

## **ZAKĀH ACCOUNTING AND AUDITING: PRINCIPLES, RULES AND EXPERIENCE IN PAKISTAN**

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*The paper is a case study of zakah accounting and auditing system as in vogue in Pakistan. Although there is no professional document from which to infer the accounting and auditing standards, yet the paper tries to infer the accounting and auditing standards from the Zakah Manual. The author carried out extensive interviews with the operational staff in the field to arrive at his conclusions. He casts a critical look on the existing arrangements and makes several suggestions to improve the accounting and auditing system of zakah in Pakistan.*

### **1. INTRODUCTION**

The government of Pakistan introduced compulsory levy of *zakah* after the promulgation of *Zakah* and [*Ushr* Ordinance 1980 (No. XVIII of 1980)]. The Ordinance stipulated deduction of *zakah* at source from income ensuing from eleven types of assets and exempted almost an equal number of assets from compulsory levy of *zakah*.<sup>1</sup> The law visualizes a simple organization with least administrative cost. It requires various financial institutions and industrial and business organizations to deduct *zakah* and deposit it in the account of the Central *Zakah* Council maintained at the State Bank of Pakistan. These organizations have to deduct *zakah* at the time of paying a return, dividend, interest or profit to the owners of financial assets. There are thousands of branches of banks that deduct *zakah* at source on the 1<sup>st</sup> of Ramadan every year. These branches transfer the amount so deducted to their controlling offices, termed as *Zakah* Collection and Controlling Agencies (ZCCA)<sup>2</sup>, which are 76 in number. In January 2002, there were 2598 companies and other organizations that deduct *zakah* from dividends at source and transfer it to the State Bank of Pakistan.

The disbursement of *zakah* takes place by transfer of funds to the Provincial

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<sup>1</sup> For an abridged list of the two types of assets, see Annex-1.

<sup>2</sup> The *zakah* law terms them as *zakah* collection and controlling agencies (ZCCA), while the *Zakah* Manual terms them as *zakah* deduction and controlling agencies (ZDCA). In this paper we have adopted the former term.

*Zakah* Councils, which in turn transfer it to the District *Zakah* Committees. The actual disbursement of *zakah* takes place at local level when the District *Zakah* Committees transfer funds to the Local *Zakah* Committees. In January 2002, there were 39186 Local *Zakah* Committees in Pakistan. At each stage of collection and disbursement some accounting is done and these accounts are subject to audit.

The objective of the present paper is to discuss the accounting and auditing system of *zakah* in Pakistan and evaluate it in the framework of Shari[ah objectives and needs of a modern economy. The second section of the paper summarizes the accounting system. The third section discusses the auditing arrangements. The fourth section evaluates the accounting and auditing systems and makes some suggestions for improvement. Section five gives overall assessment on the two functions.

## 2. ZAKĀH ACCOUNTING IN PAKISTAN

The *Zakah* and [*Ushr* Ordinance (1980) makes it the responsibility of the Administrator-General, the Chief Administrators, the District Committees and the Local Committees to maintain accounts of Central, Provincial, District and Local *Zakah* Funds respectively in such form and manner as may be prescribed. However, there are detailed administrative instructions about the deduction and transfer of *zakah* funds. The *zakah* collection and controlling agencies are supposed to devise suitable systems for ensuring that the *zakah* deducted and transferred to the government account is correct. The *Zakah* Manual, prepared by the Central *Zakah* Council, prescribes detailed forms for deducting, refunding and transferring *zakah* by the *zakah* deducting offices to their respective controlling agencies. In turn, the *zakah* controlling agencies are required to submit a quarterly summary to the State Bank of Pakistan along with the *zakah* deducted under intimation to Central *Zakah* Administration. The Central *Zakah* Administration gets information from two sources: the *Zakah* Collection and Controlling Agencies and the State Bank of Pakistan. It has, thus, a mechanism to reconcile the information from the two sources and to track any discrepancies.

### 2.1 Accounting Standards

The *Zakah* Manual, which is the source of all guidance about accounting and auditing does not mention the term 'accounting standard', most probably because, it has been developed by general administrators. However, we can distill some accounting standards from it.

*Recognition:* The receipts into and payments from the *zakah* fund are recognized as and when they actually take place. It means, there is no accrual accounting. It is on the basis of cash. This is very much in line with the rest of government accounting. The *zakah* accounts are maintained on cash basis and use single entry bookkeeping.

It means that the system does not provide for recording of any accruals or liabilities.

*Measurement:* The *zakah* law prescribes detailed rules and rates for calculating the amount of *zakah* to be deducted at source. It also lays down rules for exemption, refunds and rebates. The rules are quite clear and easy to apply.

*Disclosure:* The *Zakah* Manual has prescribed a chart of account, which enables the *zakah* deduction offices and controlling agencies to classify the transaction appropriately. The receipts are classified according to the type of asset and the controlling agencies. The payments are classified according to the location of disbursement, like provinces, districts and local committees. The State Bank of Pakistan is required to maintain an account of *zakah* receipts and payments on a weekly, monthly and yearly basis. The Central *Zakah* Administration maintains accounts on a single entry basis. Besides the broad classification system that the Manual prescribes, there is no disclosure standard about the presentation of accounting information.

*Final Accounts:* The Accounts Directorate of the Central *Zakah* Administration prepares the final accounts of the Central *Zakah* Fund. The final accounts give a summary of the receipts from all *zakah* collection and controlling agencies and all disbursements made directly to beneficiaries by local committees or indirectly through institutions. It works out a final balance of the Central *Zakah* Fund. The final accounts remain in the books of accounts. No summary statement as a stand-alone document is generated at the year-end.

*Over-riding General Principle:* The *Zakah* Manual describes an over-riding general principle where a certain rule is missing or ambiguous. The person handling a transaction will exercise the same amount of prudence, as an ordinary honest Muslim would do for the trust money (*amanah*).

## **2.2 Accounting Controls**

The *Zakah* Manual provides for reconciliation of accounting information from the two sources: State Bank of Pakistan and the *Zakah* Collecting and Controlling Agencies. The Accounting Directorate of the Central *Zakah* Administration is supposed to carry out this reconciliation on a monthly basis. The procedure also provides for a monthly reconciliation of accounts with the bank kept by each local *zakah* committee. The *Zakah* Manual also prescribes preparation of an annual budget, which acts as a tool for controlling disbursements.

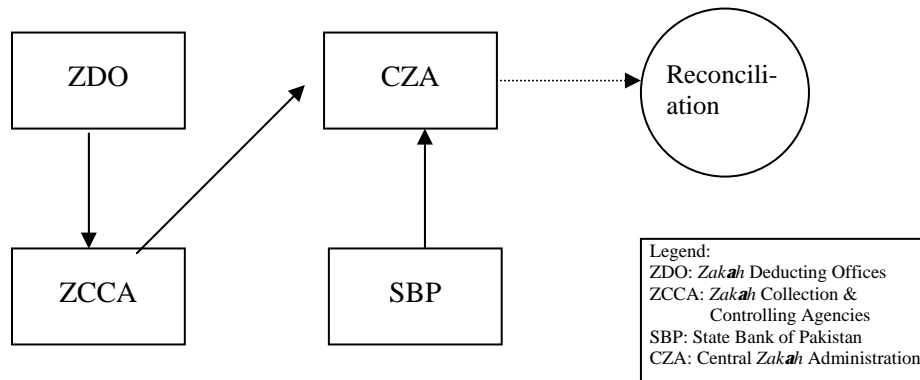
The State Bank would not allow any overdraft on the Central *Zakah* Fund. All transfers down to the beneficiaries would be through banks and by crossed cheques. There are detailed controls regarding the operation of bank accounts,

maintenance of various registers and safe custody of cash and chequebooks. The *Zakah* Manual gives detailed instructions for maintenance of cashbook at the local *zakah* level. These instructions are mostly similar to the instructions in the Federal Treasury Rules of the Government of Pakistan.

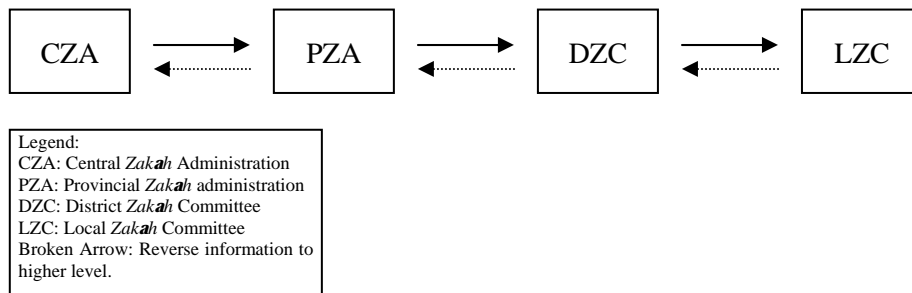
**2.3 Information Flows**

The flow of accounting information for collection is from the *zakah* deduction offices to *zakah* collection and controlling agencies to State Bank of Pakistan to Central *Zakah* Administration. The flow of information about disbursements is the other way around. It starts from the Central *Zakah* Administration to provinces, Districts and Local Committees. The detailed accounting for collection is done at the level of *zakah* deduction offices and for disbursements at the local level. There are detailed instructions for consolidating this information from the grassroots level to the central level. The flows of information regarding collection and disbursement are shown in the following diagrams.

**Figure 1: Information Flows for Collection of *Zakāh***



**Figure 2: Information Flows for Disbursement of *Zakāh***



As the information moves to higher levels, it is summarized until at the Central *Zakah* Administration level, it is in the most aggregated form. Interestingly, the entire decision-making and policy-formulation is done at the central level. It is at this level, that detailed information should be available.

## 2.4 Operational Information

The system collects and summarizes a lot of operational information relating to *zakah* collection and its disbursement. For example, it has information on number of beneficiaries, and the type of assistance provided. However, the accounting department does not have this information. Moreover, even the Ministry of Religious Affairs, where this operational information is available, does not maintain it in an integrated database. The information is scattered in various sections.

## 2.5 Accounting in Practice

The Central *Zakah* Administration at Islamabad has a Director of Accounts assisted by three accounts officers and two clerks. All these persons are on secondment from the department of the Auditor General. The three accounts officers are qualified SAS accountant (having passed subordinate accounting service examination). They do not have any formal training in *zakah* law or accounting. They have learnt their job only through experience. The accounting in the directorate is done manually. None of the accounting staff were found to be computer literate.

The Central *Zakah* Administration prepares accounts according to lunar calendar. After the month of Dhul Hijja each year, the directorate of accounts takes about three months to prepare final balances. The accounts of the Central *Zakah* Administration are worked out on the books of account. No summary statement is prepared separately nor has it ever been published. Since the final accounting statements are not prepared formally, there is no convention of analyzing the accounting information. The information is hardly ever used for decision-making. In fact, on my personal interviews, I learnt that the accounting information is treated as highly confidential. Even with best efforts I could not see any figures about the *zakah* receipts or payments. I was told that the *zakah* receipts were about Rs.4 billion (\$66million) per annum. I was also told that the carry forward balance of unspent *zakah* was around Rs.20 billion (\$330 million).

# 3. ZAKĀH AUDITING

## 3.1 Responsibility for Audit

The *Zakah* and [*Ushr* Ordinance (1980) makes it obligatory for the Central and

Provincial *Zakah* Councils to request the Auditor General of Pakistan and Local Fund Audit to conduct audit of central, provincial and district *zakah* funds. Such a request could be made annually or at shorter intervals. Section 11(7) of the Act makes it obligatory for the Auditor General to conduct the audit of central, provincial, district, and local *zakah* funds besides the audit of *zakah* deducting agencies and institutions receiving *zakah*. For carrying out this audit, the Auditor General has set up a directorate for *zakah* audit with a director as its head and a staff of 25 persons, 16 of whom are engaged in actual audit work. The directorate is located at Islamabad with a small branch office at Lahore. The responsibility of the *zakah* directorate includes audit of one Central *Zakah* Fund, 4 Provincial *Zakah* Funds, 106 District *Zakah* Funds, about 40,000 *zakah* local committees, 76 *zakah* collection and controlling agencies, about 60,000 branches of financial institutions and other agencies engaged in the task of deducting *zakah* and about 2500 institutions distributing *zakah* to beneficiaries indirectly. One can see that the *zakah* audit directorate has an enormous responsibility. With a staff of 16 auditors, it cannot cope with the whole responsibility, no matter what it does to simplify its task.

### 3.2 Practice of *Zakāh* Auditing

In actual practice, the *zakah* directorate prepares an annual plan, which is an impressive document. The plan tries to match the workload and the available resources. As a result, it cannot handle except a fraction of the total workload. The audit of *zakah* deducting offices, *zakah* collection and controlling agencies and institutions receiving *zakah* has recently been added to the responsibility of the audit directorate. The directorate has not yet properly started this work. For example, the annual plan for 2001-2002 contains audit of only headquarters office of one bank. (That too a small one: First Woman Bank). The rest of the audit plan covers audit of central and provincial *zakah* administrations, 49 district funds, 5172 local *zakah* committees, and 85 health institutions. The audit teams visit districts and call for the record of local *zakah* committees at the district level. While auditing, they check the accounts of all local committees one hundred percent. The audit of *zakah* funds by the Auditor General provides an independent check, which is an essential requirement for all audits.

### 3.3 Audit Reports

The *zakah* law states that the *zakah* audit reports would be placed before the parliament. In actual practice, the *zakah* audit reports have never been placed before the parliament, nor have they ever been discussed in the public accounts committees. Thus the ultimate purpose of audit, to hold the executive accountable for their performance, is not being met.

### **3.4 Internal Auditing**

In a welcome move in October 2001, the Ministry of Religious Affairs instituted internal auditing for *zakah* function. Audit teams for each five districts shall carry out internal audit of districts and local *zakah* committees including national level health institutions. The internal audit teams at provincial headquarters will examine the reports of the district audit teams and submit them to Chief Administrator of *zakah* at the provinces. The internal audit teams are also responsible to handle the external audit reports of the director of *zakah* audit. Each audit team would consist of one audit officer and two auditors. In all, there would be 24 teams for all the provinces. The staff of these teams would be recruited from open market. The audit officers would hold MBA or M.Com with 5 years of experience and the auditors would hold B.Com with two years of experience.

## **4. EVALUATION AND RECOMMENDATIONS**

### **4.1 Accounting**

#### **4.1.1 Form and method of accounting**

The law does not give any guidance about the form and principles of accounting. It only says that the accounts would be maintained in such form and manner as may be prescribed. It is an unusual provision. The Constitution of Pakistan, 1973, provides that the Auditor General would prescribe the form and method of accounting for the federal government, provincial government and other government organizations. It is surprising that in the case of *zakah*, for which the government had no previous experience, the law does not make the Auditor General responsible for prescribing form and method of accounting. Nor does the law say that the government would seek any professional advice in this regard.

#### **Recommendation**

The government should submit the existing accounting system to the Auditor General for his approval. For this purpose, the *zakah* law should be amended suitably.

#### **4.1.2 Control on deduction of *zakāh***

The prescribed procedure makes it the responsibility of the *zakah* collection and controlling agencies to ensure that the *zakah* collected is correct. Such a provision can be problematic. Firstly, it may lead to diversified practices, every agencies adopting a system of its own, making comparison and consolidation difficult. Second, it takes the initiative away from the hands of the Central *Zakah* Administration, leaving it at the mercy of the *zakah* collection and controlling

agencies about the accuracy of the *zakah* collected.

#### **4.1.3 Accounting manual**

There is no professional guidance for maintaining and summarizing accounts at the year-end. In fact, the author of the Manual has handled the entire question of accounting in a general manner. The thrust has been in documenting the bare minimum information for general control purposes. It does not give any detailed guidance on classification, summation, reconciliation, validation, and analysis of the accounting information. The accounts directorate of Central *Zakah* Administration requires guidance on various procedures to be followed for posting, validation, reconciliation, summation and presentation of final accounts. At present, they are relying mostly on the commonsense of the accounting staff.

The *Zakah* Manual lays down detailed instructions for consolidating information on disbursements from local level to central level. The information at the central level discloses receipts of the provinces and payments by the provinces from all sources. As a matter of principle this information from the field should reconcile with the central information about all disbursements made by the Central *Zakah* Administration. However, the *Zakah* Manual is silent about it. There are no detailed procedures available at the central directorate of accounts about this reconciliation. Especially, it is not clear how would the figures of direct receipts of the provinces, districts and local committees (relating to donations, etc.) reconcile with the central figures of receipts as there is no explicit mechanism at the center to know about these figures on a monthly basis.

#### **Recommendations**

1. The Central *Zakah* Administration should develop a comprehensive *zakah* accounting manual, which should give detailed instructions relating to accounting procedures and practice.
2. The accounting manual should be developed on the basis of double entry and on accrual basis. The manual should give detailed guidance for accounting at all levels, including procedures for ensuring accuracy of information and a system of internal controls.

#### **4.1.4 *Zakāh* account disclosure**

The present practice of accounting classification is extremely rudimentary. The accounts of collection maintained at the Central *Zakah* Administration keep a ledger which records all collection of *zakah* as advised by the State Bank of Pakistan. The State Bank provides this information twice a month. On receipt of this information, the bookkeeper posts the information in the ledger. The



classification of the ledger is highly aggregated. It shows the collection in two parts: from financial institutions and from companies. There is space for recording similar information received from the financial institutions and companies directly by the Central *Zakah* Administration. Then there is a row in the ledger for the reconciled figures. Except for this summary information, the Central *Zakah* Administration does not record the information about collection in any further detail, nor does it receive any detailed information. As a result, the present accounting information cannot be used for any decision-making. The accounting information as kept by the Central *Zakah* Administration does not tell anything about the following:

- Total wealth subject to *zakah*
- Total wealth on which exemption has been claimed on the basis of juridical reasons
- Total wealth on which exemption has been claimed under schedule 2 of the Ordinance
- Total *zakah* that could have been collected, had there been no exemptions
- Exemptions given to non-Muslims
- Exemptions given to non-Pakistanis
- Total *zakah* assessed but not realized
- Any *zakah* collected on self-assessment basis
- *Zakah* collected from each district, province and region
- Cost of *zakah* administration allocated to different collection and disbursement heads
- Number of *ashab al-nisab* in the country, in each province, district, etc
- Number and type of beneficiaries, in the country, in each province, in each district and local union
- *Zakah* distributed in the form of maintenance allowance and number of beneficiaries
- *Zakah* distributed for rehabilitation, areas-wise, etc
- *Zakah* distributed indirectly through institutions and number of beneficiaries

### **Recommendation**

Most of this information is already being recorded somewhere in the system. Only a few items may not be available at present. However, this information is not readily available for decision-making since it would be extremely laborious to compile them manually. The only solution to this problem is rapid computerization

and transfer of this information to the Central *Zakah* Administration electronically.

#### **4.1.5 Linking operational and financial information**

At present the Accounts Directorate at the Central *Zakah* Administration is maintaining only financial information. It has no access to various types of operational information relating to *zakah*. For purposes of decision-making, both types of information need to be integrated. This is easily possible. The information is being collected within the *zakah* administration, but it is lying fragmented at different sections and branches.

#### **Recommendation**

An integrated database containing operational as well accounting information should be developed. The database would provide all the information that a modern dynamic *zakah* administration requires. For example, it would be possible to divert funds to those areas where they are most needed. It would be possible to adjust the rates of assistance for different areas, according to needs of the people. Similarly, based on the information relating to actual beneficiaries, assistance level can be adjusted for different institutions.

#### **4.1.6 Computerization of accounts**

The *zakah* administration came into being more than two decades ago. The *zakah* manual mentions compilation of data with the help of computers. However, practically, computerization has not made much headway. For a modern dynamic *zakah* administration, it is important that the accounting system as well other operational information is computerized. The Central *Zakah* Administration should take immediate action to computerize the accounting and other operational information in an integrated database.

### **4.2 AUDITING**

#### **4.2.1 Scope of audit**

The *Zakah* and [*Ushr* Ordinance (1980)] does not elaborate the scope of audit by the Auditor General. However, section 11(4) states that the audit performed by the Auditor General "shall include propriety audit." In the absence of any clarification we can assume that the audit refers to financial audit. However, by specifying "propriety audit", the law has tried to enhance the scope of financial audit. Traditionally, the Auditor General's department has been conducting the audit of the government accounts in this broader framework. The concept of propriety audit pertains to early twentieth century, when the government auditing in a democratic framework, was yet in its infancy. In those days, the concerns for economy and

efficiency were emerging without any clear methodology to apply them. These concepts subsequently developed into value-for-money auditing or performance auditing in the late seventies. At present, the Auditor General's department undertakes several performance audits every year. These audits are conceived in the broader scope of 3 Es (economy, efficiency and effectiveness). The methodology for these audits is now quite well developed. All over the world these audits have become a norm. In this perspective, the *zakah* law refers to an outdated concept of "propriety audit". The scope of audit needs to be more clearly defined in the light of later developments and contemporary applications. It is recommended that the *zakah* law should be amended to include performance auditing, besides financial auditing.

#### **4.2.2 Audit approach**

The audit approach is quite ambiguous in its focus. It is not clear whether the audit is internal or external. If we look at the fact that the audit directorate is an organization of the Auditor General, which is independent of and external to the executive, the audit approach should be that of an external auditor's approach. However, it is interesting that neither the Central *Zakah* Administration prepares any final financial statements, nor the directorate of *zakah* audit expresses any opinion on these accounts. Thus the approach used by external auditors is mainly that of internal auditing. They were aspiring to visit all organization under their purview and audit them for their internal controls (and not for expressing an opinion on the accounts). This is a typical approach of the internal auditors. Like internal auditors, they intend to audit all organizations under their purview, if they had the resources. In the absence of adequate resources, they are making do with whatever organizations they can audit. While auditing, the auditors check 100 per cent transactions, which is also unusual and even unnecessary so far as the external auditors are concerned.

#### **Recommendations**

1. Audit approach needs to be more focused. It should be clearly stated that the auditors would certify the accounts for their truth and fairness. They would also comment on the state of internal controls. For expressing this opinion they need to adopt system-based audit approach. With this approach they can select a representative sample of vouchers. They can, then, concentrate their audit to the vouchers wherever they are located throughout Pakistan. The districts and local committees thus selected would provide a fair basis for expressing an opinion. Such an approach would require a different type of planning and audit execution effort. However, once adopted, the *zakah* audit directorate would be able to complete its financial audit work with the present resources. They can then take up some performance audit assignments.

2. Regarding audit of banks, *zakah* deducting offices and institutions distributing *zakah*, it would be a huge task for the *Zakah* Audit Directorate to undertake such an assignment. It would also create problems concerning access to records. The banks would not welcome (or even would not allow) the auditors to have access to their records, as the banking laws provide them with certain privileges. Therefore, it would be better if the Auditor General relies on the work of other auditors. For this purpose, it should, in collaboration with the Institute of Chartered Accountants of Pakistan, lay down that the commercial auditors auditing the financial institutions or joint stock companies should modify their audit certificates. The modified audit certificates on the accounts of these organizations should say that the auditors have audited the *zakah* deductions, payments or transfer, and found them to be true and fair. After receiving such a certificate, the *zakah* audit directorate should select a small sample and verify them. It would also require changes in the law.

#### **4.2.3 Audit as a tool of accountability**

Although the *zakah* law says that the audit reports would be placed before the parliament, yet, these reports have never been submitted to the parliament so far. During the last 15 years, a backlog of over 8400 audit observations had already accumulated and was in the pipeline. In the absence of final disposal of the audit reports, the audit staff are frustrated, having the feeling of being engaged in a useless exercise. An imaginative approach would be required to handle this situation.

#### **Recommendation**

The audit reports should be placed before the parliament regularly and discussed like rest of the audit reports of the government.

#### **4.2.4 Audit management**

The auditors of the *Zakah* Audit Directorate are old-fashioned accountants, well versed in manual auditing techniques. Looking at the number of organizations and the number of transactions, it is impossible for them to cope with the volume of work. Besides, the supervision of audit teams is extremely thin. There is only one director, who is responsible for the over all performance of the directorate. There is only one deputy director who too has been deployed in the management of a branch audit office. Thus practically, the audit teams are without any supervision. The directorate has only 6 computers, all being used for word-processing. There is hardly any awareness how computerized auditing techniques can be used to manage the audit work.

Human resource management of the directorate is also less than enviable. During the last 15 years, 18 directors were posted in the directorate, making the average tenure less than a year. Only one director stayed for about 3 years. It seems that the *zakah* audit was a backyard of the Auditor General's department. Directors come and wait for some time to move to a more visible posting. In the absence of a motivated leadership the performance of *zakah* audit directorate cannot be improved.

### **Recommendation**

The *Zakah* Audit Directorate should be equipped with computerized auditing software. Its staff and officers should be trained in these techniques. The number of supervisors should be increased. All the auditors and officers should undergo training regularly in financial and performance auditing. The Auditor General's department should conceive a more consistent policy for staffing the *Zakah* Audit Directorate.

#### **4.2.5 Internal auditing**

It is a welcome move to establish internal audit teams for the *zakah* administration at all levels. Internal auditors can add value by ensuring that internal controls are in place, management policies are being complied with and all operations are carried out with due regard for economy, efficiency and effectiveness. Today, the role of internal auditing has become more important than external audit, which merely reports on the truth and fairness of the financial statements. As compared to this, the internal auditors are supposed to act as advisors to the management, spanning their activity to all facets of management and operations. Now that the Ministry has taken the initiative of introducing the internal audit, it should be properly strengthened.

### **Recommendations**

1. For making internal audit as an effective institution, it is important to provide the highest possible degree of independence to internal auditors. For this purpose, the head of internal audit at districts should be placed under the Chief Administrator of *Zakah* at the province. The present rules say that the internal audit reports would be submitted to the Chief Administrator of *Zakah* at the province. It is not clear whether he would be administratively under him or under the District *Zakah* Officer. This needs to be clarified.
2. The scope of audit should be clearly defined. It should not be merely financial auditing. It should include performance auditing and an advisory role for *zakah* operations.

3. There should be an internal audit manual that would provide guidance to the audit staff. The manual should be developed in the light of professional standards for internal auditing.
4. The staff recruited for the job should be trained in internal auditing. It should be a state of the art function. Computerized auditing should be introduced and staff trained accordingly. The internal auditors should be made to qualify an examination for becoming a qualified internal auditor. Those who do not qualify the examination should be made to leave the organization.

### 5. OVERALL ASSESSMENT

The accounting and auditing functions at the *zakah* administration in Pakistan are at a rudimentary level. The whole work is being done manually with very little arrangement for supervision. The information generated by accounting directorate is hardly ever used for decision-making. Because of manual operation, the flexibility to manage the available information is also very limited. The number of staff and officers are not commensurate with the workload. The motivation of staff is very low. The leadership at both the directorates i.e. accounting and auditing, is only marking time to get out of the backyard of bureaucracy as soon as possible. There is no awareness among the staff or officers about modernizing these functions and the benefits that can be derived from proper accounting and auditing. There is no arrangement for training of staff and officers. Most of the persons posted in these directorates are on secondment. Therefore, there is no personal loyalty or continuity in the long run.

Auditing is also in a pathetic state. The scope and methods of auditing are both ambiguous and elementary. There is very little awareness at the top level that auditing can play a positive role in improving things. There has never been any presentation of the audit reports to the parliament, although the law provides so. As a result, the auditors have very little job satisfaction.

Neither accounting, nor external or internal auditing has any professionally developed manuals to guide their staff. No professional work is done with the help of computers. The few computers that these directorates have are used only for word processing. The entire staff of both the directorates is unfamiliar with the use of computers for accounting or auditing.

The staffing at both the directorates should be done with professionally qualified staff and officers, with adequate resources to perform their work. There should be arrangement for continued professional education of the staff. Shari[ah allows the *zakah* workers (*amilin [alaihi*) to be compensated from the *zakah* funds. The remuneration of the accounting and auditing staff should be market-based salaries that should motivate them.

## ANNEX-1

### A. LIST OF ASSETS SUBJECT TO COMPULSORY LEVY OF ZAKĀH

- Saving bank accounts
- Notice deposits receipts and accounts
- Fixed deposit receipts
- Saving deposits/ saving certificates
- Units of National Investment Trust
- Investment Corporation of Pakistan mutual funds
- Government securities
- Securities including shares and debentures of companies on which return is payable periodically
- Annuities
- Life Insurance Policies
- Provident funds

### B. LIST OF ASSETS EXEMPT FROM COMPULSORY LEVY OF ZAKĀH

- Gold and silver
- Cash
- Prize bonds
- Current accounts and foreign currency accounts
- Loans receivable
- Securities and shares not subject to compulsory deduction under the first schedule
- Stock-in-trade
- Agricultural and horticultural products
- Animals fed in pastures
- Mineral production
- Bovine animals
- Camels
- Fish and other catch of the sea