

PIPFA JOURNAL

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Why PIPFA

PIPFA's Membership entails many advantages like:

- ★ Entitlement to use Designatory letters APFA or FPFA and distinction of membership.
- ★ Continuing professional development through publication, seminars, workshops etc.
- ★ Eligibility for chief financial officer or company secretary of listed company.
- ★ Entitlement for qualification pay etc. to PIPFA Public Sector qualified.
- ★ Opportunities to inter-act at the national level with elite accounting community.
- ★ Exemptions in examination of ICAP, ICMAP, CIMA-UK, ACCA etc.
- ★ Professional activities like election of representatives etc.
- ★ We are also pursuing Higher Education Commission of Pakistan to grant PIPFA qualified / members equal to B.Com Graduate.
- ★ Dealing also with Federal Board of Revenue (FBR), Pakistan to allow PIPFA members for Tax Practicing.

Salient features of PIPFA Qualifications:

- ★ On qualifying Final stage, one may apply for the management level jobs like Financial Advisor / Financial Officer.
- ★ Elevation in Auditor General of Pakistan for BPS-17 is possible after qualifying PIPFA.
- ★ Students may join Audit firms as Audit Trainee or internship in Financial Institutes / Organizations.

Views expressed here do not necessarily represent the official policy of the Institute

PAKISTAN INSTITUTE OF PUBLIC FINANCE ACCOUNTANTS

Constituted by:

The Auditor General of Pakistan (AGP),
The Institute of Chartered Accountants of Pakistan (ICAP),
and Institute of Cost & Management Accountants of Pakistan (ICMAP).

PIPFA is also an Associate Member of
International Federation of Accountants (IFAC).

Mission Statement

Identification, development and imparting
knowledge to provide a structure for the
training of accounting professionals
in the specialized areas

Messages

President's Message

Greetings to all of you!

It's my pleasure to serve Pakistan Institute of Public Finance Accountants (PIPFA) as President, I proudly present the 7th edition of Institute's official Journal. I have always appreciated all the contribution offered by the members/students.

Corporate social responsibility is not just doing appropriate thing as rather it produces direct and indirect business advantages and benefits to the corporations that adopt it. In synthesis the advantages and benefits that corporations achieving the initiatives of corporate social responsibility is produced by higher loyalty of customer; higher employee retention and loyalty; less litigation; higher quality of services and products; eliminating state regulation; supporting reputation and image of public and enhanced value of brand; less volatile value of stock and achieving legitimacy and access to markets.

Recently Securities Exchange Commission of Pakistan has granted approval for introducing Corporate Social Responsibility (CSR) guidelines for public companies. The guidelines shall be a significant step towards streamlining reporting requirements and corporate accountability of the CSR activities by public companies.

I wish you an optimistic future that is filled with creativity, achievements, and pride.

Sajid Hussain, FPFA, FCA



Chairman Publications & Seminar Committee's Message

I am very pleased to present before you the 7th edition of PIPFA Journal. A professional body's success can be gauged by the activity of its members and students; in this regard I feel we are highly blessed to have a very interactive and enthusiastic family of both members and students.

Today Corporate Social Responsibility has become an important cornerstone to organization's success which can no longer be ignored. The increasing public awareness and expectations of the stake holders have forced the organizations to move towards cleaner and more transparent reporting as well as move towards a challenging measure of corporate responsibility. Another important aspect which is as an integral part of an organization is internal audit, which when properly implemented, plays a key role in discovering control weaknesses and operational inefficiencies. This self-discovery of issues provides the organization the ability to take corrective action in order to maintain the safety, soundness, profitability and integrity.

To stay true to our mission of imparting knowledge to our members and students, we have initiated series of seminars, as part of Continued Professional Development program in different cities of Pakistan. We hope that the endeavor will bear fruits and assist the members and students in their professional development.

PIPFA Journal has always strived to focus on matters that are of great relevance to its members and students. For this reason we will not only focus on CSR & Internal Audit but also about the taxation amendments and financial news. I strongly encourage each of you to participate in our projects and attend PIPFA's events.

Sincerely

Adnan Zaman, FPFA, FCA



Corporate Contributions:

Altruistic and Profit Oriented

By: Amara Waheed, PIPFA Qualified

Corporate Social Responsibility:

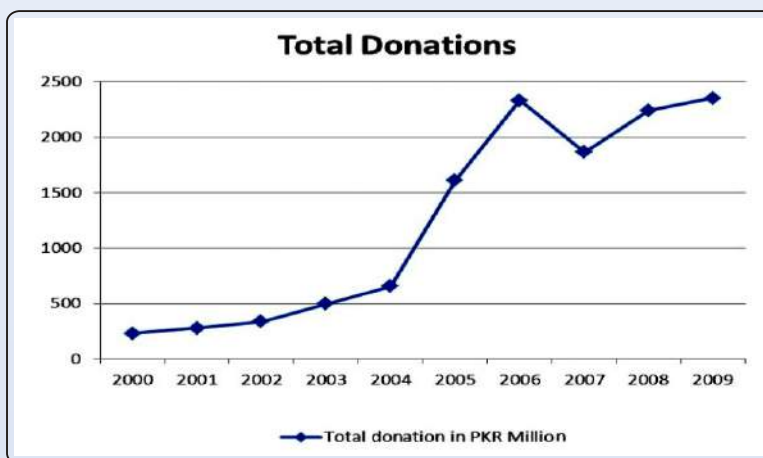
Corporate Social Responsibility (CSR) is defined differently by different researchers but the crux of all definitions is behavior of firms to serve community by alleviating poverty, fighting against diseases and protecting environment that is beyond its legal responsibilities. Business for Social Responsibility (1995), defined corporate social responsibility as "achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment."

The traditional view about CSR is managers have no right to spend shareholders wealth on CSR, as researchers found that it create agency problem. According to Friedman, managers are not qualified that how to spend on social activities so they must focused only on one goal that is wealth maximization for shareholders. But latest research in field of CSR provides that socially responsible behavior of firms can be used as advertisement tool to create moral capital. Firms with significant level of moral capital can retain good employees, augment their motivation level, attract investors and enhance the shareholders wealth by increasing sales revenues, profits, and market value of company (Godfrey, 2009; Fry, 1982; Rosenthal, 1985; Dominic 2010)

Corporate Philanthropy(CP):

While the notion of socially-responsible investing is often a vague and ill-defined

concept and therefore extremely difficult to quantify, there are never the less, a cluster of core issues which describe the practice. Among the most common issues are the following: environmental concerns, community relations, military contracts, nuclear energy, product quality, consumer relations, employee relations and philanthropy. However CSR as corporate Philanthropy is getting more famous with passage of time as it is measureable and visible and is more reliable measure of corporate social performance. Godfrey (2005) defines philanthropy as an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by entity acting other than as an owner, and claims that all rational managers should participate in philanthropic attitude because such activities benefit shareholders.



Source: Pakistan Center for Philanthropy



Corporate philanthropy plays its role in twofold:

Corporate giving, provide advantages to firm in the long run by developing its image in the eyes of those with whom the firm is connected so it work as insurance policy and preserve shareholders value in negative events. Philanthropic activities must be a part of strategic plan like other advertisement tool. Studies of Porter and Kramer (2006) provides that if philanthropic behavior of organization is unfocused then Friedman's view is right, that managers are not trained to participate in social activities and thus such activities would not benefit the organization. However, if the philanthropic behavior is part of strategic plan then it will be able to achieve financial or economic benefits for the organization. Moreover the results can be achieved by providing proper disclosure to these activities. Mohr (2001) explained that in order to achieve positive affect of CSR on consumer retention, consumers must be aware about CSR activities of firm.

On the other hand corporate philanthropy is helpful for community. In donating funds to social causes such as education, healthcare, culture, community and environment etc, firms are augmenting the welfare of societies beyond the goods and services they produce.

Corporate Philanthropy; global scenario:

Globally companies increasingly see corporate philanthropy

as a way to provide benefit to the communities where they are located. In return companies have actively sought business benefits from their philanthropy programs as well, specifically aiming to enhance their corporate reputation and brand which could help attract socially aware customers and ethical investors. In 2008, McKinsey & Company conducted a global survey of 721 corporations on the state of corporate philanthropy. More than 70 percent respondents reported that they were aiming to improve their corporate reputation and brand through philanthropy.

Corporate philanthropy; in Pakistan:

It is indeed heartening to know that in Pakistan the corporate sector is also embracing philanthropy. Pakistan center for Philanthropy (PCP) estimates indicate that corporate contributions have multiplied by more than 14 times over the last seven years. Such corporate giving can play their role in betterment of society as well as a reputational tool for organization.

According to the Human Development Report 2011 released by UNDP, Pakistan is among countries which are as the lowest in human development. Given this high level of social and economic deprivation, the positive role of corporations are crucial along with government. Following are recommendations to achieve efficiently twofold purpose of Corporate Philanthropy.

Recommendations:

- ✦ Firms must adopt a strategic approach to CP programs.
- ✦ McKinsey survey (2008) found that only 20 percent of senior executives believed that their corporate philanthropy is effective in achieving social goals. Therefore, institutions must adopt CP focus and communication strategy, such as through their annual reports and websites, for both internal and external stakeholders to give CP initiatives greater visibility among its internal and external stakeholders
- ✦ Institutions must need to put in place verifiable criteria for measuring and monitoring achievements of CP initiatives. The criteria must measure the impact on both dimensions of business performance and society's well-being.

Internal Audit: Exposure is Disclosure

By: *Rahim Zulfiqar Ali, PIPFA Student*

“Internal Auditors are an indispensable cornerstone of effective corporate governance, critical component to efficient and effective operations, and an invaluable contributor to an organization's system of internal controls.”

The very elementary question comes in our attention when we discuss about internal audit is "What do Internal Auditors do?" The internal auditor is often defined as the organization's critical friend the independent consultant who can challenge current practice, champion best practice and be a facilitator for improvement, with the objective of safeguarding that the organization as a whole can achieve its strategic objectives.

A successful and competent internal auditor must composed of Strong leadership skills, Exceptional technical skills, Excellent grasp of Risk and Control, Possesses unquestionable Ethics and Integrity & Must have "Guts". The challenges for internal audits are to balance operational needs with financial constraints, assessing the Effectiveness of the systems of Internal Controls & to prevent fraud and detection programs.

With passage of time and the push for best practices with new dimension in audit it's important to have healthier internal audit functions, the need for strong risk management and internal control monitoring. When designing an internal audit function, strategy must drive tactics, not the inverse.

The internal audit must compose of the following aspect for better outcomes:

- ✦ Define Stakeholder Expectations
- ✦ Articulate the Mission
- ✦ Develop a Formal Strategic Plan
- ✦ Assess Risks and Develop the Audit Plan
- ✦ Focus on Tactical Execution
- ✦ Launch Fieldwork As Soon As Possible
- ✦ Assess Needed Skill Sets
- ✦ Develop or Acquire Enabling Infrastructure,
- ✦ Methodology and Technologies
- ✦ Establish Communication Protocols
- ✦ Measure Results

Originality, innovation and research are now key's to our professional success. They must be the vision of all internal auditing functions.

What Next Generation Internal Audit Will Require

This evolution will require a fairly large shift in the constitution, skills, and activities of the internal audit team.

- ✦ Focus
- ✦ Timing
- ✦ Risk Universe
- ✦ Risk Assessment
- ✦ Audit Activities
- ✦ Workflow
- ✦ Talent

Internal Audit in Pakistan

According to the State Bank of Pakistan (SBP) The Internal Audit Department was established for the purpose of providing management and the Audit Committee of the State Bank of Pakistan Banking Services Corporation with reasonable assurance that the management control systems throughout the SBPBSC (Bank) are adequate and operating effectively. Internal Audit provides an independent and objective appraisal of activity for management and assuring them that risks are held at bay. The Internal Audit Department is expected to perform the following wide range of audit services including financial audits, compliance audits, operational audits, information technology audits, and consulting services.

Conclusion

Internal auditors often conduct sequences of meetings of senior management to identify potential actions. Changes in people, processes, or systems often generate audit project ideas. Various documents are reviewed, such as strategic plans, financial reports, consulting studies, etc. Further, the results of prior audits and resolution of open issues are considered. Internal audit has a great opportunity to make a superficial career in it. To meet the global standards of internal audit its requisite must be accomplished to follow the principles.



By: Muhammad Zubair Ikram, APFA

Ways to Earn Passive Income

Money has always been the primary driving force behind any economic activity. Every commodity, infact every item in this planet is evaluated on monetary terms. For some, it just provides the basic human needs while others maintain their luxurious life style by consuming this fortune. Its human nature to seek short-cuts and earning money is no exception. Being the primary exchange commodity, its acquisition requires hard work and commitment.

Normally there are two sources of earning financial income, namely, Salary Income and Business Income. Salaried employment generally requires high educational background, low investment and contains low risk. On the contrary, Business could be established with a low level of education. However, it normally requires initial investment and could be a risky venture. Other than these two traditional methods, a new concept of Passive Income is also gaining popularity in our South Asian community.

Passive Income basically refers to the income that requires minimum resources including time and effort. Passive Income is the income that we all should strive for during our retirement years as they don't require much effort but still enables us to obtain money for our day-to-day expenses. Although this trend is more matured and developed in Western Countries but developing nations, like Pakistan are also catching up with this concept. There are several ways to earn Passive Income and some of them have been briefly explained below.

Interest Income (Saving Accounts and Term Deposits):

One of the basic motives of keeping deposits with Banks, other than security, is to earn interest income. Banking Industry is very competitive and bargaining can help acquiring a good rate especially for the corporate customers. Although investment is blocked for a fixed tenure but it earns a periodic interest income.

Same is the case with Term Deposits which becomes a regular source of income against the deposited investment. Rate of return depends upon the investment and time period involved.

Investments (Stock Market/ Mutual Funds)

Stock Market is also a popular form of earning Passive Income. Although it is not everybody's ball game, since there is always a chance of loss. It requires Intelligent Speculation and patience. Investment in shares is rewarded in the form of Dividend, whenever the investee company makes profit. The trick is to buy stocks at a lower price and then wait for the prices to go up before selling it.

If someone cannot digest directly investing in the stock market or even in bonds, then Mutual Funds or other Trust Funds may be opted. These funds basically combine various investments (stock A plus stock B plus stock C) or investment vehicles (stock plus bonds). Of course, the returns depend on how well these investments perform but then, there

are advantages to investing in these funds. The amount of start-up investment is quite low, the holding period can be short, the risks are spread over various investments and investor can normally add on to the fund anytime you want.

Rental Income

According to Robert Kiyosaki (a famous American Businessman), this is one way to ensure big earnings and early retirement. Although it requires a major initial investment but it yields an everlasting return. From renting out a room in your home, to renting out apartments, or a building complex or even a condominium, this is one sure way to earn passive income. However, one has to take note that, prior and even during the time you are getting income from this, setting up the property to be rented and maintaining it in good condition are some of the things you will have to contend to.

Recruitment Agencies

This is an emerging concept where the Talent Acquisition Agency acting as a middleman, helps Organizations acquire the right employees within desired cost and time. These agents, sometimes called the Head Hunters identify and present the appropriate candidates, as per client's requirements. In return these agencies normally receive a regular payment till the continuation of contract of the employee. Talent Acquisition is an art which requires thorough research and evaluation of candidates. With time, more and more professionals are adopting this field as their primary career.

Insurance Premium

Customer acquisition and retention are both pretty hard working jobs, especially in a competitive industry like Insurance. If Insurance company is able to meet their objectives and satisfy its customers with the right customer retention strategy, a periodic annual premium is achieved.

Leasing Companies

Similar to the Rental Income, Leasing Companies earn periodic lease rentals from their customers while actively concentrating on the prospective customers. Heavy investment is required to procure these assets by the Leasing Companies and in return they yield interest accumulated in the rentals.

Sale of Softwares

Generic or even tailor-made softwares can be advertised and sold online. This requires minimum investment and time.

Sale of Books / items online

There are various websites where old / second hand books and items can be sold online. Buyers and Sellers directly interact and indulge in economic activity, eliminating the middleman.

The Philosophy of Islamic Economic Paradigm

— A Brief Overview

By Muhammad Mojlum Khan

Introduction

It would not be an exaggeration to say that over the last few decades, economics has received more attention from Muslim scholars, intellectuals and economists than any other subjects or disciplines. From Saudi Arabia to Pakistan, Britain to India and America to Malaysia, in almost every country today, it is not unusual to hear about seminars and conferences being organised on Islamic economics and, needless to say, essays and books on the subject are proliferating. As a matter of fact, Islamic economics has become so popular and influential today that it can no longer be ignored by anyone seriously interested in Islam {as a way of life} and Islamic studies {as a discipline}. What is more, a number of highly specialist centres (1) have been set up to carry out further research on the subject and numerous universities have also started teaching the subject at both undergraduate and postgraduate levels (2).

More significantly, however, numerous Islamic banks have also been set up which operate within the parameters of Islamic banking principles and consequently do not deal with *riba* {usury or interest} as such (3). And it seems these banks are being increasingly very popular. Hence it is not surprising that Islamic banks are mushrooming in Muslim countries like Saudi Arabia, Sudan, Iran, Pakistan, Bangladesh and Malaysia. Lately, Islamic economics and finance have also become very popular in the West. Therefore Islamic economics as an academic discipline on the one hand and, more importantly, as an alternative economic paradigm to the existing dominant Capitalist and not-so dominant Socialist systems on the other, has, in my opinion, been a run away success. Yet, axiomatically speaking, Islamic economics is still in its embryonic stage and further systematic research and original thinking would be needed if it is to succeed in providing an intellectually coherent and practically viable alternative to the existing economic paradigms.

The Islamic Economic Paradigm

Despite the success of Islamic finance and financial products, little is known about its theories and philosophies. What actually is Islamic economics, and what is/are its fundamental principles? I shall begin with the first part of this question.

Islamic Economics: A Matter of Definition

Attempting to define any concept or principle is certainly not an easy task and Islamic economic precepts and principles are no exception in this respect. Even the concept Islamic Economics poses tremendous definitional problems and as such has been variously defined by Islamic economists. According to M.A. Mannan, "Islamic economics is a social science which studies the economic problems of a people imbued with the values of Islam" (4) He, however adds

that his definition of Islamic economics is in stark contrast to the modern definition of economics which, generally speaking, is a "study of mankind in the ordinary business of life". M.A Khan, on the other hand, defines Islamic economics as the study of "the human *falah* (5) achieved by organising the resources of the earth on the basis of co-operation and participation" (6) Yet still, according to S.M Hasanuz Zaman, Islamic economics "is the knowledge and application of injunctions and rules of the Shariah that prevent injustice to human beings in the acquisition and enable them to perform their obligations to God and society". (7)

Although the above definitions of Islamic economics are distinct insofar as exposition is concerned, they are however strikingly similar in essence. And herein lies the uniqueness of Islamic economics, because its *maqasid* (goal) is one and the same, namely, attainment of both material prosperity and spiritual elation. However, recently S.N.H Naqvi has offered a radically different definition of Islamic economics. "Islamic economics is" he asserts, "about the representative Muslims behaviour in a typical Muslim society" (8) This definition is quite remarkable if not unique because it not only compliments but also extends the above definitions of Islamic economics in that it "focuses on a real-life Muslim economy as opposed to a utopian Islamic economy." (9) This is a significant development in the field of Islamic economics because such an approach apparently relates the dynamics of the ideal with the realities of contemporary Muslim societies. And such an approach, I



hasten to add, had been hitherto conspicuous by its absence in Islamic economic literature. In short, Islamic economics has been variously defined but in essence they mean the same thing, namely, attainment of *falah*, which according to M.A Khan's exposition means "prosperity for the individuals in this world and 'success' in the hereafter. 'Success' in this context means pleasure of the Lord, which will be bestowed on the obedient individuals." (10)

The Foundations of Islamic Economic Paradigm

All economic philosophies and paradigms have their own fundamental axes or underlying conceptual precepts, which form the theoretical foundation of those economic philosophies. Such conceptual precepts or fundamental axes are both necessary and indispensable because they not only serve as the theoretical foundation of those economic paradigms but concurrently carry the seal of their legitimacy. Above all, they ensure that the aims, objectives and the strategies of those economic paradigms are persistently pursued and actualised so that they bear fruits, namely, the attainment of material prosperity, social justice and human welfare in general. And in this respect, the Islamic economic paradigm is no exception. It has its own philosophical premises from which it derives legitimacy and, needless to say, its underlying aims, objectives and strategic framework.

However, the Islamic economic paradigm differs from all the existing economic orders in that the former's legitimacy is derived from an Infinite source rather than a finite source. That is to say that the Islamic economic paradigm is based on Divine source, as opposed to, both Capitalism and Socialism, which are ultimately the product of human formulation. Not surprisingly, one of the prime objectives of the former is the attainment of spiritual elation in addition to material prosperity, whereas such a spiritual dimension is conspicuous by its absence insofar as the latter are concerned. And this distinction is significant considering that man is not only composed of matter (material) but also spirit (spiritual). (11) Accordingly, human nature would require that attainment of material prosperity to go hand in hand with spiritual elation. And in this context, the Islamic economic paradigm appears to be in perfect harmony with human nature unlike both Capitalism and Socialism.

Having thus made the preliminary remarks and also pointed out the main difference between the Islamic economic paradigm on the one hand and the Capitalist Socialist economic paradigms on the other, I should like to further state here for the benefit of those who are not familiar with Islam that Islam is not only a religion in the modern connotation of the word, rather it is a comprehensive way of life and ideology on the one hand and a universal message and a dynamic worldview on the other. As the Holy Quran substantiates: "We have explained in detail in this Quran, for the benefit of mankind, every kind of similitude" (18:54). "We have put forth for man, in this Quran, every kind of parable, in order that they may receive admonition" (39:27). "And we have sent down to you the book explaining all things as a guide, mercy and glad-tidings to Muslims." (16:89) What then are the fundamental principles of the Islamic economic paradigm? Generally speaking, the Islamic scholars and economists are agreed that the three fundamental principles of the Islamic economic paradigm are, namely al-Tawhid or Divine Unity (I will refer to this as the Islamic concept of man) and al-Adl wa'l Ihsan or Social Justice/Equilibrium (12) (I will refer to this as Islamic way of life/Ideal Islamic society) (13) Now let us briefly explain them below.

The Theoretical Foundation of Islam

The concept of Tawhid or absolute monotheism is the cornerstone or fountainhead of Islam. The entire infrastructure of Islam, or in other words, the whole Islamic worldview and its strategic framework both emanate from and stand on this concept. In simple terms, Tawhid expresses the concept that there is no deity except God Almighty and that He alone is the Creator, Cherisher and Sustainer of the Universe. It also implies that none deserves to be worshipped and glorified apart from God. Consequently, an adherent of Islam is required to live his entire life in accordance with Tawhid and its underlying principles. Therefore Tawhid is not merely an abstract religious doctrine or a metaphysical concept but, on the contrary, it enumerates a comprehensive ideology and philosophy of life. In short, Tawhid stands for the Islamic worldview and strategy.

However, practically speaking, Tawhid or the theoretical foundation of Islam can be said to express itself at three levels, namely, the individual level, the socio-cultural level and politico-economic level. At an individual level man, according to Tawhid, must liberate himself from the worship, servitude and bondage of all things except God. That is, he is required to resign himself whole-heartedly to the will of his One and Only Creator. God created man and has instructed him to worship none save Him: "I have created only Jinn and man, that they may serve and worship Me." (51:56) "And they have been commanded no more than this: to worship (and serve) God, offering Him sincere devotion, being true to faith" (98:5) Thus Tawhid not only emancipates man from the worship and glorification of things other than Allah but also liberates him from the lure and temptations of his evil desires and instincts through Tazkiyah or self-purification a process which ensures that an individual is both physically and spiritually at ease with himself and his Lord, Almighty God. Therefore, at an individual level, Tawhid a truly revolutionary concept requires man to arise and fully liberate himself from all desires, lures and temptations of his inner self on the one hand and from the worship and glorification of false deities on the other, and instead surrender himself to the Will of Almighty God.

At the socio-cultural level, however, Tawhid seeks to emancipate man from all superimpositions of other men. That is to say that it requires the Tawhidic man to submit or surrender to anything in any form except God. Thus his moral and ethical value systems and principles of social interaction are all derived from that one and the same Infinite source. He accepts no other authority on these issues except that of God Almighty. As the Quran states: "His is the sovereignty of the heavens and the earth, and all affairs are referred back to God." (57:5) "Then We put thee on the right way of religion: so follow that way, and follow not the desires of those who not know." (45:18) And "it is not befitting for a believer, man or woman, when a matter has been decided by God and His messenger, he is indeed on a clearly wrong path" (33:36) Likewise, at the politico-economic level, Tawhid seeks to liberate man from the political oppression and economic Zulm or injustice of other men. Accordingly, the Tawhidic man is required not only to reject but also resist all forms of exploitation, domination and injustice, whether they happen to be political or economic in nature, and instead, strive to change the status quo and replace it with the Islamic politico-economic system. In short, the Tawhidic man strives to establish the Word of God in all spheres of his life, be it private or social, economic or political, spiritual or temporal.

Evidently, therefore, Tawhid in its entirety is a unique concept which not only is the theoretically axis of Islam but also the fountainhead of a dynamic and fully-fledged strategy. Interestingly, the concepts al-Khilafah and al-Adl wa'l Ihsan also directly emanate from the concept of Tawhid. For this reason, I shall enumerate these two concepts below because without a brief exposition of these concepts the philosophy of Islamic economic paradigm would be incomplete.

The Islamic Concept of Man

The Islamic concept of man is threefold. Firstly, man is God's creation. Secondly, he is God's Khilafah or representative on earth. And thirdly, he has been endowed with a free will and the capacity to reason, and therefore is accountable to Him alone. Let us briefly explain these points.

Man, according to the Holy Quran did not appear on this earth by coincidence or accident (21:16). On the contrary, he was deliberately created and fashioned in the best of moulds by the Lord of the Universe, Almighty God, for a specific purpose and mission. And what is that purpose and mission? The Holy Quran answers: "I have only created Jinn and Man, that they may serve and worship Me." (51:56) Thus God created man for his worship and servitude alone. But the Arabic word Ibadah as employed in the above verse denotes more than just worship and servitude to God. In this context, it also implies that man should, indeed, must strive to accomplish his mission in life, namely, to be a conscientious representative or Khalifah of God on earth. In the words of the Holy Quran: "It is He (God) who hath made you (His) agents, inheritors of the earth: He hath raised you in ranks, some above others: that He may try you in the gifts He hath given you; for thy Lord is quick in punishment: yet He is indeed oft-forgiving, most merciful" (61:65) (14)

However, in order to simplify matters further and facilities his task, God Almighty endowed man with both mental and spiritual characteristics to enable him to (if he so wishes) attain the summits of knowledge, wisdom and perfection. In addition to this, the bounteous Lord has also provided man with sufficient material resources for his use as he relentlessly thrives and strives to accomplish his sole purpose and mission in life, namely, to be His devotee and vicegerent on earth. For that is the *raison d'être* of the Islamic man. However, unlike the world of angels (Malaikah), God provided man with a free will or the freedom to choose as he wishes (39:18). Consequently, mankind, accordingly to the Holy Quran, is not a homogeneous body of infallible creatures (11:118). Rather, human beings are both autonomous and fallible creatures, and are also characteristically distinct from each other. Accordingly, each individual will be held solely responsible for his actions and he alone shall be summoned to account for his deeds on the Day of Reckoning. Although man has been given the freedom of choice to decide as to which path he would tread, he nonetheless, has been instructed to follow the path of Sirat al-Mustaqim or the Right Path as ordained by Almighty God, as opposed to the ways of Shaytan, which lead to nowhere but damnation. In short, man has been advised to follow the Divine path the path of success and prosperity.

The Islamic Way of Life

The quintessence of the Islamic way of life is the concepts of al-Adl

and al-Ihsan. In simple terms, al-Adl means 'justice' and al-Ihsan means 'goodness'. As the Holy Quran stated, "Verily God has enjoined justice (Adl) and goodness (Ihsan)." (16:90) Together, therefore, al-Adl wa'l Ihsan stand for a state of social justice/equilibrium (15) Explaining this further, S.N.H.Navqi states, "as a social ideal, the principle of Equilibrium provides for a complete description of all the virtues of the basic set of social institutions legal, political and economic" (16)

However, as a spiritual ideal, the principle of Equilibrium seeks to strike a balance between the life of this world and the significance of the hereafter. In other words, al-Adl wa'l Ihsan ensures that the ideal is always maintained, namely, the equilibrium between the life of this world and the significance of the hereafter. That is to say, al-Adl wa'l Ihsan maintains the equilibrium between "hedonism and spiritualism which characterises the Muttaqin's pattern of life" (17). So being the most honoured in the sight of God (49:13), a believer is required to fulfil all his needs, be they material or spiritual, proportionately because such balance in all spheres of ones life allows one to serve God Almighty most effectively on the one hand while satisfying ones worldly needs on the other. In short, the Islamic way of life is a balanced mode of life which when actualised creates a society that is not only strict in its observance of the Divine Paradigm (Shariah) but is also dynamic and prosperous the ideal Islamic Society! In economic terms, however, the Islamic man seeks to establish a society where social justice (Adl) and distributional equity (Qist) would prevail so that a section of the society does not discriminate and prosper at the expense of rest of the society.

As a matter of fact, an ideal Islamic society strives to abolish all forms of discrimination, prejudice, class differentiation and provide equal opportunity to all members of the society although, according to some Islamic thinkers, Islam does not envision absolute equality insofar as distribution of economic resources among individuals is concerned because, operationally speaking, this simply would not be feasible.

Conclusion

In this short article, I have firstly attempted to define what Islamic economics is. Secondly, I briefly explained the philosophical premises of Islamic economics/finance and how it differs from the Capitalist-Socialist economic paradigms. In essence my proposition is that Islamic economics essentially emanates from a Tawhidic view of human life and as such it represents a Muslims vision of how economic life of mankind should, indeed, must be conducted and organised. Islamic economics is a paradigm that fundamentally revolves around notions of justice and fairness. It is a humane system because it is God-centred. And God is humane and just.

Capitalism and Socialism are, by contrast, considered to be unjust and unfair ways of organising the economic life of mankind because one represents the interest of the few, while the other represents the interests of none. Their endeavours to solve the economic problems of the world have failed in both theory and practice. Islam can and must provide an alternative.

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The Standard for Today's Compilation Engagements

Highlighting the Value to SMPs and SMEs

As more and more smaller entities become exempt from audit requirements, small- and medium-sized practices (SMPs) will need to focus more on providing other services if their businesses are to survive and prosper. In addition, demand for non-audit services, in particular accounting and compilation services, is growing, as evidenced by the results of recent IFAC SMP Quick Polls.

Helping to meet the demands of this growing market is the release in March 2012 by the International Auditing and Assurance Standards Board (IAASB) of International Standard on Related Services (ISRS) 4410 (Revised), *Compilation Engagements*¹, effective for compilation reports dated on or after July 1, 2013. The IFAC SMP Committee monitored the development of the standard and submitted comment letters at all key stages, from project proposal through to the release of the final standard. The standard, set out in an easy-to-read format, with objectives, requirements, and application and other explanatory material, can be used by professional accountants in public practice for a wide range of engagements for which assurance on the reported information is not required.

Small- and medium-sized entities (SMEs) often turn to professional accountants in public practice to provide financial reporting expertise. Assistance with preparation of annual historical financial statements is one common example. But ISRS 4410 (Revised) also provides the necessary flexibility for the practitioner to tailor the nature of the engagement to meet other needs, for example, the preparation of financial information for use by external parties, such as bank lenders, grant funders, in connection with a change of ownership, or simply for internal use by management.

A compilation engagement is not an assurance engagement. While the practitioner applies accounting and financial reporting expertise to assist management with the preparation and presentation of financial information, the practitioner is not required to verify the completeness or accuracy of the information provided by management. However, users will often value the involvement of a professional accountant in compiling the financial information.

Let us look in more detail at some of the key features of the standard:

Scope of the Standard

The standard deals with the practitioner's responsibilities for conducting and reporting on the compilation engagement. The issuance of a report, in the format prescribed by the standard, is the primary means through which the practitioner's association with the compiled financial information is communicated. Recognizing that a practitioner's involvement in assisting management with financial information may take many forms, the standard also helpfully sets out considerations to help the practitioner determine whether its application is appropriate to the circumstances².

Selecting the Basis of Accounting

SMEs may face a variety of financial reporting demands. Therefore, flexibility to use an appropriate basis of accounting is needed when an accounting framework is not mandated. ISRS 4410 (Revised) allows for this, enabling practitioners to help clients select a framework that is appropriate for the users of the information.

The standard does not, however, permit an "anything goes" approach. In particular, the practitioner is required to have sufficient understanding of both the entity and the basis of accounting to advise the client if the selected basis of accounting is inappropriate for the engagement, and the compiled financial information cannot be misleading⁴.

Communication

There is a focus on communication throughout the standard: from the engagement letter setting out roles and responsibilities, to communication of all significant matters to management, to a clear and concise practitioner's report⁵. As with any engagement, effective communication is the key to success.

Financial reporting requires judgment. Management may benefit from the practitioner's assistance in making such judgments, for example, in determining estimates for inventory obsolescence. The standard requires the practitioner to discuss with management all significant judgments for which the practitioner has provided assistance in the course of the engagement⁶. This communication is essential and must include sufficient detail for management to be able to take full responsibility for the compiled financial information.

Ethical Requirements

The practitioner must comply with relevant ethical requirements, and these include not knowingly being associated with materially false or misleading information⁷. The requirement for the practitioner to understand the entity's business and operations and the basis of accounting sufficiently to perform the engagement speaks to that.

During the compilation, a practitioner may become aware that the records, documents, explanations, and other information, including significant judgments, are incomplete or inaccurate, in which case the practitioner is required to request additional or corrected information from management. Likewise, the practitioner may become aware of a material misstatement or an inadequate description of the basis of accounting in the compiled information, in which case the practitioner is required to recommend changes to management to rectify the situation. If in the rare circumstance management does not provide the additional information or agree to the change recommended, then the practitioner would have to resign from the engagement in order to avoid being associated with information known to be materially false or misleading. The

practitioner either completes the engagement satisfactorily or else the practitioner must resign.

Note that there is no requirement in ISRS 4410 (Revised) for a practitioner to be independent of the client, since the concept of independence related to non-assurance engagements is not addressed in the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants⁸.

Reporting

If a practitioner states compliance with ISRS 4410 (Revised), then a practitioner's report must accompany the compiled financial information to help users of the compiled financial information understand the nature of the engagement. The report required by ISRS 4410 (Revised) clearly identifies the compiled financial information, sets out the respective roles of management and the practitioner, and states that no assurance is being given.

Summary

With the growing demand for non-assurance services, ISRS 4410 (Revised) provides new opportunities for professional accountants in practice and their clients.

IFAC Resources

To learn more about the IFAC SMP Committee and access numerous SMP resources (all free of charge), visit the SMP area of the IFAC website: www.ifac.org/SMP

End-Notes:

1. See ISRS 4410 (Revised) at www.ifac.org/publications-resources/international-standard-related-services-isrs-4410-revised-compilation-engagem. Readers are strongly urged to refer to the standard while reading this article
2. 4410 (Revised), paragraph 3
3. 4410 (Revised), paragraph 28
4. 4410 (Revised), paragraph 34c
5. 4410 (Revised), Appendix 2 contains five illustrative reports.
6. 4410 (Revised), paragraph 30
7. 4410 (Revised), paragraph 21
8. See www.ifac.org/publications-resources/2012-handbook-code-ethics-professional-accountants

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Quotes

With faith, discipline and selfless devotion to duty, there is nothing worthwhile that you cannot achieve.

– Muhammad Ali Jinnah

Wealth consists not in having great possessions, but in having few wants.

– Epictetus

Our incomes are like our shoes; if too small, they gall and pinch us; but if too large, they cause us to stumble and to trip.

– John Locke

Money was never a big motivation for me, except as a way to keep score. The real excitement is playing the game.

– Donald Trump

I wasn't a financial pro, and I paid the price.

– Ruth Handler

As a novelist, I tell stories and people give me money. Then financial planners tell me stories and I give them money.

– Martin Cruz Smith

It's not your salary that makes you rich, it's your spending habits.

– Charles A. Jaffe

The Concept & Categories of Riba (Interest) and the Rationale for its Prohibition in the Islamic Economic Framework

By: Muhammad Aqib Ali, APFA

Riba literally means excess, increase or addition. It is in fact "any excess paid without due consideration". Islam prohibits Riba in all its forms and warns the ones who deal in interest in very severe terms. The Holy Quran informs those who involve themselves in interest to take notice of war from Allah and His Messenger (PBUH). [2:279] The Holy Prophet (PBUH) cursed the acceptor of interest and its payer, and one who records it, and the two witnesses, and said: "They are all equal." [Sahih Muslim 3881]

Riba commonly perceived as Interest or any charge imposed on money is a far broader term in its meaning. Interestingly, Riba not only applies to currency or exchange of money but also to the exchange of commodities or tangible items. Following are the two major categories of Riba or Interest which are thoroughly explained by Shariah and are strictly forbidden in an Islamic economy:

- ✦ Riba An-Nasiyah or Riba Al-Jahiliya or Riba Al-Quran.
- ✦ Riba Al-Fadl or Riba Al-Hadees.

Riba An Nasiyah

Interest which is explicitly forbidden in Holy Quran and therefore also termed as Riba Al-Quran. This is the category of interest that had been practiced for a long time before Islam, in the era of 'jahiliyyah', this is the reason why this is also called Riba-Al-Jahiliyyah. It is the same kind of Riba practiced today in all modern economies and economic structures around the world. It's actually the amount charged on the principal amount of money lent. The basis for the charging of Riba An-Nasiyah in all the modern economic structures is the very principle of 'time value of money'. According to this principle which originates from the concept of opportunity cost, it is purely justified for the lender/bank to receive excess amount over and above the principal because the funds they have lent could have been used for some other profitable purposes, so they are entitled to the interest or Riba, ethically & economically. However, the Islamic viewpoint is that opportunity cost alone cannot entitle the lender to receive extra amount above the principal because the lender is not sharing any risk with the borrower. If the risk is being shared, he will be entitled to charge the excess amount which shall fall in the category of profit rather than interest or Riba.

Riba Al-Fadl

The other type of interest that applies to the exchange of goods and commodities. It is actually an excess charged to homogeneous commodities when these are exchanged unequally. Also called Riba Al-Hadees as it was mentioned in the following hadith of Prophet Muhammad (PBUH): "Sell gold in exchange of equivalent gold, sell silver in exchange of equivalent

silver, sell dates in exchange of equivalent dates, sell wheat in exchange of equivalent wheat, sell salt in exchange of equivalent salt, sell barley in exchange of equivalent barley, but if a person transacts in excess, it will be Riba." Heterogeneous commodities can be exchanged in unequal proportion provided the sale is on the spot. Same rule applies to the exchange of currencies i.e. 'bai' surf.

Islam is the religion closest to nature and there is not even a single injunction in the whole Islamic faith that is contradictory to the laws of nature or that is illogical or without any rationality. Same is the case with Riba or interest. Today's global economic and financial system cannot be even imagined without the concept of Interest. Interest plays a pivotal role in the modern economic setup. Despite this bitter reality, not only Islam but all the other major religions consider interest as despicable. Islam strongly rejects any form or facet of Riba in any business and financial transaction. Islam not only prohibits Riba but provides thorough and logical *raison d'être* for its prohibition. Islam considers interest to be the greatest hurdle to achieve its ultimate economic goal of equitable distribution of resources. Interest paves the way for the rich and wealthy to accumulate more and more wealth, which not only adversely affects the whole economy but also lays the foundation for the socio-economic injustice in the society. The rich who already control the lion's share of economic resources in the society are given the opportunity to lend on Riba and pile on more and more money by charging interest. Besides this, they being the wealthy can afford to offer collateral to borrow from banks and other financial institutes where the savings come from all classes of society but only the upper strata of society benefit from it and exploit the lower sections of the social setup. Interest has proved to be the root-cause of problems like vicious circle of poverty, debt-trap for the developing countries, hyper-consumption and many other major economic predicaments. The recent global recession proves this point quite clearly. Interest is the chief reason of escalating money supply within the economies, without taking into consideration any tangible assets to back this increase in the money supply, which triggers inflation and speculation which ultimately results in economic instability. Interest promotes risk-free capital and is against the very principle of risk-sharing. It is unjust for the investor because the amount he gets is not based on the actual amount of profit and he only gets a small amount of fixed interest, and on the other hand, when entrepreneur suffers loss, he must repay the loan as well as the amount of interest which is a gross injustice to him as well. Interest is like a plague for a moral and just society and is the greatest barrier towards the attainment of overall goals of economic justice, socio-economic welfare and economic competitiveness.

Significant Amendments in Income Tax Law



By Wasful Hassan Siddiqi
B.COM., LL.B, FPFA, FITM, FICS, FCMA

– **Capital Gain on Disposal Section 37(1A) of Immovable Property**

Tax at 5 to 10% on capital gain on disposal of immovable property held upto two years.

– **Capital Gain on Listed Securities** **Section 37A, 100B & 233AA**

Eighth Schedule for taxation of capital gain on listed securities introduced.

– **Collection and Deposit Capital Gain Tax from Investors by NCCPL** **Finance Bill, 2012 (Presidential Ordinance, dt. Apr 24, 2012)**

NCCPL authorized to collect and deposit tax from investors on account of capital gain.

– **No Questions asked for Investment in Stock Exchanges** **Finance Bill, 2012 (Presidential Ordinance, dt. Apr 24, 2012)**

No questions asked about nature and source of investment in stock exchanges if certain conditions fulfilled.

– **Tax Rate on Capital Gain Frozen** **Finance Bill, 2012 (Presidential Ordinance, dt. Apr 24, 2012)**

Tax rate on capital gain frozen upto tax year 2014.

– **Limits for Allowing Tax Credits on Account of Investment in Shares and Life Insurance** **Section 62**

Limits for allowing tax credits on account of investment in shares and life insurance premium enhanced. The holding period of shares reduced to twenty four months.

– **Concessional Employer Loan** **Section 13(7)**

Free or Concessional employer loan upto Rs. 500,000/- not to attract notional taxation of benefit.

– **Bench Mark Rate Concessional Loan** **Section 13(14)**

Bench mark rate for calculating benefit on free or concessional loan to employees fixed at 10%.

– **Minimum Tax** **Section 113**

Tax credit under Section 65B, 65D and 65E allowable against minimum tax and final tax.

– **Investment made for BMR** **Section 65(B)**

Investment made for BMR during July 2011 to June 2016 allowed tax credit at the rate of 20% and shall be available for adjustment upto five years.

– **Tax Credit for Newly Established Industrial Undertaking** **Section 65(D)**

Tax credit under Section 65D for newly established industrial undertaking set up with 100% equity allowable against minimum tax and final tax.

– **Corporate Dairy Farming also Eligible to Tax Credit** **Section 65(D) & 65(E)**

Undertakings engaged in corporate dairy farming also eligible to tax credit under Section 65D and 65E.

– **Total Income Harmonized** **Section 9, 10 & 53**

Scope of total income harmonized to include exempt income within its ambit. However, exempt income continues not to be a part of taxable income.

– **Set Off and Carry Forward Losses** **Section 59(A)**

The redundant provisions of Section 59A of the Ordinance relating to set off and carry forward losses by members of a professional firm are suggested to be deleted.

– **Cash Withdrawal from Banks** **Section 231(A)**

Monetary threshold of cash withdrawal from banks enhanced from PKR 25,000 to PKR 50,000.

– **Delayed Refund** **Section 39**

Compensation for delayed refund allowable at the rate of 15%. Declared to be taxable as "income from other sources".

– **Default Surcharge** **Section 205(1), (1A) (1B) & (3)**

Rate of default surcharge fixed at 18%.

– **Waiver from Default Surcharge** **Section 205**

Waiver from default surcharge if tax demand is paid after the appeal is decided by the Commissioner (Appeals) and no second appeal is preferred.

– **Dividends Received by Banks from Money Market Funds** **Rule 6 of Seventh Schedule**

Dividends received by banks from money market funds and income funds taxed at the rate of 25% in tax year 2013 and at the rate of 35% in subsequent years.

– **Tax Payer Honour Card** **Section 181(B)**

Tax payer honour card for individual tax payers introduced.

– **Pakistan Source Income** **Section 101(6)**

Remittance of after tax profit by a branch of a foreign company now defined to be Pakistan source income.

– **Revision of Return not Permitted** **Section 114**

Revision of return not permitted if income is revised downwards.

– **Original or Revised Assessment** **Section 121**

Original or revised assessment has no legal consequence for best judgment assessment.

– **Grant a Stay of Demand by Commissioner (Appeals)** **Section 128**

Commissioner (Appeals) can now grant a stay of demand for a maximum period of 30 days.

– **Grant a Stay of Demand by ATIR** **Section 131**

ATIR can now grant a stay of demand for a maximum period of 180 days.

– **Tax Due under a Provisional Assessment** **Section 137**

Tax due under a provisional assessment may be paid prior to the expiry of 60 days.

Tax Rates

First Schedule

Tax Rates for Association of Persons and Non-salaried Individuals

[Clauses (1) and (1B) of Division I of Part I of First Schedule]

S.No.	Taxable Income	Rate of tax
1.	Where taxable income does not exceed Rs 400,000	0%
2.	Where the taxable income exceeds Rs 400,000 but does not exceed Rs 750,000	10% of the amount exceeding Rs 400,000
3.	Where the taxable income exceeds Rs 750,000 but does not exceed Rs 1,500,000	Rs 35,000 + 15% of the amount exceeding Rs 750,000
4.	Where the taxable income exceeds Rs 1,500,000 but does not exceed Rs 2,500,000	Rs 147,500 + 20% of the amount exceeding Rs 1,500,000
5.	Where the taxable income exceeds Rs 2,500,000	Rs 347,500 + 25% of the amount exceeding Rs 2,500,000

The aforesaid rates, henceforth, would be applicable to both individuals [taxable income other than salary, FTR and fixed tax regime] and AOPs. Consequently, the Bill also proposes to delete the single rate of 25 per cent on taxable income currently applicable to AOPs. The significant changes, apart from variation in rates, are:

- Basic exemption is proposed to be increased from Rs 350,000 per annum to Rs 400,000 per annum; and
- Henceforth, the tax liability would be determined on progressive basis as against the currently applicable basis whereby tax is levied at a flat rate.

Tax Rates for Salaried Individuals

[Clause (1A) of Division I of Part I of the First Schedule]

S.No.	Taxable Income	Rate of tax
1.	Where the taxable income does not exceed Rs 400,000	0%

2.	Where the taxable income exceeds Rs 400,000 but does not exceed Rs 750,000	5% of the amount exceeding Rs 400,000
3.	Where the taxable income exceeds Rs 750,000 but does not exceed Rs 1,500,000	Rs 17,500 + 10% of the amount exceeding Rs 750,000
4.	Where the taxable income exceeds Rs 1,500,000 but does not exceed Rs 2,000,000	Rs 95,000 + 15% of the amount exceeding Rs 1,500,000
5.	Where the taxable income exceeds Rs 2,000,000 but does not exceed Rs 2,500,000	Rs 175,000 + 17.5% of the amount exceeding Rs 2,000,000
6.	Where the taxable income exceeds Rs 2,500,000	Rs 420,000 + 20% of the amount exceeding Rs 2,500,000

The significant changes, apart from variation in rates, are:

- The basic exemption is proposed to be increased from Rs 350,000 per annum to Rs 400,000 per annum;
- There would only be five slabs as against seventeen slabs currently provided for;
- The tax liability would be determined on progressive basis as against on the basis of flat rate under the currently applicable provisions;
- The highest rate of 20 per cent would apply on income exceeding Rs 2,500,000 per annum, whereas, this rate currently applies to income exceeding Rs 4,550,000 per annum.

Although the provisions of 'marginal relief' would continue to apply on individuals deriving income from salary, however, because of the progressive slab rates, the same should not have any significant impact.

Tax on Retailers and Minimum Tax in other Cases

[Division IA of Part I of the First Schedule]

In case of individual and AOP operating as retailer tax liability is determined under FTR at the rate of 0.50 per cent as against of last year.

Tax on Motor Vehicles

[Divisions III and VII of Part IV of First Schedule]

Types of vehicle	Old rate	New rate
Goods transport vehicle	Re 1 per kilogram of laden weight	Rs 5 per kilogram of laden weight
Passenger transport vehicle with seating capacity of 20 persons or more	Rs 100 per seat per annum	Rs 500 per seat per annum

No change has been proposed in any other category or basis of taxation.

The Bill also proposes to increase advance tax for Rs 16,875 to Rs 25,000 collectable by motor vehicle registration authority of Excise and Taxation Department at the time of registration of new locally manufactured motor vehicle. This continues to remain advance tax adjustable against any other tax liability.

News Update

State Bank of Pakistan (SBP)

Pakistan not facing any risk in making IMF repayments: SBP Governor

The Governor, State Bank of Pakistan, Mr. Yaseen Anwar has said that Pakistan will not face any risk in making repayments to the International Monetary Fund (IMF).

'We face no risk in being able to make next year's IMF payments from our adequate reserves,' he said in a rebuttal to a story published in the Wall Street Journal (WSJ) on May 29, 2012.

In his letter, published in the WSJ, he clarified that the decline in our projected reserves will be partially offset by an increase in remittances which will exceed \$13 billion this fiscal year, and additional foreign direct investment in the pipeline that includes U.S. company investments in the power sector.

He said that the entry of new foreign banks, increased small- and medium-size enterprise lending to increase employment, huge potential for the agriculture sector and the export potential for dairy products as the fourth largest milk producer in the world, and the development of capital markets to support housing finance are the positive developments in the country's economy.

He pointed out that Pakistan's current banking restructuring and our successful branchless banking strategy is bringing the "unbanked" into the banking sector to increase financial inclusion. The State Bank of Pakistan had stated that gross domestic product is expected to be closer to 4% this year than the 3% as reported by WSJ, he explained.

'It would have been nice to see a more positive light on these factors which will, in my view, be a positive toward alleviating the manageable stresses going forward. I see the glass half full and am optimistic about the year ahead,' the Governor's letter to WSJ said and added: 'The article "Pakistan Bank Sees Financial Challenges" (World News, May 29) doesn't fully reflect the economic story I conveyed in my interview with the Journal.'

Separately, he said that despite economic challenges, Pakistan is not facing a situation which requires emergency external assistance. The fiscal deficit and the lack of external financing will continue to challenge Pakistan, especially the central bank, he said.

'Let me assure you that Pakistan will not stumble into a situation that requires emergency external assistance,' he added.

Dispelling the impression created by some foreign and local media reports regarding pressures on the country's foreign exchange reserves and exchange rate, the SBP Governor said: 'It will be challenging, but manageable.' He pointed out that like most other central banks, SBP only undertakes calibrated interventions to diffuse volatility as appropriate. In recent weeks, the movement in the exchange rate has been somewhat to sentiment driven compounded by lumping up of some scheduled payments, rather than any excessive demand & supply mismatches prevailing in the market. 'The State Bank is watching the situation closely and the recent exchange rate movements have been excessive with the market overreacting,' SBP Governor added.

He said that during the first ten months of FY 2011/12, remittances from overseas Pakistanis rose by 20.2% to \$ 10.88 billion, which helped the Balance of Payments (BoP) despite widening of the trade deficit.

Pakistan's fiscal challenges are well known and documented, he said, adding that this spillover to the rest of the economy is equally clear. He explained that at the start of the year (July 2011), external conditions appeared daunting due to rising oil prices and lack of external financing. Despite all odds, Pakistan has fared well in the first eleven months of the current FY with not only successfully paying back IMF obligations to the tune of \$ 1.2 billion and other Debt obligations equaling \$ 1.7 billion to date, yet SBP's Liquid Reserves are at stable levels of around \$ 11.5 billion, much better and contrary to most analysts' earlier assessment at the beginning of the fiscal year. Despite domestic challenges, key emerging market countries (China and Turkey) have shown keen interest in opening bank branches in Pakistan, he said, adding that unlike European Union (EU), Pakistan's banking system has been very resilient, profitable and robust.

As stated to the Wall Street Journal and repeated, 'I see the glass half full and am optimistic about the year ahead as Pakistan's economy is projected to grow 4.3 percent in the next fiscal year (FY13),' the SBP Governor added.

Pakistan's Economic Performance is Notable Despite Challenges: SBP Third Quarterly Report

'The economic growth of 3.7 percent during FY12 is higher than the 3.0 percent realized in the previous year, but less than the target of 4.2 percent. Nevertheless, this performance is notable, given the considerable damage to the cotton crop due to floods in August 2011; ongoing energy shortages; the rise in international oil prices; and security concerns,' the State Bank said in its Third Quarterly Report for the fiscal year 2011-12 on the State of the Economy released.

The Report said that this growth has also been more broad-based with a larger contribution from the commodity producing sectors compared to FY11. Moreover, as in the past, growth has been driven by domestic consumption (both private and public), which was partially offset by a decline in domestic investment and external demand, the Report said and added that the continuous decline in investment since the macro instability in 2008, is a source of growing concern as it will stifle the long term growth of the economy.

It observed that although Pakistan's economy has shown some recovery in terms of GDP growth, the key macro indicators still remain weak. Persistent inflation and pressure on the fiscal and current accounts, remain the key challenges for the economy, it added.

SBP Report said that while low investment and energy shortages have direct growth implications, the persistently high fiscal deficit remains a major risk to the macro-economy. Current information suggests a budget deficit of 4.3 percent of GDP for Jul-Mar FY12, and it appears that the budgetary gap for the full year will exceed the revised target of 4.7 percent, it said, adding that overall revenues are lower than expected.

Though the growth in current expenditure is lower compared to the previous year, the government has enhanced its development spending, it said and added: 'While such spending should improve the country's long-term growth prospects, this also creates financing pressures.' At the same time, despite efforts to reform public sector enterprises (PSEs), the operational efficiency of key PSEs has not improved, it said, adding that this continues to add to the country's fiscal burden.

The Report said that in terms of financing this gap, the government relied more on domestic sources as external financing dried up. The government borrowed Rs 847.5 billion in Jul-Mar FY12 from

domestic sources; compared to Rs 700.1 billion in the corresponding period of FY11, it said and added that lately, this has been increasingly skewed towards borrowing from the central bank.

'Such borrowing is inflationary and a risk to macro-stability. Currently, two Acts namely the Fiscal Responsibility and Debt Limitation (FRDL) Act (2005) and the newly amended SBP Act provide guidelines on overall debt stocks and borrowing from the central bank, respectively,' the Report said.

The Report said that the large fiscal deficit has resulted in a sharp increase in Pakistan's debt. It said that Government domestic debt recorded an increase of Rs 1.2 trillion during Jul-Mar 2012 to reach Rs 7.2 trillion. There is greater reliance on short term borrowing, which is creating liquidity management problems for the central bank, and rollover and interest rate risks for the government, it added.

It said that with the government's growing appetite for funding, banks have little incentive to finance the private sector. At the same time, demand for private sector credit is likely to be dampened this year, as loans to private businesses increased by only 1.8 percent in Jul-Mar FY12 the lowest growth rate in the past 10 years, it said, adding that the slowdown is concentrated in working capital and trade financing. 'However, there are indications that fixed investment loans have bottomed out,' it added.

Developments in Q3-FY12 in external sector were less adverse than we had expected, the SBP Report said, adding that larger inflows of remittances and a lower trade deficit, explain this relative improvement. The current account deficit during Jul-Mar FY12 was US\$ 3.1 billion, compared to a deficit of US\$ 10.0 million in the corresponding period last year, it said, adding that more importantly, the expected inflows under Coalition Support Fund (CSF); the auction of 3G licenses; and arrears from PTCL privatization, did not materialize during the quarter.

While these challenges will continue to shape the outlook for the economy, it is important that GDP data should reflect the changing nature and composition of the country's economic activities, the Report said, and added that Pakistan Bureau of Statistics (PBS) is already in the process of rebasing the national income accounts. 'We expect that PBS would also consider releasing GDP estimates on a quarterly basis, which is now a norm in emerging markets. It will help get a more accurate and timely picture of the real economy, which will allow for more proactive policy corrections,' the Report added.

Federal Board of Revenue (FBR)

FBR Launches Facilitation E-mail Service for Taxpayers

FBR sets yet another milestone in taxpayer facilitation by introducing automated information system for taxpayers to discharge their tax liabilities more conveniently. The initiative was taken by FBR's Facilitation and Taxpayer Education Wing, headed by a Senior Member, Ms. Riffat Shaheen Qazi. The project was successfully launched today by Chairman, FBR, Mr. Mumtaz Haider

Rizvi with a click of a computer button in a simple launching ceremony held at the office of Member FATE, FBR.

First batch of facilitation e-mails were sent to 1,028 taxpayers, which will be sent over the next 24 hours to about 200,000 taxpayers whose e-mails are registered with FBR. Following this first regular e-mail from FBR's FATE Wing, FBR will now continue to send e-mail messages to taxpayers to remind them of upcoming deadlines on tax payments, changes in taxation law and procedures, and other

useful information for helping them in their tax matters. These e-mails however, do not replace the statutory responsibility of paying taxes, that lies under statutes, with the taxpayer.

FBR has distinct e-mail addresses of about 281,241 taxpayers who will be sent these e-mails, and subsequently this facility will be extended to more taxpayers, the Chambers of Commerce and Industry across Pakistan were amongst the first recipients of this e-mail service, said Rifat Shaheen Qazi, Member-FATE / FBR's Spokesperson, on the occasion of the launching ceremony.

Earlier, Chairman, FBR, Mumtaz Haider Rizvi, while talking on the occasion, stressed on the service delivery role of FBR and how this should facilitate the enforcement efforts of FBR. More e-mails are expected to follow as FBR plans to educate and remind the taxpayers on tax deadlines and other new initiatives to join hands with FBR to contribute in a common goal of strengthening the national economy.

ICAP supports FBR on Broadening of Tax Base via SRO 191

Chairman FBR Mr. Mumtaz Haider Rizvi visited the Institute of Chartered Accountants of Pakistan (ICAP), Karachi today on a special invitation to meet ICAP's President, officials and the Institute's Committee on Taxation. President ICAP, Mr. Rashid Rahman Mir, welcomed the Chairman.

The Chairman Committee on Taxation, Mr. Saqib Masood, gave a presentation on the tax proposals submitted by the Institute to the FBR and the Government for consideration for the Federal Budget 2012-13.

He said that focus should be to broaden the tax base, instead of increasing the tax rate. Amnesty schemes and fixed tax regime should be abolished, as these have proved to be counter-productive. Relevant laws should be amended to enable FBR to relate CNIC numbers when people buy and sell property and vehicle, make air travel, pay utility bills, schools fee and club subscriptions. These CNIC number may then be matched with NTN numbers by the department. Appropriate check and balances should be introduced for foreign remittances, so that these may not be used to whiten money.

Mr. Saqib Masood emphasized the need to reduce the corporate tax rate to inculcate corporatization culture in the country. He also suggested that export of goods and services should be equated.

The Chairman FBR apprised the participants of the various measures taken by the tax department to reduce taxpayers' difficulties and to ease tax compliances. He lauded the role of ICAP in enhancing taxpayers' awareness and thanked the President ICAP and his team for the tax proposals furnished by the Institute. He further appreciated the recommendations made by the Institute and assured that due consideration will be given to the proposals submitted by ICAP.

During the discussion ICAP supported FBR over Broadening of Tax Base, documentation of economy through SRO 191, reduction of duties and taxes on manufacturing and industrial sectors and addressing anomalies in direct and indirect tax laws.

The Chairman FBR was accompanied by FBR's Member (IR) Mr. Shahid Hussain Asad and Chief Commissioners of LTU and RTOs Karachi.

International Federation of Accountants (IFAC)

Invitation to Comment: Improving the Auditor's Report

The IAASB has unanimously approved and released a milestone consultation document in its work to enhance, on a global basis, the communicative value of the auditor's report on financial statements. The IAASB's *Invitation to Comment (ITC): Improving the Auditor's Report* sets out the indicative direction of the board's future standard-setting proposals to improve how and what auditors report in accordance with International Standards on Auditing (ISAs).

The ITC features a revised auditor's report that illustrates the application of the IAASB's suggested improvements. It also provides the IAASB's rationale for the suggested improvements, together with a discussion of their potential value and impediments, and in what areas feedback is sought. The ITC will be open for public comment through October 8, 2012. The At a Glance publication provides an overview of the ITC.

The IAASB chairman, Arnold Schilder, and deputy chair Dan Montgomery were featured in the *Wall Street Journal's CFO Report*, where they discussed the IAASB's project.

The IAASB approved the Invitation to Comment at the June 2012 meeting. Further information on the project, including a schedule of future round table meetings and a brief podcast on meeting outcomes, can be found at the IAASB's Auditor Reporting page.

IAASB 2012-2014 Strategy and Work Program Sets Auditor Reporting as Top Priority and Highlights Other Relevant Audit and Assurance Initiatives

The International Auditing and Assurance Standards Board (IAASB) released its *Strategy and Work Program, 2012-2014*. Developed through wide public consultation, it sets the direction and priorities for the IAASB's activities over the next three years with a focus on:

- ✦ Supporting global financial stability;
- ✦ Enhancing the role, relevance, and quality of assurance and related services in today's evolving world; and
- ✦ Facilitating adoption and implementation of the IAASB's standards.

"Our forward strategy is to build on the strong base of standards that has been developed to date, to address new assurance topics, and

to further promote the benefits of the International Standards on Auditing (ISAs) and our other international standards," said Prof. Arnold Schilder, IAASB chairman. "The IAASB is constantly challenged to respond to growing demands from a diverse range of stakeholders in a continuously changing international environment. The areas addressed in our strategy are those we have heard to be the most important in the public interest, in particular our work on auditor reporting."

As the main priority for 2012-2014, the IAASB's Strategy and Work Program identifies the enhancement of auditor reporting standards, a topic that the IAASB will again deliberate intensively at its June 2012 meeting in Edinburgh. The strategy is in keeping with the IAASB's commitment to continue work on a number of its key initiatives related to audit quality, disclosures, review engagements, and assurance engagements, including assurance on greenhouse gas statements. In addition, the IAASB will continue to monitor the adoption and implementation of ISAs globally and focus on standards and initiatives relevant to small- and medium-sized entities. It will also explore appropriate actions stemming from the global financial crisis relating to banking and fair values.

"Constructive dialogue and collaboration with others will be critical to identifying areas for innovation and improvement and to finding solutions to global issues, both now and in the future," explained James Gunn, IAASB technical director. "The IAASB also recognizes its responsibility to identify matters within its mandate that have significant longer-term implications and to ensure that assurance and related services are relevant and responsive to the public interest, for example in emerging areas like integrated reporting. I am confident that the IAASB's strategy and planned initiatives will assist it in fulfilling this responsibility."

For additional information on the IAASB's current projects and the current project timetable, visit the IAASB's project pages on its website.

IAASB Releases New Global Standard on Assurance on Greenhouse Gas Statements Acknowledges Importance of Public Confidence in Credibility of Emissions Reporting

The International Auditing and Assurance Standards Board (IAASB) released new International Standard on Assurance Engagements (ISAE) 3410, **Assurance Engagements on Greenhouse Gas (GHG) Statements**. This new standard addresses an increasingly relevant global assurance service in support of reliable emissions reporting, whether for regulatory compliance purposes or undertaken on a voluntary basis to inform investors, consumers, and others.

"Today, there is clear and growing demand for companies to disclose their environmental impacts and initiatives and to report detailed emissions information, often through GHG statements. As this demand increases, public confidence in assured GHG emissions information becomes more significant, if not essential," said Prof. Arnold Schilder, IAASB chairman. "In promulgating this new standard, the IAASB seeks to enhance the consistency and quality of assurance engagements on GHG information, recognizing the importance to the public interest of

decisions being made on the basis of that information."

New ISAE 3410 addresses practitioners' responsibilities in identifying, assessing, and responding to risks of material misstatement when engaged to report on GHG statements. It sets out requirements and guidance on the work effort and reporting responsibilities of practitioners for both reasonable and limited assurance engagements, as demand for both is increasingly evident in the marketplace. The ISAE is applicable to a broad range of situations, from emissions from electricity used at a single office, to emissions from complex physical or chemical processes at several facilities across a supply chain.

"ISAE 3410 is a landmark standard in many respects," noted James Gunn, IAASB technical director. "It responds to societal demands for standards that support quality in assurance services in areas other than financial reporting. It deals with engagements that largely need to be undertaken by a multidisciplinary team, where the assurance practitioner needs to integrate expertise in engineering or environmental science, for example into various stages of the engagement. Notably, it also covers reporting for both reasonable and limited assurance engagements. It provides illustrative reports with features that distinguish for readers the difference between reasonable and limited assurance engagements, and shows how limited assurance reports may be further tailored to enhance users' understanding of the assurance obtained."

IAESB Releases Clarified Standard on Continuing Professional Development

The International Accounting Education Standards Board (IAESB) released the clarified **International Education Standard (IES) 7, Continuing Professional Development**.

IES 7 prescribes continuing professional development (CPD) for professional accountants to develop and maintain their professional competence so as to provide high-quality services to clients, employers, and other stakeholders. Professional accountants who develop and maintain professional competence throughout their careers strengthen public trust in the profession.

"The IAESB would like to encourage a more innovative approach to meeting CPD needs," said Prof. Peter Wolnizer, chair of IAESB. "We believe we can achieve this by confirming the existing requirements of the standard and the recommended approaches to measuring CPD activity while emphasizing a range of available activities as part of a planned program of CPD."

The clarified IES 7 is the first standard of the suite of eight IESs to be released in a series of planned revisions over the coming 18 months. The IAESB has clarified the obligations of CPD through the redrafting of IES 7, and draws international attention to the requirement on professional accountants to develop and maintain professional competence throughout their careers.

IESBA Proposes Change to Code of Ethics Definition of Those Charged with Governance

The International Ethics Standards Board for Accountants (IESBA) released for public exposure a proposed change to the definition of "those charged with governance" in the IESBA Code of Ethics for Professional Accountants (the Code).

News Update

The objectives of the change are to more closely align the definition of "those charged with governance" in the Code with that in the IAASB's International Standard on Auditing (ISA) 260, Communication with Those Charged with Governance, and to eliminate any confusion as to how it is defined. The IESBA is of the opinion that the proposals do not call for any change in systems or common practice, should they be approved.

The change specifically aims to clarify that a subgroup, such as an audit committee, may assist the governing body in meeting its responsibilities. In those cases, the auditor shall determine with whom within the entity's governance structure to communicate.

"Through this Exposure Draft, the IESBA seeks to ascertain

whether the proposed change to the definition adequately clarifies the term 'those charged with governance.' The IESBA believes this will contribute to more consistent application of the Code, which is critical to our mission to support the global adoption and implementation of the Code," said Ken Dakdduk, chair of the IESBA.

How to Comment: The IESBA invites all stakeholders to comment on its proposals in the Exposure Draft, Proposed Change to the Definition of "Those Charged with Governance." To submit a comment, visit the IESBA website at www.ethicsboard.org. Comments on the Exposure Draft are requested.

Securities & Exchange Commission of Pakistan (SECP)

SECP Gives Nod to CSR Guidelines

SECP has granted approval for introducing corporate social responsibility (CSR) guidelines for public companies. The guidelines shall be a significant step towards streamlining reporting requirements and corporate accountability of the CSR activities by public companies.

The guidelines shall be notified as 'Corporate Social Responsibility Voluntary Guidelines, 2012' after consultation with external stakeholders and general public.

The draft guidelines have been placed on website of SECP for public comments. Further, the guidelines have been circulated among prominent public companies engaged in the CSR activities, all stock exchanges, Pakistan Centre for Philanthropy, Pakistan Poverty Alleviation Fund, Institute of Cost and Management Accountants and Institute of Chartered Accountants of Pakistan. Although businesses have been involved in corporate philanthropy, lately leading companies in Pakistan have started integrating CSR into their strategic business goals and taking active part in implementing social and community development strategies.

A range of tangible opportunities have been created in rural areas, particularly, through responsible businesses seeking difference in the lives of ordinary people through CSR initiatives

and programmes. While most businesses give charity and make donations for noble causes, the reporting and accounting mechanism for stakeholders is still vague.

In 2009, the SECP issued the Companies (Corporate Social Responsibility) General Order, applicable to all public companies. According to the said order, every company is required to provide descriptive as well as monetary disclosures of the CSR activities undertaken during each financial year in the directors' report to the shareholders annexed to the annual audited accounts. The companies, however, were at liberty to choose the content and format of CSR report, if issued, generating a strong perception that most reports are public relation tools adopted by large companies and not a form of accountability. Stakeholders, therefore, were facing difficulty to assess the positioning of company regarding CSR priority areas, evaluate the utilization of resources and their implementation effects.

Keeping in view global learning and local market practices, a set of guidelines have been developed by the SECP to encourage adoption of voluntary measures ensuring transparency and corporate accountability in implementing the CSR activities. The guidelines shall be applicable to all public companies and are expected to be take effect from July 1, 2012.

PIPFA News

Designatory Letters Revised

The Securities & Exchange Commission of Pakistan (SECP) has allowed PIPFA to align its distinguishing membership letters of Nominated Public Accountant (NPA), Associate Public Accountant (APA) and Fellow Public Accountant (FPA) with the PIPFA qualification known as Public Finance Accountants as per clause 3(1) of Memorandum of Association and rewrite the clause 12(1(sub clause i, ii & iii)) of Articles of Association as Nominated Public Finance Accountant (NPFA), Associate

Public Finance Accountant (APFA) and Fellow Public Finance Accountant (FPFA) respectively.

Now our respected members can use these amended Designatory Letters after their names accordingly with their membership status.

For further details contact Member Affairs Department,
Ph: 021-34246340, 021-34380451-52(Ext-807),
Email: member@pipfa.org.pk

PIPFA Affairs

PIPFA Participated in Education Expo, arranged by The News, Jang Group at Karachi, Lahore & Islamabad. A large number of students visited PIPFA stall in all cities.



Invitation for Articles

PIPFA Journal is the Official Journal of the Pakistan Institute of Public Finance Accountants and is being published to keep abreast its members and students with the latest developments in the field of Accountancy.

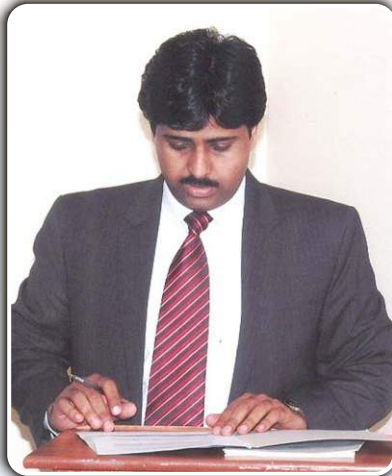
We would welcome articles from our valued students and members for forthcoming issue. Articles are not restricted to specific topic; students and members may send us the articles of their field of interest.

Interested students and members are requested to forward a soft copy of their articles at the following Email address: member@pipfa.org.pk



PIPFA Affairs

The 4th Extra Ordinary General Meeting of Pakistan Institute of Public Finance Accountants (PIPFA) was held at PIPFA Corporate Office on April 7, 2012.



Tip of the Quarter

Be A Leader At Work

7 Actions To Position Yourself As A Leader At Work

You want to be a leader at work but you do not carry the title. So, how do you go about positioning yourself as a leader at work?

There are many ways, but listed below are some that comes to mind. You can use these actions that will inevitably position yourself as a leader at work without having to be too obvious about your ambitions.

1. Take Responsibility

You want to be a leader at work, learn to take responsibility for anything that has your fingerprint on it. That means, as long as you participate in the project, you have a hand at the failure of the project. Learn to take responsibility for not just the good things, but even bad ones. Admit to your mistakes because it's okay to be wrong. You cannot learn if you have not made any mistakes.

2. Believe In Win-Win

A rising tide lifts all boats always think win-win. It exists. Just because the world thinks the business world is nasty, and that you need to be manipulative and maneuvering to win, you need not participate in it. In fact make it your contribution not to be nasty and bullying in your ways. You want to be a leader at work, believe in your hands as leader to change the world. The power of positive influence you have on the people around you and the power to inspire people to greater heights is in front of you.

3. Push The Envelope

Try new things. Take some risk. Make yourself uncomfortable. Do the things that may risk making you look foolish - what do you have to lose? Leaders take risks. They are not afraid of doing what they believe. What do you believe in that you are willing to take some risk? To be a leader at work, you need to take even simple risks like taking on the project no one wants.

4. Do It, Write It

This world is full of people who talk too much and don't do enough. If you want to be a leader at work, act upon something. Work that plan. If you have any ideas that are simmering in your mind, write it down. It doesn't matter if it is not a plan yet, just write it down. If you don't write it down, there is no one to present to and there is no record of the idea. How can it count? If you want to be a leader at work, you have practice writing down everything.

5. See Opportunities Everywhere

There is no need to create opportunities for yourself to lead. The opportunities to lead are everywhere. You need to be mindful of these opportunities. As just mentioned one earlier. Are there any opportunities to take on the project no one wants? If you don't see opportunities everywhere, you are missing the point.

6. Be Open

Be open to criticism, otherwise you are just living off yourself. What does it mean? When you are open to feedback, you are being fed ideas from others that are free. Often times, these ideas come from people smarter than you. They will give you tips on how to improve and how to be better. That's what a leader needs - constant feedback. You need feedback to be a leader at work, otherwise you are "feed-own" (Just created that word to mean feeding yourself) and you will go hungry soon. With no new ideas, a leader dries up.

7. Give, Give, Give

That's how you open up. Pour out all you got from inside you. Give all you have ideas, thoughts, plans. Feel the vulnerability and learn to like it. When you pour all your ideas out you will need new ones. Where do new ideas come from? From critics who want to tear you down, from well-meaning supporters and from people you least expect. More comes back to you. You have more to input. It enriches you. That's how you become a leader at work.

These are the seven actions to position yourself as a leader at work. You want to be a leader at work? Do not be afraid of taking risks. You have more to gain than lose when you open up.



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