or absence of internal controls provides the opportunity for fraudsters to commit their crimes. The opportunities to commit fraud are rampant in the presence of loose or lax management and inadequate attention to internal controls. When motivation is coupled with such opportunities, the potential for fraud is increased.

Red Flags

Red flags are used as a synonym for fingerprints of fraud. When fraud occurs, there are traces of the criminal, much like fingerprints that may be left at a crime scene. Red flags have varying natures and include things such as an accounting anomaly, an unexplained transaction or event, unusual elements of a transaction, a person's behavioral changes or characteristics or just characteristics commonly associated with known fraud, especially certain individual schemes or group of schemes.

A careful analytical review of the fraud schemes and the fraud triangle brings applicable flagsto the mind. For example, in the fraud scheme of lapping, a person uses an elaborate method of taking some customer payments while applying payments from other customers in an overlapping fashion to those accounts stolen from earlier. It is easy to see that this type of fraudster cannot afford to take an extended vacation or else the scheme will be uncovered. Another example is the ghost employee scheme. Because the perpetrator usually has to intercept the cheque once it is printed, he cannot afford absence on payday. Thus the red flag in both of these frauds is the absence of extended vacation taken by an employee. In addition, red flag come to the mind analyzing motivators, based on the fraud triangle.

It is quite important to remember that a red flag is just a red flag and not necessarily indicative of a fraud. The forensic accountants and fraud auditor must not jump to conclusion; he/she should keep that mentality of 'just the facts' and focus on proving or disapproving a fraud has occurred rather than creating a checklist of red flags. Identifying red flags is critical to the success of detecting and preventing frauds. Red flags lead naturally to the design of effective detection methods and processes. These detection methods lead naturally to the design of good anti-fraud controls. Often a good detective control can simultaneously serve as a good preventive control.

Red Flags Pertaining to Financial Statement Frauds

- accounting anomalies
- rapid growth
- unusual profits
- internal control weaknesses
- aggressiveness of executive management
- obsession with stock prices by executive management
- micro-management by executive management

Red Flags Pertaining to Asset Misappropriation

Those frauds categorized as asset misappropriation typically are perpetrated by employees for their benefit. General behavioral red flags include:

- changes in behavior
- inability to look people in the eye
- increased irritability
- irregular work history
- character problems
- consistent anger
- tendency to blame others
- change in lifestyle

Some Other Red Flags Could Include Employees Who

- Are disgruntled with employer or supervisor
- Never take a vacation or take it in short time frames
- Have financial strains or debt problems
- Exhibit traits of psychotic problems.
- Constantly complain about how the boss or company treats them.
- Exhibit behavioral characteristics associated with egocentric or those who need to control everything
- Reject transfers, promotions or other job offers

Red Flags Pertaining to Corruption

Fraud categorized as corruption is perpetrated by the employees for theirown benefit. For corruption to occur, someone on the inside has to work with someone on the outside in such a way that the relationship is a detriment to the organization. Common red flags are:

- Relationship between key employees and authorized vendors.
- Secrecy surrounding this third-party relationship.
- A lack of review on management approvals for known third-party relationships that exists.
- Anomalies in recording transactions (e.g. what is debit for a bribe on the books?)
- Anomalies in approving vendors.

A fraud investigation is of necessity based on legal factors because any fraud may end up in a court of law. The immediate facts to determine are whether a fraud has occurred and whether there is: (1) a criminal law (2) an apparent breach of that law (3) a perpetrator (4) a victim. The six basic steps in fraud investigation are:

1. Acquire all available details and documents relating to the allegation.
2. Assess the allegation against the available documentation.
3. Assess the corporate environment related to the person in question.
4. Ask whether a theory of fraud can be developed at this stage. Is there any motive and opportunity?
5. Determine whether the available evidence makes sense. Does it meet the test of business reality?
6. Communicate with appropriate parties on the details and status of the fraud.

After performing these steps, two possibilities exist. Either one has identified the fraudster and knows who he/she is, or one has not. If not, more investigation is necessary. But if one does identify the fraudster, the process becomes critical to what is no longer an investigation, rather a pursuit of legal action. Evidence gathered may consist of the testimony of witnesses, documents, items (means and instruments, or fruits of the crime) and possibly the confession of the perpetrator. Experienced fraud investigators know what evidence is needed to prove the crime and how to attain that evidence.

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Importance of China Pakistan Economic Corridor (CPEC), in relation to SAARC

By: Muhammad Saeedullah Yousafzai, FPFA
MD NATCO

Smallest country of the South Asia like Maldives and a very large country like India compose SAARC which is a failed organization in context of South Asia's regional cooperation. There is huge diversity in South Asia, Bhutan a small country, consists of 38,394 sq km with 764,525 people. There are just 69,602 vehicles and total length of roads is just 10,578.3 km. Countries like Afghanistan, Bhutan and Nepal are land locked countries and have no direct link to sea. On the other hand Srilanka and Maldives are islands and are surrounded by water from all sides. Pakistan, Bangladesh and India have sea ports, railways, roads ferries and airports. Maldives is the small scattered island nation, comprising of 1,192 islands where only 198 islands are inhabited. It's thin population of 3,99,939 people is scattered over 90,000 sq kilometers, in capital, male population of 113,019 people live in 19,2000 square meters, where 75% of vehicles are located (used). Total length of roads is just 30,144 meters, with 68028 vehicles. Keeping in view its peculiar conditions, ferry service is major mode of transportation along with 11 airports.Government expenditures in the 11th FYP-were Nu 213,291.50 million; Capital expenditures in the transport sector are estimated at Nu 18,253.9 (Which is about 19.8% of total government expenditure during five year plan.

In India central government deals with railways , high ways , shipping and air navigation etc. its railways runs 1,900 trains ,connecting 8,000 stations moving 23 million passengers every day. Indian railways earn billions of in fright. India has 132 airports; on the other hand Bangladesh is connected to India through OhatKolketer ,Shntong and Dhaka – Agortola road . Bangladesh is rapidly working on Mass Rapid Transit with 20.1 km elevated metro rail project. Bus rapid transit (line-3) length of 22 km and 16 stations is being completed with support of India.

India is having following roads;

Sn.	Category	Custodian	Length (km)
1.	National Highways (NH)	Central Government	94,567
2.	State Highways (SH)	State Government	1,55,089
3.	Major District Roads (MDR) Other District Roads & Rural Roads	State Government / Local Government	44,55,510
	Total		47.05 lakh (km) (approx.)

Afghanistan's Road Network comprises of about 4884 km of Regional Highways; 9,656 km of Provincial Roads and 17,000km of rural roads. Regional Highways foster regional trade and economic linkages between Afghanistan and neighboring countries - Iran, Pakistan, Tajikistan, Uzbekistan and Turkmenistan. Ministry of Public Works (MPW) is responsible for development, management and maintenance of 18,100 km of roads. Most of the roads and building constructed in the 1960s to tie Afghanistan in commercial and economic activities.

Afghanistan is a land locked country with poor infrastructure has been badly devastated by internal wars. Kabul Peshawar road has been upgraded and rebuilt by Pakistan; on the other hand India has invested billions of US$ to divert its trade through Bandar Abass Port of Iran. But the wars and terrorism inside in Afghanistan is halting its progress.

Pakistan in comparisonto many countries has highly developed. Its motorway is linking most part of the country. Railways have recently improved its efficiency and now it is profitable.

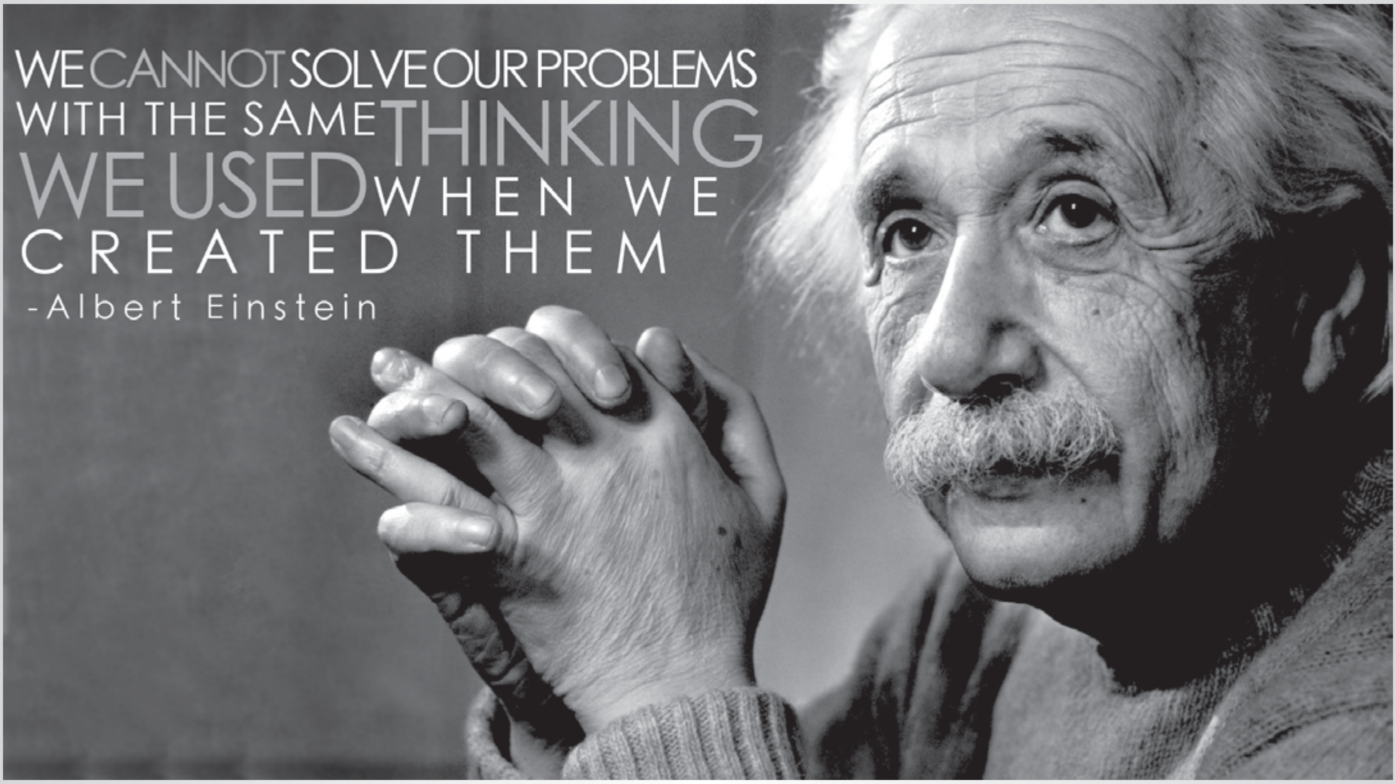
Additional intra city Metro Services at Lahore, Islamabad and Faisalabad have made it one of the select club of developed countries. Though it is thickly populated, but its infrastructure is improving day by day. Recent visit of Chinese president and investment of 46 Billion US Dollar can make it hub of trade and economic activities. Importance of this corridor can be gauged from opposition of India which has remained die hard enemy of Pakistan and has left no stone unturned to destabilize Pakistan. Indian Prime minister not only personally raised the issue with Chinese President but also rushed to Middle East and announced Indian investment of US$ 70 Billion in Middle East.

India itself is investing in infrastructure development hugely not only in India but in many other countries. It demands access to Afghanistan and Central Asia through Pakistan but cannot digest CPEC for its neighbor Pakistan.It is even digging tunnel to link itself to Sri Lanka but ironically it objected to this road and is trying to sabotage this trough all possible means.Indian worries further highlights importance of this road which exists since late 60's. Bilateral links with China goes back to1963 when bilateral long trade agreement was signed. In 2006 free trade agreement was signed which accelerated trade form $ 4.1 billion in 2007 to $ 2.9 billion in 2012-13, an increaseof124%. Pakistan's exports to China were just $ 600 billion in 2006-07 which increased to $ 2.6 billion in 2012-13 an increase of 400 %.

This corridor will further strengthen trade and link China to ArabianSea, reduce time and cost of transportation and help in regional development. Currently, China uses 12,900 kilometer route from China eastern/ south sea through Strait of Malacca andthen Persian Gulf.The new route will be just 2,700 kilometers. It is estimated that it will bring saving of US $ 30 billion in transportation cost to China and bring down time of transportation from months to one week. All political parties of Pakistan are agreed on this issue. Government must complete it at earliest, those parts of the road which are passing through poor provinces/ regions; to avoid any controversy and accomplish this task of national importance on time. Our leadership must show maturity and avoid making it controversial. When Panama Canal and Suez canal was developed it brought prosperity not only the bordering countries but the whole world. Now the same opportunity has knocked the door of Pakistan we must put all out our efforts to make it a success story.

Creative Problem Solving & Decision Making

By: Arslan Nawaz, APFA



We make decisions and solve problems continually. We start making decisions before we even get out of bed (shall I get up now or not?). Sometimes, we will have made as many as 50 decisions by the time we leave for work. Despite all the natural decision making that goes on and the problem solving we do, some people are very uncomfortable with having to make decisions. You may know someone who has a hard time making decisions about what to eat, never mind the internal wrestling they go through in order to take on major decisions at work.

Likewise, we've probably all looked at a solution to something and said, "I could have thought of that." The key to finding creative solutions is not just creativity, although that will certainly help. The answer rests in our ability to identify options, research them, and then put things together in a way that works. Having a process to work through can take the anxiety out of problem solving and make decisions easier.

Defining Problem Solving and Decision Making

What, specifically, is a problem? A problem can be a mystery, a puzzle, an unsettled matter, a situation requiring a solution, or an issue involving uncertainty that needs to be dealt with.

Problems can be classified in three ways:

- Problems that have already happened
- Problems that lie ahead
- Problems you want to prevent from happening

There are three ways to approach problems:

- You can stall or delay until a decision is no longer necessary, or until the problem has become even greater.
- You can make a snap decision, off the top of your head, with little to no thinking or logic.
- You can use a professional approach and solve problems based on sound decision-making practices.

Eight Essentials to Defining a Problem

Although we make decisions all the time, some decisions come easier than others. The first step is to define the problem clearly. We have eight suggestions to help you do this as easily, efficiently, and effectively as possible.

Rephrase the Problem

Sometimes what we want to see is not what other people see. When the boss sees - production drop and he tells his team to work harder, he's not likely to see much of a result. Instead, he could rephrase the problem and ask people what, they feel connects them to their work. In this way he engages people, finds out what could be dropping their production, and can come up with solutions instead of just telling people to be "more productive."

Here's an example. If the problem seems like "Our sales are decreasing," start replacing words to become clearer about what's going on:

- "Our market share is decreasing."
- "Our new sales are the same as last year."
- "Repeat sales have decreased 16% over last year."
- "Our outgoing sales call volume has

increased 18%."

- "Our incoming complaint calls have increased 22%."

Expose and Challenge Assumptions

We assume a lot, it's human nature; unfortunately, assumptions can really interfere with getting an accurate problem statement.

If you pull up to the gas pumps, you might assume that you can buy regular, mid-grade, or premium gas. And yet, when you pull up and there is only one option (regular) for your car, which usually gets premium, you have to decide whether you have enough fuel left to make it to the next gas station.

When defining your problem, write a list and include as many assumptions you can think of, especially the obvious ones. This helps to clarify the problem. Then, test each assumption and find out if some of them are actually wrong, or if you imposed them on yourself.

One common assumption is to say, "We've never done it that way, so we won't be allowed to do it in the future."

Use Facts

Sometimes we see a problem and just want to jump in and fix it but it's important that we look at the details and determine what the problem really is.

Find the data you need to define the problem. If you can draw a picture or a graph, do so. Ask questions and gather information that honestly describes the problem so that you can get specific about it.

Grow Your Thinking

Problems are often related to other problems. They can be a small element of a larger issue, so this element of problem definition includes considering the problem as part of something larger.

Ask questions such as

- "What's this connected to?"
- "What is this an example of?"
- "Where have we seen this before?"

Shrink Your Environment Temporarily

Since each problem is likely made up of smaller problems, one way to figure out the issue is to split it into smaller pieces. This allows you to consider specific details. This will help you gain an understanding of the bigger problem, as well as the effect that the smaller problems have on one another.

Practice Multiple Perspectives

Although the problem may be very clear from where you are looking right now, that may not be the case from everyone else's perspective. If our sales are decreasing, we may think it's because

our sales team is not being effective, but maybe our competitors has dropped their price and added a feature to their product that makes them more appealing than we are.

Turn it Upside Down

One powerful perspective is defining your problem is to look at it from the reverse direction. If you want more of something, figure out what you get less of as a result. Investigate what happens to decrease sales, or to sell fewer products, or to lose more games. If you feel that sending an employee to a conference is too expensive, consider what happens when you do send them.

Frame the Problem Purposely and Positively

This is something we borrow from goal setting. Our brains will focus on things that are positive and exciting. Even more effective is to reframe what you think as the problem into a positive and engaging question, because our subconscious loves to ponder questions and will start working on them immediately, even if we don't think we're thinking about it.

For example, instead of thinking, "We need our employees to quit smoking because smokers are driving up costs of our benefit plan," try, "How can we encourage our employees to live long healthy lives and live to be happy people?"

Making Decisions

Making the decision will lead us to action, and that's a good thing! There is not much benefit to defining a problem unless we do something about it. Luckily, there are plenty of tools to help you make the best decision in a particular situation.

Making Winning Decisions

Whether you are making a decision as an individual or as a group, some ground rules of the decision making process are:

- Encourage everyone to participate.
- Encourage new ideas without criticism, since new concepts come from outside our normal perception. Without considering new decisions, things remain the same.
- Build on each other's ideas.
- Whenever possible, use data to facilitate problem solving.
- Remember that solving problems and making decisions is a creative process. This means that new ideas and new understandings often result from the process.

In order to reach decisions, the group should agree to the following standards:

- Make decisions based on the best data available.
- Research and locate required information or data.
- Discuss criteria for making a decision (cost, time, impact, etc.) before choosing an option.
- Encourage and explore different interpretations of data.

Types of Decisions

The autocratic decisionis one you make alone. You do not consult anyone, and you accept full responsibility for the consequences of your decision.

Your second choice is a consultative decision, when you talk over the problem with another person or persons, such as a more experienced superior or several of your colleagues or teammates. Two heads are frequently better than one when a serious decision must be made.

A third possibility is a group decision. When a problem involves the entire staff or a team, they should participate in the decision. Being involved also gives them some ownership, which will make them more committed and motivated to the decision and the results that come with it.

The Problem Solving Tool Kit

There are some techniques we can use to help us at every stage of the problem solving process.

The Lasso

Can we tighten up our definition of the problem?

- "How can we improve communication in our group?" What do we mean by communication?
- "How can we get our work done more efficiently?" What do we mean by efficiently?

Is/Is Not

The Is/Is Not technique lets us eliminate assumptions and emphasize facts. For example, someone says, "The telephone system isn't working." You might ask them to list what isn't working and list what is working. Perhaps all functions are affected, or perhaps only incoming calls have been affected.

Graphics

A diagram allows us to see things visually. For example, think of personality types, which can be depicted visually as well as verbally. For some, a graph is more beneficial than a score or a label. For others, one type of categorizing is better than another type of categorizing.

Basic Questions

Who, what, where, when, why, how?

Criteria

In many situations it can be very helpful to have already determined what the criteria will be for your best solution. For example, let's say that you and your spouse are going out to celebrate your anniversary. Where are you going to go? Well, rather than the old harangue about: "Where do you want to go?" and, "I don't care. It's up to you," how about developing criteria ahead of time?

Force Field Analysis

This is a structured method of looking at two opposing forces acting on a situation. Simply draw a line on a piece of paper. On one half of the line, list the forces that are working to solve the problem. On the other half, list the forces that are stopping you from solving the problem. Let's say that revenue is down this quarter. Our force field might look like this:

Fish Bone

This tool is also called the Ishikawa diagram, after the Japanese quality management consultant who created it. It is an excellent method for solving complex problems, and for identifying the root cause(s) associated with it. It is most effective when used by a group. The facilitator starts the discussion by drawing the outline of the diagram, and then asks for assistance from the group to identify the main causes. Each cause is listed separately (one per fishbone).The causes are highlighted, and then can be acted upon.

ANALYZING AND SELECTING SOLUTIONS

Selecting Criteria

Once you've generated solutions, it's time to sort them out and make those decisions. As we mentioned way back at the beginning of the course, the decision we have to make is sometimes obvious through the problem definition and solution generation phases. Other times, we have to weigh out the solutions and decide what the best decision is for right now. Here are some additional considerations to think about as you select solutions.

Deciding on Wants/ Needs

Despite the work we put into defining a problem, and the effort it will take to implement decisions, sometimes the final debate is pretty close when we weigh it all out.

Consider these scenarios

- With all other things being equal (such as vacations, seniority, and responsibility level), would you decide to leave your job right now and take on a new one for a 5% increase in pay?

.Deciding what you need as opposed to what you want is an essential decision, especially if you are in a position to only get what you need.

The Cost Benefit Analysis

This is something that can be a driving factor in your decision. If you are making a business decision, it can also be the grounds for creating a business case to implement your decision.

A cost-benefit analysis (CBA) simply weighs out the cost of your decision in a way that is clear and easy for a reader to understand. Your integrity can rest on the completeness of your CBA. People sometimes leave elements out of a CBA in order to create a more favorable impression and to bias a reader deliberately. Usually, when readers find the missing pieces, the credibility of the CBA goes out the window — and so does your chance for change.

New Associate Members

S#	Name	Member#	S#	Name	Member#
1	Arshad Khan	APFA-6996	45	Abdus Sami	APFA-7040
2	Muhammad Abdul Majid	APFA-6997	46	Rana Muhammad Ehsan Ullah	APFA-7041
3	Talha Bin Aziz	APFA-6998	47	Muhammad Haseeb Ashraf	APFA-7042
4	Shafaqit Ali	APFA-6999	48	Muhammad Sayam Khan	APFA-7043
5	Radiha Achakzai	APFA-7000	49	Muhammad Naeem	APFA-7044
6	Omer Khayyam	APFA-7001	50	Naveed Abdullah	APFA-7045
7	Nabeel Tariq	APFA-7002	51	Abdul Qadir	APFA-7046
8	Muhammad Ishtiaque Khan	APFA-7003	52	Ramiz Iqbal	APFA-7047
9	Nabeel Manzoor Memon	APFA-7004	53	Syed Muhammad Azfar Zaidi	APFA-7048
10	Zaheer Ahmad Hashmi	APFA-7005	54	Syed Fawad Hussain	APFA-7049
11	Muhammad Ahmad	APFA-7006	55	Asif Shakut	APFA-7050
12	Aamer Hameed	APFA-7007	56	Hafiz Muhammad Amir Shahzad	APFA-7051
13	Iftikhar Ahmad	APFA-7008	57	Muhammad Naeem	APFA-7052
14	Mohammad Farhat Ullah	FPFA-7009	58	Najaf Abbas	APFA-7053
15	Usman Amjad	APFA-7010	59	Mohammad Faizan	APFA-7054
16	Salman Khan	APFA-7011	60	Syed Abdullah Bin Masood	APFA-7055
17	Omair Mushtaque Memon	APFA-7012	61	Muhammad Adal Pervez	APFA-7056
18	Ellahi Buksh	APFA-7013	62	Munazza Akram	FPFA-7057
19	Adeel Ansar	APFA-7014	63	Muhammad Fahad	APFA-7058
20	Ajmal Khan	APFA-7015	64	Naeem Ahmad	APFA-7059
21	Muhammad Munir	APFA-7016	65	Arshad Sultan Muhammad	APFA-7060
22	Navid Aslam	APFA-7017	66	Fawad Abbas	APFA-7061
23	Syed Nadeem Ahmed	APFA-7018	67	Usama Amjad Bhojani	APFA-7062
24	Jawad Baig	FPFA-7019	68	Muhammad Farhan	APFA-7063
25	Shakil Ahmed	APFA-7020	69	Muhammad Usman	APFA-7064
26	Mobeen Tariq	APFA-7021	70	Najeeb Ullah Khan	FPFA-7065
27	Salman Ghazanfar Cheema	APFA-7022	71	Muhammad Imran	APFA-7066
28	Arif Hussain	APFA-7023	72	Muhammad Mahmood	APFA-7067
29	Nawaz Ashraf	APFA-7024	73	Asif Saeed	APFA-7068
30	Saad Omer Rathore	APFA-7025	74	Amir Hanif	APFA-7069
31	Ali Raza	APFA-7026	75	Ausaf Ali	APFA-7070
32	Asad Saeed Ahmed	APFA-7027	76	Syed Shahid Hussain	APFA-7071
33	Muhammad Tayyab	APFA-7028	77	Rizwan Saeed	APFA-7072
34	Muhammad Ali Tariq	APFA-7029	78	Muhammad Farooq	APFA-7073
35	Bilal Ahmad Bin Khalid	APFA-7030	79	Ghalib Badar	APFA-7074
36	Hafiz Muhammad Bilal	APFA-7031	80	Toheed Ahmed	APFA-7075
37	Shahab Khan	APFA-7032	81	Adeel Arshad	APFA-7076
38	Abdul Wahab	APFA-7033	82	Murtaza	APFA-7077
39	Tajamal Hussain	APFA-7034	83	Muhammad Bilal Razzaq	APFA-7078
40	Talal Abdul Rauf Usmani	APFA-7035	84	Fariha Naz	APFA-7079
41	Abdul Hayee	APFA-7036	85	Muhammad Saad Zia	APFA-7080
42	Saud Bin Nauman	APFA-7037	86	Zeeshan Tariq Butt	APFA-7081
43	Sufyan Akram	APFA-7038	87	Hamza Ali	FPFA-7082
44	Aziz-Ur-Rehman	APFA-7039			

New Fellow Members

S#	Name	Member#	S#	Name	Member#
1	Muhammad Sarfraz Siddiq	FPFA-4864	13	Shiraz Afzal	FPFA-5233
2	Saif Ullah	FPFA-3915	14	Muhammad Rafiq	FPFA-4999
3	Hameed Noman	FPFA-4718	15	Abdul Majid	FPFA-5106
4	Adnan Khalid	FPFA-5118	16	Rana Ali Irfan	FPFA-4612
5	Irfan Habib	FPFA-4962	17	Saleem Ahmed Usmani	FPFA-3110
6	Muhammad Safdar Butt	FPFA-2534	18	Faisal Anwaar	FPFA-4889
7	Salman Yousaf	FPFA-4626	19	Mohammad Hamadullah	FPFA-4365
8	Imran Chapra	FPFA-3972	20	Mohammad Anees Khan	FPFA-5012
9	Faiz Ul Hassan	FPFA-4892	21	Faisal Anwaar	FPFA-4889
10	Mohammad Hamadullah	FPFA-4365	22	Mohammad Anees Khan	FPFA-5012
11	Tasneem Kamran	FPFA-5003	23	Zahid Saleem	FPFA-5122
12	Shahid Mahmood	FPFA-3800	24	Fahad Talal	FPFA-4632

IPSASB Publishes IPSAS 39, Employee Benefits

The International Public Sector Accounting Standards Board® (IPSASB®) has published IPSAS® 39, Employee Benefits, which will replace IPSAS 25, Employee Benefits, on January 1, 2018, with earlier adoption encouraged.

This limited-scope project was part of the IPSASB's strategy to maintain its existing standards, including updating them for relevant changes made to the equivalent International Financial Reporting Standards (IFRS). The main differences between IPSAS 39 and IPSAS 25 are:

- Removal of an option that allowed an entity to defer the recognition of changes in the net defined benefit liability (the "corridor approach");
- Introduction of the net interest approach for defined benefit plans;
- Amendment of certain disclosure requirements for defined benefit plans and multi-employer plans;
- Simplification of the requirements for contributions from employees or third parties to a defined benefit plan when those contributions are applied to a simple contributory plan that is linked to service; and
- Removal of the requirements for Composite Social Security Programs.

The first four changes above reflect those made by the International Accounting Standards Board to its equivalent standard, International Accounting Standard (IAS) 19, Employee Benefits, up to December 2015. The fifth change, removal of the Composite Social Security Programs section, reflects the IPSASB's conclusion that the section was unnecessary in practice.

Exposure Draft (ED) 59, Amendments to IPSAS 25, Employee Benefits, proposed significant changes to IPSAS 25 to converge with IAS 19. After considering constituents' responses and a revised version of IPSAS 25, the IPSASB decided to issue a new standard, IPSAS 39, which reflects the revisions proposed in ED 59 in a more user-friendly format.

"IPSAS 39, Employee Benefits, ensures that financial statements provide faithfully representative and relevant information about the financial impact of employee benefits, particularly defined benefit pension plans, while maintaining convergence with IFRS," said IPSASB Chair Ian Carruthers. "The issuance of a new standard is intended to present the new accounting requirements more clearly."

IAASB Releases Working Group Paper on Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements

The International Auditing and Assurance Standards Board (IAASB)'s Integrated Reporting Working Group, dedicated to exploring emerging forms of external reporting (referred to as EER), has released a Discussion Paper, Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements.

"The IAASB needs to be at the forefront of the debates on external reporting and how professional accountants and other practitioners can contribute to enhancing credibility and trust," said IAASB Chairman Prof. Arnold Schilder. "We hope this paper furthers the debate and helps us gain a deeper understanding of how the IAASB, as the global assurance standard setter, can contribute to the quality of different engagements, in the public interest, and where others can or need to play a role."

The Discussion Paper explores:

- the factors that can enhance credibility and trust, internally and externally, in relation to emerging forms of external reports;
- the types of professional services covered by the IAASB's international standards most relevant to these reports, in particular assurance engagements;
- the key challenges in relation to assurance engagements; and
- the type of guidance that might be helpful to support the quality of these assurance engagements.

The Discussion Paper also sets out the principal findings from research and outreach regarding developments in EER frameworks and professional services most relevant to EER reports, irrespective of whether such reports are part of the annual report or published as separate reports.

"External reporting is evolving and we know various professional services are being performed, including assurance engagements in accordance with the IAASB's international standards," said Merran Kelsall, IAASB member and Integrated Reporting Working Group Chair. "We have identified ten key challenges in relation to assurance engagements that we would like to explore further, recognizing the need for flexibility in these services as the external reporting environment continues to evolve and mature."

The Working Group is seeking input from investors, preparers, those in governance roles, standard setters, practitioners, internal auditors, regulators, academics, and other stakeholders in the external reporting supply chain. The input will assist the IAASB in effectively responding to these developments in the public interest, including whether new or revised international standards or guidance may be necessary.

The Working Group has also developed materials to supplement the Discussion Paper, including FAQs. This material, as well as more information and updates on the project, are available on the IAASB's project page at www.iaasb.org/auditing-assurance/projects/integrated-reporting-working-group.

Comments to the Discussion Paper are requested by December 15, 2016.

PIPFA Journal Invites You

Dear Valued Members/Students,

PIPFA Journal is the Official Publication of the Institute and is being published to keep abreast its members and students with the latest developments in Accounting Industry. We would welcome articles from our valued members and students for forthcoming issue on **"Accounting Profession and Corporate Social Responsibilities".**

Other Possible Categories:

- The Future of the World of Public Finance
- Corporate Governance Issues and Challenges
- Economic Recovery
- Cloud Based Accounting
- Risk Management & Internal Controls

Guidelines for Submission of Articles for PIPFA Journal

1. Articles must be focused in flow with the theme, passionate, compelling, developed gracefully, concrete, well suited for the readers and in compliance with ethical norms of the society.
2. Criticism on official policies of any Governments/Organizations will be discouraged.
3. If the article is based upon prior work of others; it is mandatory to quote references of websites and published articles.
4. Translation of a previously published article/paper is not permissible.
5. Articles should be simple with correct punctuation and grammar.
6. Article's words limit should not exceed 2000 words.
7. All articles shall be checked for plagiarism with the help of specialized software and tolerable limit shall not exceed 20%.
8. PIPFA will not publish any text/information which harms the image of the Institute and the nation.
9. Editorial Sub-Committee has the right to amend submitted article by dropping criticism and controversial statements or details as needed without the consent of the author.
10. The Publication & Seminar Committee reserves the right to accept, reject or moderate articles, written by the Author.

Kindly send us your articles on or before November 15, 2016 so that same can become a part of the PIPFA Journal.
Articles received after due date will be used for the successive volume upon approval of the Publication Committee. Members and Students are requested to send their articles at following email address at their earliest:

member@pipfa.org.pk

We are sincerely looking forward to receiving the articles.

Thank You
Member's Affairs Department

Seminar on "Post Budget 2016-17"

PIPFA Faisalabad Branch Committee in collaboration with ICAP & ICMAP arranged Seminar on "POST BUDGET 2016-17 " at Serena Hotel Faisalabad. The event was started by reciting few verses from Holy Quran by Mr. Ahmad Suleman, Member PIPFA Branch committee. Mr. Zeeshan Abid, Chairman ICAP CPD Committee welcomed the respected guests and members. The Guest Speaker Mr. Shaukat Amin, FCA delivered presentation on Direct Taxes and Mirza Munawar Hussain, FPFA, FCMA delivered presentation on Indirect Taxes.

The session was quite interactive wherein the both speakers responded to various questions raised by the audience. The Chief Guest Mr. Shad Muhammad, Chief Commissioner Income Tax Faisalabad expressed his views and encouraged the efforts of PIPFA, ICAP &ICMAP for arranging such a big event.

Mr. Asad Feroz, FCA presented vote of thanks to the Chief Guest, facilitator, members and guests. At the end shields were distributed to distinguished Chief Guest and Facilitators. The event was attended by more than 150 members & students of PIPFA, ICAP and ICMAP.


The News Education Expo

The News Education Expo is Pakistan's most credible and trustworthy higher education platform. For over a decade, the Expo has served as a unique platform to link prestigious local and foreign higher education institutes with the best of Pakistan's university and college going students. This is the largest education expo of Pakistan which aims to help institutes of higher learning reach a national cross section of students who have the qualifications and means to pursue education at home or abroad.

PIPFA participated in "The News Education Expo 2016" at Karachi, Islamabad, Lahore, Faisalabad and Multan to establish the accountancy profession as a career in the minds of our youth. Around 1500 visitors in total visited at PIPFA stalls and shown keen interest in PIPFA Education and its role in professional development for Corporate and Public Sector. Over short span of 23 years PIPFA has imparted quality education and produced around 7,000 qualified professional accountants who are working in all sectors and making significant contributions to business growth and economic development. PIPFA qualification provides abundant opportunities to its members and students in their pursuit of career development at very economical cost.

K A R A C H I

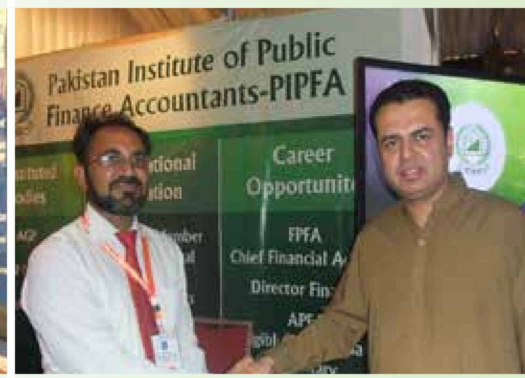


I S L A M A B A D



L A H O R E

F A I S A L A B A D



M U L T A N

GOOD NEWS FOR STUDENTS

1. **Gateway Examination:** PIPFA has launched "Gateway Examination" for ICAP and ICMAP students passed up to CA Inter/-Module-D/CAF & ICMAP Semester-4. Passing of this single Gateway Exam will result in direct PIPFA Qualification and eligibility for PIPFA Membership. For details please visit www.pipfa.org.pk.
2. **ICMAP Exemption:** Institute of Cost and Management Accountants of Pakistan (ICMAP) has revised its policy and started offering exemptions to our partly qualified students as well; which were previously available to only PIPFA qualified students.
3. **Extension in date of Exemption Claim:** To facilitate the students, date of exemption claim has been extended up to March 08 and September 08 for Summer and Winter sessions respectively.
4. **Discount in Coaching Exemption Fee for Remote Area:** Remote area student can now opt for Coaching Exemption by paying only 50% of Coaching Fee, which was previously 100%.
5. **Examination Appearance Policy:** As per new policy, students can now appear in any level subject to maximum of four papers in one sitting excluding exempted papers.

Seminar on "Provincial Laws on Sales Tax on Services"

PIPFA Faisalabad Branch Committee has organized an interactive CPD Seminar on "Provincial Laws on Sales Tax on Services"at Kohinoor Palace, Faisalabad. The training session was conducted by Mr. Muhammad Ijaz, FCA, LLB, Partner Huzaima Ikram & Ijaz & Co. The chief guest was President Faisalabad Tax Bar and Senior Partner RSM Avais Hyder Liaquat Noman & Co.CA Mr. Hamid Masood, FCA.

The session was started with recitation of Holy Quran & Naat Sharif by Hafiz Sultan. The honorable guests and members were welcomed by Mr. Ahmad Suleman Zahid-FPFA, member Faisalabad Branch Committee. The number of participants was more than 80, comprised of PIPFA members and students, ICAP, ICMAP and ACCA. The honorable speaker delivered the presentation and discussed the important changes made by the Provincial Government, through their Finance Act, in Sales Tax on Services Acts of Punjab, Sindh, KPK and Baluchistan.

All the participants were very encouraging and engaging and come up with very interesting queries. Ms. Sadia Yasmin, Convener PIPFA Faisalabad Branch Committee was honored to introduced eligibility criteria and fee structure of the GATEWAY examination policy. In the end the honorable Chief Guest Mr. Hamid Masood, FCA was requested to express his views about the seminar. He congratulated PIPFA Branch team for organizing such an informative seminar. Mr. Suleman Zahid Jamil, FPFA, FCA presented vote of thanks to chief guest, speaker, members, guests, PIPFA Branch Committee and the organizing team of PIPFA Faisalabad. The session was ended with the distribution of shield to the speakers and Chief Guest. In the end all guests and participants were served with Hi Tea.








Want to scale new heights? We can help you!

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PIPFA is offering convenient fast track to ICAP & ICMAP partly qualified students to opt PIPFA by passing its Gateway Examination.

The students of ICAP passed up to CA Inter/Module D/CAF and students of ICMAP passed up to Semester-4 are eligible for appearing in Gateway Examination.

Pakistan Institute of Public Finance Accountants

www.pipfa.org.pk/Exam_Gateway.aspx

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