

Forensic audit of banks: FBR terms secrecy clause major impediment

The Federal Board of Revenue (FBR) has termed confidentiality law or secrecy clause in banking laws as a major impediment to the forensic audit of banks for which State Bank of Pakistan (SBP) can play a pivotal role in negotiations with banks for provision of information for banks audit.

Sources told *Business Recorder* here on Wednesday that the issue of forensic audit of banks was discussed threadbare during the last meeting of high-powered implementation committee of Tax Reforms Commission (TRC) held at FBR House.

Sources close to TRC informed that the next meeting of the tax reform implementation committee is expected to be held in one to two days at the FBR.

The high-powered implementation committee of Tax Reforms Commission (TRC) has also decided that the Federal Board of Revenue (FBR), State Bank of Pakistan (SBP) and Pakistan Banking Association shall convene a meeting to discuss the issue of disclosure of information by banks and working out modalities for carrying out forensic audit of banks.

It was decided that a meeting of the chairman FBR, governor State Bank of Pakistan, Pakistan Banking Association and members of the TRIC will be convened, preferably in Karachi, to discuss issues relating to disclosure of information by banks and work out modalities for carrying out forensic audit of banks.

The background of the issue revealed that in the Tax Reforms Implementation Committee (TRIC) meeting held on June 8, 2017, it was decided that advertisement for forensic audit of banks/telecom sector be published in local newspapers by 15th June, 2017 followed by an international advertisement on the said subject. The chairman FBR apprised the committee that the Senate had taken up the issue of forensic audit of telecom companies by FBR. However, the main impediment in this respect was that FBR had no mechanism whereby such huge data could be deciphered and evaluated for audit purposes. He stated that Pakistan Revenue Automation Limited (PRAL) has now developed a software in tandem with the telecom companies which will now enable PRAL to receive and evaluate data from telecom companies which they have pledged to start providing by the end of August 2017. He also submitted that so far two telecom companies have provided data which is yet to be evaluated for the purpose of identifying areas of focus for audit.

Tax authorities also apprised the committee regarding the impediments being encountered in the proposed forensic audit of banks mainly on account of their reliance on the confidentiality law. They were also of the opinion that the State Bank of Pakistan would be able to play a pivotal role in negotiations with banks as regards mode and manner of provision of information for audit purposes. Tax

authorities also proposed that the nomenclature of "forensic audit" be changed to "specialized audit." Special Assistant to the Prime Minister on Revenue, Haroon Akhtar Khan, however, opined that no negative connotation was associated with the term "forensic audit."

Members of the TRIC were of the opinion that reliance placed by banks on the secrecy clause does not provide a mandate for non-adherence to tax laws and procedures and that the department has the legal mandate to conduct detailed audits.

Chairman TRC Masoud Naqvi was of the opinion that withholding audit capabilities should be enhanced. Special Assistant to the Prime Minister on Revenue, Haroon Akhtar Khan, submitted that banks have agreed upon information sharing to a certain degree but greater headway is to be made on this issue. The chairman FBR opined that specialized people shall be required for carrying out audit of telecom companies.

The Member (IR-Ops) submitted that considerable revenue could be unearthed by carrying out forensic audit of banks and telecom companies and also pointed out some challenges faced by the department in this respect. It was decided that advertisement for forensic audit of telecom companies would be kept in abeyance till such time as all the telecom companies start furnishing data on the software developed by PRAL and the utility of such data is ascertained for audit purposes. The CEO PRAL apprised the committee that so far data has been provided by one telecom company.

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