AUDITOR GENERAL OF PAKISTAN

REPORT OF THE AUDITOR GENERAL OF PAKISTAN

ON AUDITED ACCOUNTS & TAX RETURNS

OF

PRIVATE SCHOOLS/SCHOOL SYSTEMS

DECEMBER, 2018

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Executive Summary

Pakistan has a robust and thriving private education sector. The audited accounts and tax returns of private schools/school systems have been examined by the Auditor General (AGP) on the orders of the honorable Supreme Court of Pakistan.

The efforts of the AGP were constrained by time and resources required for establishing authenticity of the reported data. However, even an examination of the financial statements has revealed some major trends and weaknesses in the system as well as at the level of individual schools/school systems.

This Report provides a comparative as well as individual analysis of the audited accounts of 22 private schools/school systems. Almost all schools suppress their profits by using different techniques. Their profit margins appear to be very low, even below 2% in some significant cases and the industry average is 5.52%. Per student profit per month stands at Rs 746 only. The ROE, however, is generally quite high at an average of 26.50% as most schools diversify or take out their earnings and therefore have very small investment left in their schools.

There is general trend of heavy borrowing after taking out of the funds from the system thereby raising finance costs and reducing profit margins and resultant taxes. The remuneration and expenses incurred on the CEO/Directors are very high besides exaggeration of expenses under the heads of depreciation, entertainment and travel. When such expenses are revised to realistic levels, the profit margins and ROE double or triple in individual cases. Owners prefer to withdraw their profits as remunerations which attract only 26% tax as against 45% which would be required to be paid in case the same amounts were withdrawn as dividends.

The main techniques used for exaggerating expenses has been to pay out unreasonably high remunerations to CEO/Directors, take out earnings from schools and borrow funds instead, revalue assets again and again, borrow against revalued assets and increase depreciation costs etc. In short, this examination of the audited accounts of private schools/school systems reveals that every effort has been made to increase and exaggerate expenses so as to keep the profits low and pay the least possible tax.

The examination further proves that all schools increase fee although it is not due to price inflation and it is the owners who are the main beneficiary of such fee increases.

Although this Report provides individual audit report on each of the schools audited in separate subsequent sections, important findings of each school are given at para 7 of the Report followed by 24 industry wide "Recommendations". The report closes with proposals on "Fee Reduction" and "Fee Increase Mechanism" in the subsequent paras besides the "Conclusion" which provides specific answers to the questions raised by the honorable Supreme Court in its order of Nov 13th, 2018.

Detailed reports on each school system are a part of this report.

Introduction of the Audit Exercise

The Auditor General of Pakistan was directed vide Supreme Court order of October 16th, 2018 to examine and analyze the audited accounts and tax returns of selective private schools /school systems & Franchises to determine the following:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Besides above, the honorable Supreme Court also established a Committee through the same order, to discuss the issues of private schools and make recommendation for possible fee reduction and suggest a mechanism for future fee increases. Audit team therefore was tasked by the said Committee to carry out further analysis of the data submitted by schools which could assist the Committee in formulating its recommendations for consideration of the honorable Supreme Court of Pakistan.

The honorable Supreme Court issued another order in this case upon its hearing held on 13th November. 2018 in which the questions/issues faced by the Committee were listed as under:

a) How to classify thousands of schools, which are of all categories, provide different facilities and varying standards of instruction;
b) If such categorization is possible whether maximum fee limits can be placed;

c) In calculating the maximum fee that each category of school can charge whether an analysis of the balance sheet and audit conducted by the Auditor General of Pakistan can be of no help or significance;

d) Whether the schools presently operating and charging fee of their choice without much regulations can be allowed to increase their fee on annual basis; and

e) Whether the maximum permissible annual increase in fee can be kept and if not can it be fixed at a certain level with flexibility granted that if on the basis of various factors a school seeks percentage of higher fee and in doing so whether such increase would be to the satisfaction of the competent authority.

The honorable Court further directed that "To this end, all major private school chains/groups/institutions are directed to provide complete accounts/details as required by the Law & Justice Commission *(LJCP)* to share the same with Auditor General of Pakistan *(AGP)* for forensic audit within the stipulated period".

In the light of this expanded scope of audit vide the above referred Order, 09 schools as listed below were visited by the audit teams for deeper analysis of the submitted information.

i. Lahore
   a. Beaconhouse School System
   b. Lahore Grammar School
   c. Learning Alliance
ii. Islamabad
   a. City School
   b. Froebel's International
   c. Islamabad
iii. Karachi
   a. Generations School
   b. Civilizations Public School
   c. Bayview Academy

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the last 05 years i.e. 2013-14 to 2017-18
- Tax Returns for the last five years

However, Audited financial statements and tax returns by themselves do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. The absence of such essential information essentially constrains the analysis to the aggregated and summarized figures only. Therefore, further disaggregated data like number of students, teachers, branches, grade wise/branch wise fee etc. were requested from all schools through Law& Justice Commission on 2nd November, which was provided by following schools/school systems:

1. Beaconhouse School System
2. City School System
3. Lahore Grammar School
4. Headstart School
5. Roots Millennium School
6. LACAS
7. Learning Alliance
8. Alliance Resource
9. Salamat School System (SSS)
10. Bayview Academy
11. Froebels Karachi
12. Froebels Islamabad

The following schools did not submit additional data as demanded

13. Roots International
14. Roots Ivy
15. Roots School System
16. Resource Academia
17. Civilizations School, Karachi
18. Generations School, Karachi
19. City Public School, Gujranwala
20. The Learning Tree

21. Eden School System

It has not been possible to find out as to how many schools / school systems were the respondent schools in this case. However, a correspondence from the legal Counsels of parents from Sindh indicates a total of 53 schools that were parties in this case.

Objectives of Audit

1. To determine if private schools are making excess profits (beyond normal/say above 10%) or in other word, if they are charging fee higher then what their costs justify.
2. To determine the amount of possible tax evasion
3. To determine their ROI and ROE on stated/reported as well as on actual/adjusted profit.
4. On the basis of information on the following,
   - i. Figures of branch wise/grade wise students and their annual addition
   - ii. Branch wise/ grade wise fee and its annual increases
   - iii. Branch wise number of teachers, their salaries and annual increase
   - iv. Branch wise P&L and its annual increases

The audit needed to determine

   - v. Cost per student
   - vi. Profit per student
   - vii. Trend of fee increase
   - viii. Trend of teaching staff salary increases
   - ix. Trend of Directors remuneration increase
   - x. Trend of entertainment, travel, medical expense increase

Based on the comparison of the trend of these increases, to determine who the real beneficiary of the fee increases is and whether these fee increases are cost pushed or profit pushed.

5. Based on findings of point 4 above, to recommend: -
   - i. Any possible reduction in existing fee
   - ii. Principle of future increases in fee

Comparative Analysis of 22 Schools

The following analysis has been made on the financial statements and tax returns submitted by the schools themselves which have not been independently verified by the AGP. The accounts presented by schools, however, mostly look dubious as they carry unnaturally high figures under certain expense heads and show unnatural profit rates of below 5% that are mostly below bank rates and unrealistic profit per student of less than rupees 500. The overall comparative position is given as under:

1	2	3	4	5	6	7	8	9	10	11
	FIVE YEARS AVERAGE 2013-17 (millions PKR)						CURRENT YEAR (millions PKR)			
School/School System	Average Gross Revenue	Avg. No. of students	Average Tax expense*	Average Net Profit	Average Profit Margin	Average Revenue Increase 2013-17	Latest Year Revenue Increase	Current RoE	Current average monthly revenue per child**	Current Profit per child per month
Beaconhouse School System	13,423.40	121,525	764.80	1448.8	10.65%	15.41%	13.00%	18.83%	11,048	1,240
The City School	7,205.80	63,437	141.60	373.4	5.00%	12.50%	10.00%	86.00%	11,494	404
Lahore Grammar School	5,967.20	41,363	74.77	244.60	4.10%	21.33%	11.58%	18.63%	13,341	413
Roots IVY	541.00	N/A	6.93	5.98	1.11%	163.71%	44.05%	33.28%	N/A	N/A
Roots International	587.00	N/A	5.60	13.20	2.00%	19.00%	5.65%	10.29%	N/A	N/A
Roots School System	394.40	N/A	5.80	15.00	4.00%	-6.00%	-9.04%	8.08%	N/A	N/A
Roots Millennium	883.80	7,422	13.10	31.60	3.58%	36.56%	30.99%	13.83%	16,255	334
Learning Alliance	343.80	1,000	7.40	15.00	4.34%	10.42%	3.31%	40.00%	31,770	1,269
LACAS	714.20	5,584	19.00	33.40	4.67%	20.75%	25.93%	17.48%	13,889	585
Froebels Karachi	138.60	800	1.50	5.00	3.00%	13.00%	11.84%	13.79%	17,511	412
Froebels Islamabad	561.60	3,631	7.20	16.20	3.00%	15.00%	6.43%	4.92%	13,920	189

Headstart School	444.50	2,301	4.08	10.61	2.39%	57.70%	4.85%	5.12%	17,299	336
Resource Academia	97.05	N/A	N/A	10.29	8.48%	8.26%	-3.80%	N/A	N/A	N/A
Bayview Academy	258.20	N/A	4.60	4.80	2.00%	12.22%	9.47%	25.00%	N/A	N/A
SSS, Karachi	739.80	3,352	7.07	43.80	6.00%	7.00%	4.78%	3.75%	19,439	319
Generations	481.00	N/A	2.12	20.73	4.31%	20.16%	7.13%	2.91%	N/A	N/A
Civilizations	64.06	N/A	1.01	5.19	8.10%	16.26%	16.48%	20.28%	N/A	N/A
Alliance Resource	632.00	1,845	24.40	48.20	7.63%	17.19%	13.27%	27.00%	33,309	2,705
The Learning Tree	91.39	N/A	0.09	4.07	3.21%	28.16%	18.12%	117.70%	N/A	N/A
Educators Gujranwala	24.82	N/A	0.17	1.32	5.34%	12.57%	N/A	N/A	N/A	N/A
City Public, Gujranwala	2.76	N/A	0.60	0.02	20.78%	9.00%	18.00%	36.68%	N/A	N/A
Eden School System	2.89	N/A	0.05	0.69	7.75%	16.02%	32.89%	N/A	N/A	N/A

Summarized Findings

i. Almost all schools suppressed their profits by misusing the leverage allowed to Private Limited Companies under Companies Ordinance. Following are the three most frequently used techniques for this purpose:

   a. Exaggeration of finance costs: Taking out large amounts for investing in other businesses directly or by large dividends and filling up of the resultant financial gap by borrowing from commercial banks.

   b. Exaggeration of CEO/Directors remuneration and expenses

   c. Frequent upward revaluation of assets from a weak auditing firm and resultant higher borrowing and depreciation costs

List of such schools that practiced exaggeration of expenses using these techniques is as follows:

Name of School/School system	**Exaggerated item**	**Amount (m)**
Bayview Academy	CEO/Director Remuneration	236
City School	Repair & maintenance	571
Civilizations	CEO/Director Remuneration	13
Froebels Islamabad	CEO/Director Remuneration	80
Froebels Karachi	CEO/Director Remuneration	105
Generations	CEO/Director Remuneration	103
Headstart School	CEO/Director Remuneration	138
LACAS	Repair & maintenance	71
Lahore Grammar School	CEO/Director Remuneration	1605
Roots International	CEO/Director Remuneration	40
Roots IVY	CEO/Director Remuneration	71
Roots Millennium	CEO/Director Remuneration	128
Roots School System	CEO/Director Remuneration	143
SSS, Karachi	CEO/Director Remuneration	90

ii. Almost in all cases, the rate of salary increase is maximum for the CEO/Directors as against the teachers or non-teaching staff, proving that it's the owners which are the main beneficiaries of fee increase over the years. The list is as under:

School/School System	Yearly Fee Collection increase 2013-17	Average Yearly Teacher Salary Increase	Non-Teaching Staff Salary Increase	Director's Remuneration
Beaconhouse School System	15.41%	17.05%	15.57%	32.10%
The City School	12.50%	13.75%	14.25%	-2.70%
Lahore Grammar School	21.33%	18.76%	25.72%	40.93%
Roots IVY	163.71%	199.00%	199.00%	44.00%
Roots International	19.00%	17.00%	N/A	9.00%
Roots School System	-6.00%	2.00%	N/A	4.00%
Roots Millennium	36.56%	35.86%	40.21%	27.18%
Learning Alliance	10.42%	17.22%	20.82%	25.00%
LACAS	20.75%	36.70%	-4.96%	19.66%
Froebels Karachi	13.00%	15.00%	N/A	25.00%
Froebels Islamabad	15.00%	21.00%	N/A	256.00%
Headstart School	57.70%	61.21%	61.21%	20.30%
Resource Academia	8.26%	N/A	N/A	N/A
Bayview Academy	12.22%	4.00%	N/A	14.00%
SSS, Karachi	7.00%	64.00%	N/A	0.00%
Generations	20.16%	26.43%	N/A	99.24%
Civilizations	16.26%	14.91%	36.12%	31.35%
Alliance Resource	17.19%	19.54%	29.39%	40.50%
The Learning Tree	28.16%	-0.11%	N/A	N/A
Educators	12.57%	N/A	N/A	N/A
City School Gujranwala	9.00%	N/A	N/A	N/A
Eden School System	16.02%	N/A	N/A	N/A

iii. The salaries of teachers are being increased by almost same amount as the revenue, but it does not justify the increase in revenue as the teachers' salaries are in no case more than 40-45% of the revenue.

School/School System	Yearly Fee Collection increase 2013-17	Average Yearly Teacher Salary Increase
Beaconhouse School System	15.41%	17.05%
The City School	12.50%	13.75%
Lahore Grammar School	21.33%	18.76%
Roots IVY	163.71%	199.00%
Roots International	19.00%	17.00%
Roots School System	-6.00%	2.00%
Roots Millennium	36.56%	35.86%
Learning Alliance	10.42%	17.22%
LACAS	20.75%	36.70%
Froebels Karachi	13.00%	15.00%
Froebels Islamabad	15.00%	21.00%
Headstart School	57.70%	61.21%
Resource Academia	8.26%	N/A
Bayview Academy	12.22%	4.00%
SSS, Karachi	7.00%	64.00%
Generations	20.16%	26.43%
Civilizations	16.26%	14.91%
Alliance Resource	17.19%	19.54%
The Learning Tree	28.16%	-0.11%
Educators	12.57%	N/A
City School Gujranwala	9.00%	N/A
Eden School System	16.02%	N/A

iv. Majority of the schools, as reported in their audited accounts, are making profits less than even the bank rate, position being given in the table on next page

School/School System	Average Return on Equity	Average Stated Profit (millions)
Beaconhouse School System	19.50%	1,448.80
The City School	36.00%	353.40
Lahore Grammar School	24.70%	244.60
Roots IVY	10.89%	5.98
Roots International	11.32%	13.20
Roots School System	14.15%	15.00
Roots Millennium	32.62%	31.60
Learning Alliance	48.00%	15.03
LACAS	20.00%	33.00
Froebels Karachi	17.37%	4.00
Froebels Islamabad	11.35%	16.20
Headstart School	6.36%	10.61
Resource Academia	N/A	10.29
Bayview Academy	34.00%	4.80
SSS, Karachi	17.59%	43.80
Generations	2.85%	20.74
Civilizations	33.96%	5.19
Alliance Resource	54.00%	48.20
The Learning Tree	-17.20%	2.63
Educators	N/A	1.32
City School Gujranwala	35.85%	0.57
Eden School System	N/A	0.69

v. There is a high trend of diversifying their own earnings by the school, either directly or by paying of very high dividend and borrowing for the created shortfalls to keep high finance costs. Similarly assets are revalued every few years to keep the Depreciation cost high as well as to borrow higher amounts.

Important Findings in Specific Cases

City School

a) Inspite of having average Revenue per year of more than Rs 5 billion (currently 8 Billion), City School maintained an unknown audit firm thereby making their figures doubtful.

b) The school system borrowed heavily while diversifying funds from its own resources into another company named "Engen" in 2012-13

c) The school took out Rs 2 billion from their earnings in 2017 and again went for borrowing at high finance cost. There were not sufficient cash available for such withdrawl as their loans already stood at around Rs 1.3 Billion.

d) Some branches of the school system practice a policy of standard discounts i.e. the gross fee is given a standard discount in every case and the parents pay only the discounted fee. Both yearly increases are applied on gross fee and the total increase is passed on to parent in the form of net fee. Moreover, the financial statements are prepared on net fee figures with no mention of discount which is against IFRS and thereby the turn over tax is avoided. Further, there is a likelihood that if a cut is ordered by the Court on existing fee that too can be applied on gross fee without reducing the net fee being charged.

e) The school system repeatedly gets its assets revalued. Such revaluation took place twice in the years 2013-17. This practice results in higher level of depreciation costs as well higher level of borrowing.

f) The organization is working as an unrealistically low profit margin of 5% which raises suspicions of inflated expenses

g) The reported RoE for the last year was as high as 86% due to the reason that the Directors have withdrawn 2.025 billion as dividend from the equity making it very low.

h) The organization is working at surprisingly low monthly profit per student of Rs. 404 only which seems to be quite unrealistic.

i) The fee collection has increased by 60% in the three years from 2013 to 2017. On the expense side, the salaries and administrative expenses have also increased considerably, by around 68% in the years 2013-17. Resultantly, the reported net profit has decreased by 6% during the time period 2013-17.

j) The management of the City School Campus E-11/3 is charging Rs.1000 on account of Admin Fee from every student taking up the Cambridge Assessment International Education scheme. Detail of such receipt as under:-

S.No.	Year	Amount	Remarks
1	2016-17	54,000	54 Students undertook CIE
2	2017-18	68,000	68 Students undertook CIE

Lahore Grammar School (LGS)

a) The school has paid heavily to the CEO/Directors. This expense if not drawn as salary would have become part of school profit. In its present shape, the owners would pay only 26% as income tax but if treated correctly and drawn as profit, the owners would have to pay 30-32% corporate tax and further 15% tax on the dividend, therefore an obvious tax avoidance of nearly 19%.

b) The remuneration of CEO/Directors of the Company is Rs. 512 million for the year ended 30 June 2017 which comes to a staggering 8.54 million rupees per month for each of them. The CEO/Directors got a total of Rs. 1.6 billion in 5 years as remuneration. This is besides other expenses like entertainment, travel etc. which were spent on the Directors/Owners in this period. This expenditure is incurred under "**No arm's length Principle**"- the owners/management are free to fix their own salaries and expenses, as allowed under Companies ordinance for Private Limited Companies. In short, this expense can be exaggerated to whatever the owners decide thereby squeezing profit down to a desirable level which seems to be the case for LGS. LGS kept its Remuneration and expense of Directors very high to keep the overall expense at the level of about 96% of the revenue so as to minimize profit figure and thereby the tax paid to the national exchequer.

c) The fee income of the company has risen consistently (116% in 5 years) but its profit has continuously declined (-34% in 05 years). The school has increased its fee but without its getting translated into higher profit as the expense was carefully increased at the same time so as to suppress the profit and ensuing tax payment.

d) The fee income increase has not resulted into proportionate increases in the salaries of teaching staff which increased by 98 % in the same period of last 05 years.

Froebel's Education Center, Karachi

a) The organization is working at a low profit margin of 5% which raises suspicions of inflated expenses

b) The school is working at surprisingly low monthly profit per student of Rs. 400 only

c) The organization has been consistently raising fee with an average increase of 13% per year in the period 2013-17. Logically, it should have resulted into greater profits if a matching increase in the expenses at the same time had not taken place. The reported net profit, however, remained flat in year 2017 if compared with year 2013.

d) The CEO remuneration has increased by an average of 25% per annum and there is no fixed pattern to remuneration of directors.

e) The fee collection has increased by 63% in the five years from 2013 to 2017. The reported net profit, however, remained flat in year 2017 if compared with year 2013.

Froebel's Private Limited, Islamabad

a) The organization is working at an unrealistically low profit margin of 3% which raises suspicions of inflated expenses if not the risk of closure.

b) The organization is working at an unrealistically low RoE of 4.92% in year 2016-17 which is a simple reflection of low profits as indicated above.

c) The organization is working at surprisingly low monthly profit per student of around Rs. 189 only for the current year.

d) Froebel's Pvt Ltd. has been consistently raising fee with an average increase of 15% per year in the period 2013-17. On the expense side, it can be seen that the salaries and administrative expenses have more than doubled in the years 2013-17.

e) The CEO remuneration has increased by an average of 256% per annum.

f) The fee collection has increased by 73% in the five years from 2013 to 2017. The reported net profit, however, decreased in year 2017 by 47% if compared with year 2013.

Roots Millennium

a. The organization is working at an unrealistically low net profit margin of 2.65% which raises suspicions of inflated expenses

b. The School is working at RoE of 13.8 % which is just above the risk-free rate at which one is better off putting the money in bank instead of running a business.

c. The organization is working at surprisingly low monthly profit per student of Rs. 333 only

d. The organization has been consistently raising fee with an average increase of 49% per year in the period 2014-13. Logically, it should have resulted into greater profits if a matching increase in the expenses at the same time had not taken place.

e. The CEO remuneration has increased by an average of 29% per annum

f. On the expense side, it can be seen that the salaries and administrative expenses have also increased considerably, more than doubling in the years 2013-17.

g. The fee collection has increased by 244% in the years from 2013 to 2017. Net profit, however, has increased by 363%.

Roots International Schools (Pvt) Limited

a. The organization is working at an unrealistically low profit margin of 2% which justifies closing down of the school.

b. The organization has been consistently raising fee with an average increase of 19% per year in the period 2013-17. Logically, it should have resulted into greater profits if a matching increase in the expenses at the same time had not taken place.

c. On the expense side, the salaries and administrative expenses have also increased considerably, more than 83% and 89% during the period 2013-17. On the other side, the fee collection has increased by 94% in the five years from 2013 to 2017.

Roots School System

a. The organization is working at an unrealistically low profit margin of 4% which raises suspicions of inflated expenses

b. The organization is working at RoE of 8% in year 2016-17 which is a simple reflection of high expenses and poses risk on the business as a going concern.

c. There is a declining trend in fee income with an average decrease of 6% per year in the period 2013-17. Astonishingly, the expenses have also decreased by the same percentage.

Roots IVY Schools

a. The organization is working as an unrealistically low net profit margin of 1.11% which actually demands closing of the business.

b. The organization is working at RoE of 33 % in year 2016 (2017 being a negative year having RoE of -58%) which is much higher than other school.

c. The fee collection has increased by 1800%, or 17 times, in the given period. Logically, it should have resulted into greater profits if a matching increase in the expenses at the same time had not taken place.

d. The CEO remuneration has increased from Zero in 2013 to 20 million in 2018.

e. On the expense side, the salaries and administrative expenses have increased by 2600% and 1850%.

Learning Alliance (Pvt) Ltd

The organization is working at a profit margin of 7.01% on average for last 05 years and a high average ROE of above 48%.

a. The School is working at monthly profit per student of Rs. 1295 which is 4.3% of the average monthly fee charged-

b. On the expense side, it can be seen that the teacher salaries increased by 17.2% and non-teaching by 20.82% on average per annum, CEO/Directors and administrative expenses increased considerably during the period of last 05 years.

c. The fee Income has increased by 47 % in 5 years. Since number of students remained stable so the income increase can be attributed to rate of the fee.

Alliance Resources (Pvt) Ltd

a. The fee has been increased every year by 9 %. Salaries have increased as well although that the highest was for the CEO/Directors which saw the highest increase of 50.62% on average every year

b. Net profit increased by 26.86% on average per annum which was 7.61% of the average annual revenue.

c. The administrative expense increased by 24.52% per annum on average.

d. The profit per student was Rs. 2,705 for the period 2013-2017 and is around 8% of the monthly fees charged.

e. It can be safely concluded in the case of Alliance Resources that it is making 26.56% net profiton average with above 55% ROE which is on higher side. Fee increases therefore need to be curtailed

LACAS (Pvt) Ltd

a. LACAS borrowed Rs. 132 million from owners, (44% of the total financing) and 53 million on average from related parties (18% of the total financing) out of total 301 million borrowing on average done in last 05 years. The Finance cost therefore was accordingly pushed up which was Rs 30 million on average for last 5 years.

b. LACAS is working at a profit margin of 4.67% for last three years and a high average ROE of 17.48% for last five years.

c. LACAS is working at average profit per student per month of Rs. 587.

d. The School has been consistently raising fee with an average increase of 20.73% during the period 2014-17.

e. The fee Income has increased by 111% in 5 years, showing both the increase in number of students and rate of fee.

SSS Education Management

a. The organization is working at low profit margin of 6%. The organization is working at RoE of 3.75% in year 2016-17 which is a simple reflection of low profits.

b. The School is working at surprisingly low monthly profit per student of around Rs. 300 only which seems unrealistic in view of the monthly fee per student which is around Rs 19,000.

c. The CEO remuneration has been kept fixed at Rs 18 million per annum but it is still high if compared with declining trend in net profit.

d. The fee collection has increased by 30% in the five years from 2013 to 2017. The reported net profit, however, remained flat in year 2017 if compared with year 2013.

Headstart School

a. The School is working at an unrealistically low profit margin of 2.43% which justifies its closing.

b. The school is working at low RoE of 6.36% which is a simple reflection of low profits as indicated above.

c. Headstart School is working at surprisingly low monthly profit per student of Rs. 336 only

d. The school has been consistently raising fee with an average increase of 57% per year in the period 2014-17. Logically, it should have resulted into greater profits if a matching increase in the expenses at the same time had not taken place.

e. The CEO remuneration has increased by an average of 20.3% per annum

f. On the expense side, it can be seen that the salaries and administrative expenses have double during the period 2014-17.

g. The fee collection has increased by 96% in the three years from 2014 to 2017. Net profit, however, has increased by 154%.

Bayview Academy, Karachi

a. The organization is working at an unrealistically low profit margin of 2% which justifies closing of the business.
b. The CEO remuneration has increased by an average of 11% per annum which in turn is 18% of the total income.
c. On the expense side, it can be seen that the administrative expenses have also increased considerably, more than 348% during the period 2013-17.
d. The fee income has increased by 58% in the five years from 2013 to 2017.

Civilization School (Pvt) Ltd

a. The School current profit margin is 5.74% with five year average of 8.1%.
b. The fee income of the company has risen consistently (82% in 5 years) but its profit has increased by only 26% in 05 years. The school has increased its fee but without its getting translated into higher profit as the expense was also increased at the same time so as to suppress the profit and ensuing tax payment.
c. In the last five years, the managerial salaries have increased by 241% but the teachers' salaries have increased by only 73%.

Generation School (Pvt) Ltd

a. The current net profit margin of school is 4% and five yearly average is 4.3%.
b. The fee income of the company has risen consistently (105% in 5 years) but its profit has increased by only 56.72% in 05 years. The school has increased its fee but without its getting translated into higher profit as the expense was supposedly carefully increased at the same time so as to suppress the profit and ensuing tax payment.
c. Since 2015, the fee income increase has not resulted into proportionate increases in the salaries of teaching staff.
d. The remuneration of CEO/Directors of the Company is Rs. 35 million for the year ended 30 June 2017 in addition to other expenses like entertainment, travel etc. which were spent on the Directors/Owners in this period.

The Learning Tree School Pvt Ltd

a. Concern arose over the reliability of amounts and related disclosures given in Financial Statements, due to non-availability of Audited Financial Statements except for the year

2017, and Tax Returns were not available. Since 2017's data was not authentic, it has been excluded from analysis.

b. TLT's Financial Statements shows an un-usual trend over the past 5 years (2013-17). School is generating either low profits or incurring losses. During the years 2013 - 2017 overall net profit margin is 3.21% which is very minimal. There is an inconsistency in the generation of profits over the years which is evident from the results i-e loss in FY -2014 and making profits in FY-2015 & 2016 and then again recurring loss in FY-2017.

c. It has been observed that the net profit is 3.21% of total income as compare to total expenses which are 96.70% of total income. There is a risk that expenses might be overstated thus understating the profits.

d. There is no separate disclosure for segregation for Teachers', Non-teaching staff, Directors and CEO's remuneration.

Eden School Pvt Ltd

a. The School has an average net profit margin of 14.87% with 5 yearly average of 7.75%.

b. Due to insufficiency of data provided no comments can be formulated in respect of fee income.

c. Again no information has been provided relating to teaching and non-teaching staff salaries which is a crucial portion of this report and the basis for the required analysis.

d. No further information has been provided on the expenses of the subject school. Therefore, it is not possible to comment that which specific expenses have increased over the years.

e. There is no information relating to CEO/Director's remuneration. Hence, no comments can be offered regarding CEO/Director remuneration.

Resource Academia Schools

a. Financial statements of Resource Academia School do not present segregation of receipts & expenses which limits the analysis done. There were no notes to financial statements available.

b. During past 5 years total expenses were 91.52 % of the total income hence generating only 8.48 % of net profit out of total income earned.

c. The reason behind a minimal increase of 25.63% in income over the 5 years (only 8.3% average change per annum) may be poor financial management or poor marketing efforts.

d. There is no information regarding salaries of the staff hence comment on teachers/non-teachings-staff/Director/CEO's remuneration cannot be made.

e. No tax has been charged in profit & loss statement throughout the FY 2013 – 2016.

Recommendations

i. Cash transactions for schools, whether collection of fee or any other charges from parents, payment of rent, vendors or salaries of teachers may be completely forbidden. Extra vigilance may be applied in case of collecting any charges from parents for visits, events, extracurricular activities etc. which should always be charged under intimation to Regulator and through bank and not through cash or in any other form.

ii. Collection of fee or any other charges in advance from parents may be completely forbidden.

iii. Fee Collection should only be monthly and never quarterly etc. After all most parents only earn their moneys through monthly salaries and not in advance.

iv. Admission fee may not be more than twice the monthly tuition fee similarly Security fee should not exceed two months tution fee amount.

v. Any Fee reduction should mean corresponding reduction in admission and security fee as well and not just tuition fee, each being a burden to the parent.

vi. No summer fee may be allowed. Although the division of 12 months expenses on 10 months will mean slight increase in monthly fee amount, this would reduce the advance fee payment burden of parents. The school must however make HR payments during this period even if for reduced number of low level security and administrative staff.

vii. Schools/ school systems being run as private limited companies may be forbidden from diversifying their investments from earnings of the school. The owners may do so after declaration of dividend after having paid the corporate tax.

viii. A certain limit on borrowing equal to dividend given has to be put in place.

ix. There should be no borrowing if reserves/retained earnings are available.

x. Ban should be placed on borrowing from "related parties" where the owners or the company holds interest and from the owners themselves. They may invest directly in equity instead of financing activity.

xi. A limit needs to be placed in percentage terms on the maximum remuneration and expenses that the owners as CEO/Directors can incur/take out as remuneration/expenses according to the school categories. It can be around 1% of the revenue for Category 5 & 4 and 0.5% of the revenue for Category 3, 2 &1.

xii. Personal tax returns and tax paid by the Directors/CEO may be displayed on the website of the school and in its audited accounts

xiii. There should be a ban on creating new heads and innovative charging to the parents under different pretexts and heads. Fee and other charges collected from parents should be under standard heads as follows.

1) Admission Fee Security Fee/deposit
2) Monthly tuition Fee
3) Any other/extracurricular activity fee under written intimation to Regulator

xiv. There is a major issue of School switching costs before terminal stage, creating captive market conditions. There should be a ban on collecting any charges by joining school related to previous period upon transfer/joining of school during the study year and any security deposit and admission fee should be reimbursed within 15 days by the leaving school.

xv. Parent Teacher Associations (PTAs) may be mandatory for all schools with active role in fee decisions, complaint redressals, major investments etc.

xvi. Schools may be mandated to charge Stationary cost, photocopying cost, uniform costs etc. on the basis of their actual costs written on face of each stationary with no profit margin whatsoever.

xvii. Minimum qualification for teachers may be prescribed.

xviii. There is a need to define and notify an incremental uniformed pay scales for the teachers of private schools on the basis of experience, education etc.

xix. Regulators shall maintain a pool of audit firms and audits to be assigned randomly every two years for Category 1 & 2 schools.

xx. Parent Teacher Associations (PTAs) may be mandatory for all schools with active role in fee decisions, complaint redressals, major investments etc.

xxi. Schools may be mandated to charge Stationary cost, photocopying cost, uniform costs etc on the basis of their actual costs with no profit margin whatsoever.

xxii. Charging of tuition fee after end of classes and holding of final A/O level exams when no tuition is being given may be banned.

xxiii. Cities and localities face extra traffic and security issues due to large school campuses which require extra police deployment etc. To curtail such problems, all schools having more than 5000 students may offer transport/pick & drop facility to students and teachers at a nominal cost.

xxiv. Presently, all parents have to pay 5% advance tax if the fee exceeds Rs200, 000/- per annum. Schools benefit for three months on this collection. It is proposed that Tax filer may be exempted from this condition whereas non-tax filers may be be made to pay this advance tax against any amount of fee.

xxv. Given the inconsistencies and ambiguities in the submitted accounts, it is proposed that any increase in the fee of the private schools may be frozen for the current academic year @ last completed academic year.

xxvi. For the next year, formula (as given in the subsequent section below) based fee increases may be allowed subject to submission of audited accounts to the Auditor General of Pakistan and his due recommendation.

xxvii. In view of the dubious/incomplete accounts besides suspected malpractices visible between the lines in the submitted financial statements, **Forensic Audit** of following schools/school systems is recommended:

a) City School
b) Roots International School
c) Roots Millennium
d) Froebel's Pvt. Ltd. Islamabad

Categorization of Schools/School Systems

Schools can be categorized on many basis, fee, number of students and number of branches being the obvious choice. However, using multiple criteria or basis for categorization leads to confusion as well as exploitation/misinterpretation at many stages. Therefore a single criteria i.e. fee, being the best possible proxy and representative of both physical and educational quality offered, has been used as sole criteria for categorization of schools, as given below:

S. No.	Category	Monthly Average Fee
1	**Category 1**	Rs. 25000 and above
2	**Category 2**	Equal to and less than Rs. 25000
3	**Category 3**	Equal to and less than Rs. 15000
4	**Category 4**	Equal to and less than Rs. 5000
5	**Category 5**	Equal to and less than Rs. 2000

The certificate of the Category for each school will be issued by each concerned Regulator/Education Department after clearly ruling out the understatement policy. School systems will be required to obtain such certificate from the Regulator in whose jurisdiction their HQ is located.

General minimum requirements for each category

Since each category has different requirement of regulation and has different limitations, therefore separate minimum requirements for each category of schools has been defined and annexed with this report as **ANNEX 1.**

Reduction of Existing Fee

The accounts presented by schools give an unrealistic picture of very low profits per child and per school. They look dubious as they carry unnaturally high figures under certain expense heads and show unnatural profit rates of below 5% that are mostly below bank rates and unrealistic profit per student of less than rupees 500.

In view of the profits presented in the financial reports and general weaknesses observed in reporting of financial data which differ from school to school, it is very difficult to propose an across the board cut on existing fee, based on these audited accounts. However a voluntary cut by the owners need to be attempted for which the owners may be called in one by one (not together for obvious common resistance and face saving) starting with the biggest group by the Committee on fee reduction and future fee increases approved by the honorable Supreme Court. In case the schools refuse the proposed reduction, they may have to face recoveries and tax evasion penalties which would come out if their detailed audit is carried out. It may however be ensured that

i. *such fee reduction may only take place on the net fee paid by the parent and not the gross fee shown by the schools in their books, receipts.*
ii. *Tuition fee cut may not lead to increase in Admission fee or Security deposit fee*
iii. *and there should be a complete ban on laying off any teaching staff during the current academic year or downward changing of student: teacher ratio in any school or its branch*

Fee fixation and Increase Mechanism

Profit of the schools depend on total revenue and total costs. Whereas the revenue is dependent on rate of fee charged, the costs have two components, those which can be verified directly and cannot be manipulated like salaries and rents and those which are flexible and can be manipulated like depreciation and finance costs.

On the side of fee, there are two primary basis for fee charged by each school and paid by every parent i.e. quality of education and the facilities/services offered by the school.

Quality itself has constituent elements, listed as under:

a) Results achieved by the schools (especially in A, O levels and matriculation)
b) Qualifications, outlook, behavior of teaching staff and their ratio to students
c) Extracurricular activities like public speaking, events, tours etc.
d) General standing in peer review
e) Brand name

Facilities/Service can be subdivided as:

a) Physical Campus
b) Campus Location
c) Heating/cooling/Playground/Labs/Computerization etc.
d) Transport/Parking/pickup facility

As so much of the quality and some of the services are a matter of perception, it is impossible to quantify and categorize schools and their fee charged on these two basis. The problem gets further compounded because of the sheer number and kinds of private schools. Moreover, neither facilities nor perception of quality alone help in determining the fee charged. A school having same physical facilities may not be able to charge the same fee being charged by a high image, high brand school offering similar physical facilities.

One possible way out for determining fee charging parameters therefore is to differentiate between costs that are straight and verifiable and those that are not. Following costs fall in the determinable/verifiable category.

a) Teaching and non-teaching staff salary (Paid through banks with proof of withholding tax deduction and submission)
b) Rent payment (Paid through bank with copy of rent agreement)
c) Utilities
d) Legal and professional charges
e) Insurance
f) Directors' remunerations

Following costs, however, are not directly determinable being flexible and upto the owners to determine and manipulate in their favor for paying low taxes:

a) Directors perks and privileges (No arm's length principle being involved)
b) Finance cost (They can invest their earnings outside, revalue their assets and get loan, usually term finance resulting into high finance and depreciation costs)
c) Outsourced services (generators, photocopiers, security etc)
d) Entertainment, travel, medical expenses

Further, many Regulators in the country, including in Punjab, ICT and Sindh have proposed fee enhancement mechanisms and rules. However, these are too Regulator centric besides being quite complicated to implement and having been rejected by private schools already without having satisfied the parents.

In view of the above and to have an automated fee enhancement mechanism, one can reach a certain fee formula for every school as follows;

Actual determinable/verifiable costs (1) + 50% of the actual verifiable costs (2) + Inflation (3) + 5% Profit (4)

Figures for (1) in the formula will be taken from audited accounts.
Figures for (2) will be 40% of the figure (1).
5% profit margin over the total costs plus inflation will be allowed to schools.
Figure for inflation will be taken from the last announced inflation rate by the government.

Example of Lahore Grammar School is given as under for better clarity:

Existing average fee per student per year of the school in 2017: Rs. 160,574/-

Total expense per student per year on average in 2017: Rs. 153,061

Total Cost	= V/Cost + 50% of V/cost + 6% Inflation Rate + 5% Profit Margin
	= 104,081 (1) + 52,041 (2) + 9,367 (3) = 165,489
Profit Allowed 5%	= 165,489 x 5%=8,274
Proposed fee	= 173,764
Fee Increase %age:	= 8.21%
Fee increase/month	= Rs.1,100

The above mentioned formula has been applied on data of ten schools given as under:.

	Learning Alliance	Alliance Resources	LACAS (Pvt) Ltd	BS System	City School	Froebel Education	Froebel Islamabad	Headstart School	LGS Lahore	Roots Millennium
Fee per student per year in 2017	**381,228**	**399,660**	**166,583**	**170,460**	**137,931**	**210,136**	**175,120**	**242,793**	**160,574**	**150,675**
Total expenses per student per year in 2017	**369,118**	**357,073**	**155,507**	**144,416**	**131,743**	**206,428**	**171,840**	**236,198**	**153,061**	**143,826**
68% of the total expenses per student per year	251,000	242,809	105,744	98,203	89,586	140,371	116,851	160,615	104,081	97,802
Add: 50% of total expenses per student per year	125,500	121,405	52,872	49,101	44,793	70,185	58,425	80,307	52,041	48,901
	376,501	**364,214**	**158,617**	**147,304**	**134,378**	**210,556**	**175,276**	**240,922**	**156,122**	**146,703**
Add: Inflation Rate @ 6%	22,590	21,853	9,517	8,838	8,063	12,633	10,517	14,455	9,367	8,802
	399,091	**386,067**	**168,134**	**156,142**	**142,441**	**223,190**	**185,793**	**255,378**	**165,489**	**155,505**
Add: Profit Margin @ 5%	19,955	19,303	8,407	7,807	7,122	11,159	9,290	12,769	8,274	7,775
Proposed fee	**419,045**	**405,370**	**176,540**	**163,949**	**149,563**	**234,349**	**195,083**	**268,146**	**173,764**	**163,280**
% of fee increased	**9.92%**	**1.43%**	**5.98%**	**-3.82%**	**8.43%**	**11.52%**	**11.40%**	**10.44%**	**8.21%**	**8.37%**
Fee increased in Rupees per month	**3,151**	**476**	**830**	**(543)**	**969**	**2,018**	**1,664**	**2,113**	**1,099**	**1,050**

Conclusion

The order of the honorable Supreme Court of November 13th has asked some of the most pertinent questions on the issue of fee fixation, possible reduction of existing fee and the possibility of a mechanism for fee increases in future. In view of the above and the overall feel and understanding developed from analysis of the accounts and tax returns of 22 different schools of different categories all over Pakistan, the best possible answers to the raised questions are given below:

A. How to classify thousands of schools, which are of all categories, provide different facilities and varying standards of instruction;

The fee charged by a school and its success in terms of its numbers and branches are the best proxy that one can use to represent the different facilities, standards and quality of education that is offered by different schools. Proxy Means tests are routinely used in social safety nets to categorize poor households in terms of poverty. There can be three possible criteria i.e. its fee, number of students and number of branches although fee charged remains the best indicator of the overall quality and services provided by the school.

B. If such categorization is possible whether maximum fee limits can be placed;

Even after categorizing them, prescribing of maximum fee limit may not be possible as schools can go on increasing facilities and quality for which people will be willing to pay. However as long as fee increase is linked to costs and certain rules of the game, the possibility that a fair, non-exploitative amount of fee will be charged remains high.

C. In calculating the maximum fee that each category of school can charge whether an analysis of the balance sheet and audit conducted by the Auditor General of Pakistan can be of no help or significance;

The analysis of audited statements and audit carried out by Auditor General has been of some help in deciding the question of fee charging by the schools. Although these accounts appear to be carefully calculated and apparently not reflecting a true picture, there examination provides one with a feel and understanding of the industry financials thereby lending the only help possible in making of such decisions.

D. Whether the schools presently operating and charging fee of their choice without much regulations can be allowed to increase their fee on annual basis; and

The answer to this question is no due to prevalent malpractices commonly observed in their audited accounts besides widespread complaints. Like so many other countries including our neighbors, such increase has to be under a regulated framework.

E. Whether the maximum permissible annual increase in fee can be kept and if not can it be fixed at a certain level with flexibility granted that if on the basis of various factors a school seeks percentage of higher fee and in doing so whether such increase would be to the satisfaction of the competent authority.

Maximum permissible increase can be kept without fixing it at a fixed level and allowing it with permission of Regulator but such an approach has associated problems of operational disruptions and possible rent seeking by Regulators. An automated fee increase formula whose compliance is only to be cross checked by Regulator at the start of new academic year and then on the basis of readily available fee challans every month, might be a better solution.

Beaconhouse School System

(Education Services Limited)

Introduction

The Beaconhouse group was established in November 1975 as Montessori Academy with 19 toddlers and has since grown into an international network of private schools, imparting learning to students all the way to post-graduation, through Concordia Colleges and the Beaconhouse National University.

More than 105,000 students study at the group's flagship network, the Beaconhouse School System, in Pakistan as well as overseas, while the remaining are largely enrolled at The Educators, a parallel school network operated by the group. Beaconhouse School System also has branches in the UK, Malaysia, Thailand, the Philippines, Oman, the UAE, Pakistan and Belgium.

Assignment Objectives/Terms of Reference

The terms of reference of the AGP team entrusted with the assignment of was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following, on the basis of provided record:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2012-13 to 2016-17
- Tax Returns for the last five years

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. The absence of such essential information could have constrained the analysis to the aggregated and summarized figures as in case of other schools, but the **management of Beaconhouse School Systems was very forthcoming in providing additional data** as requested in the requisition. Hence, the office of the AGP was able to perform greater analysis on BSS than other school systems.

Analysis

SECTION 1

Results in Compliance with Para 3 of the Order

Rs in Million

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment (share capital plus RE)	10,143	8,683	7,219	6,299	5,142
Total Expenses(Direct, Admin and Other)	14,449	12,994	11,506	9,829	8,205
Deductions Claimed*	665	580	527	464	492
Income tax Expense	973	793	930	657	470
After Tax Net Profit	1,909	1,465	1,670	1,156	1,044

*. The amount mainly includes depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of IT Law

Tax Expense

Rs in million

Year	2016-17	2015-16	2014-15	2013-14	2012-13
Tax Expense	973	793	930	657	470

Analysis

a) Profitability Analysis (Rs in Million)

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Revenue	17,017	15,055	13,921	11,491	9,632	67,115
Total Expenses (Direct, Admin and Other)	14,449	12,994	11,506	9,829	8,205	56,896
Profit before taxation	2,883	2,258	2,600	1,814	1,514	11,069
Tax Expense	973	794	930	657	470	3,824
Net Profit after Tax	1,909	1,465	1,670	1,156	1,044	7,244
Return on Equity (ROE)	18.83%	16.87%	23.13%	18.36%	20.30%	N/A
Number of students	128,358	126,867	122,684	116,730	112,988	N/A
Monthly Profit per Student in Pak Rupees	1,240	962	1,134	825	770	Not relevant

The increase in total income can be attributed to an interplay of the two factors as below: -

1. Increase in monthly tuition fees
2. Increase in number of students

As can be seen, the profit per student is rising on average in the last five years. It means that to a greater extent, the increase in revenue is due to increase in fees and to a lesser extent due to increase in number of students.

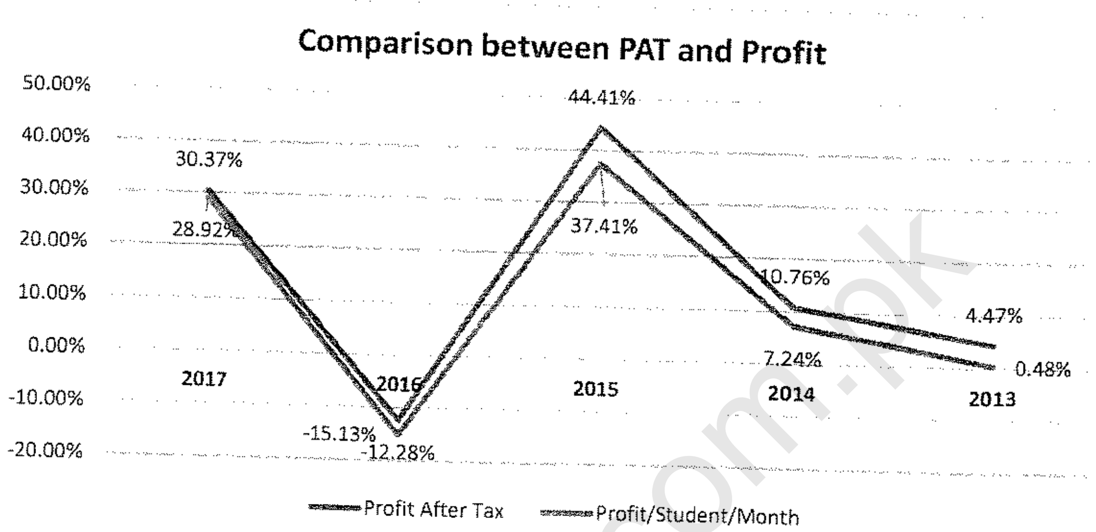
b) Trend Analysis

Year	2017	2016	2015	2014	2013	Average Change per Annum	Total	% of Total Income (Five Year Average)	Percentage Increase 2013-17
Total Revenue	17,017	15,055	13,921	11,491	9,632	-	67,117	98.62%	77%
% Change	13.03%	8.15%	21.14%	19.30%		15.41%			-
Total Income	17,332	15,252	14,107	11,643	9,720	-	68,053	100%	78%
% Change	13.63%	8.12%	21.16%	19.79%		15.68%			-
Total Expense (Direct, Admin and Other)	14,449	12,994	11,506	9,829	8,205	-	56,984	83.73%	76%
% Change	11.20%	12.93%	17.06%	19.79%		15.24%			-
Net Profit	1,910	1,465	1,670	1,156	1,044	-	7,245	10.65%	83%
% Change	30.37%	-12.28%	44.41%	10.76%		16.58%			-
Teachers Salary	6,671	5,904	5,132	4,227	3,559	-	25,494	37.46%	87%
% Change	12.99%	15.04%	21.42%	18.76%		17.05%			-
Non-Teaching staff salary	729	626	564	464	410	-	2,794	4.11%	78%
% Change	16.48%	10.95%	21.55%	13.27%		15.57%			-
Administrative expenditure	1,758	1,546	1,407	1,529	1,289	-	7,529	11.06%	36%
% Change	13.72%	9.88%	-8.00%	18.59%		8.55%			-
CEO/Dir Remuneration*	62	44	44	31	21	-	203	0.30%	191%
% Change	41.43%	0.00%	42.86%	44.12%		32.10%		-	-

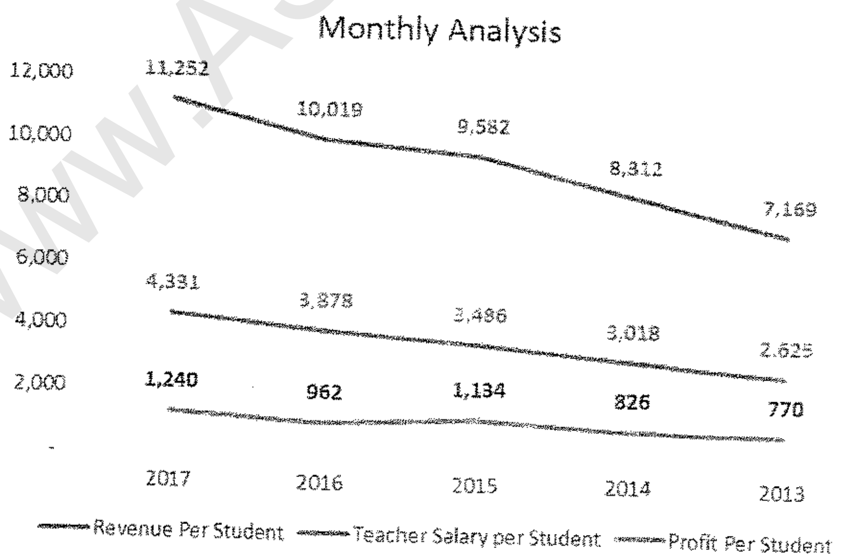
* On average, the total compensation, including entertainment allowance, mobile allowance, club memberships and insurance is roughly 5% more than the remunerations given in the financial statements and hence the remunerations have been multiplied with a factor of 1.05.

c) Comments

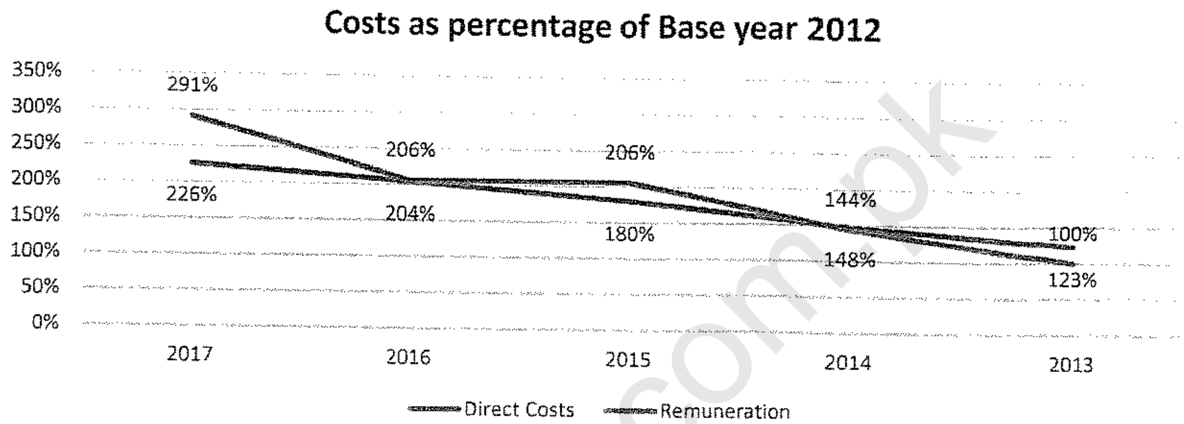
i) It can be seen in the graph below that the percentage change in profit after tax is closely mimicking the percentage change in profit per student per month, this is mainly attributed to the economies of scale achieved by the entity over the years.



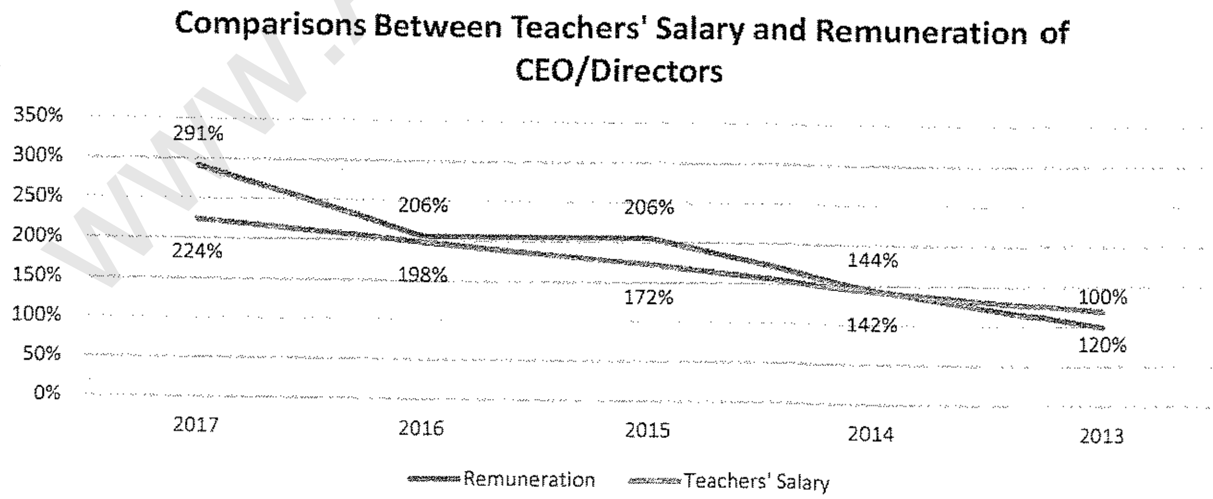
ii) It is also clear that the revenue per student is increasing at a faster rate than the teacher salaries and profit per student. In other words, it can be said that the increase in fee does not support the general impression that fees are increased to cover for the rising costs.



iii) An important part of profit calculation is the CEO's and Directors' remuneration. Since the earliest available data is from 2012, it has been treated as base year for comparison and analysis purposes. As is clear from the graph below, the direct costs have increased by 2.25 times of the costs incurred in the year 2012 while the remunerations have increased by 2.92 times since 2012. While the remunerations are totally legal and correct accounting practices have been applied, it shows that the remunerations are being increased in a proportion not commensurate with increase in direct costs.



iv) It can also be seen that remuneration of CEO and Directors have increased by a factor greater than the increase in direct costs of teaching. It shows that revenue per student is being used to generate greater remuneration for the CEO/Directors, however the quantum of directors' remuneration in totality is very insignificant



SECTION II

PROFITABILITY ANALYSIS AFTER ADD BACK INTO REVENUE

Expenses incurred on CEO/Directors

Directors are owners and have the right to draw profit from the business after paying taxes, according to law. However there is a general trend that such profit is drawn before paying taxes in the form of expenses that are inflated to keep the gross profit low and managed.

It would take examination at transaction and voucher level to further authenticate the expenses given in financial statements, a shorter and safer way to make such expenses realistic and reasonable is to deducted part of such expenses and add them back to the revenue on presumptive basis, to arrive at a realistic estimate of the actual profits made by the school/school/system:

In millions	2017	2016	2015	2014	2013
Total Remuneration of CEO and Directors	62	44	44	31	21

On average, the total compensation, including entertainment allowance, mobile allowance, club memberships and insurance is roughly 5% more than the remunerations given in the financial statements and hence the remunerations have been multiplied with a factor of 1.05

Comments

The impact of adding back of directors' and CEO's remuneration is minimal in case of Beaconhouse because their revenue is very large and their expenses are more or less rising with the same percentage as their revenue. Moreover, remuneration as a percentage of the total revenue is very small and hence no significant difference is seen if remunerations are treated as a part of profit instead of as a part of expenses. ROE increases marginally to 19.44% from 18.83% when remunerations are added back.

SECTION-III

a) Conclusion

The important results, which enable us to comment on the relative increase in fees collection and corresponding expenditures, are reproduced below: -

Year	2017	2016	2015	2014	2013	Average per Annum	Percentage Increase 2013-17
Total Revenue	17,017	15,055	13,921	11,491	9,632	13,423	77%
% Change	13.03%	8.15%	21.14%	19.30%		15.41%	

Total Expense (Direct, Admin and Others)	14,449	12,994	11,506	9,829	8,205	11,397	76%
% Change	11.20%	12.93%	17.06%	19.79%		15.24%	-
Net Profit	1,910	1,465	1,670	1,156	1,044	1,449	83%
% Change	30.37%	-12.28%	44.41%	10.76%		16.58	-
Teachers Salary	6,671	5,904	5,132	4,227	3,559	5,099	87%
% Change	12.99%	15.04%	21.42%	18.76%		17.05%	-
Non-Teaching staff salary	729	626	564	464	410	559	78%
% Change	16.48%	10.95%	21.55%	13.27%		15.57%	-
Administrative expenditure	1,758	1,546	1,407	1,529	1,289	1,506	36%
% Change	13.72%	9.88%	-8.00%	18.59%		8.55%	-
CEO/Dir Remuneration*	62	44	44	31	21	40.57	191%
% Change	41.43%	0.00%	42.86%	44.12%		32.10%	-

i. The total revenue which includes School Fees, Franchise and Royalty income has increased every year by 17.05% per annum, this also includes the effect of student increase. Salaries have increased as well although the lion share of salary increase has been for the CEO/Directors which saw the increase of 40.57 on average every year. However it would be pertinent to mention here that despite this rate the amount of directors' remuneration has a very nominal weightage in total salary.

ii. Net profit almost matched the increase of total revenue as it increased by 16.58 on average per annum which implies that the growth in revenue is in line with growth in expenses, further kindly also note that the increase in revenue is an interplay of two factors i.e. Increase in Student Number and increase in school fee

iii. The total expenses has increased at an average of 15.24% during the last 5 years

iv. The profit per student of Rs. 1,240 for the period ended 30th June 2017 is around 10 percent of the monthly fees charged.

v. It can be safely concluded in the case of Beaconhouse School system profits are growing at an average of 16.58% on average with ROE on the higher side with around 19%. Fee increases therefore need to be curtailed.

City Schools (Private) Limited

Introduction

City Schools (Private) Limited (the Company) was incorporated on September 20, 1980 as a private limited company in the name of BPS (Karachi) limited under the repealed Companies Act, 1913 (now the Companies Act, 2017) The name was subsequently changed to City School (Private) Limited on February 24, 1986 under the Companies ordinance, 1984 (now the Companies Act, 2017).

Assignment Objectives/Terms of Reference

The terms of reference of the AGP team entrusted with the assignment of was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following, on the basis of provided record:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2013-14 to 2017-18
- Tax Returns for the last five years

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. Although the Department of the Auditor General of Pakistan has examined and analyzed the balance sheets, account statements and tax returns and has prepared this report which complies with the requirements of the Court order, the absence of such essential information has constrained the analysis to the aggregated and summarized figures only. The Committee constituted by the Supreme Court has therefore requisitioned further information from the schools on advice of audit in disaggregated form which was submitted by

City Schools, hence the office of the AGP was able to perform somewhat detailed analysis besides visit to one of City School branches in Islamabad.

Analysis

SECTION-I

Results in Compliance with Para 3 of the Order

Rs in Million

Financial Year	2017-18	2016-17	2015-16	2014-15	2013-14	Total
Aggregate Investment	356	2,051	1,830	1,506	1,110	6,853**
Various Costs/Expenses	8,262	7,493	6,801	5,791	5041	33,388
Deduction Claimed*	(Return Due)	397	430	444	474	1745
After Tax Net Profit	307	319	435	378	328	1767

*The deductions claimed mainly includes depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of Income Tax Law

** Equity in 2013-14 plus yearly changes make up the Aggregate Investment

Income Tax Paid

Rs in Million

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13
Tax Paid	114	115	115	196	168

a) Profitability Analysis

The increase in fees collection is summarized for ready reference.

(in Million)

Year	2017	2016	2015	2014	2013	Percentage Increase 2014-17
Fee Income (millions)	8,716	7,919	7,362	6,344	5,450	60%
% Change	10%	8%	16%	16%		
Number of students	63,191	64,555	65,066	62,814	61,560	3%
Fee income per student per annum	137,931	122,671	113,147	100,997	88,532	
Fee income per student per month	11,494	10,223	9,429	8,416	7,378	56%
% Change	12%	8%	12%	14%		

The detailed profitability analysis, so as to give reader a bigger picture of the performance of City School is given below: -

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	8,745	7,954	7,376	6,403	5,551	36,029
Total Expenses	8,325	7,520	6,825	5,829	5,055	33,554
Profit before taxation	420	434	551	574	496	2,475
Tax Expense	114	115	115	196	168	708
Net Profit after Tax	306	419	436	378	328	1,867
Return on Equity	86%	16%	24%	25%	30%	
Number of students	63,191	64,555	65,066	62,814	61,560	
Monthly profit per student	404	541	558	501	444	

It can be seen that the profit per student per month is surprisingly low and seems to be unrealistic. The increase in total income of a school can be attributed to an interplay of the two factors as below: -

1. Increase in monthly tuition fees
2. Increase in number of students

As can be seen, the profit per student is not showing any specific increasing or decreasing trend in the four years. The number of students is also stagnant in the four years under study.

b) Trend Analysis

Year	2017	2016	2015	2014	2013	% of Total Income	Average Change per Annum	Total Percentage Increase 2013-17
Fee Income	8,716	7,919	7,362	6,344	5,450	99%		
%age change	10%	8%	16%	16%			13%	60%
Total Income	8,745	7,954	7,376	6,403	5,551	100%		
%age change	10%	8%	15%	15%			12%	58%
Total Expense	8,325	7,520	6,825	5,829	5,055	93%		
%age change	11%	10%	17%	15%			13%	65%
Finance Cost	188	225	193	239	262	20%		
%age change	-16%	17%	-19%	-9%			-7%	-28%
Depreciation Cost	114	108	84	266	234	15%		
%age change	6%	29%	-68%	14%			-5%	-51%
Net Profit	307	319	435	378	328	5%		
%age change	-4%	-27%	15%	15%			-0.03%	-6%

Teachers Salary	2,461	2,230	2,048	1,746	1,462	28%		
%age change	10%	9%	17%	19%			13.99%	68%
Non-Teaching staff salary	2018	1,907	1,583	1,337	1,203	22%		
%age change	8%	20%	18%	11%			14.50%	68%
Administrative expenditure	2824	2522	3402	2925	2603	40%		
%age change	12%	-26%	16%	12%			3.70%	8%
CEO/Dir Remuneration	33	23	30	35	42	0.5%		
%age change	43%	-23%	-14%	-17%			-2.70%	-21%

Comments

i. The fee income has increased by 60% during the last five years whereas, the net profit has decreased by 6% during the same period. The main reason behind decrease in net profit seems to be the rise in total expenses which rose by 65% during the subject period.

ii. The administrative/operating expenses are generally not within company control like rent, fuel, utilities etc. However, it is for company itself to decide staff salary, CEO/Directors remuneration and any expenses to be incurred on them.

iii. The CEO / Director Remuneration showed a negative trend and decreased by 21% during last five years. The net profit of the company is also on the declining trend and decreased by 06% during five years under review.

iv. The analysis of the financial statements revealed that the shareholders' equity in year 2012-13 was 1.1billion and rose two times in just three years to Rs. 2.05 billion during year 2015-16. However, an amount of Rs. 2.025 billion was drawn from the equity on account of payment of dividend to shareholders during financial year 2016-17.

SECTION II

PROFITABILITY ANALYSIS AFTER ADD BACK INTO REVENUE

Expenses incurred on CEO/Directors

City Schools is a Private Limited Company and the rules allow such companies to use "No Arm's length Principle". They are allowed to determine their own salaries, benefits and other perks without limit. It appears from the analysis of the financial statements that expenses have been inflated to keep the profit low and managed.

Although It would take examination at transaction & voucher level to further authenticate the expenses given in financial statements, a shorter and safer way to make such expenses realistic and reasonable is to deducted part of such expenses and add them back to the revenue on presumptive basis, to arrive at a realistic estimate of the actual profits made by the school/school/system:

	2017	2016	2015	2014	2013
Total remuneration of CEO & Directors	33	23	30	35	42
75% of Remuneration	25	17	23	26	32
10% share in Entertainment	2	2	2	1	1
10C% Share in travelling	8	8	7	9	7
Total	68	50	62	71	82

Other Extra Ordinary High Items

	2017	2016	2015	2014	2013
Gen. repair & Maintenance	13	13.6	56.4	48	39.9
Elect. Repair & Maintenance	11.8	13	15.9	16.8	10.1

Add Back per Year

	2017	2016	2015	2014	2013
Total	93	77	134	136	132

Profitability ~~Analysis~~ after Presumptive Add Back (in Million)

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	8,745	7,954	7,376	6,403	5,551	36,029
Total Expenses	8,325	7,520	6,826	5,829	5,055	33,555
Add Back	93	76.85	133.8	136.05	131.5	571
Presumptive Profit before taxation	513	511	684	710	628	3,045
Presumptive Tax Payable @30%	154	153	205	213	188	913
Presumptive Net Profit after Tax	359	358	479	497	439	2,131
Reported net profit after tax	306	419	436	378	328	1,867
RoE on Presumptive Profit	101%	17%	26%	33%	40%	
Reported ROE	86%	16%	24%	25%	30%	

Trend Analysis after Presumptive Add Back (in Million)

Year	2017	2016	2015	2014	2013	% of Total Income	Average Change per Annum	Total Percentage Increase 2013-17
Fee Income	8,716	7,919	7,362	6,344	5,450	99%		
%age change	10%	8%	16%	16%			13%	60%
Total Income	8,745	7,954	7,376	6,403	5,551	100%		
%age change	10%	8%	15%	15%			12%	58%
Total Expense	8,325	7,520	6,825	5,829	5,055	93%		
%age change	11%	10%	17%	15%			13%	65%
Finance Cost	188	225	193	239	262	20%		
%age change	-16%	17%	-19%	-9%			-7%	-28%
Depreciation Cost	114	108	84	266	234	15%		
%age change	6%	29%	-68%	14%			-5%	-51%
Net Profit	307	319	435	378	328	5%		
%age change	-4%	-27%	15%	15%			-0.03%	-6%
Presumptive Net Profit	359	358	479	497	439	6%	359	
%age change	0%	-25%	-4%	13%				-18%
Teachers Salary	2,461	2,230	2,048	1,746	1,462	28%		
%age change	10%	9%	17%	19%			13.99%	68%
Non-Teaching staff salary	2,018	1,907	1,583	1337	1203	22%		
%age change	6%	20%	18%	11%			13.94%	68%
Administrative expenditure	2824	2522	3402	2925	2603	40%		
%age change	12%	-26%	16%	12%			3.69%	8%
CEO/Dir Remuneration	68	50	62	71	82	1%		
%age change	36%	-19%	-13%	-13%			-2.36%	-17%

Comments:

It is evident from the above that as reported in financial statements, the net profit for the latest year is Rs.307 million and ROE is 86% but upon the add back, the profit becomes Rs. 359 million and ROE becomes 101%. The ROE increased from 30% in year 2012-13 to 101% in year 2016-17 mainly due to drawl of dividend by shareholders to the tune of Rs. 2.025 billion.

SECTION-III

a) Conclusion

The important results, which enable us to comment on the relative increase in fees collection and corresponding expenditures, are reproduced below: -

Year	2017	2016	2015	2014	2013	Average Change per Annum	Total Percentage Increase 2013-17
Fee Income	8,716	7,919	7,362	6,344	5,450	7,158	
%age change	10%	8%	16%	16%		13%	60%
Total Expense	8,325	7,520	6,825	5,829	5,055	6,711	
%age change	11%	10%	17%	15%		13%	65%
Finance Cost	188	225	193	239	262		
%age change	-16%	17%	-19%	-9%		-7%	-28%
Depreciation Cost	114	108	84	266	234		
%age change	6%	29%	-68%	14%		-5%	-51%
Net Profit	307	319	435	378	328	353	
%age change	-4%	-27%	15%	15%		-0.03%	-6%
CEO/Dir Remuneration	33	23	30	35	42		
%age change	43%	-23%	-14%	-17%		-2.70%	-21%

1. The organization is working as an unrealistically low profit margin of 5% which raises suspicions of inflated expenses
2. The reported RoE for the last year was calculated as high as86% due to the reason that the directors have withdrawn 2.025 billion as dividend from the equity making it very low.
3. The organization is working at surprisingly low monthly profit per student of Rs. 404 only
4. The organization has been consistently raising fee with an average increase of 13% per year in the period 2013-17.
5. The CEO remuneration has decreased by an average of -2.7% per annum
6. It can be seen that there is no fixed pattern to remuneration of directors. It is left to the discretion of the owners and they use it for profit suppression, as and when deemed necessary. The profit suppression/management can be expressed as in graph below.
7. On the expense side, it can be seen that the salaries and administrative expenses have also increased considerably, by around 68% in the years 2013-17.

8. The fee collection has increased by 60% in the three years from 2013 to 2017. The fee collection per child has increased by a slightly lower percentage, probably because of some discounts/concessions given. The reported net profit, however, has decreased by 6% during the time period 2013-17.

9. When the remunerations of CEO and directors are added back to the profit, the final position emerges as under: -

Performance Ratio	**Stated**	**Presumptive**
Average RoE	37%	43%
Average Net Profit Margin	5%	6%
Average Tax Expense	141.6 m	183 m

Lahore Grammar School (LGS)

Introduction

Lahore Grammar School (Private) Limited was incorporated in Pakistan in 1980 as a private limited company under the Companies Ordinance 1984. Principle activity of the Company is to set-up and operate educational institutions. LGS school system currently has 57 branches throughout Pakistan, mostly in Punjab. Head office of the Company/school system is located at Lahore.

Assignment Objectives/Terms of Reference

The Auditor General of Pakistan was directed vide Supreme Court order of October 16th, 2018 to examine and analyze the audited accounts and tax returns of selected private schools /school systems & Franchises to determine the following:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Besides above, the honorable Supreme Court also established a Committee through the same order, to discuss the issues of private schools and make recommendation for possible fee reduction and mechanism for future fee increases. Audit team therefore was tasked by the said Committee to carry out further analysis of the data submitted by schools which could assist the Committee in formulating its recommendations for consideration of the honorable Supreme Court of Pakistan.

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the last 5 years i.e. 2012-13 to 2016-17
- Tax Returns for the last five years

In addition, more detailed data for number of students and remunerations of teachers, management and executives, and fee structure was provided to the Office of AGP on requisition of the same.

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. However, additional details were provided by the management of LGS which helped us to calculate averages on the basis of reported figures.

Analysis

SECTION 1

Results in Compliance with Para 3 of the Court Order

Rs. in million

Years	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment (share capital plus RE)	1,245	1,148	988	944	866
Various Costs Incurred/Expenses	7,151	6,366	6,001	4,819	3,902
Finance Cost	169	204	224	177	154
Deductions Claimed*	(Return due)	325	416	321	314
Income Tax Expense	119.6	114	33.12	105.49	1.65
After Tax Net Profit	232	275	160	204	352

* The amount mainly includes depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of IT Law

Income tax Expense

Rs in million

Year	2016-17	2015-16	2014-15	2013-14	2012-13
Tax	119.6	114	33.12	105.49	1.65

The aggregate investment has increased by 30.44%, expenses by 45.43% (in matching with revenues that cannot be concealed being deposited in banks), deductions claimed by 3.38% and Net Profit by -34.09% in the five year period under examination. The pattern of accounts appear to be pretty flat except for the major changes in expenses. There is variation in tax expense in two years due to tax adjustments.

Analysis of the Reported Figures/Financial Statements

a. Profitability Analysis (in Million)

The increase in fees collection is summarized for ready reference: -

Rs. in millions

Year	2017	2016	2015	2014	2013	Percentage Increase 2013-17
Fee Income (millions)	7,479	6,703	5,212	4,236	3,470	115.54%
% Change	11.58%	28.60%	23.05%	22.07%		
Number of students	46,720	43,780	41,037	38,770	36,508	
Fee income per student per annum	160,091	153,106	127,015	109,260	95,050	
Fee income per student per month	13,341	12,759	10,585	9,105	7,921	68.43%
% Change	4.56%	20.54%	16.25%	14.95%		

The detailed profitability analysis, so as to give reader a bigger picture of the performance of Lahore Grammar School, is given below: -

Financial Year	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**2012-13**	**Total**
Total Income	7,502	6,755	6,194	5,129	4,256	29,836
Total Expenses	7,151	6,366	6,001	4,819	3,902	28,239
Profit before taxation	352	389	193	310	354	1,598
Tax Expense	119.6	114	33.12	105.49	1.65	373.86
Net Profit after Tax	232	275	160	204	352	1223
Return on Equity (RoE)	18.63%	23.91%	16.17%	21.61%	43.18%	
Number of students	46,720	43,780	41,037	38,770	36,508	
Monthly Profit per Student in Pak Rupees	413.74	522.50	324.48	438.44	804.37	

It can be seen that the profit per student per month is surprisingly low. Given that the average fees being charged is Rs. 13,341 in the latest financial year, the net profit per month seems to be unrealistically low.

The increase in total income of school can be attributed to an interplay of the two factors: -

1. Increase in monthly tuition fees
2. Increase in number of students

As can be seen, the profit per student is not showing any specific increasing or decreasing trend in the five years. The number of students has increased by over 27.9 % in the same period. Hence, it is clear that the Lahore Grammar School is not budgeting for any minimum or maximum profit per student and is not following any particular trend to show a clear increasing or decreasing trend.

b. Trend Analysis

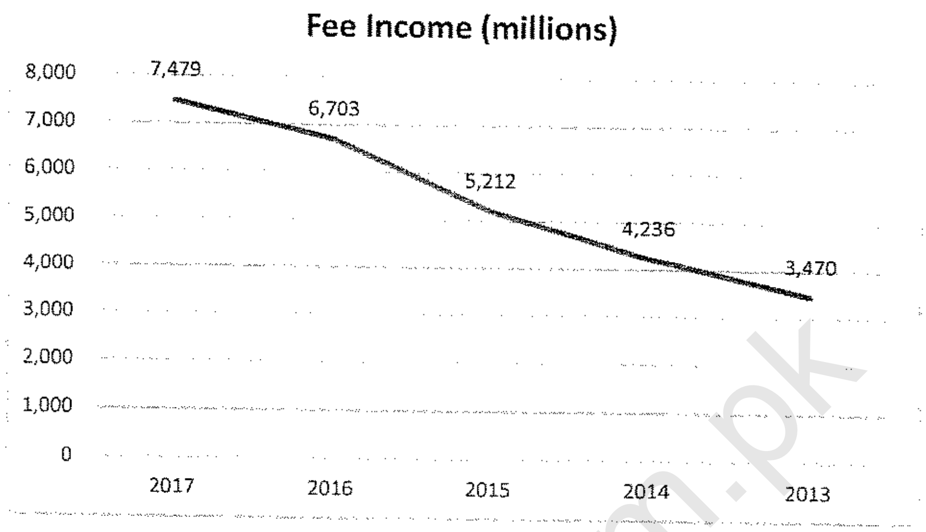
Year	2017	2016	2015	2014	2013	Total	Average Change per Annum	% of Total Income	% Increase 2013-17
Fee Income	7,479	6,703	5,212	4,236	3,470	27,101		90.83%	115.54%
% change	11.58%	28.60%	23.05%	22.07%			21.33%		
Total Income	7,502	6,755	6,194	5,129	4,256	29,836		100.00%	76.26%
% change	11.07%	9.06%	20.76%	20.50%			15.35%		
Total Expense	7,151	6,366	6,001	4,819	3,902	28,240		94.65%	83.24%
% change	12.32%	6.09%	24.52%	23.50%			16.61%		
Net Profit	232	274	160	204	352	1,223		4.10%	-34.18%
% change	-15.50%	71.79%	-21.66%	-42.12%			-1.87%		
Teachers Salary	2,190	1,888	1,686	1,336	1,105	8,206		27.50%	98.12%
% change	16.01%	11.95%	26.20%	20.88%			18.76%		
Management salary	1,846	1,474	1,325	1,012	747	6,404		21.46%	147.11%
% change	25.22%	11.27%	30.95%	35.43%			25.72%		
Administrative expenditure	2,068	1,872	1,745	1,482	1,247	8,414		28.20%	65.81%
% change	10.50%	7.26%	17.76%	18.79%			13.58%		
CEO/Dir Remuneration	512	347	344	260	142	1,605		5.38%	260.39%
% change	47.73%	0.96%	32.08%	82.95%			40.93%		

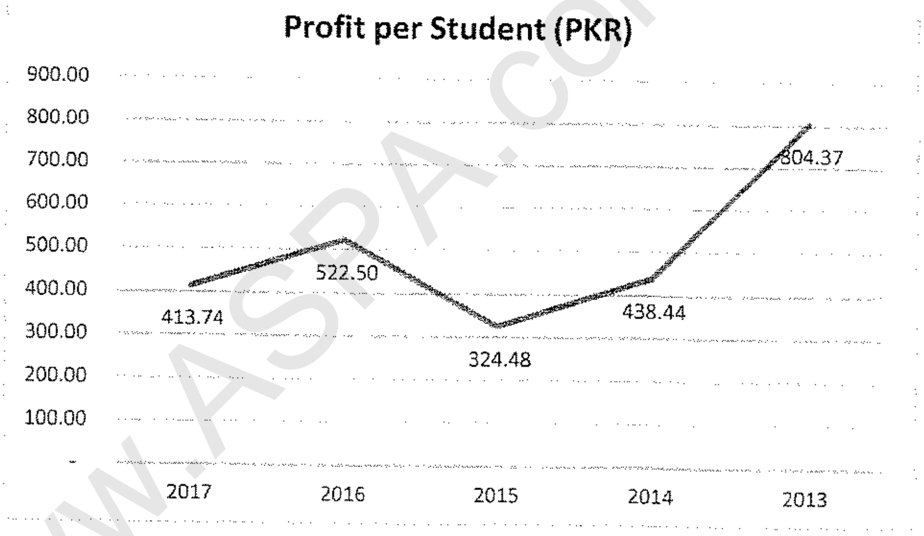
c) Comments

i) The total fees income has increased 115% in the last four years. However, there is no trend in the profit per student.

The profit is fluctuating between a high of Rs. 800 per student per month and a low of 324 in the last 5 years.

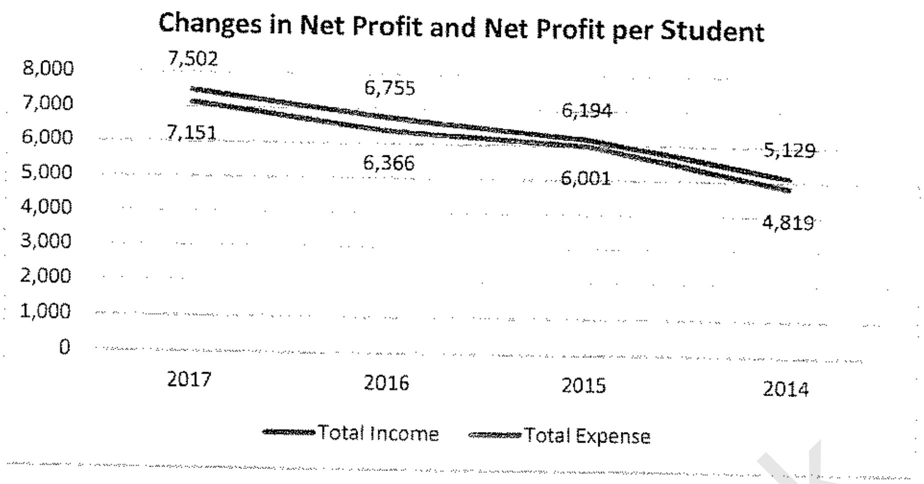
It means that a lot of factors can be attributed to the fluctuation in the profit per student despite the fact that fee collection is increasing gradually.



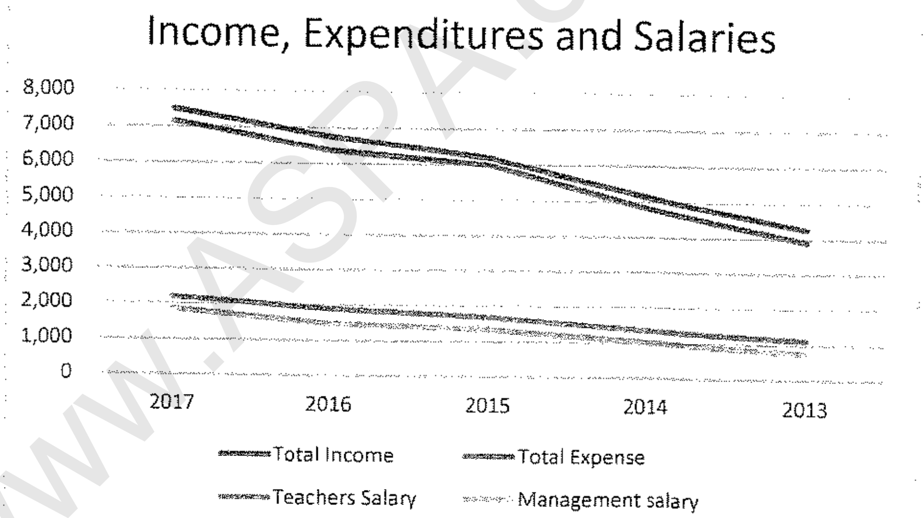


ii) For the five year period, the total expenses have been very high, i.e. 94.65% of the total income. The average net profit margin is only 5.35% of the overall income

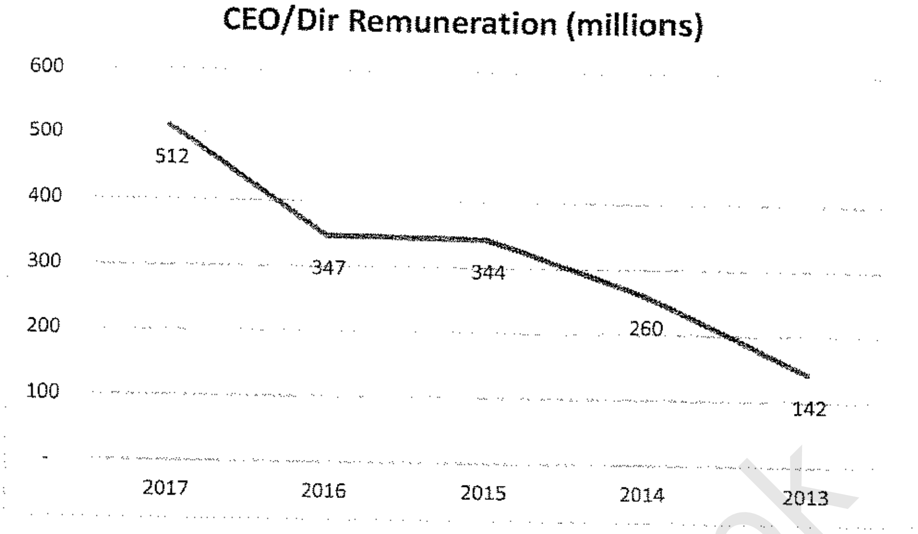
iii) It can also be seen that the changes in profit per student per year and the changes in net profit per year are almost similar. It can also be seen that the net profit and profit per student have decreased in last two years.



iv) If we plot the fee collected, reported expenses and salaries for each of the five years, an interesting observation comes up. The total income and total expenses are closely tracking each other. It means that either the school follows very well-defined cost drivers and has very immaculate budgets or there is some creative accounting in which expenses are jacked up exactly in relation to the increase in fees collection



v) The increase in remunerations of the CEO and directors, the owners, shows a somewhat different trend. The remunerations increased by 260% in the years 2013-17. The increase between the years 2016 and 2017 is 48%. The general trend is upwards and **remunerations have grown at the fastest rate among all expenditures**.



SECTION II

PROFITABILITY ANALYSIS AFTER ADD BACK INTO REVENUE

Expenses incurred on CEO/Directors

LGS is a company registered under Companies Ordinance as a Private Limited Company. The rules allow such companies to use "No Arm's length Principle". They are allowed to determine their own salaries, benefits and other expenses without limit. This permission appears to have been abused in the instant case to to make extraordinary high payments to Directors and suppress profits instead of drawing profit from the business after paying taxes, according to law. Expenses have been inflated to keep the gross profit low and managed.

Although it would take examination at transaction & voucher level to further authenticate the expenses given in financial statements, a shorter and safer way is to deduct part of such expenses and add them back to the revenue on presumptive basis, to arrive at a realistic estimate of the actual profits made by the school/school/system:

	2017	2016	2015	2014	2013
Total Remuneration of CEO and Directors	512.48	346.91	343.61	260.16	142.34
Addback to Profit					
75% of Remuneration	314.25	208.5	206.25	156	85.5
10% share in Entertainment	2.76	2.55	2.22	1.92	1.61
10% share in Travel	1.55	0.998	1.11	0.93	0.62
Total Addback to Net Profit	319	212	210	159	88

A financial analysis of adding back remunerations of directors and CEO to the profit are as follows:

Financial Year	2017	2016	2015	2014	2013
Total Income	7,502	6,755	6,194	5,129	4,256
Total Expenses	7,151	6,366	6,001	4,819	3,902
Profit before taxation	352	389	193	309	354
Addback	319	212	210	159	88
Presumptive Profit after Addback of remuneration	671	601	403	468	442
Presumptive Tax Expense @ 30%	201	180	121	141	133
Presumptive Net Profit	469	420	282	328	309
Net Profit after Tax	232	274	160	204	352
Presumptive Net Profit Margin	6.26%	6.22%	4.55%	6.39%	7.27%
Net Profit Margin	3.09%	4.06%	2.58%	3.98%	8.28%
Presumptive Return on Equity (RoE)	37.69%	36.62%	28.55%	34.73%	37.92%
Return on Equity (RoE)	18.63%	23.91%	16.17%	21.61%	43.18%

SECTION-III

a) Conclusion

i. The fee income of the company has risen consistently (116% in 5 years) but its profit has continuously declined (-34% in 05 years). The school has increased its fee but without its getting translated into higher profit as the expense was carefully increased at the same time so as to suppress the profit and ensuing tax payment.

ii. This expenditure is incurred under "**No arm's length Principle**"- the owners/management are free to fix their own salaries and expenses, as allowed under Companies ordinance for Private Limited Companies. In short, this expense can be exaggerated to whatever the owners decide thereby squeezing profit down to a desirable level. At an average monthly remuneration of about Rs 8.5 million to each of the CEO/Directors, the exaggeration of these expenses to squeeze the profit down to desirable level seems to be the case for LGS. LGS kept its Remuneration and expense of Directors very high to keep the overall expense at the level of about 96% of the revenue so as to minimize profit figure and thereby the tax paid to the national exchequer.

iii. The fee income increase has not resulted into proportionate increases in the salaries of teaching staff which increased by 98 % in the same period of last 05 years

iv. The remuneration of CEO/Directors of the Company is Rs. 512 million for the year ended 30 June 2017 which comes to a staggering 8.54 million rupees per month for each of them. The CEO/Directors got a total of Rs. 1.6 billion in 5 years as remuneration. This is besides other expenses like entertainment, travel etc. which were spent on the Directors/Owners in this period.

v. When the remunerations of CEO and directors are added back to the profit, the final position emerges as under: -

Performance Ratio	Stated	Presumptive
Average RoE	24.7 %	35.1 %
Average Net Profit Margin	4.40 %	6.14 %
Average Tax Expense	75	155

Roots Ivy Schools

Introduction

Roots Ivy Schools is a participant of the Roots School System operating across Pakistan with English as the medium of instruction for teaching. School has been imparting learning for nearly 30 years and has a nationwide network of nearly 45 Campuses and its presence is growing to nearly 10 major cities across Pakistan with an incessant increase in student number to a current 15000 plus.

Assignment Objectives/Terms of Reference

The terms of reference of the AGP team entrusted with the assignment of was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following, on the basis of provided record:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2012-13 to 2016-17
- Tax Returns for the last five years

In addition, more detailed data for number of students and remunerations of teachers, management and executives, and fee structure was **not** provided to the Office of AGP.

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. The absence of such essential information has confined the analysis to the aggregated and summarized figures and the office of the AGP was unable to perform somewhat detailed analysis on Roots Ivy school system.

Analysis

SECTION 1

Results in Compliance with Para 3 of the Order

Rs in Million

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment (share capital plus RE)	65.35	97.23	85.97	30.96	17.16
Various Costs Incurred/Expenses	1,106.71	704.82	449.09	324.10	56.10
Deductions Claimed	99.63	38.84	17.92	11.85	9.51
Income Tax Expense	10.77	10.67	9.28	3.64	0.29
After Tax Net Profit	-38.48	32.36	20.18	13.80	2.06

Income Tax Expense

Rs in million

Year	2016-17	2015-16	2014-15	2013-14	2012-13
Income Tax Expense	10.77	10.67	9.28	3.64	0.29

6. Analysis

a) Profitability Analysis (in Million)

The increase in fees collection is summarized for ready reference.

Year	2017	2016	2015	2014	2013	Percentage Increase 2013-17
Fee Income (millions)	1,076.62	747.38	477.85	340.60	55.47	1840.90%
% Change	44.05%	56.40%	40.30%	514.03%		
Number of students	**DATA NOT MADE AVAILABLE**					
Fee income per student per annum	**DATA NOT MADE AVAILABLE**					
Fee income per student per month	**DATA NOT MADE AVAILABLE**					

The school was started in 2012. Hence, a huge increase of 1840% has been seen in the five years. In simpler words, the fee has increased 17 times in the 5 years.

The detailed profitability analysis, so as to give reader a bigger picture of the performance of Roots Ivy School is given below: -

Rs in million

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	1079.00	747.86	478.55	341.54	58.45	2,705.40
Total Expenses	1106.71	704.82	449.09	324.10	56.10	2,640.82
Profit before taxation	-27.71	43.03	29.46	17.44	2.36	64.58
Tax Expense	10.77	10.67	9.28	3.64	0.29	34.65
Net Profit after Tax	-38.48	32.36	20.18	13.80	2.06	29.92
Return on Equity (RoE)	-58.87%	33.28%	23.47%	44.56%	12.02%	
Number of students	**DATA NOT MADE AVAILABLE**					
Monthly Profit per Student in Pak Rupees	**DATA NOT MADE AVAILABLE**					

The increase in total income of a school can be attributed to an interplay of the two factors: -

1. Increase in monthly tuition fees
2. Increase in number of students

In absence of data on fees charged and number of students, nothing can be said with certainty. It is more likely that it is due to increase in student strength as the school was formed in 2012.

b) Trend Analysis

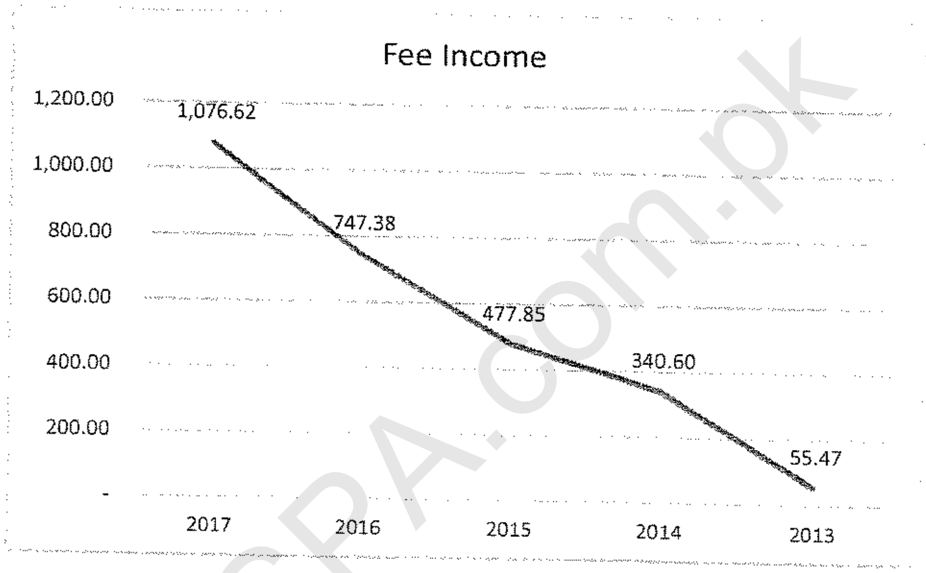
Rs. in Millions

Year	2017	2016	2015	2014	2013	Total	Average Change per Annum	% of Total Income	Percentage Increase 2013-17
Fee Income	1,076.62	747.38	477.85	340.60	55.47	2,697.92		99.72%	1841.05%
% change	44.05%	56.40%	40.30%	514.07%			163.71%		
Total Income	1,079.00	747.86	478.55	341.54	58.45	2,705.40		100.00%	1745.94%
% change	44.28%	56.27%	40.12%	484.30%			156.24%		
Total Expense	1,106.71	704.82	449.09	324.10	56.10	2,640.82		97.61%	1872.85%
% change	57.02%	56.94%	38.57%	477.75%			157.57%		
Net Profit	- 38.48	32.36	20.18	13.80	2.06	29.92		1.11%	-1964.81%
% change	- 218.90%	60.40%	46.22%	568.73%			114.11%		
Salaries, Wages and Benefits	524.06	333.70	230.44	140.57	19.15	1,247.93		46.13%	2635.96%
% change	57.04%	44.81%	63.94%	633.87%			199.92%		
Operating expenditure	1,093.81	702.08	446.79	323.60	56.08	2,622.36		96.93%	1850.46%
% change	55.80%	57.14%	38.07%	477.05%			157.01%		

CEO/Dir Remuneration	19.80	22.93	19.74	8.60	-	71.06		2.63%	130.26%
% change	-13.63%	16.13%	129.56%				44.02%		

c) Comments

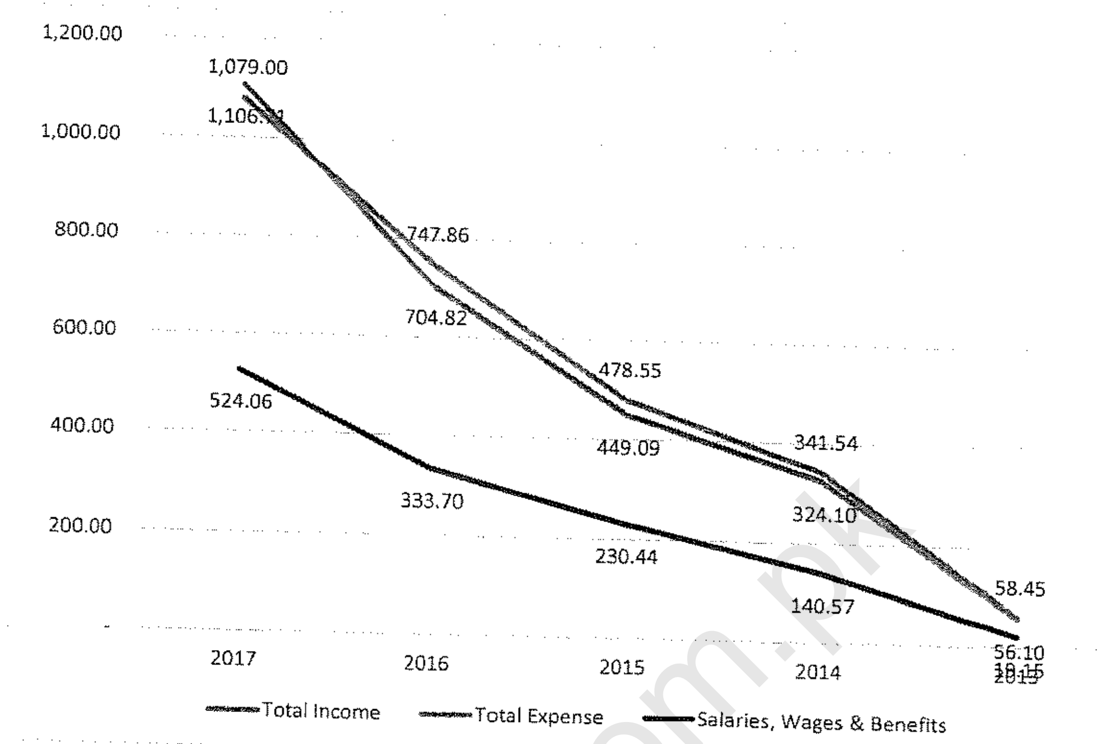
i) The total fees income has increased 1841%, or a massive 17 times, in the last four years. In absolute terms, the income has increased 1 billion in the last 4 years. In the absence of number of students and fee structure, it is not possible to correctly interpret this massive increase.



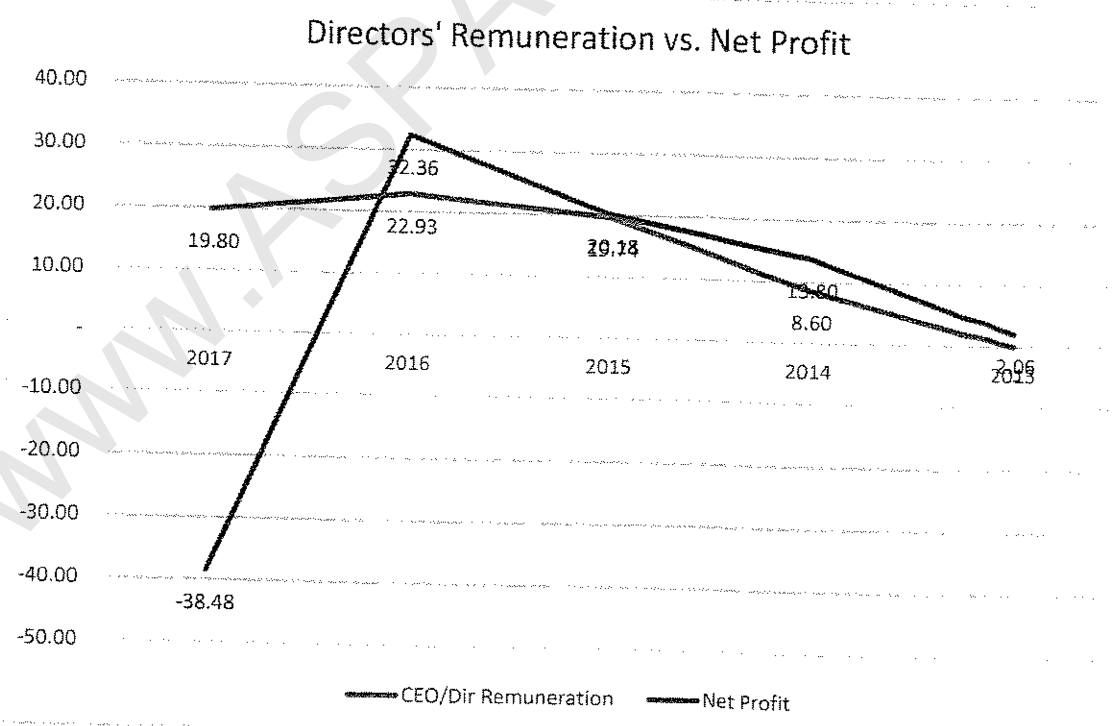
ii) For the four year period, the total expenses have also increased by almost the same percentage. The average net profit margin is only 1.1% of the overall income.

iii) If we plot the total income, total reported expenses and salaries for each of the five years, an interesting observation comes up. The total income and total expenses are closely tracking each other. It means that either the school follows very well-defined cost drivers and has very immaculate budgets or there is some creative accounting in which expenses are jacked up exactly in relation to the increase in fees collection.

Salaries have also grown at a pace faster than the growth in income and the expenses, which is possibly due to rapid hiring of teaching and other staff.



iv) The increase in remunerations of the CEO and directors, the owners, started from zero and are now almost 20 million while the school showed a loss in 2017 of 38 million.



The sudden loss in 2017, from a profit of 32 million to a loss of 38 million – a variation of 70 m – needs to be probed. Heavy expenses like depreciation (a non-cash expense), security expense of 14 million, miscellaneous expense of 14.39 million, 11 million for entertainment, 21 million for events and function, and 82 million for exam registration may merit deeper look to ensure that they are not being siphoned off to owners.

SECTION II

PROFITABILITY ANALYSIS AFTER ADD BACK INTO REVENUE

Expenses incurred on CEO/Directors

Directors are owners and have the right to draw profit from the business after paying taxes, according to law. However there is a general trend that such profit is drawn before paying taxes in the form of expenses that are inflated to keep the net profit margin low and managed.

In millions	**2017**	**2016**	**2015**	**2014**	**2013**
Total Remuneration of CEO and Directors	19.80	22.93	19.74	8.60	0

Comments

It is evident that the remuneration of directors is not dependent upon the net profit. Rather, the remuneration is at the discretion of the directors. It shows no correlation to the net profit.

A financial analysis of adding back remunerations of directors and CEO to the profit are as follows: -

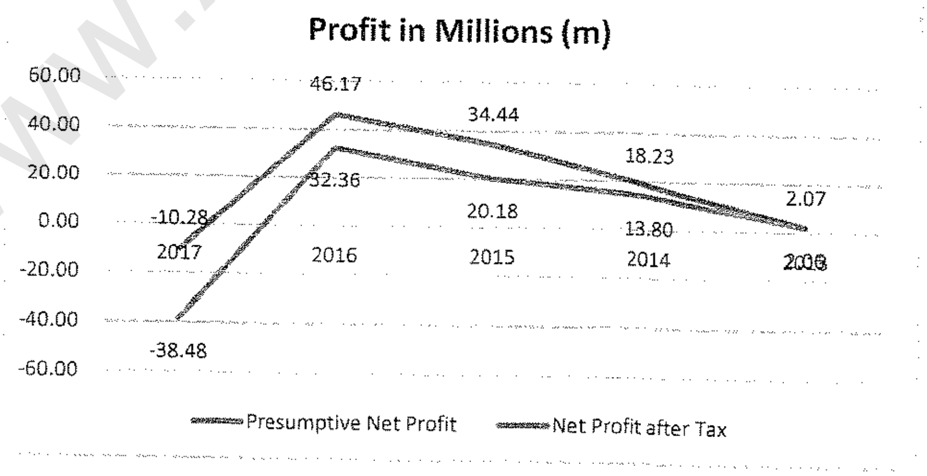
Financial Year	**2017**	**2016**	**2015**	**2014**	**2013**
Total Income	1,079.00	747.86	478.55	341.54	58.45
Total Expenses	1,106.71	704.82	449.09	324.1	56.1
Profit before taxation	-27.71	43.03	29.46	17.44	2.36
Presumptive Profit after Addback of remuneration	-7.91	65.96	49.20	26.04	2.36
Presumptive Tax Expense @ 30%	-2.373	19.79	14.76	7.81	0.29
Presumptive Net Profit	-10.28	46.17	34.44	18.23	2.07
Net Profit after Tax	-38.48	32.36	20.18	13.80	2.06
Presumptive Net Profit Margin	-0.95%	6.17%	7.20%	5.34%	3.54%
Net Profit Margin	-3.57%	4.33%	4.22%	4.04%	3.53%
Presumptive RoE	-15.73%	47.48%	40.06%	58.87%	12.06%
Return on Equity (RoE)	-58.87%	33.28%	23.47%	44.56%	12.02%

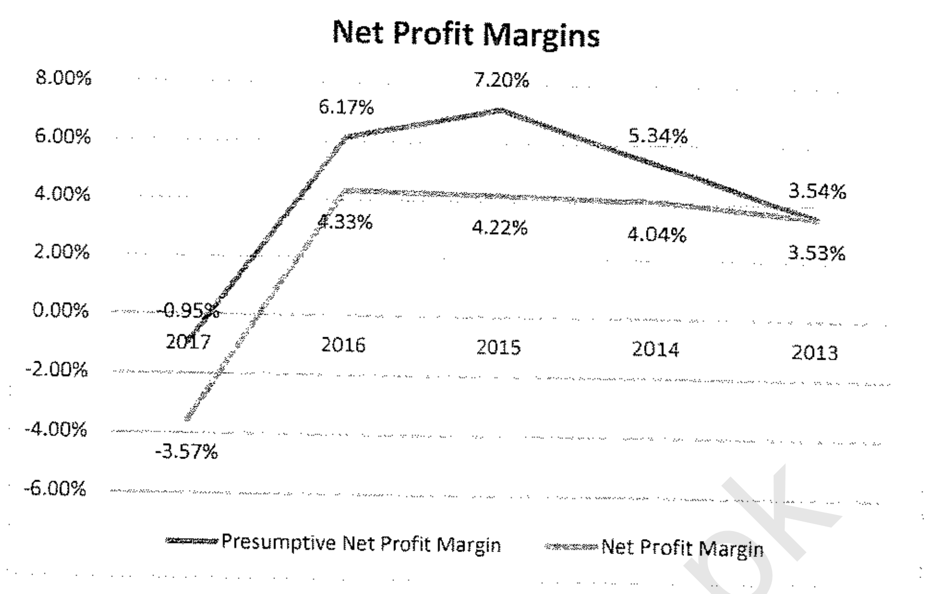
SECTION-III

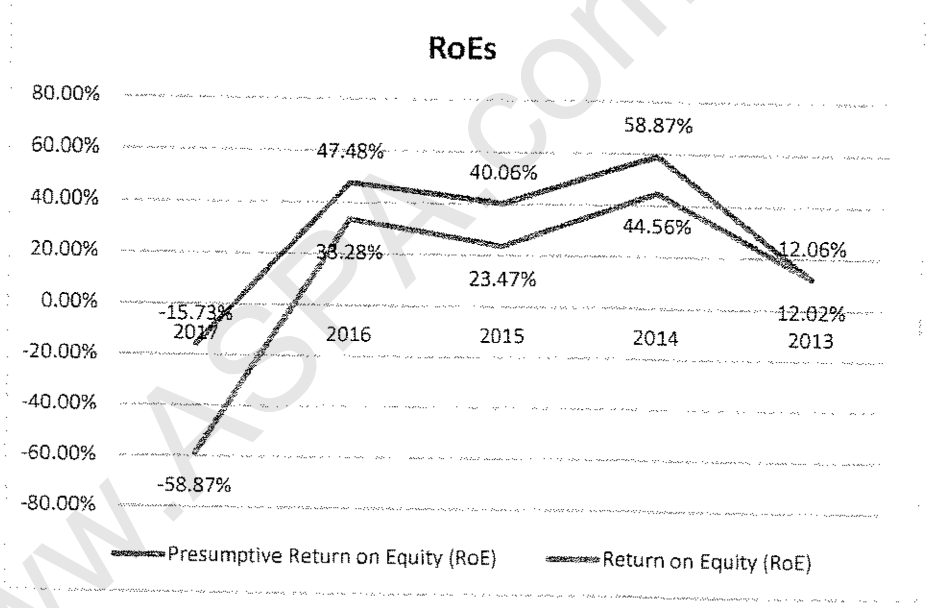
a) Conclusion

1. The organization is working as an unrealistically low net profit margin of 1.11% which raises suspicions of inflated expenses
2. The organization is working at RoE of 33 % in year 2016 (2017 being a negative year has negative RoE of -58%) which is much higher than other schools while the presumptive RoE of 47% is even higher.
3. The fee collection has increased by 1800%, or 17 times, in the given period. Logically, it should have resulted into greater profits if a matching increase in the expenses at the same time had not taken place.
4. The CEO remuneration has increased from Zero in 2013 to 20 million in 2018.
5. It can be seen that there is no fixed pattern to remuneration of directors. It is left to the discretion of the owners and they may use it for profit suppression.
6. On the expense side, it can be seen that the salaries and administrative expenses have also increased considerably, by 2600% and 1850%.
7. When the remunerations of CEO and directors are added back to the profit, the final position emerges as under (the year 2017 has not been made a part of averages): -

Performance Ratio	Stated	Presumptive
Average RoE	28.33 %	39.62 %
Average Net Profit Margin	4.03 %	5.56 %
Average Tax Expense	6.93	10.66




Net Profit Margins
8.00%
6.00%
4.00%
2.00%
0.00%
-2.00%
-4.00%
-6.00%
2017
2016
2015
2014
2013
-0.95%
6.17%
7.20%
5.34%
3.54%
-3.57%
4.33%
4.22%
4.04%
3.53%
Presumptive Net Profit Margin
Net Profit Margin


RoEs
80.00%
60.00%
40.00%
20.00%
0.00%
-20.00%
-40.00%
-60.00%
-80.00%
2017
2016
2015
2014
2013
-15.73%
47.48%
40.06%
58.87%
12.06%
-58.87%
33.28%
23.47%
44.56%
12.02%
Presumptive Return on Equity (RoE)
Return on Equity (RoE)

Roots International School System

Introduction

Roots International Schools (Private) Limited was incorporated in Pakistan on July 27, 2012 as a private limited company under the Companies Ordinance 1984. The Company's registered office is located at House No.1, Street 48, F 8/4, Islamabad. The Company is principally engaged in the business of education, running schools and colleges.

Assignment Objectives/Terms of Reference

The terms of reference of the AGP team entrusted with the assignment of was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following, on the basis of provided record:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2013-14 to 2016-17
- Tax Returns for the last four years

In addition, more detailed data for number of students and remunerations of teachers, management and executives, and fee structure was provided to the Office of AGP on requisition of the same.

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. The absence of such essential information could have constrained the analysis to the aggregated and summarized figures as in case of other schools, but the management of Headstart School provided some additional data as requested in the requisition. Hence, the office of the AGP was able to perform somewhat detailed analysis on Headstart school systems.

Analysis

SECTION-1

Results in Compliance with Para 3 of the Order

Rs in Million

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Aggregate Investment	243	202	168	80	26	719
Various Costs/Expenses	689	673	626	540	362	2890
Deductions Claimed*	75.3	Awaited	Awaited	Awaited	Awaited	75.3
After Tax Net Profit	25	9	21	5	6	66

*The deductions claimed mainly includes depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of Income Tax Law

Income Tax Paid

Rs in million

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Tax Paid	8	7	6	5	2	28

The detailed profitability analysis, so as to give reader a bigger picture of the performance of Froebel's School is given below: -

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	711	673	643	542	366	2935
Total Expenses	681	667	620	535	360	2863
Profit before taxation	33	16	27	10	8	94
Income Tax Expense	8	7	6	5	2	28
Net Profit after Tax	25	9	21	5	6	66
RoE	10.29%	4.46%	12.50%	6.25%	23.08%	

It can be seen that the reported ROE for the last four years has been less than 10% on the average.

An increasing trend has been witnessed in case of income as well as expenses, however no such pattern was observed in case of After Tax Net Profit.

b) **Trend Analysis**

Year	2017	2016	2015	2014	2013	Average Change per Annum	% of Total Income	Percentage Increase 2013-17
Fee Income	711	673	643	542	366		99%	94%
%age	5.65%	4.67%	18.63%	48.09%		19%		
Total Income	714	681	647	544	368		100%	94%
%age	4.85%	5.26%	18.93%	47.83%		19%		
Total Expense	681	667	620	535	360		97%	89%
%age	2.10%	7.58%	15.89%	48.61%		19%		
Net Profit	25	9	21	5	6		2%	317%
%age	177.78%	-57.14%	320.00%	-16.67%		106%		
Teachers Salary	291	259	242	214	159		39%	83%
%age	12.36%	7.02%	13.08%	34.59%		17%		
Operating/Admin expenditure	379	397	368	313	201		56%	89%
%age	-4.53%	7.88%	17.57%	55.72%		19%		
CEO/Dir Remuneration	11	11	10	8	0		1%	38%
%age	0.00%	10.00%	25.00%	0.00%		9%		

c) Comments

1. The fee income of the company has risen consistently (94% in 5 years) and net profit rose by staggering 317% to Rs 25 million (2013: 06 million). Total expenses also increased significantly by 89% quite in line with the income.

2. The administrative/operating expenses are generally not within company control like rent, fuel, utilities etc. However, it is for company itself to decide staff salary, CEO/Directors remuneration and any expenses to be incurred on them.

4. In simple words, the Company kept its operating / administrative expenses very high to keep the overall expense at the level of about 97% of the revenue so as to minimize profit figure and thereby the tax paid to the national exchequer.

5.. The CEO/Directors got a total of Rs. 40 million in 4 years as remuneration. This is besides other expenses like entertainment, travel etc. which were spent on the Directors/Owners in this period.

SECTION II

PROFITABILITY ANALYSIS AFTER ADD BACK INTO REVENUE

Expenses incurred on CEO/Directors

Roots International Schools (Pvt) Ltd. is a company registered under Companies Ordinance as a Private Limited Company. The rules allow such companies to use "No Arm's length Principle". They are allowed to determine their own salaries, benefits and other expenses without limit. This permission appears to have been abused in the instant case to very amounts and suppress profits instead of drawing profit from the business after paying taxes, according to law. Expenses have been inflated to keep the gross profit low and managed.

Although It would take examination at transaction & voucher level to further authenticate the expenses given in financial statements, a shorter and safer way to make such expenses realistic and reasonable is to deducted part of such expenses and add them back to the revenue on presumptive basis, to arrive at a realistic estimate of the actual profits made by the school/school/system:

	2017	2016	2015	2014	2013
Total Remuneration of CEO and Directors	11	11	10	8	0
Addback to Profit					
75% of Remuneration	8.25	8.25	7.5	6	0
10% of Travel	0.9	0.9	2	1.7	0.9
Total Addback to Net Profit	9.15	9.15	9.5	7.7	0.9

Other Extra ordinary items

	2017	2016	2015	2014	2013
50% of Exam Reg. & Club Membership fee	22.5	21	13	14	8

Add Back per Year

	2017	2016	2015	2014	2013
Total	32	30	23	22	9

a) Profitability Analysis after Presumptive Add Back (in Million)

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13
Total Income	714	681	647	544	368
Total Expenses	681	667	620	535	360
Add Back	32	30	23	22	9
Presumptive Profit before Taxation	65	44	50	31	17
Income Tax @ 30%	19	13	15	9	5
Net Presumptive Profit after Tax	45	31	35	21	12
RoE on Presumptive Profit	18.62%	15.30%	20.63%	26.86%	45.50%

b) Trend Analysis after Presumptive Add Back (in Million)

Year	2017	2016	2015	2014	2013	Average Change per Annum	% of Total Income	Percentage Increase 2013-17
Fee Income	711	673	643	542	366	587	99%	94%
%age	5.65%	4.67%	18.63%	48.09%		19%		
Total Income	714	681	647	544	368	590.8	100%	94%
%age	4.85%	5.26%	18.93%	47.83%		19%		
Total Expense	681	667	620	535	360	572.6	97%	89%
%age	2.10%	7.58%	15.89%	48.61%		19%		
Net Profit	25	9	21	5	6	13.2	2%	317%
%age	177.78%	-57.14%	320.00%	-16.67%		106%		
Presumptive Net Profit	45	31	35	21	12	28.826	5%	283%
%age	46.43%	-10.81%	61.24%	81.66%		45%		
Teachers Salary	291	259	242	214	159	233	39%	83%
%age	12.36%	7.02%	13.08%	34.59%		17%		
Administrative expenditure	379	397	368	313	201	331.6	56%	89%
%age	-4.53%	7.88%	17.57%	55.72%		19%		
CEO/Dir Remuneration	11	11	10	8	0	8	1%	38%
%age	0.00%	10.00%	25.00%	0.00%		9%		

c) Comments

It is evident from the above that if the total amount withdrawn by owners, under whatever head, is taken as their profit, the position of the profitability completely changes. As reported in financial statements, the net profit for the latest year is Rs.25 million and ROE is only 10.29% but upon the addback, the profit becomes Rs. 45 million and ROE becomes as high as 18.62%. The net profit reported for the year 2016-17 was Rs 25 million, however, after addback, the presumptive profit calculation goes up to Rs 45 million. If compared with 2013, the reported net profit increased by 317% which reflects that the business operationally stable as a going concern.

SECTION-III

a) Conclusion

The important results, which enable us to comment on the relative increase in fees collection and corresponding expenditures, are reproduced below: -

Year	2017	2016	2015	2014	2013	Average Change per Annum	% of Total Income	Percentage Increase 2013-17
Fee Income	711	673	643	542	366	587	99%	94%
%age	5.65%	4.67%	18.63%	48.09%		19%		
Total Expense	681	667	620	535	360	572.6	97%	89%
%age	2.10%	7.58%	15.89%	48.61%		19%		
Net Profit	25	9	21	5	6	13.2	2%	317%
%age	177.78%	-57.14%	320.00%	-16.67%		106%		
CEO/Dir Remuneration	11	11	10	8	0	8	1%	38%
%age	0.00%	10.00%	25.00%	0.00%		9%		

1. The organization is working as an unrealistically low profit margin of 2% which raises suspicions of inflated expenses
2. The organization is working at an unrealistically low RoE of 10% in year 2016-17 which is a simple reflection of which is a simple reflection of low profits as indicated above.
3. The organization has been consistently raising fee with an average increase of 19% per year in the period 2013-17. Logically, it should have resulted into greater profits if a matching increase in the expenses at the same time had not taken place.

4. The net profit has increased by 106% on average every year which implies that the business is on solid footings and fees could be reduced by 10% if possible.
5. The CEO remuneration has increased by an average of 9% per annum
6. It can be seen that there is no fixed pattern to remuneration of directors. It is left to the discretion of the owners and they use it for profit suppression, as and when deemed necessary. The profit suppression/management can be expressed as in graph below.
7. On the expense side, it can be seen that the salaries and administrative expenses have also increased considerably, more than 83% and 89% during the period 2013-17.
8. The fee collection has increased by 94% in the five years from 2013 to 2017.
9. When the remunerations of CEO and directors are added back to the profit, the final position emerges as under: -

Performance Ratio	Stated	Presumptive
Average RoE	11%	25%
Average Net Profit Margin	2%	5%
Average Tax Expense	6 m	29 m

Roots School System (Private) Limited

Introduction

Roots School System is an association of persons. The firm is engaged in the business of education, running schools and colleges.

Assignment Objectives/Terms of Reference

The terms of reference of the assignment entrusted to the AGP was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Besides above, audit team was tasked to carry out further analysis to assist the Committee established on the issue of private school fee by Supreme Court in reduction of existing fee and in determination of possible fee enhancements in the future.

3. Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2013-14 to 2017-18
- Tax Returns for the last five years

4. Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. The absence of such essential information has constrained the analysis to the aggregated and summarized figures only in most cases including LGS. Once further information is received, further analysis will be accordingly presented by Audit which could help the Committee in formulating evidence based recommendations.

Analysis

SECTION 1

Results in Compliance with Para 3 of the Order

Rs in Million

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment	99	107	Awaited	Awaited	Awaited
Various Costs/Expenses	311	339	Awaited	Awaited	Awaited
Deductions Claimed*	12.1	Awaited	Awaited	Awaited	Awaited
After Tax Net Profit	14	18	Awaited	Awaited	Awaited

*The deductions claimed mainly includes depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of Income Tax Law

Income Tax Paid

Rs in million

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Tax Paid	6	7	7	5	4	29

Profitability Analysis (in Million)

The detailed profitability analysis, so as to give reader a bigger picture of the performance of Froebel's School is given below: -

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	325	357	422	447	421	1972
Total Expenses	311	339	399	423	396	1868
Profit before taxation	14	18	23	24	25	104
Income Tax Expense	6	7	7	5	4	29
Net Profit after Tax	8	11	16	19	21	75
RoE	8.08%	10.28%	14.55%	15.97%	21.88%	

Trend Analysis

Year	2017	2016	2015	2014	2013	Average Change per Annum	% of Total Income	Percentage Increase 2013-17
Fee Income	322	354	420	444	418	-6%	99%	-23%
%age	-9.04%	-15.71%	-5.41%	6.22%				
Total Income	325	357	422	447	421	-6%	100%	-23%
%age	-8.96%	-15.40%	-5.59%	6.18%				
Total Expense	311	339	399	423	396	-6%	95%	-21%
%age	-8.26%	-15.04%	-5.67%	6.82%				
Net Profit	8	11	16	19	21	-21%	4%	-62%
%age	-27.27%	-31.25%	-15.79%	-9.52%				
Teachers Salary	194	195	212	205	182	2%	50%	7%
%age	-0.51%	-8.02%	3.41%	12.64%				
Administrative expenditure	117	144	187	218	214	-14%	45%	-45%
%age	-18.75%	-22.99%	-14.22%	1.87%				
CEO/Dir Remuneration	21	18	30	14	60	4%	7%	-65%
%age	16.67%	-40.00%	114.29%	-76.67%				

Comments

1. The fee income of the company has astonishingly decreased by 23% in 5 years and its profit has shown a declining trend and decreased by 62% during the period under review. This means that the expenses have risen significantly due to which the profit did not increase in comparison to the income.

2. The administrative/operating expenses are generally not within company control like rent, fuel, utilities etc. However, it is for company itself to decide staff salary, CEO/Directors remuneration and any expenses to be incurred on them.

3. In the case of the subject Company where income decreased by 23%, the administrative expense also decreased by 45% in line with the trend.

4. In simple words, the Company kept its overall expense at the level of about 95% of the revenue so as to minimize profit figure and thereby the tax paid to the national exchequer.

5. The CEO/Directors got a total of Rs. 143 million in 5 years as remuneration which becomes 4% of the total income. This is besides other expenses like entertainment, travel etc. which were spent on the Directors/Owners in this period.

6. The above trend analysis clearly show that the actual profit earned by owners has been much higher than what has been declared in the financial statements. The owners have drawn heavy amounts as their remuneration and in the form of expenses incurred on them and by doing so the profit has been suppressed and much lower tax has been paid.

SECTION II

PROFITABILITY ANALYSIS AFTER ADD BACK INTO REVENUE

Expenses incurred on CEO/Directors

Roots School System is a company registered under Companies Ordinance as a Private Limited Company. The rules allow such companies to use "No Arm's length Principle". They are allowed to determine their own salaries, benefits and other expenses without limit. This permission appears to have been abused in the instant case to very amounts and suppress profits instead of drawing profit from the business after paying taxes, according to law. Expenses have been inflated to keep the gross profit low and managed.

Although It would take examination at transaction & voucher level to further authenticate the expenses given in financial statements, a shorter and safer way to make such expenses realistic and reasonable is to deducted part of such expenses and add them back to the revenue on presumptive basis, to arrive at a realistic estimate of the actual profits made by the school/school/system:

	2017	2016	2015	2014	2013
Total Remuneration of CEO and Directors	21	18	30	14	60
Addback to Profit					
75% of Remuneration	15.75	13.5	22.5	10.5	45
Total Addback to Net Profit	16	14	23	11	45

Extraordinary Items

	2017	2016	2015	2014	2013
Repair & Maintenance	18	20	28	36	33
Addback to Profit					
25% of Repair & Maintenance	4.5	5	7	9	8.25
Addback to Net Profit	5	5	7	9	8

Total Add Back to Net Profit	**20**	**19**	**30**	**20**	**53**

Profitability Analysis after Presumptive Add Back (in Million)

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13
Total Income	325	357	422	447	421
Total Expenses	311	339	399	423	396
Add Back	20	19	30	20	53
Presumptive Profit before Taxation	34	51	38	32	30
Income Tax @ 30%	10	15	11	10	9
Net Presumptive Profit after Tax	24	36	27	22	21
RoE on Presumptive Profit	**24.2%**	**33.4%**	**24.2%**	**18.8%**	**21.9%**

Trend Analysis after Presumptive Add Back (in Million)

Year	2017	2016	2015	2014	2013	Average Change per Annum	% of Total Income	Percentage Increase 2013-17
Fee Income	322	354	420	444	418		99%	-23%
%age	-9.04%	-15.71%	-5.41%	6.22%		-6%		
Total Income	325	357	422	447	421		100%	-23%
%age	-8.96%	-15.40%	-5.59%	6.18%		-6%		
Total Expense	311	339	399	423	396		95%	-21%
%age	-8.26%	-15.04%	-5.67%	6.82%		-6%		
Net Profit	8	11	16	19	21		4%	-62%
%age	-27.27%	-31.25%	-15.79%	-9.52%		-21%		
Presumptive Net Profit	24	36	27	22	21		7%	14%
%age	-32.84%	34.21%	18.75%	6.67%		7%		
Teachers Salary	194	195	212	205	182		50%	7%
%age	-0.51%	-8.02%	3.41%	12.64%		2%		
Administrative expenditure	117	144	187	218	214		45%	-45%

%age	-18.75%	-22.99%	-14.22%	1.87%		-14%		
CEO/Dir Remuneration	21	18	30	14	60		7%	-65%
%age	16.67%	-40.00%	114.29%	-76.67%		4%		

Comments

It is evident from the above that the net profit for the latest year is Rs.08 million and ROE is only 8% but upon the add back, the profit becomes Rs. 24 million (03 times of the reported profit) and ROE becomes as high as 24%. If compared with 2013, a declining trend for the reported net profit was observed i.e. the profit decreased by about 62% in five years, however, after adding back extra-ordinary items, the picture changes altogether and presumptive net profit rose by more than 14% in comparison to 2013.

SECTION-III

Conclusion

The important results, which enable us to comment on the relative increase in fees collection and corresponding expenditures, are reproduced below: -

Year	2017	2016	2015	2014	2013	Average Change per Annum	Percentage Increase 2013-17
Fee Income	322	354	420	444	418		-23%
%age	-9.04%	-15.71%	-5.41%	6.22%		-6%	
Total Expense	311	339	399	423	396		-21%
%age	-8.26%	-15.04%	-5.67%	6.82%		-6%	
Net Profit	8	11	16	19	21		-62%
%age	-27.27%	-31.25%	-15.79%	-9.52%		-21%	
CEO/Dir Remuneration	21	18	30	14	60		-65%
%age	16.67%	-40.00%	114.29%	-76.67%		4%	

1. The organization is working as an unrealistically low profit margin of 4% which raises suspicions of inflated expenses
2. The organization is working at RoE of 8% in year 2016-17 which is a simple reflection of high expenses

3. There is a declining trend in fee collection with an average decrease of 6% per year in the period 2013-17. Astonishingly, the expenses have also decreased by the same percentage.
4. The CEO remuneration has increased by an average of 4% per annum, however, it decreased by 65% during the period 2013-17.
5. It can be seen that there is no fixed pattern to remuneration of directors. It is left to the discretion of the owners and they use it for profit suppression, as and when deemed necessary. The profit suppression/management can be expressed as in graph below.
6. On the expense side, it can be seen that the salaries have increased by 7% whereas the administrative expenses have decreased by 21% during the period 2013-17.
7. The fee collection has decreased by 23% in the five years from 2013 to 2017.
8. When the remunerations of CEO and directors are added back to the profit, the final position emerges as under: -

Performance Ratio	**Stated**	**Presumptive**
Average RoE	14%	24%
Average Net Profit Margin	4%	7%
Average Tax Expense	6 m	11 m

Roots Millennium Schools

Introduction

Roots Millennium Schools (RMS) is an ISO 9001:2008 certified group of International Schools registered and operating across Pakistan with English as the medium of instruction for teaching. School has been imparting learning for nearly 30 years and has a presence in 20 major cities across Pakistan with more than 40 Campuses nationwide with student number nearing 17,000.

Assignment Objectives/Terms of Reference

The terms of reference of the AGP team entrusted with the assignment of was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following, on the basis of provided record:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2012-13 to 2016-17
- Tax Returns for the last five years

In addition, more detailed data for number of students and remunerations of teachers, management and executives, and fee structure was provided to the Office of AGP on requisition of the same.

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. The absence of such essential information could have constrained the analysis to the aggregated and summarized figures as in case of other schools, but the management of Roots Millennium School provided some additional data as requested in the requisition. Hence, the office of the AGP was able to perform somewhat detailed analysis on Roots Millennium school system.

Analysis

SECTION 1

Results in Compliance with Para 3 of the Order

Rs in Million

Financial year	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment (share capital plus RE)	241	183	76	47	20
Various Costs Incurred/Expenses	1,357.43	1,027.74	796.94	608.74	404.72
Deductions Claimed	29.25	13.31	5.22	0.60	0.04
Income Tax Expense	166	75.1	97.5	35	87
After Tax Net Profit	31.044	16.296	9.792	6.356	2.064

Income Tax Expense

Rs in million

Year	2016-17	2015-16	2014-15	2013-14	2012-13
Income Tax Expense	166	75.1	97.5	35	87

Analysis

a) Profitability Analysis (in Million)

The increase in fees collection is summarized for ready reference.

Year	2017	2016	2015	2014	2013	Percentage Increase 2013-17
Fee Income (millions)	1,422.07	1,085.63	849.25	631.98	412.95	244.37%
% Change	30.99%	27.83%	34.38%	53.04%		
Number of students	9438	8267	7401	6703	5300	
Fee income per student per annum	150,675	131,322	114,748	94,284	77,916	
Fee income per student per month	12,556	10,943	9,562	7,857	6,493	93.38%
% Change	14.74%	14.44%	21.71%	21.01%	14.74%	

The detailed profitability analysis, so as to give reader a bigger picture of the performance of Roots Millennium School is given below: -

Rs in million

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	1,426.24	1,089.21	854.54	635.64	413.49	4,419.12
Total Expenses	1,357.43	1,027.74	796.94	608.74	404.72	4,195.57
Profit before taxation	68.82	61.47	57.61	26.90	8.77	223.55
Tax Expense	31.04	16.29	9.79	6.35	2.06	65.55
Net Profit after Tax	37.77	45.17	47.81	20.54	6.70	158.00
Return on Equity (RoE)	13.83%	20.08%	50.51%	43.85%	33.01%	
Number of students	9438	8267	7401	6703	5300	Not relevant
Monthly Profit per Student in Pak Rupees	333.51	455.35	538.36	255.37	105.37	Not relevant

It can be seen that the profit per student per month is surprisingly low. Given that the minimum monthly fees being charged is Rs. 12,556 in the latest financial year, the net profit per month seems to be unrealistic.

The increase in total income of a school can be attributed to an interplay of the two factors as below: -

1. Increase in monthly tuition fees
2. Increase in number of students

As can be seen, the profit per student is not showing any specific increasing or decreasing trend in the five years. The number of students has increased by over 80% in the same period.

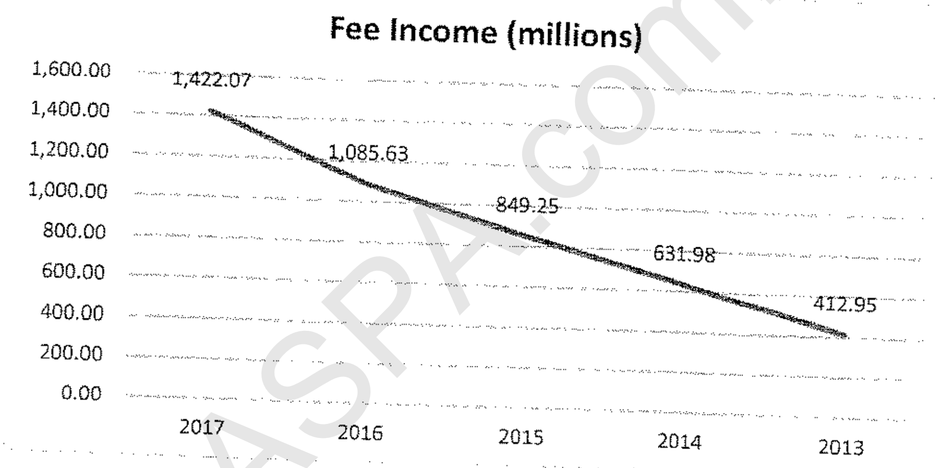
Trend Analysis

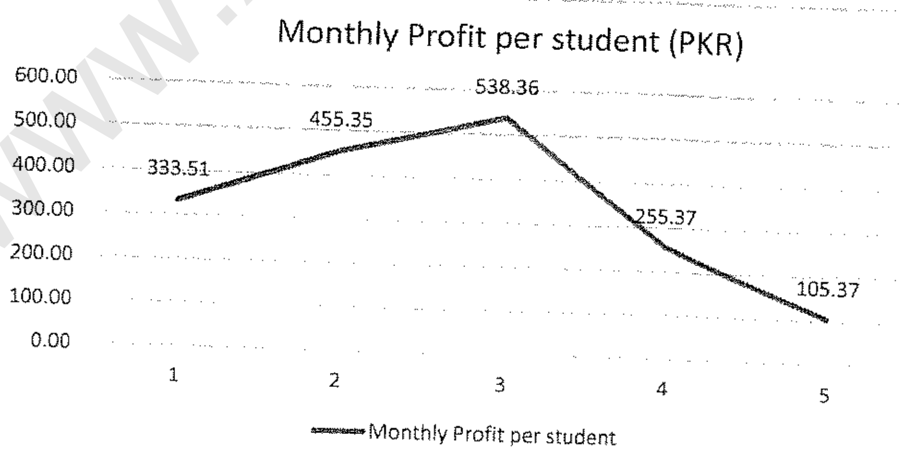
Year	2017	2016	2015	2014	2013	Total	Average Change per Annum	% of Total Income	Percentage Increase 2013-17
Fee Income	1,422.07	1,085.63	849.25	631.98	412.95	4,401.89		99.61%	244.37%
%age	30.99%	27.83%	34.38%	53.04%			36.56%		
Total Income	1,426.24	1,089.21	854.54	635.64	413.49	4,419.12		100%	244.93%
%age	30.94%	27.46%	34.44%	53.73%			36.64%		
Total Expense	1,357.43	1,027.74	796.94	608.74	404.72	4,195.57		94.94%	235.40%
%age	32.08%	28.96%	30.92%	50.41%			35.59%		
Net Profit	37.77	45.17	47.81	20.54	6.70	158.00		3.58%	463.71%
%age	-16.38%	-5.52%	132.77%	206.55%			79.35%		

Teachers Salary	395.47	268.38	205.52	172.63	117.86	1,159.86		26.25%	235.53%
%age	47.35%	30.59%	19.05%	46.46%			35.86%		
Management salary	242.38	178.92	142.82	92.95	63.47	720.54		16.31%	281.91%
%age	35.47%	25.28%	53.64%	46.46%			40.21%		
Administrative expenditure	625.53	501.57	389.69	299.00	197.06	2,012.85		45.55%	217.43%
%age	24.71%	28.71%	30.33%	51.73%			33.87%		
CEO/Dir Remuneration	32.40	33.15	27.20	21.96	13.29	128.00		2.90%	143.82%
%age	-2.27%	21.90%	23.86%	65.24%			27.18%		

Comments

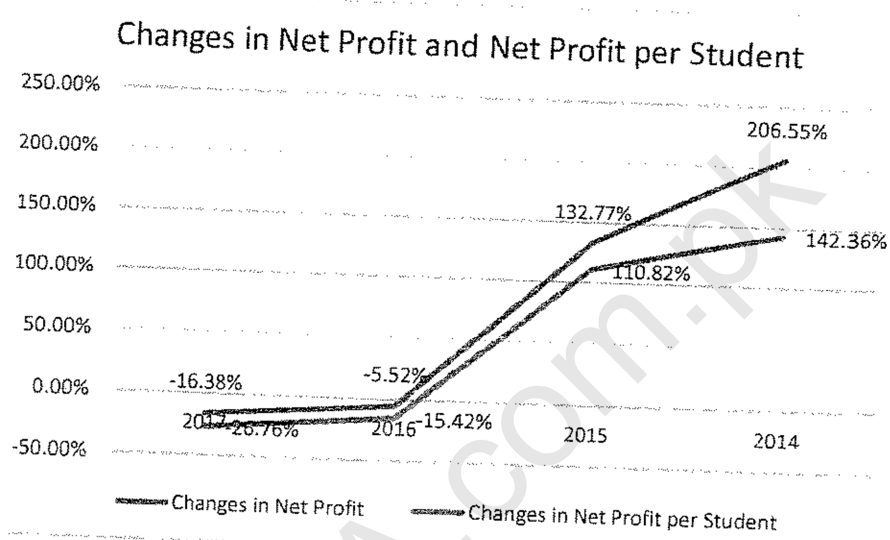
i) The total fees income has increased 244% in the last four years. However, there is no trend in the profit per student. It means that a lot of factors can be attributed to the fluctuation in the profit per student despite the fact that fee collection is increasing continuously.



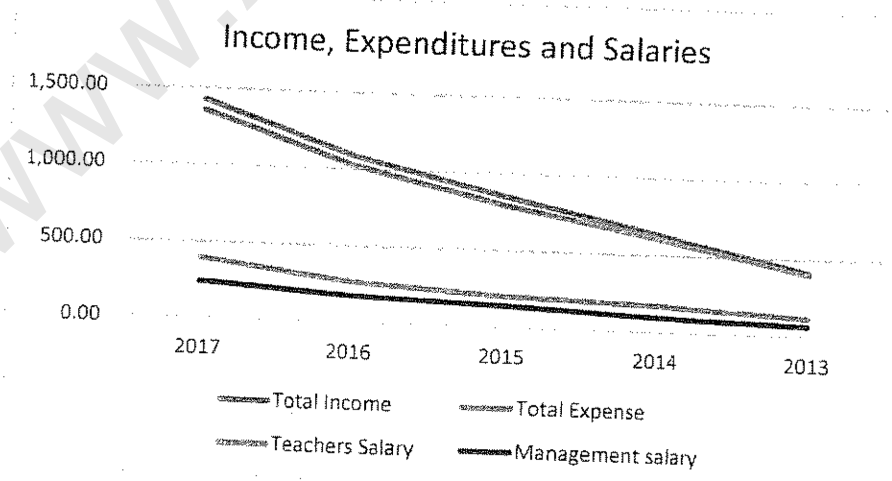


ii) For the four year period, the total expenses have been very high, i.e. 94.95% of the total income. The average net profit margin is only 5.05% of the overall income.

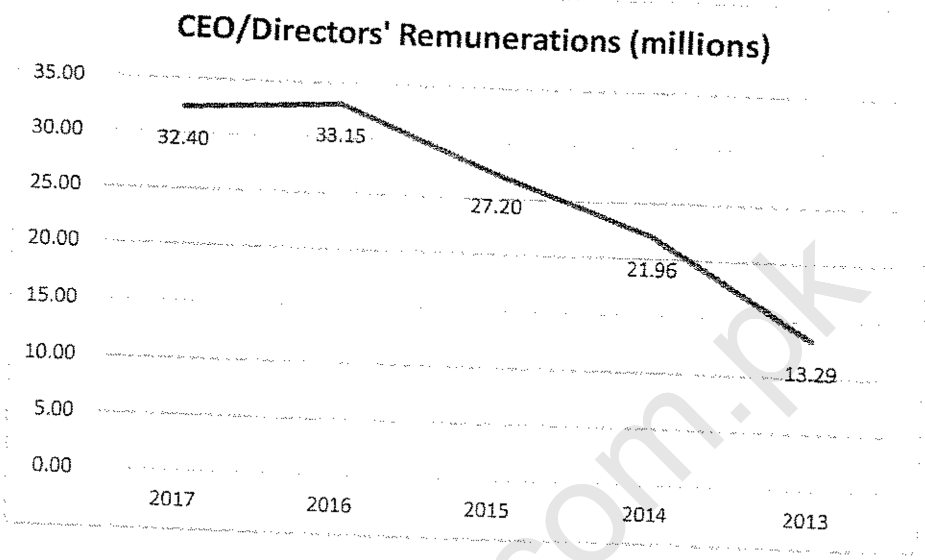
iii)It can also be seen that the changes in profit per student per year and the changes in net profit per year are almost similar. It can also be seen that the net profit and profit per student have decreased in last two years.



iv) If we plot the fee collected, reported expenses and salaries for each of the five years, an interesting observation comes up. The total income and total expenses are closely tracking each other. It means that either the school follows very well-defined cost drivers and has very immaculate budgets or there is some creative accounting in which expenses are jacked up exactly in relation to the increase in fees collection.



v) The increase in remunerations of the CEO and directors, the owners, shows a somewhat different trend. The remunerations more than doubled in the years 2013-16 but were slightly down in 2017. There is no discernable criterion for the remunerations and it seems as if the directors decide it arbitrarily at the end of each year.



SECTION II

PROFITABILITY ANALYSIS AFTER ADD BACK INTO REVENUE

Expenses incurred on CEO/Directors

Directors are owners and have the right to draw profit from the business after paying taxes, according to law. However there is a general trend that such profit is drawn before paying taxes in the form of expenses that are inflated to keep the net profit margin low and managed.

It would take examination at transaction and voucher level to further authenticate the expenses given in financial statements, a shorter and safer way to make such expenses realistic and reasonable is to deducted part of such expenses and add them back to the revenue on presumptive basis, to arrive at a realistic estimate of the actual profits made by the school/school/system:

In millions	2017	2016	2015	2014	2013
Total Remuneration of CEO and Directors	32.40	33.15	27.20	21.96	13.29

Comments

It is evident that the remuneration of directors is not dependent upon the net profit. Rather, the remuneration is at the discretion of the directors. It shows no correlation to the net profit.

For the year ending 30th June 2017, the latest year for which data is available, on adding back the remunerations to profit, RoE jumps from 14% to 26% while net profit margin jumps from 2.6% to almost 5%.

A financial analysis of adding back remunerations of directors and CEO to the profit are as follows: -

Financial Year	**2017**	**2016**	**2015**	**2014**	**2013**
Total Income	1426.24	1089.21	854.54	635.64	413.49
Total Expenses	1357.43	1027.74	796.94	608.74	404.72
Profit before taxation	68.82	61.47	57.61	26.90	8.77
Presumptive Profit after Addback of remuneration	101.22	94.62	84.80	48.85	22.05
Presumptive Tax Expense @ 30%	30.36	28.39	25.44	14.66	6.62
Presumptive Net Profit	70.85	66.23	59.36	34.20	15.44
Net Profit after Tax	37.77	45.17	47.81	20.54	6.70
Presumptive Net Profit Margin	4.97%	6.08%	6.95%	5.38%	3.73%
Net Profit Margin	2.65%	4.15%	5.60%	3.23%	1.62%
Presumptive Return on Equity (RoE)	25.94%	32.11%	38.42%	73.01%	76.05%
Return on Equity (RoE)	13.83%	21.90%	30.94%	43.85%	33.01%

SECTION-III

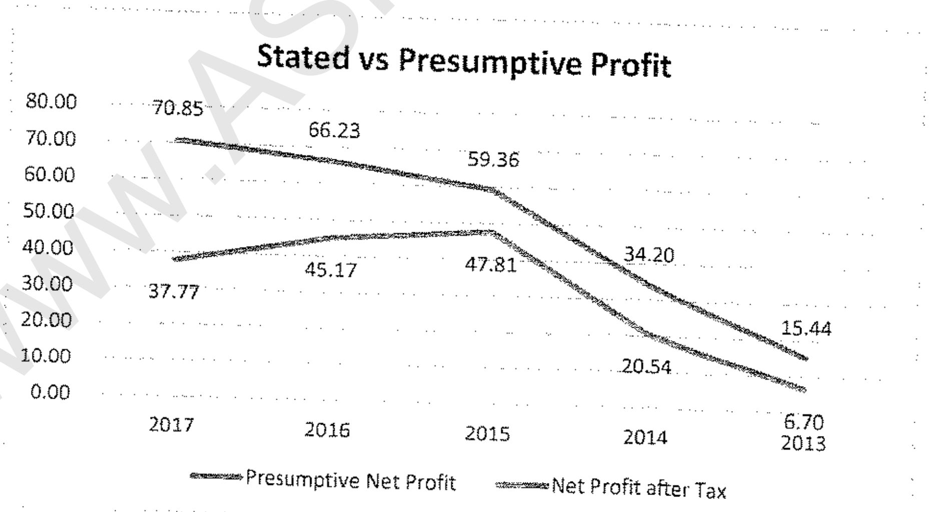
a) Conclusion

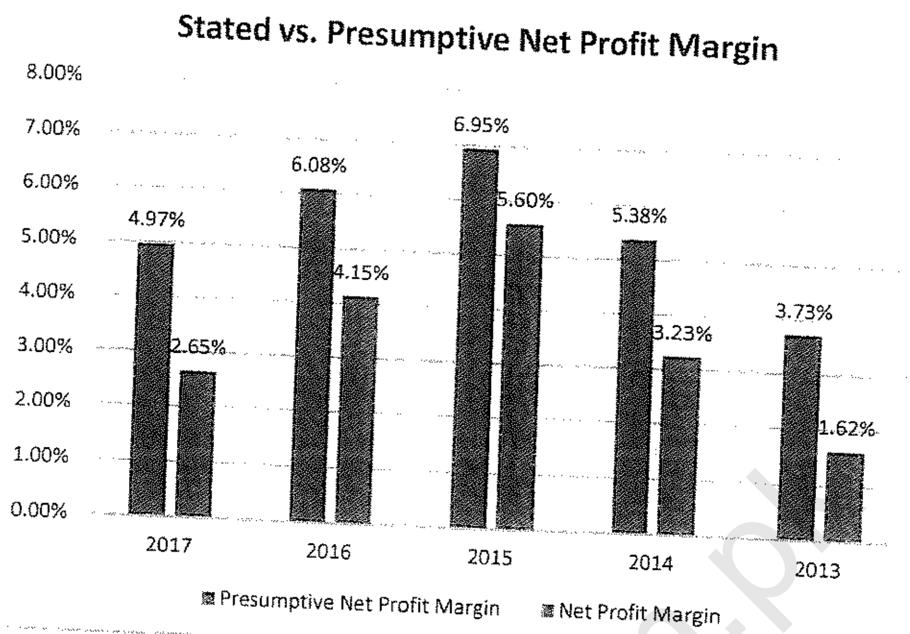
When the remunerations are added back to the profit, and after adjusting for tax payable @ 30%, it is revealed that: -

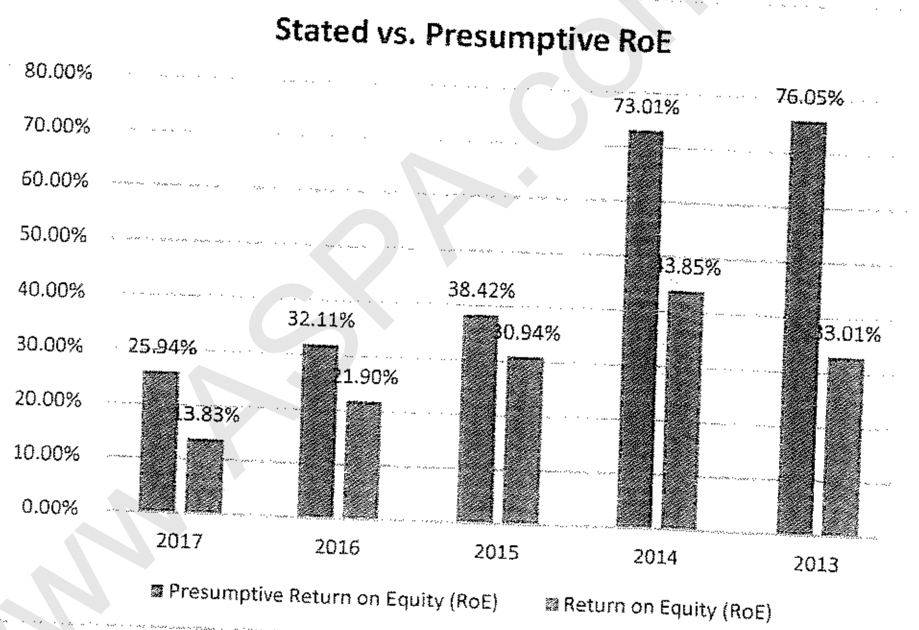
1. The organization is working as an unrealistically low net profit margin of 2.65% which raises suspicions of inflated expenses
2. The organization is working at RoE of 13.8 % which is just above the risk-free rate.
3. The organization is working at surprisingly low monthly profit per student of Rs. 333 only

4. The organization has been consistently raising fee with an average increase of 49% per year in the period 2014-13. Logically, it should have resulted into greater profits if a matching increase in the expenses at the same time had not taken place.
5. The CEO remuneration has increased by an average of 29% per annum
6. It can be seen that there is no fixed pattern to remuneration of directors. It is left to the discretion of the owners and they use it for profit suppression, as and when deemed necessary. The profit suppression/management can be expressed as in graph below.
7. On the expense side, it can be seen that the salaries and administrative expenses have also increased considerably, more than doubling in the years 2013-17.
8. The fee collection has increased by 244% in the years from 2013 to 2017. The fee collection per child has increased, probably because of some discounts/concessions given. Net profit, however, has increased by 363%.
9. When the remunerations of CEO and directors are added back to the profit, the final position emerges as under: -

Performance Ratio	Stated	Presumptive
Average RoE	28.71%	49.11%
Average Net Profit Margin	3.45%	5.42%
Average Tax Expense	13.11	21.09




Stated vs. Presumptive Net Profit Margin
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
4.97%
2.65%
6.08%
4.15%
6.95%
5.60%
5.38%
3.23%
3.73%
1.62%
2017
2016
2015
2014
2013
Presumptive Net Profit Margin
Net Profit Margin


Stated vs. Presumptive RoE
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
25.94%
13.83%
32.11%
21.90%
38.42%
30.94%
73.01%
3.85%
76.05%
3.01%
2017
2016
2015
2014
2013
Presumptive Return on Equity (RoE)
Return on Equity (RoE)

Learning Alliance

Introduction

Learning Alliance (Pvt) Ltd is a company that operates two branches of co-educational schools that offers certifications of the Cambridge Assessment International Education Board. The campuses are located in DHA Lahore and at Faisalabad. At DHA, International Baccalaureate Middle and Primary Years Programmes; and the Diploma Programme are offered. The DHA campus has recently introduced the International Baccalaureate Middle and Primary Years Programme to its curriculum. Learning Alliance is considered as one of the most exclusive academic institutions in Pakistan.

Assignment Objectives/Terms of Reference

The terms of reference of the AGP team entrusted with the assignment of was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following, on the basis of provided record:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2013-14 to 2016-17
- Tax Returns for the last five years

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. The absence of such essential information could have constrained the analysis to the aggregated and summarized figures as in case of some schools, but the **management of learning Alliance was forthcoming in providing additional data** as requested in the requisition. Hence, the office of the AGP was able to perform greater analysis on their school systems.

Analysis

SECTION 1

Results in Compliance with Para 3 of the Order

Rs in Million

Years	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment (share capital plus RE)	39	23	44	40	22
Various Costs Incurred/Expenses	362	341	334	283	248
Finance Cost	12	10	8	7	3
Deductions Claimed*	34	26	25	15	36
Income Tax Expense	7	9	12	0.3	9
After Tax Net Profit	15	15	13	18	13

*. The amount mainly includes depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of IT Law

Tax Expense

Rs in million

Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Tax Expense	7	9	12	0.3	9	37

Number of students

Campus	2017-2016	2016-2015	2015-2014	2014-2013
LPS Gulberg	340	309	359	340
LPS Gulberg –V	672	635	690	661
Total No of Students in the year	**1012**	**944**	**1049**	**1001**

Fee per student per annum & per month

Financial Year	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**2012-13**	**Average for 5 years**
Fee Income	386	373	367	306	262	337
% increase in fee	3%	2%	20%	17%		10%
Number of Students	1012	944	1049	1001		1,001
Fee per student per annum	381,228	395,585	349,556	305,648		358,004
Fee per student per month	31,769	32,965	29,130	25,471		29,834
Fee increase per student per year	-3.6%	13.2%	14.4%			8%

Profitability Analysis (in Million)

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total	Average for 5 years
Total Income	396	375	367	308	273	1,719	348.8
Total Expenses	374	351	342	290	251	1,607	321.4
Profit before taxation	22	23	25	19	22	112	22.33
Income Tax Expense	7	9	12	0	9	36	7.29
Net Profit after Tax	15	15	13	18	13	75	15.03
Return on Equity (RoE)	40%	63%	31%	46%	60%	-	48%
Fee per student per year	381,228	395,585	349,556	305,648	-	-	358,004
Profit per student per year	15,224	15,719	12,831	18,377	-	-	15,538
Fee per student per month	31,769	32,965	29,130	25,471	-	-	29,834
Profit per student per month	1,269	1,310	1,069	1,531	-	-	1,295
Fee increase per student per year	-4%	13%	14%	-	-	-	8%

The increase in total income can be attributed to an interplay of the two factors as below: -

1. Increase in monthly tuition fees
2. Increase in number of students

As can be seen that the number of total students is stable around 1000 and the fee increase around 8% on average, the profit per student is also stable around Rs 1,295 on average.

b) Trend Analysis

Year	2017	2016	2015	2014	2013	Average Change per Annum	Total	% of Total Income	Percentage Increase 2013-17
Fee Income	386	373	367	306	262	25	1,719		
%age change	3.31%	1.84%	19.85%	16.66%		10.42%		98.58%	47%
Total Income	396	375	367	308	273	25	1,744		
%age change	5.67%	2.03%	19.12%	12.89%		9.93%		100.00%	45%
Total Expense	374	351	342	290	251	25	1,632		
%age change	6.33%	2.66%	18.18%	15.44%		10.65%		93.60%	49%
Net Profit	15	15	13	18	13	0.47	76		
%age change	3.83%	10.24%	-26.83%	40.79%		7.01%		4.34%	18%
Teachers Salary	109	102	83	73	58	10	437		
%age change	7.53%	22.00%	13.73%	25.44%		17.18%		25.04%	87%
Non-Teaching staff salary	79	68	59	45	37	8	297		
%age change	15.86%	15.35%	31.10%	20.95%		20.82%		17.03%	112%

Administrative expenditure	113	89	79	65	56	11	414		
%age change	26.6%	13.06%	21.59%	16.35%		19.40%		23.77%	103%
CEO/Dir Remuneration	10	8	0.75	0		2	21		
%age change	23.62	998%	-	-				1.22%	
Fee per student per annum	381,228	395,585	349,556	305,648		358,004	1,432		
Percentage change	-3.6%	13.2%	14.4%	-		8%			25%
Profit per student per annum	15,224	15,719	12,831	18,377		15,538			
Percentage change	-3.1%	22.5%	-30.2%	-		-3.6%			-17%
Fee per student per month	1,269	1,310	1,069	1,531					
Percentage change	-4%	13%	14%	-		8%			

Comments

1. Income

The total revenue earned by the Company in 05 years has been Rs. 1,719 million with annual average revenue of Rs. 344 million with an annual increase of 10 %.

2. Profit

The Company/school system has earned a total net profit of Rs. 76 million in last 5 years. Average annual profit therefore comes to Rs 15 million which is 4.34% of the average annual revenue.

3. Return on Equity/Investment

The Return on Equity during these 05 years comes to 48% per annum on average.

4. Tax Paid

The total tax paid in 05 years is Rs. 37 million with average annual tax of Rs 7.3 million which is only 2 % of the revenue. For a major company having average revenue of Rs 344 million per annum, the tax paid appears very small.

5. Expenses

The total expenses for 05 years come to Rs 1632 million with annual average at Rs 321.4 million.

6. Salaries

The Salaries is the most important cost after rent and utilities for the school system. They fall under three categories, CEO/Board, Teaching staff and non-teaching & Executive staff.

The remuneration of CEO/Directors has been has been Rs 21 million for last 05 years with Rs 3.83 million on average per year. This expense is 1.23% of the total revenue and seems normal. It has also increased to 10 million in 2016-17 from zero in 2012-13. This expense is besides the non-monetized perks of travel, transport, entertainment, travel and medical of the two Directors on which the school incurs expenditure.

Salary of teaching staff is most important as it is a direct contributor to quality of education being imparted by the school. The total under the head of Teachers salary has been Rs. 438 million which is 25.04 % of revenue and has increased by 87% during the 5 years.

Non-teaching staff does not contribute directly to quality of education but are an essential element of quality of service. In case of learning Alliance, the total salary of non-teaching staff including administrative, operational and executive staff for the last 05 years comes to Rs 297 million which is 17.28 % of total revenue and has increased by 112% during the 5 year period.

7. Non Salary Expenses

Non salary expenses reflect the increase in general prices. These expenses include Utility, rent travel, medical expenses etc. Their total for last 05 years come to Rs 414 million and they are 24.11 % of the average total revenue.

8. Fees

Fee is the most important element from parent's perspective and is charged under multiple heads/titles on monthly, annual and one time basis. The fee charged per month per student on average has been Rs 29,833 per month. It has increased on average by 8% per year only.

SECTION-II

Conclusion

The important results, which enable us to comment on the relative increase in fees collection and corresponding expenditures, are reproduced below: -

Year	2017	2016	2015	2014	2013	Average increase per Annum	Percentage Increase 2013-17
Fee Income	386	373	367	306	262	25	
%age change	3.31%	1.84%	19.85%	16.66%		10.42%	47%
Total Income	396	375	367	308	273	25	
%age change	5.67%	2.03%	19.12%	12.89%		9.93%	45%
Total Expense	374	351	342	290	251	25	
%age change	6.33%	2.66%	18.18%	15.44%		10.65	114%
Net Profit	15	15	13	18	13	0.47	
%age change	3.83%	10.24%	-26.83%	40.79%		7 %	140%
Teachers Salary	109	102	83	73	58	10	
%age change	7.53%	22.00%	13.73%	25.44%		17.22%	136%
Non-Teaching staff salary	79	68	59	45	37	8	
%age change	15.86%	15.35%	31.10%	20.95%		20.82%	235%
Administrative expenditure	195	154	20	20	19	11	
%age change	26.23%	670.04%	0.17%	7.17%		19.4 %	135%
CEO/Dir Remuneration	10	8	0.75	-	-	2	
%age change	23.62 %	998 %	-	-			-
Fee per student per month	31,769	32,965	29,130	25,471	-	-	29,834
Profit per student per month	1,269	1,310	1,069	1,531	-	-	1,295
% of Profit per student per month	4.0%	4.0%	3.7%	6.0%	-	-	-

It can be seen that: -

- The fee has increased 8% per annum on average. Salaries have increased as well although salary of CEO/Directors has been seen the maximum percentage increase in last two years.
- Net profit increase was 7.0% only on average annually.
- Interestingly, the administrative expense increased by 19 % on average annually to a total of 135 % in five years.

- The average profit per student of Rs. 1,295 per month for the 04 years is around 4.4% percent of the average monthly fees charged of Rs 29,834 on average, which seem very low as compare to industry average.
- It can be concluded in the case of Learning Alliance School system that it is making 7.01% profit on average with above 48% ROE which is on higher side. Fee increases therefore need to be curtailed
- The organization is working at a profit margin of 7.01% on average for last 05 years and a high average ROE of above 48%.
- The organization is working at a high monthly profit per student of Rs. 1295 which is 4.3% of the average monthly fee charged-
- On the expense side, it can be seen that the teacher salaries increased by 17.2%, non- teaching by 20.82% on average per annum, CEO/Directors and administrative expenses increased considerably during the period of last 05 years.
- The fee Income has increased by 47 % in 5 years. Since number of students remained stable so the income increase can be attributed to rate of the fee.

LAHORE COLLEGE OF ARTS AND SCIENCES (LACAS)

Introduction

LACAS was incorporated in July, 2002 as a private limited company, providing y education from Pre-School to A Leve through 08 different campuses in Lahore. LACAS offers classes from Preschool to A Level. LACAS has launched an alternate stream of schools and not only does it offer matriculation as well as O level, it also focuses on skill-based learning for students to make them more suitable for the outside world.

Assignment Objectives/Terms of Reference

The terms of reference of the AGP team entrusted with the assignment was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following, on the basis of provided record:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2012-13 to 2016-17
- Tax Returns for the last five years

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. The absence of such essential information could have constrained the analysis to the aggregated and summarized figures as in case of other schools, but the management of LACAS was forthcoming in providing additional data as requested in the requisition. Hence, the office of the AGP was able to perform greater analysis on this school system than others.

Analysis

SECTION 1

Results in Compliance with Para 3 of the Order

Rs in Million

Years	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment (share capital plus RE)	241	199	164	138	119
Various Costs Incurred/Expenses	903	719	643	515	380
Finance Cost	28	28	35	37	21
Deductions Claimed*	N/A	N/A	N/A	N/A	N/A
Income Tax Expense	18	8	7	8	2
After Tax Net Profit	42	35	26	19	45

*. The amount mainly includes depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of IT Law

Tax Expense

Rs in million

Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Tax Expense	18	8	7	8	2	43

Analysis

Number of students

Branch/Campus	2017-2016	2016-2015	2015-2014	2014-2013
Johar Town	2939	2883	2890	2817
Burki	982	942	931	957
Gulberg Campus	778	1018	161	0
Gujranwala	232	200	175	95
Canal Side	618	675	725	728
Upper Mall	273	253	255	211
Model Town	163	154	145	127
Faisalabad	-	-	10	-
Milestone Valencia	-	-	-	-
Total No of Students in the year	**5985**	**6125**	**5292**	**4935**

Fee per student per annum & per month

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Average for 4/5 years
Fee Income	997	792	719	596	472	715
% increase in fee	26%	10%	21%	26%	-	20.75%
Number of Students	5985	6125	5292	4935	-	5,583
Fee per student per annum	166,664	129,323	135,835	120,669	-	138,122
Fee per student per month	13,889	10,777	11,320	10,056	-	11,510
Fee increase per student per year	29 %	-5%	13%	-	-	12.20%

Profitability Analysis (in Million)

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total	Average for 4/5 years
Total Income	988	793	720	598	472	3571	714
Total Expenses	931	747	679	552	401	3309	662
Profit before taxation	57	46	42	45	72	262	52
Income Tax Expense	18	8	7	8	2	43	9
Net Profit after Tax	42	35	26	19	45	167	33
Return on Equity (RoE)	17.48%	17.58%	15.83%	13.75%	37.59%	20.45%	20%
Fee per student per year	166,664	129,323	135,835	120,669	-	-	138,123
Profit per student per year	7,047	5,713	4,907	3,849	7,047	-	5,379
Fee per student per month	13,889	10,777	11,320	10,056	-	-	
Profit per student per month	587	476	409	321	-	-	

The increase in total income can be attributed to an interplay of the two factors as below: -

1. Increase in monthly tuition fees
2. Increase in number of students

As can be seen, the profit per student per year is rising on average in the last five years. It means that to a greater extent, the increase in revenue is due to increase in fees and to a lesser extent due to increase in number of students.

Trend Analysis

Year	2017	2016	2015	2014	2013	Average Change per Annum	Total	% of Total Income	Percentage Increase 2013-17
Fee Income	997	792	719	596	472		3,576		
%age change	25.93%	10.19%	20.71%	26.07%		20.73%		100.%	111%
Total Income	988	793	720	598	472		3,571		
%age change	24.51%	10.18%	20.50%	26.51%		20.42%		100.00%	109%
Total Expense	931	747	679	552	491		3,309		
%age change	24.58%	10.10%	22.83%	37.82%	10.10%			92.67%	132%
Net Profit	42.2	35.0	26.0	19.0	44.8		167		
%age change	20.53%	34.76%	36.71%	-57.57%		8.61%		4.67%	-6%
Teachers Salary	340	275	230	196	163		1,205		
%age change	89.76%	19.45%	17.32%	20.29%		36.70%		33.73%	108%
Non-Teaching staff salary	182	148	119	95	73		617		
%age change	-	23.59%	25.36%	31.21%	-	-4.96%		17.28%	151%
Administrative expenditure	409	203	158	144	115		238		
%age change	100%	28.99%	9.81%	24.65%		41.10%		28.81%	255%
CEO/Dir Remuneration	12	7	7	7	7		40		
%age change	84.36%	-9.73%	0.00%	4.01%		19.66%		1.13%	73%
Fee per student per year	166,664	129,323	135,835	120,669	-	-	138,123	-	-
Profit per student per year	7,047	5,713	4,907	3,849	7,047	-	5,379	-	-
Fee per student per month	13,889	10,777	11,320	10,056	-	-	-	-	-
Profit per student per month	587	476	409	321	-	-	-	-	-

Comments

1. Income

The total revenue earned by the Company in 05 years has been Rs. 3,571 million with annual average revenue of Rs.714.2 million with an annual increase of 20.42%.

2. Profit

The Company/school system has earned a total net profit of Rs. 167 million in last 5 years. Average annual profit therefore comes to Rs33.4 million which is 4.67% of the average annual revenue.

3. Return on Equity/Investment

Original investment was Rs. 4,540,800 in the year 2013. Retained earnings of Rs. 236,687/- has been added in last 05 years. Return on equity during these 05 years comes to 20.45%.

4. Tax Paid

The total tax paid in 05 years is Rs. 43 million with average annual tax of Rs 9 million which is only 0.01% of the revenue. For a major company having average revenue of Rs 714.2 million per annum, the tax paid appears very small.

5. Expenses

The total expenses for 05 years come to Rs 3,309 million with annual average at Rs 662 million.

6. Salaries

The Salaries is the most important cost after rent and utilities for the school system. They fall under three categories, CEO/Board, Teaching staff and non-teaching & Executive staff.

The remuneration of CEO/Directors has been a total of Rs 40 million for last 05 years with Rs 8 million on average per year. However a doubling of this expense has taken place in year 2017. This expense is besides the non-monetized perks of travel, transport, entertainment, travel and medical of the two Directors on which the school incurs expenditure.

Salary of teaching staff is most important as it is a direct contributor to quality of education being imparted by the school. The total under the head of Teachers salary has been Rs. 1,205 million which is 34 % of revenue with an average increase by 20.14% per annum. It may however be noted that the school changed its policy and the audited financial statement of 2017-16 does not present the expenses under Teachers Salary and Non-teaching staff salary separately.

Non-teaching staff does not contribute directly to quality of education but are an essential element of quality of service. In case of LACAS, the total salary of non-teaching staff including administrative, operational and executive staff for the last 05 years comes to Rs 617 million which is 17.27 % of total revenue.

7. Non Salary Expenses

Non salary expenses reflect the increase in general prices. These expenses include Utility, rent travel, medical expenses etc. Their total for last 05 years come to Rs 1029 million and they are 28.81% of the total revenue.

8. Fees

Fee is the most important element from parent's perspective and is charged under multiple heads/titles on monthly, annual and one time basis. The fee charged per month per student on average has been Rs 11,510. It has increased on average by 12.20% per year.

SECTION II

PROFITABILITY ANALYSIS AFTER ADD BACK INTO REVENUE

Expenses incurred on CEO/Directors

Directors are owners and have the right to draw profit from the business after paying taxes, according to law. However there is a general trend that such profit is drawn before paying taxes in the form of expenses that are inflated to keep the gross profit low and managed.

In millions	**2017**	**2016**	**2015**	**2014**	**2013**
Total Remuneration of CEO and Directors/Executives	12	7	7	7	7

Comments

The impact of adding back of directors' and CEO's remuneration is minimal in case of LACAS being small amounts and their revenue being reasonably large. Moreover, remuneration as a percentage of the total revenue is very small and hence no significant difference is seen if remunerations are treated as a part of profit instead of as a part of expenses.

SECTION III

PROFITABILITY ANALYSIS AFTER ADD BACK INTO REVENUE

Repair & Maintenance

LACAS is a company registered under Companies Ordinance as a Private Limited Company. The company operated 8 schools branches in 2017 out of which 5 buildings were on rent basis. Major repair & maintenance should have been the responsibility of the owners of the buildings. The repair and maintenance expenses increased by 210% in 2017 from 2016 (from Rs. 33.75 Million in 2016 to 70.84 Million in 2017).

The unusual increased in repair and maintenance was observed in the FY 2016-17, therefore analysis have been made for that year only.

	2017	2016	2015	2014	2013
Repair & Maintenance	70.84	-	-	-	-
Addback to Profit					
75% of Repair & maintenance	53.13	-	-	-	-
Total Addback to Net Profit	53.13	-	-	-	-

a) Profitability Analysis after Presumptive Add Back (in Million)

Financial Year	**2016-17**
Total Income	988
Total Expenses	931
Add Back	53.13
Presumptive Profit before Taxation	**110**
Income Tax @ 30%	33.04
Net Presumptive Profit after Tax	**77**
RoE on Presumptive Profit	**37.66%**

Trend Analysis after Presumptive Add Back (in Million)

Year	**2017**	**2016**
Fee Income	997	792
%age change	25.88%	
Total Income	988	793
%age change	24.59%	
Total Expense	878	747
%age change	17.47%	
Total Profit	110	46
%age	139%	
Presumptive Net Profit	110	
CEO/Dir Remuneration	12	7
%age change	71.43%	

Conclusion

The important results, which enable us to comment on the relative increase in fees collection and corresponding expenditures, are reproduced below: -

Year	2017	2016	2015	2014	2013	Average per Annum	Percentage Increase 2013-17
Fee Income	997	792	719	596	472	715	
%age change	25.93%	10.19%	20.71%	26.07%	-	21%	111%
Total Income	988	793	720	598	472	714	
%age change	24.51%	10.18%	20.50%	26.51%	-	20%	109%
Total Expense	931	747	679	552	401	662	
%age change	24.58%	10.10%	22.83%	37.82%	-	93%	584%
Net Profit	42.2	35.0	26.0	19.0	44.8	33	
%age change	20.53%	34.76%	36.71%	-57.57%	-	5%	-6%
Teachers Salary	340	275	230	196	163	241	
%age change	23.60%	19.45%	17.32%	20.29%	-	39%	220%
Non-Teaching staff salary	182	148	119	95	73	123	
%age change	23.34%	23.59%	25.36%	31.21%	-	15%	103%
Administrative expenditure	409	203	158	144	115	206	
%age change	100%	28.99%	9.81%	24.65%	-	29%	255%
CEO/Dir Remuneration	12	7	7	7	7	8	
%age change	84.36%	-	-	-	-	1.0%	73%
Fee per student per annum	166,664	129,323	135,835	120,669	-	138,123	
%age change	29%	-5.0%	13%	-	-	12%	38.12%
Profit per student per year	7,047	5,713	4,907	3,849	-	5,379	
%age change	23.4%	16.4%	27.5%	-	-	22.4%	83.10%

The fee has been increased every year by 12% per annum. Teachers' salaries increased as well at an average of 20.16%.

It can be safely concluded in the case of LACAS (Pvt) Limited system that it has been making an average profit of 5% in these years with an average per annum ROE of above 20.45% which is on higher side. The presumptive net profit rises to 77.1 Million and presumptive ROE to 31.98% upon corrective add back.

FINDINGS

1. LACAS borrowed from owners, 132 million on average (44% of the total financing) and 53 million on average from related parties (18% of the total financing) out of total 301 million on

average done in las t 05 years. The Finance cost therefore was accordingly pushed up which was Rs 30 million on average for last 5 years.

It is pointed that such an action inflates educational expense for the parents and brings down profits correspondingly thereby reducing the tax paid to the national exchequer. Whereas the financing interest rate paid is around 8% in the market, the corporate tax payable on profit is 30%.

2. A better teacher student ratio is desirable from quality of education point of view. However it was surprising to note that LACAS has almost the same ratio for its admn staff as well. The position is given as under:

Financial Year	**2017**	**2016**	**2015**	**2014**	**2013**
Total No of students in the year	5,985	6,125	5,292	4,935	-
No of teachers	689	645	507	476	-
No of non-teaching staff	517	537	416	454	-
No of students per teacher	9	9	10	10	-
No of Students per non-teaching staff	12	11	13	11	-

The above scenario indicates that either the admn. Staff figures given in the audited accounts are not correct or staff from the other businesses of the owners is being paid by the school. This is far higher than the industry average.

Conclusion

1. The organization is working at a high profit margin of 30.67% for last three years and a high average ROE above 20.45% for last five years.
2. The organization is working at very low monthly average profit per student of Rs. 5,379.
3. The organization has been consistently raising fee with an average increase of 12.20% per year in the period 2014-17.
4. The fee Income has increased by 111% in 5 years, showing both the increase in number of students and rate of fee.

Froebels Education Center, Karachi

Introduction

Froebel Education Centre first came into existence as "Mariam's Nursery" in 1982. In 1991 it moved to new premises, expanded in scale and became "Froebel Nursery and Kindergarten and Froebel Education Center" with kindergarten, primary and junior sections.

A senior school was added on in 1998 thus making Froebel Education Centre a complete school ranging from kindergarten to secondary.

Assignment Objectives/Terms of Reference

The terms of reference of the assignment entrusted to the AGP was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Besides above, audit team was tasked to carry out further analysis to assist the Committee established on the issue of private school fee by Supreme Court in reduction of existing fee and in determination of possible fee enhancements in the future.

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2013-14 to 2017-18
- Tax Returns for the last five years

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. The absence of such essential information has constrained the analysis to the aggregated and summarized figures only in most cases including LGS. Once further information is received, further analysis will be accordingly presented by Audit which could help the Committee in formulating evidence based recommendations.

Analysis

Section-I

Results in Compliance with Para 3 of the Order

Rs. in millions

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment	28.8	24.7	20.7	23.1	18.5
Various Costs Incurred	166.7	148.5	133.04	112.1	103.6
Deductions Claimed*	2.26	1.93	3.16	4.16	3.09
After Tax Net Profit	4.1	4.01	2.99	4.54	3.82

*The deductions claimed mainly include depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of Income Tax Law

Income Tax Paid (Rs in million)

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Income Tax Paid	1.78	0.96	2.48	0.98	1.32	7.52

Analysis

a) Profitability Analysis (in Million)

Year	2017	2016	2015	2014	2013	Percentage Increase 2014-17
Fee Income (millions)	170	152	135	114	104	63%
% Change	12%	13%	18%	10%		
Number of students	809	781	802	821	802	1%
Fee income per student per annum	210,136	194,622	168,329	138,855	129,676	
Fee income per student per month	17,511	16,219	14,027	11,571	10,806	62%
% Change	8%	16%	21%	7%		

The detailed profitability analysis, so as to give reader a bigger picture of the performance of Froebel's School is given below: -

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	173	154	139	118	109	693
Total Expenses	167	149	133	112	103	664
Profit before taxation	6	5	5	6	5	27
Income Tax Expense	2	1	2	1	1	7
Net Profit after Tax	4	4	3	5	4	20
RoE	13.79%	16.00%	14.29%	21.74%	21.05%	
Number of students	809	781	802	821	802	
Monthly profit per student	412	427	312	508	416	

It can be seen that the profit per student per month is surprisingly low. Given that the average monthly fees being charged is Rs. 14,000, the net profit per month seems to be unrealistic.

The increase in total income of a school can be attributed to an interplay of the two factors as below: -

1. Increase in monthly tuition fees
2. Increase in number of students

As can be seen, the profit per student is not showing any specific increasing or decreasing trend in the four years. The number of students is also stagnant in the four years under study.

Trend Analysis

Year	2017	2016	2015	2014	2013	Average Change per Annum	% of Total Income	Percentage Increase 2013-17
Fee Income	170	152	135	114	104		97%	63%
%age	11.84%	12.59%	18.42%	9.62%		13%		
Total Income	173	154	139	118	109		100%	59%
%age	12.34%	10.79%	17.80%	8.26%		12%		
Total Expense	167	149	133	112	103		96%	62%
%age	12.08%	12.03%	18.75%	8.74%		13%		
Net Profit	4	4	3	5	4		3%	0%
%age	0.00%	33.33%	-40.00%	25.00%		5%		
Teachers Salary	110	99	86	70	64		62%	72%
%age	11.11%	15.12%	22.86%	9.38%		15%		
Administrative expenditure	57	50	47	42	40		34%	43%
%age	14.00%	6.38%	11.90%	5.00%		9%		

CEO/Dir Remuneration	28	28	21	15	12		44%	133%
%age	0.00%	33.33%	40.00%	25.00%		25%		

c) Comments

1. The fee income of the company has risen consistently (63% in 5 years) but its profit has shown a flat trend and remained at Rs 04 million (2013: 04 million). This means that the expenses have risen significantly due to which the profit did not increase in comparison to the income.

2. The administrative/operating expenses are generally not within company control like rent, fuel, utilities etc. However, it is for company itself to decide staff salary, CEO/Directors remuneration and any expenses to be incurred on them.

3. In the case of the subject Company where income increased by 63%, the administrative expense increased by 43% only. The real hike took place in CEO/Directors remuneration which increased by 133% in the same period.

4. In simple words, the Company kept its remuneration and expense of Directors very high to keep the overall expense at the level of about 96% of the revenue so as to minimize profit figure and thereby the tax paid to the national exchequer.

5.. The CEO/Directors got a total of Rs. 104 million in 5 years as remuneration. This is besides other expenses like entertainment, travel etc. which were spent on the Directors/Owners in this period.

6. The above trend analysis clearly show that the actual profit earned by owners has been much higher than what has been declared in the financial statements. The owners have drawn heavy amounts as their remuneration and in the form of expenses incurred on them and by doing so the profit has been suppressed and much lower tax has been paid.

SECTION II

PROFITABILITY ANALYSIS AFTER ADD BACK INTO REVENUE

Expenses incurred on CEO/Directors

Froebel Education Centre is a company registered under Companies Ordinance as a Private Limited Company. The rules allow such companies to use "No Arm's length Principle". They are allowed to determine their own salaries, benefits and other expenses without limit. This permission appears to have been abused in the instant case to very amounts and suppress profits instead of drawing profit from the business after paying taxes, according to law. Expenses have been inflated to keep the gross profit low and managed.

Although It would take examination at transaction & voucher level to further authenticate the expenses given in financial statements, a shorter and safer way to make such expenses realistic and reasonable is to deducted part of such expenses and add them back to the revenue on presumptive basis, to arrive at a realistic estimate of the actual profits made by the school/school/system:

	2017	2016	2015	2014	2013
Total Remuneration of CEO and Directors	28	28	21	15	12
Addback to Profit					
75% of Remuneration	21	21	15.75	11.25	9
25% of Rent to CEO	6	4.25	4	3.75	3.75
25% of rent to Director	3	2	0	0	0
Total Addback to Net Profit	30	27.25	19.75	15	12.75

b) Profitability Analysis after Presumptive Add Back (in Million)

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13
Total Income	173	154	139	118	109
Total Expenses	167	149	133	112	103
Add Back	57	46	31.75	26.25	24
Presumptive Profit before Taxation	63	51	38	32	30
Income Tax @ 30%	18.9	15.3	11.325	9.675	9
Net Presumptive Profit after Tax	44	36	26	23	21
RoE on Presumptive Profit	152.07%	142.80%	125.83%	98.15%	110.53%

Trend Analysis after Presumptive Add Back (in Million)

Year	2017	2016	2015	2014	2013	Average Change per Annum	% of Total Income	Percentage Increase 2013-17
Fee Income	170	152	135	114	104	135	97%	63%
%age	11.84%	12.59%	18.42%	9.62%		13%		
Total Income	173	154	139	118	109	138.6	100%	59%
%age	12.34%	10.79%	17.80%	8.26%		12%		
Total Expense	167	149	133	112	103	132.8	96%	62%
%age	12.08%	12.03%	18.75%	8.74%		13%		
Net Profit	4	4	3	5	4	4	3%	0%
%age	0.00%	33.33%	-40.00%	25.00%		5%		
Presumptive Net Profit	25	23	18	15	13	19	14%	92%
%age	11.63%	25.24%	22.62%	12.00%		18%		
Teachers Salary	110	99	86	70	64	86	62%	72%
%age	11.11%	15.12%	22.86%	9.38%		15%		
Non-Teaching staff salary	0	0	0	0	0		0%	0%
%age	0.00%	0.00%	0.00%	0.00%		0%		
Administrative expenditure	57	50	47	42	40	47.2	34%	43%
%age	14.00%	6.38%	11.90%	5.00%		9%		
CEO/Dir Remuneration	30	27.25	19.75	15	12.75	21	15%	135%
%age	10.09%	37.97%	31.67%	17.65%		24%		

c) Comments

It is evident from the above that if the total amount withdrawn by owners, under whatever head, is taken as their profit, the position of the profitability completely changes. As reported in financial statements, the average net profit for the latest year is Rs.04 million and ROE is only 13.79% but upon the add back, the profit becomes Rs. 25 million and ROE becomes as high as 152%. The net profit reported for the year 2016-17 was Rs 04 million, however, after addback, the presumptive profit calculation goes up to Rs 25 million (more than 06 times). If compared with 2013, a flat trend for the reported net profit was observed, however, after adding back extra-ordinary items, the presumptive net profit rose by more than 92% in comparison to 201 3.

SECTION-III

Conclusion

The important results, which enable us to comment on the relative increase in fees collection and corresponding expenditures, are reproduced below: -

Year	2017	2016	2015	2014	2013	Average per Annum	Percentage Increase 2013-17
Fee Income	170	152	135	114	104	135	63%
% Change	11.84%	12.59%	18.42%	9.62%		13%	
Total Expense	167	149	133	112	103	132.8	62%
% Change	12.08%	12.03%	18.75%	8.74%		13%	-
Net Profit	4	4	3	5	4	4	0%
% Change	0.00%	33.33%	-40.00%	25.00%		5%	-
CEO/Dir Remuneration*	30	27.25	19.75	15	12.75	21	135%
% Change	10.09%	37.97%	31.67%	17.65%		24%	-

1. The organization is working as an unrealistically low profit margin of 5% which raises suspicions of inflated expenses
2. The organization is working at an unrealistically low RoE of 14% in year 2016-17 which is a simple reflection of stability of the business as a going concern.
3. The organization is working at surprisingly low monthly profit per student around Rs. 400 only
4. The organization has been consistently raising fee with an average increase of 13% per year in the period 2013-17. Logically, it should have resulted into greater profits if a matching increase in the expenses at the same time had not taken place.
5. The CEO remuneration has increased by an average of 25% per annum
6. It can be seen that there is no fixed pattern to remuneration of directors. It is left to the discretion of the owners and they use it for profit suppression, as and when deemed necessary. The profit suppression/management can be expressed as in graph below.
7. On the expense side, it can be seen that the salaries and administrative expenses have also increased considerably, more than 70% and 40% during the period 2013-17.
8. The fee collection has increased by 63% in the five years from 2013 to 2017. The fee collection per child has increased by a slightly lower amount, probably because of some

discounts/concessions given. The reported net profit, however, remained flat in year 2017 if compared with year 2013.

9. When the remunerations of CEO and directors are added back to the profit, the final position emerges as under: -

Performance Ratio	Stated	Presumptive
Average RoE	17%	79%
Average Net Profit Margin	5%	18%
Average Tax Expense	1.4 m	8 m

Froebel's (Private) Limited, Islamabad

Introduction

The company is a medium size entity incorporated in Pakistan on June 28, 1984 as a private limited company under the Companies Ordinance 1984. The Company is engaged in establishment and running of educational institutions to promote quality education in Pakistan. Principle activity of the Company is to set-up and operate educational institutions. The registered office of the company is situated in Islamabad.

Assignment Objectives/Terms of Reference

The terms of reference of the assignment entrusted to the AGP was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following:

- Aggregate Investments
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Besides above, audit team was tasked to carry out further analysis to assist the Committee established on the issue of private school fee by Supreme Court in reduction of existing fee and in determination of possible fee enhancements in the future.

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2013-14 to 2017-18
- Tax Returns for the last five years

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. The absence of such essential information has constrained the analysis to the aggregated and summarized figures only in most cases including LGS. Once further information is received, further analysis will be accordingly presented by Audit which could help the Committee in formulating evidence based recommendations.

Analysis

SECTION 1

Results in Compliance with Para 3 of the Order

Years	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment (share capital plus RE)	183	171	147	117	109
Various Costs Incurred/Expenses	671	600	536	469	357
Finance Cost	10	11	21	11	5
Deductions Claimed*	29	33	42	39	19
Income Tax Expense	4	17	3	6	6
After Tax Net Profit	9	22	28	5	17

* The amount mainly includes depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of IT Law

Current Tax Payable (Rs in million)

Year	2016-17	2015-16	2014-15	2013-14	2012-13
LGS	4	17	3	6	6

Analysis

a) Profitability Analysis (in Million)

Year	2017	2016	2015	2014	2013	Percentage Increase 2014-17
Fee Income (millions)	662	622	570	489	383	73%
% Change	6%	9%	17%	28%		
Fee income per student per annum	167,045	164,116	154,137	138,763	120,440	
Fee income per student per month	13,920	13,676	12,845	11,564	10,037	39%
% Change	2%	6%	11%	15%		

The detailed profitability analysis, so as to give reader a bigger picture of the performance of Froebel's School is given below:

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	**694**	**650**	**588**	**491**	**385**	2,808
Total Expenses	681	611	557	480	362	2,691
Profit before taxation	13	39	31	11	23	117

Income Tax Expense	4	17	3	6	6	36
Net Profit after Tax	9	22	28	5	17	81
RoE	4.92%	12.87%	19.05%	4.31%	15.60%	
Number of students	3963	3790	3698	3524	3180	
Monthly profit per student in Pak rupees	189	484	631	118	445	

It can be seen that the profit per student per month is surprisingly low. Given that the average monthly fees being charged is Rs. 13,000, the net profit per month seems to be unrealistic.

The increase in total income of a school can be attributed to an interplay of the two factors as below: -

1. Increase in monthly tuition fees
2. Increase in number of students

As can be seen, the profit per student is not showing any specific increasing or decreasing trend in the four years. The number of students is also stagnant in the four years under study.

Trend Analysis

Year	2017	2016	2015	2014	2013	Average Change per Annum	% of Total Income	%age Increase 2013-17
Fee Income	662	622	570	489	383	545	97%	73%
%age	6.43%	9.12%	16.56%	27.68%		15%		
Total Income	694	650	588	491	385	562		80%
%age	6.77%	10.54%	19.76%	27.53%		16%		
Total Expense	681	611	557	480	362	538	96%	88%
%age	11.46%	9.69%	16.04%	32.60%		17%		
Net Profit	9	22	28	5	17	16	3%	-47%
%age	-59.09%	-21.43%	460.00%	-70.59%		77%		
Teachers Salary	369	323	302	243	176	283	50%	110%
%age	14.24%	6.95%	24.28%	38.07%		21%		
Administrative expenditure	671	600	536	469	357	527	94%	88%
%age	11.83%	11.94%	14.29%	31.37%		17%		
CEO/Dir Remuneration	27	27	22	2	2	16	3%	1250%
%age	0.00%	22.73%	1000.00%	0.00%		256%		

c) Comments

1. The fee income of the company has risen consistently (101% in 5 years) but its profit has continuously declined (-47% in 05 years). This means that the expenses have risen more than the rise in income.

2. The administrative/operating expenses are generally not within company control like rent, fuel, utilities etc. However, it is for company itself to decide staff salary, CEO/Directors remuneration and any expenses to be incurred on them.

3. In the case of Froebel's Pvt Ltd. where income increased by 101%, the administrative expense increased by 88%. The real hike took place in CEO/Directors remuneration which increased by 1250% in the same period.

4. In simple words, Froebel's Pvt Ltd kept its Remuneration and expense of Directors very high to keep the overall expense at the level of about 96% of the revenue so as to minimize profit figure and thereby the tax paid to the national exchequer.

5. The remuneration of CEO/Directors of the Company is Rs. 27 million for the year ended 30 June 2017. The CEO/Directors got a total of Rs. 80 million in 5 years as remuneration. This is besides other expenses like entertainment, travel etc. which were spent on the Directors/Owners in this period.

6. The above trend analysis clearly show that the actual profit earned by owners has been much higher than what has been declared in the financial statements. The owners have drawn heavy amounts as their remuneration and in the form of expenses incurred on them and by doing so the profit has been suppressed and much lower tax has been paid.

SECTION II

PROFITABILITY ANALYSIS AFTER ADD BACK INTO REVENUE

Expenses incurred on CEO/Director's

Froebel's Pvt Ltd is a company registered under Companies Ordinance as a Private Limited Company. The rules allow such companies to use "No Arm's length Principle". They are allowed to determine their own salaries, benefits and other expenses without limit. This permission appears to have been abused in the instant case to very amounts and suppress profits instead of drawing profit from the business after paying taxes, according to law. Expenses have been inflated to keep the gross profit low and managed.

Although It would take examination at transaction & voucher level to further authenticate the expenses given in financial statements, a shorter and safer way to make such expenses realistic and reasonable is to deducted part of such expenses and add them back to the revenue on presumptive basis, to arrive at a realistic estimate of the actual profits made by the school/school/system:

	2017	2016	2015	2014	2013
Total Remuneration of CEO and Directors	27	27	22	2	2
Addback to Profit					
75% of Remuneration	20.25	20.25	16.5	1.5	1.5
10% share in Entertainment	2	2	2	2	1.3
10% share in Travel	1.3	1.3	1.4	1.5	1.4
Total Addback to Net Profit	23.55	23.55	19.9	5	4.2

a) Profitability Analysis after Presumptive Add Back (in Million)

Financial Year	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**2012-13**
Total Income	694	650	588	491	385
Total Expenses	681	611	557	480	362
Add Back	23.55	23.55	19.9	5	4.2
Presumptive Profit before Taxation	37	63	51	16	27
Income Tax @ 30%	11	19	15	5	8
Net Presumptive Profit after Tax	26	44	36	11	19
RoE on Presumptive Profit	13.98%	25.61%	24.24%	9.57%	17.47%

b) Trend Analysis after Presumptive Add Back (in Million)

Year	2017	2016	2015	2014	2013	Average Change per Annum	% of Total Income	%age increase 2013-2017
Fee Income	662	622	570	489	383	545	97%	73%
% change	6.43%	9.12%	16.56%	27.68%	0	15%		
Total Income	694	650	588	491	385	562	100%	80%
% change	6.77%	10.54%	19.76%	27.53%	0	16%		
Total Expense	681	611	557	480	362	538	96%	88%
% change	11.46%	9.69%	16.04%	32.60%	0	17%		
Total Profit	9	22	28	5	17	16	3%	-47%
% change	-59.09%	-21.43%	460.00%	-70.59%	0	77%		
Presumptive Net Profit	26	44	36	11	19	27	5%	34%
% change	-41.57%	22.89%	218.13%	-41.18%		40%		
Teachers Salary	369	323	302	243	176	283	50%	110%
% change	14.24%	6.95%	24.28%	38.07%	0	21%		
Administrative expenditure	671	600	536	469	357	527	94%	88%
% change	11.83%	11.94%	14.29%	31.37%	0.00%	17%		
CEO/Dir Remuneration	27	27	22	2	2	16	3%	1250%
% change	0.00%	22.73%	1000.00%	0.00%	0.00%	256%		

c) Comments

It is evident from the above that if the total amount withdrawn by owners, under whatever head, is taken as their profit, the position of the profitability completely changes. As reported in financial statements, the average net profit for the latest year is Rs.09 million and ROE is only 4.9% but upon the add back, the profit becomes Rs. 26 million and ROE becomes 14%. The profit for the year 2017-18 thus increases by around 300% if remunerations of owners are treated as profit.

SECTION-III

a) Conclusion

The important results, which enable us to comment on the relative increase in fees collection and corresponding expenditures, are reproduced below: -

Year	2017	2016	2015	2014	2013	Average Change per Annum	% Increase 2013-2017
Fee Income	662	622	570	489	383	545	73%
%age	6.43%	9.12%	16.56%	27.68%	0	15%	
Total Expense	681	611	557	480	362	538	88%
%age	11.46%	9.69%	16.04%	32.60%	0	17%	
Net Profit	9	22	28	5	17	16	-47%
%age	-59.09%	-21.43%	460.00%	-70.59%	0	77%	
CEO/Dir Remuneration	27	27	22	2	2	16	1250%
%age	0.00%	22.73%	1000.00%	0.00%	0.00%	256%	

1. The organization is working as an unrealistically low profit margin of 3% which raises suspicions of inflated expenses
2. The organization is working at an unrealistically low RoE of 4.92% in year 2016-17 which is a simple reflection of low profits as indicated above.
3. The organization is working at surprisingly low monthly profit per student around Rs. 400 only
4. The organization has been consistently raising fee with an average increase of 15% per year in the period 2013-17.
5. The CEO remuneration has increased by an average of 256% per annum
6. It can be seen that there is no fixed pattern to remuneration of directors. It is left to the discretion of the owners and they use it for profit suppression, as and when deemed necessary. The profit suppression/management can be expressed as in graph below.
7. On the expense side, it can be seen that the salaries and administrative expenses have also increased considerably, more than doubling in the years 2013-17.
8. The fee collection has increased by 73% in the five years from 2013 to 2017. The fee collection per child has increased by a slightly lower amount, probably because of some discounts/concessions given. The reported net profit, however, decreased in year 2017 by 47% if compared with year 2013.
9. When the remunerations of CEO and directors are added back to the profit, the final position emerges as under: -

Performance Ratio	Stated	Presumptive
Average RoE	11%	18%
Average Net Profit Margin	3%	5%
Average Tax Expense	7 m	12 m

Headstart Schools, Islamabad

Introduction

Headstart School was founded in 1991 in Islamabad and currently consists of 11 branches in Islamabad and Rawalpindi.

Only four years of financial statements (years ending on 30th June of 2017, 2016, 2015 and 2014) were available for this school and the analysis spans only four years..

Assignment Objectives/Terms of Reference

The terms of reference of the AGP team entrusted with the assignment of was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following, on the basis of provided record:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2013-14 to 2016-17
- Tax Returns for the last four years

In addition, more detailed data for number of students and remunerations of teachers, management and executives, and fee structure was provided to the Office of AGP on requisition of the same.

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. The absence of such essential information could have constrained the analysis to the aggregated and summarized figures as in case of other schools, but the management of Headstart School provided some additional data as requested in the requisition. Hence, the office of the AGP was able to perform somewhat detailed analysis on Headstart school systems.

Analysis

SECTION 1

Results in Compliance with Para 3 of the Order

Rs in Million

Financial year	2016-17	2015-16	2014-15	2013-14
Aggregate Investment (share capital plus RE)	182.44	173.09	153.98	142.97
Various Costs Incurred/Expenses	547.98	507.94	480.70	178.78
Deductions Claimed	Not available	Not available	Not available	Not available
Income Tax Expense	5.96	7.48	5.16	1.80
After Tax Net Profit	9.34	19.11	10.3	3.68

Tax Expense

Rs in million

Year	2016-17	2015-16	2014-15	2013-14
Income Tax Expense	5.96	7.48	5.16	1.80

Analysis

a) Profitability Analysis (in Million)

The increase in fees collection is summarized for ready reference.

Year	2017	2016	2015	2014	Percentage Increase 2014-17
Fee Income (millions)	481.61	459.35	423.33	162.98	196%
% Change	4.85%	8.51%	159.74%	57.7%	
Number of students	2320	2421	2276	2188	
Fee income per student per annum	207,590	189,737	185,997	74,488	
Fee income per student per month	17,299	15,811	15,500	6,207	179%
% Change	9.41%	2.01%	149.70%		

The detailed profitability analysis, so as to give reader a bigger picture of the performance of Headstart School is given below: -

Financial Year	2016-17	2015-16	2014-15	2013-14	Rs in million Total
Total Income	563.28	534.53	496.17	184.26	1,778.24
Total Expenses	547.98	507.94	480.70	178.79	1,715.40
Profit before taxation	15.31	26.59	15.46	5.48	62.84
Tax Expense	5.96	7.48	5.16	1.8	20.40
Net Profit after Tax	9.35	19.11	10.30	3.68	42.44
Net Profit Margin	1.74%	3.68%	2.25%	2.05%	Not relevant
Return on Equity (RoE)	5.12%	11.04%	6.69%	2.57%	Not relevant
Number of students	2320	2421	2276	2188	Not relevant
Monthly Profit per Student in Pak Rupees	**Rs. 335.78**	**Rs. 657.80**	**Rs. 377.24**	**Rs. 140.17**	Not relevant

It can be seen that the profit per student per month is surprisingly low. Given that the minimum monthly fees being charged is Rs. 12,000 in Play Group and as high as 33,000 in IGCSE 1, 2 and 3 in Kuri Campus, the net profit per month seems to be unrealistic.

The increase in total income of a school can be attributed to an interplay of the two factors as below: -

1. Increase in monthly tuition fees
2. Increase in number of students

As can be seen, the profit per student is not showing any specific increasing or decreasing trend in the four years. The number of students is also stagnant in the four years under study.

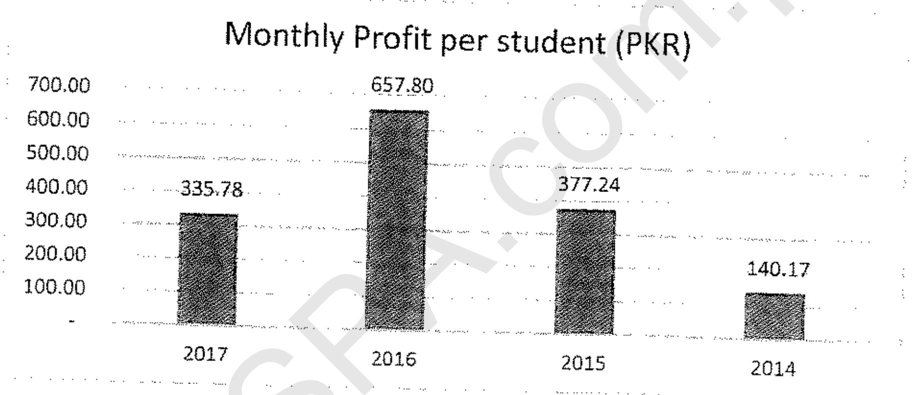
b) Trend Analysis

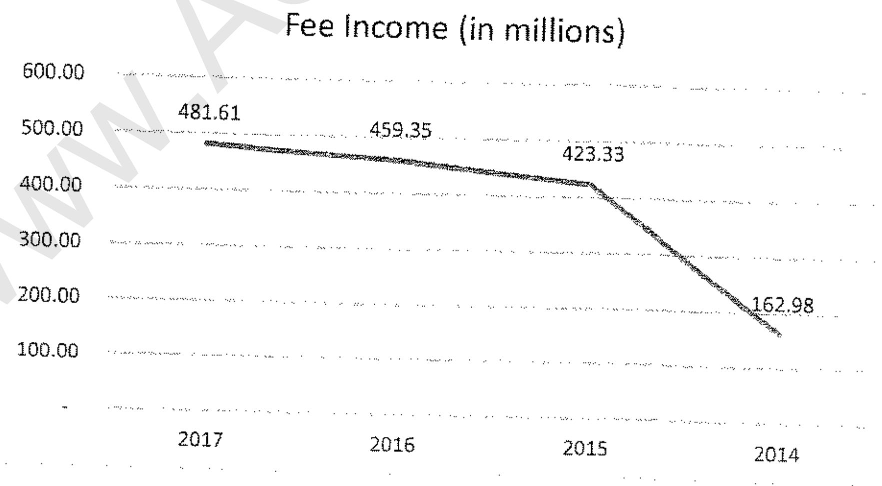
Year	2017	2016	2015	2014	Average Change per Annum	Total	% of Total Income (Four Year Average)	Percentage Increase 2014-17
Fee Income	481.61	459.35	423.33	162.98		1,527.27	85.89%	196%
% Change	4.85%	8.51%	159.74%		57.70%			
Total Income	563.28	534.53	496.17	184.26		1,778.24	100.00%	206%
% Change	5.38%	7.73%	169.27%		60.79%			
Total Expense	547.98	507.94	480.70	178.79		1,715.40	96.47%	207%
% Change	7.88%	5.67%	168.87%		60.81%			
Net Profit	9.35	19.11	10.30	3.68		42.44	2.39%	154%
% Change	-51.08%	85.48%	179.95%		71.45%			

Salaries & Benefits	319.84	280.83	268.61	101.29		970.57	54.58%	216%
% Change	13.89%	4.55%	165.17%		61.21%			
Administrative expenditure	528.86	483.02	448.79	170.32		1,630.99	91.72%	211%
% Change	9.49%	7.63%	163.49%		60.20%			
CEO/Dir Remuneration	22.53	30.29	28.00	40.01	17.50	120.82	6.79%	29%
% Change	-25.60%	8.16%	-30.01%	128.66%	20.30%			

c) Comments

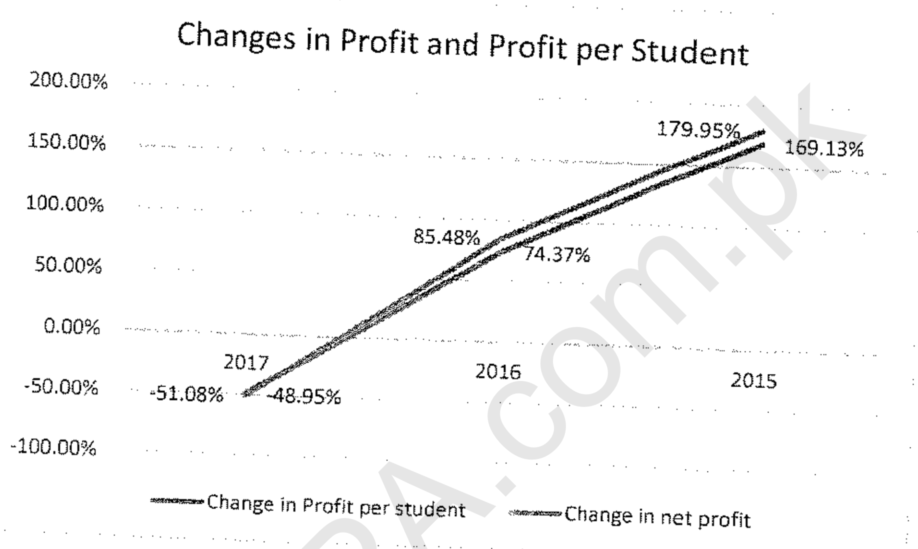
i) The total fees income has increased 196% in the last four years. However, there is no trend in the profit per student. It means that a lot of factors can be attributed to the fluctuation in the profit per student despite the fact that fee collection is increasing continuously.





ii) For the four year period, the total expenses have been very high, i.e. 96.5% of the total income. The net profit margin is only 2.39% of the overall income.

iii) It can also be seen that the changes in profit each year and the changes in profit per year are almost the same percentages every year.

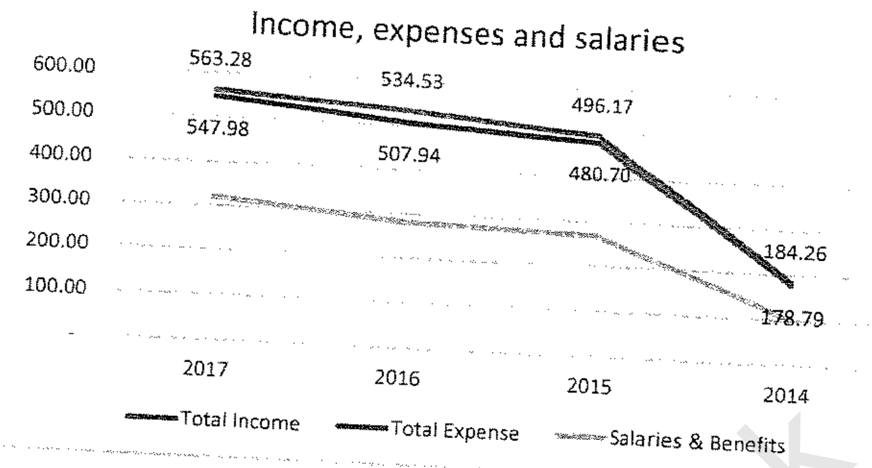


iii) If we plot the fee collected, reported expenses and salaries for each of the four years, an interesting observation comes up. All three series have almost the same shape of the curve. It can be due to any of two reasons: -

- The school follows very well-defined cost drivers and has very immaculate budgets

Or

- There is some creative accounting in which expenses are jacked up exactly in relation to the increase in fees collection.



SECTION II

PROFITABILITY ANALYSIS AFTER ADD BACK INTO REVENUE

Expenses incurred on CEO/Directors

Directors are owners and have the right to draw profit from the business after paying taxes, according to law. However there is a general trend that such profit is drawn before paying taxes in the form of expenses that are inflated to keep the net profit margin low and managed.

It would take examination at transaction and voucher level to further authenticate the expenses given in financial statements, a shorter and safer way to make such expenses realistic and reasonable is to deducted part of such expenses and add them back to the revenue on presumptive basis, to arrive at a realistic estimate of the actual profits made by the school/school/system:

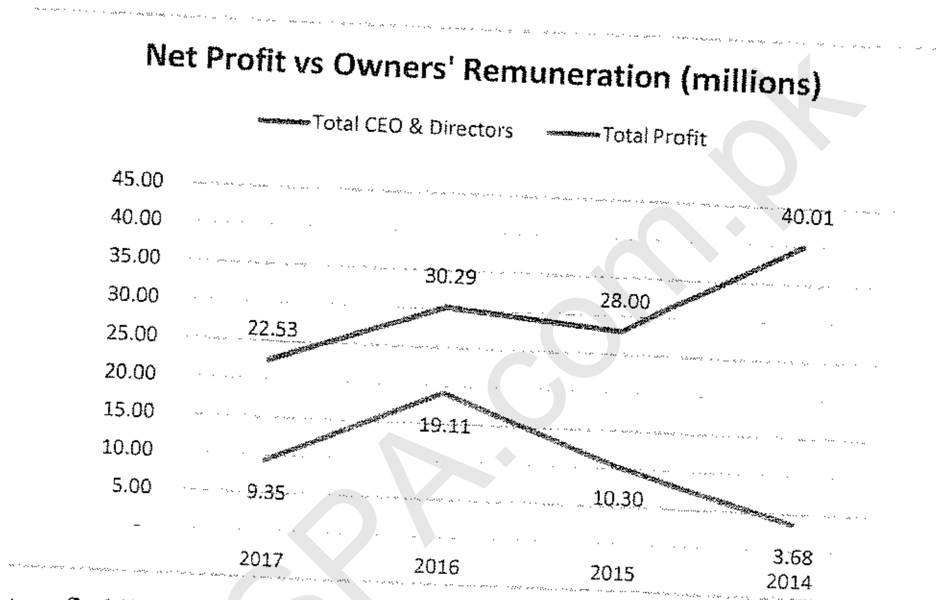
In millions	2017	2016	2015	2014	2013
Total Remuneration of CEO and Directors	22.53	30.29	28.00	40.01	17.50

Comments

It is quite interesting to note that for the year ended 30th June 2017, the remunerations of CEO and directors are almost 2.5 times the net profit. In previous three years too, remunerations have always been greater than the net profit of the school. The graph shows that the salaries of the owners, CEO and Directors in this case, are being expensed out to reduce profitability and save taxes apart from any other benefit that could accrue out of low profits e.g. publicity.

It is pertinent to mention here that expensing out of remunerations of CEO and directors is neither illegal nor against any accounting standards. However, since the owners themselves fix their own remunerations, and is hence against the arm's length principle of two parties freely and independently of each other, and without some special relationship, entering a relationship.

For the year ending 30th June 2017, the latest year for which data is available, on adding back the remunerations to profit, RoE jumps from 5% to 15% while net profit margin jumps from 1.74% to



The important profitability measures are summarized after add back of remunerations of CEO and directors.

Financial Year	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**Average**
Total Income	563.28	534.53	496.17	184.26	444.56
Total Expenses	547.98	507.94	480.70	178.79	428.85
Profit before taxation	15.31	26.59	15.46	5.48	15.71
Presumptive Profit after Addback of remuneration	37.84	56.88	43.46	45.48	45.92
Presumptive Tax Expense @ 30%	11.35	17.06	13.04	13.64	13.77
Presumptive Net Profit	26.49	39.81	30.42	31.84	32.14
Reported Net Profit after Tax	9.35	19.11	10.3	3.68	10.61
Net Profit Margin	1.74%	3.68%	2.25%	2.05%	2.43%
Presumptive Net Profit Margin	4.70%	7.45%	6.13%	17.28%	8.89%
Return on Equity (RoE)	5.12%	11.04%	6.69%	2.57%	6.36%
Presumptive RoE	14.52%	23.00%	19.76%	22.27%	19.89%

SECTION-III

a) Conclusion

1. The organization is working as an unrealistically low profit margin of 2.43% which raises suspicions of inflated expenses
2. The organization is working as an unrealistically low RoE of 6.36% which is a simple reflection of low profits as indicated above.
3. The organization is working at surprisingly low monthly profit per student of Rs. 336 only
4. The organization has been consistently raising fee with an average increase of 57% per year in the period 2014-17. Logically, it should have resulted into greater profits if a matching increase in the expenses at the same time had not taken place.
5. The CEO remuneration has increased by an average of 20.3% per annum
6. It can be seen that there is no fixed pattern to remuneration of directors. It is left to the discretion of the owners and they use it for profit suppression, as and when deemed necessary. The profit suppression/management can be expressed as in graph below.
7. On the expense side, it can be seen that the salaries and administrative expenses have also increased considerably, more than doubling in the years 2014-17.
8. The fee collection has increased by 96% in the three years from 2014 to 2017. The fee collection per child has increased by a slightly lower amount, probably because of some discounts/concessions given. Net profit, however, has increased by 154%.
9. When the remunerations of CEO and directors are added back to the profit, the final position emerges as under: -

Performance Ratio	Stated	Presumptive
Average RoE	6.36%	19.89%
Average Net Profit Margin	2.43%	8.89%
Average Tax Expense	5.1 m	13.77 m

Resource Academia

Introduction

The Resource Academia School was a part of Education Excellence Limited (EEL) which is a public limited company incorporated in Pakistan on 08.07.1999.The registered office of the company is located at 64-E1, Gulberg-III, Lahore. The said institutes are commonly known as "Punjab Group of Colleges" as a Brand Name.

The EEL has established Resource Academia School in the year 2003 for Pre-School, Primary, Middle & senior school level. However, due to accumulated financial losses the management of the EEL decided to discontinue the segment in 2016. As a result Resource Academia School is no longer functional since 2016. Resource Academia was a low fees/budget school system.

Assignment Objectives/Terms of Reference

The terms of reference of the AGP team entrusted with the assignment of was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following, on the basis of provided record:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Profit & Loss Statements for the years 2012-13 to 2016-17

Assignment Limitations

Complete Financial statements and tax returns were not provided. Only Profit & Loss statements for the last 5 years (2013 to 2107) were available and also the profit & loss statements do not provide information on fee charged, number of teachers, number of students or the number of branches besides other such data which can help in determining fee charged and increases in it over the years and also no notes to financial statements were available. The absence of such essential information has constrained the analysis to the aggregated and summarized figures.

Analysis

Results in Compliance with Para 3 of the Order

Rs in million

Years	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment (share capital plus RE)	-	N/A	N/A	N/A	N/A
Various Costs Incurred/Expenses	-	109.23	119.76	112.16	102.97
Finance Cost	-	-	-	-	-
Deductions Claimed*	-	N/A	N/A	N/A	N/A
Income Tax Expense	-	-	-	-	-
After Tax Net Profit	-	**20.89**	**15.50**	**4.15**	**0.61**

*. The amount mainly includes depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of Income Tax Law.

Tax Expense

Rs in million

Year	2016-17	2015-16	2014-15	2013-14	2012-13
Income Tax Expense	-	-	-	-	-

Analysis

a) Profitability Analysis (in Million)

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	-	**130.12**	**135.26**	**116.32**	**103.57**	485.26
Total Expenses	-	109.23	119.76	112.16	102.97	444.11
Profit before taxation	-	**20.89**	**15.50**	**4.15**	**0.61**	**41.15**
Income Tax Expense	-	-	-	-	-	-
Net Profit after Tax	-	**20.89**	**15.50**	**4.15**	**0.61**	**41.15**
RoE	-	N/A	N/A	N/A	N/A	-

b) Trend Analysis

Year	2017	2016	2015	2014	2013	Total	Average Change per Annum	% of Total Income	Increa 2013-
Fee Income	-	130.12	135.26	116.32	103.57	485.26		100.00%	25.63
%age		-3.80%	16.28%	12.30%			8.26%		
Total Income	-	130.12	135.26	116.32	103.57	485.26		100.00%	25.63
%age		-3.80%	16.28%	12.30%			8.26%		
Total Expense	-	109.23	119.76	112.16	102.97	444.11		91.52%	6.08

%age		-8.79%	6.77%	8.93%			2.30%		
Net Profit	-	20.89	15.50	4.15	0.61	41.15		8.48%	3331.1
%age		34.78%	273.34%	581.89%			296.67%		
Salaries	N/A	N/A	N/A	N/A	N/A			N/A	N
Administrative Expenditure	-	109.23	119.76	112.16	102.97	444.11		91.52%	6.0
%age		-8.79%	6.77%	8.93%			2.30%		
CEO/Dir Remuneration	N/A	N/A	N/A	N/A	N/A			N/A	N

c) Comments

i. Due to the accumulated losses and low income generated segment, Resource academia business was discontinued in the year 2016 hence analysis is based on the data for 4 years 2013 to 2016.

ii. Previous accumulated losses are adjusted by the current year profits. For the purpose of above trend analysis, current year profit figure has taken instead of accumulated loss figure.

iii. Financial statements of The Resource Academia School do not present segregation of receipts & expenses which limits the analysis done. There were no notes to financial statements available.

iv. Due to the absence of notes to financial statements & separate disclosures of receipts presented, it is being assumed that the receipts shown in Profit & Loss Account is the fee income alone.

v. During past 5 years total expenses were 91.52 % of the total income hence generating only 8.48 % of net profit out of total income earned.

vi. Although company's profit has risen by 3331.19% over the last 5 years but still company is not able to generate high profits per year by increasing the fee income i-e only a 25.63% increase in income over the last 5 years thus discontinuing it after year 2016.

vii. The reason behind a minimal increase of 25.63% in income over the 5 years (only 8.26% average change per annum) may be poor financial management or poor marketing efforts.

viii. There were no notes to financial statements available along with no information regarding salaries of the staff hence limiting this analysis to the point that our team could not be able to comment on teachers/non-teachings-staff/Director's/CEO's remuneration.

ix. Due to the non-availability of Statement of Financial Position (Balance sheet), Return on Equity cannot be calculated.

x. No tax has been charged in profit & loss statement throughout the FY 2013 – 2016.

Bayview Academy, Karachi

Introduction

In 1984, Bayview Academy was started as a Montessori and early childhood education centre of the time. In August 1990, the Montessori was upgraded to Bay View Academy, with the aim to provide a holistic education for students from Nursery to Class VI.

The school went on to include education to O-Levels and moved to its purpose-built Defence campus in 1999. With ever-increasing demand for its educational services, Bay View opened the Clifton Campus in August 2013 and the PECHS campus in August 2015, each growing incrementally by one grade level a year.

Assignment Objectives/Terms of Reference

The terms of reference of the assignment entrusted to the AGP was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Besides above, audit team was tasked to carry out further analysis to assist the Committee established on the issue of private school fee by Supreme Court in reduction of existing fee and in determination of possible fee enhancements in the future.

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2013-14 to 2017-18
- Tax Returns for the last five years

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. The absence of such essential information has constrained the analysis to the aggregated and summarized figures only in most cases including

LGS. Once further information is received, further analysis will be accordingly presented by Audit which could help the Committee in formulating evidence based recommendations.

Analysis

SECTION 1

Results in Compliance with Para 3 of the Order

Rs. in Million

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment	11.9	14.7	15.08	14.9	13.8
Various Costs Incurred	306	280	242	220	195
Deductions Claimed*	3.63	3.90	3.25	3.03	7.5
After Tax Net Profit	3.2	9.6	4.1	4.1	3.3

*The deductions claimed mainly include depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of Income Tax Law

Income Tax Paid (Rs in million)

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Tax Paid	9	3	5	3	3	23

Analysis

a) Profitability Analysis (in Million)

The detailed profitability analysis, so as to give reader a bigger picture of the performance of Bayview Academy Pvt. Ltd is given below: -

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	319	293	251	226	202	1,291
Total Expenses	307	281	242	219	195	1,244
Profit before taxation	12	12	9	7	7	47
Income Tax Expense	9	3	5	3	2	22
Net Profit after Tax	3	10	4	4	3	24
RoE	25%	68%	27%	27%	22%	

b) Trend Analysis

Year	2017	2016	2015	2014	2013	Average Change per Annum	% of Total Income	Percentage Increase 2013-17
Fee Income	312	285	243	218	197		97%	58%
%age	9.47%	17.28%	11.47%	10.66%		12%		
Total Income	319	293	251	226	202		100%	58%
%age	8.87%	16.73%	11.06%	11.88%		12%		
Total Expense	307	281	242	219	195		96%	57%
%age	9.25%	16.12%	10.50%	12.31%		12%		
Net Profit	3	10	4	4	3		2%	0%
%age	-70.00%	150.00%	0.00%	33.33%		28%		
Teachers Salary	155	136	124	115	138		52%	12%
%age	13.97%	9.68%	7.83%	-16.67%		4%		
Administrative expenditure	94	86	71	29	21		23%	348%
%age	9.30%	21.13%	144.83%	38.10%		53%		
CEO/Dir Remuneration	58	59	47	36	36		18%	61%
%age	-1.69%	25.53%	30.56%	0.00%		14%		

c) Comments

1. The fee income of the company has risen consistently (49% in 5 years) but its profit has shown a flat trend and remained at Rs 03 million (2013: 03 million). This means that the expenses have risen significantly due to which the profit did not increase in comparison to the income.

2. The administrative/operating expenses are generally not within company control like rent, fuel, utilities etc. However, it is for company itself to decide staff salary, CEO/Directors remuneration and any expenses to be incurred on them.

3. In the case of the subject Company where income increased by 58%, the administrative expense increased by hefty amount of 348%. The CEO/Directors remuneration also increased considerably by 61% in the same period.

4. In simple words, the Company kept its remuneration and expense of Directors very high to keep the overall expense at the level of about 96% of the revenue so as to minimize profit figure and thereby the tax paid to the national exchequer.

5.. The CEO/Directors got a total of Rs. 236 million in 5 years as remuneration including expenses like entertainment, travel etc. which were spent on the Directors/Owners in this period.

6. The above trend analysis clearly show that the actual profit earned by owners has been much higher than what has been declared in the financial statements. The owners have drawn heavy amounts as their remuneration and in the form of expenses incurred on them and by doing so the profit has been suppressed and much lower tax has been paid.

SECTION II

PROFITABILITY ANALYSIS AFTER ADD BACK INTO REVENUE

Expenses incurred on CEO/Directors

Froebel Education Centre is a company registered under Companies Ordinance as a Private Limited Company. The rules allow such companies to use "No Arm's length Principle". They are allowed to determine their own salaries, benefits and other expenses without limit. This permission appears to have been abused in the instant case to very amounts and suppress profits instead of drawing profit from the business after paying taxes, according to law. Expenses have been inflated to keep the gross profit low and managed.

Although It would take examination at transaction & voucher level to further authenticate the expenses given in financial statements, a shorter and safer way to make such expenses realistic and reasonable is to deducted part of such expenses and add them back to the revenue on presumptive basis, to arrive at a realistic estimate of the actual profits made by the school/school/system:

	2017	2016	2015	2014	2013
Total Remuneration of CEO and Directors	58	59	47	36	36
Addback to Profit					
75% of Remuneration	43.5	44.25	35.25	27	27
Total Addback to Net Profit	44	44	35	27	27

b) Profitability Analysis after Presumptive Add Back (in Million)

Financial Year	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**2012-13**
Total Income	319	293	251	226	202
Total Expenses	307	281	242	219	195
Add Back	44	44	35	27	27
Presumptive Profit before Taxation	56	56	44	34	34
Income Tax @ 30%	16.65	16.875	13.275	10.2	10.2
Net Presumptive Profit after Tax	39	39	31	24	24
RoE on Presumptive Profit	326.47%	267.86%	205.40%	159.73%	172.46%

b) Trend Analysis after Presumptive Add Back (in Million)

Year	**2017**	**2016**	**2015**	**2014**	**2013**	**Average Change per Annum**	**% of Total Income**	**Percentage Increase 2013-17**
Fee Income	312	285	243	218	197		97%	58%
%age	9.47%	17.28%	11.47%	10.66%		10%		
Total Income	319	293	251	226	202		100%	58%
%age	8.87%	16.73%	11.06%	11.88%		10%		
Total Expense	307	281	242	219	195		96%	57%
%age	9.25%	16.12%	10.50%	12.31%		10%		
Net Profit	3	10	4	4	3		2%	0%
%age	-70.00%	150.00%	0.00%	33.33%		23%		
Presumptive Net Profit	39	39	31	24	24		12%	63%
%age	-1.33%	27.12%	30.15%	0.00%		11%		
Teachers Salary	155	136	124	115	138		52%	12%
%age	13.97%	9.68%	7.83%	-16.67%		3%		

Administrative expenditure	94	86	71	29	21		23%	348%
%age	9.30%	21.13%	144.83%	38.10%		43%		
CEO/Dir Remuneration	58	59	47	36	36		18%	61%
%age	-1.69%	25.53%	30.56%	0.00%		11%		

c) Comments

It is evident from the above that if the total amount withdrawn by owners, under whatever head, is taken as their profit, the position of the profitability completely changes. As reported in financial statements, the average net profit for the latest year is Rs.03 million and ROE is only 25% but upon the add back, the profit becomes Rs. 39 million and ROE becomes as high as 326%. The net profit reported for the year 2016-17 was Rs 03 million, however, after addback, the presumptive profit calculation goes up to Rs 39 million (more than 13 times). If compared with 2013, a flat trend for the reported net profit was observed, however, after adding back extra-ordinary items, the presumptive net profit rose by more than 63% in comparison to 2013.

SECTION-III

a) Conclusion

The important results, which enable us to comment on the relative increase in fees collection and corresponding expenditures, are reproduced below: -

Year	2017	2016	2015	2014	2013	Average Change per Annum	% of Total Income	Percentage Increase 2013-17
Fee Income	312	285	243	218	197		97%	58%
%age	9.47%	17.28%	11.47%	10.66%		10%		
Total Expense	307	281	242	219	195		96%	57%
%age	9.25%	16.12%	10.50%	12.31%		10%		
Net Profit	3	10	4	4	3		2%	0%
%age	-70.00%	150.00%	0.00%	33.33%		23%		
CEO/Dir Remuneration	58	59	47	36	36		18%	61%
%age	-1.69%	25.53%	30.56%	0.00%		11%		

1. The organization is working as an unrealistically low profit margin of 2% which raises suspicions of inflated expenses

2. The organization is working at RoE of 25% in year 2016-17 which is a simple reflection of stability of the business as a going concern.
3. The organization has been consistently raising fee with an average increase of 10% per year in the period 2013-17. Logically, it should have resulted into greater profits if a matching increase in the expenses at the same time had not taken place.
4. The CEO remuneration has increased by an average of 11% per annum which in turn is 18% of the total income.
5. It can be seen that there is no fixed pattern to remuneration of directors. It is left to the discretion of the owners and they use it for profit suppression, as and when deemed necessary. The profit suppression/management can be expressed as in graph below.
6. On the expense side, it can be seen that the administrative expenses have also increased considerably, more than 348% during the period 2013-17.
7. The fee collection has increased by 58% in the five years from 2013 to 2017.
8. When the remunerations of CEO and directors are added back to the profit, the final position emerges as under: -

Performance Ratio	**Stated**	**Presumptive**
Average RoE	35%	226%
Average Net Profit Margin	2%	12%
Average Tax Expense	4 m	13 m

Salamat School System (SSS)

Introduction

SICAS is one of Lahore's systems of schools that offers a comprehensive educational experience from pre-school to A' Levels. With a history dating back to 1974, SICAS schools today continue their commitment to unite knowledge and social responsibility. The school has six campuses throughout Lahore.

Assignment Objectives/Terms of Reference

The terms of reference of the assignment entrusted to the AGP was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Besides above, audit team was tasked to carry out further analysis to assist the Committee established on the issue of private school fee by Supreme Court in reduction of existing fee and in determination of possible fee enhancements in the future.

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2013-14 to 2017-18
- Tax Returns for the last five years

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. The absence of such essential information has constrained the analysis to the aggregated and summarized figures only in most cases including LGS. Once further information is received, further analysis will be accordingly presented by Audit which could help the Committee in formulating evidence based recommendations.

Analysis

SECTION-I

Results in Compliance with Para 3 of the Order

Rs. in millions

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment	335.58	319.59	289.76	256.27	132.05
Various Costs Incurred	765.30	727.64	719.64	658.55	536.61
Deduction Claimed*	46.39	57.44	80.88	74.86	0
After Tax Net Profit	11.30	16.80	63.33	55.39	59.88

*The deductions claimed mainly include depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of Income Tax Law

Income Tax Paid (Rs in million)

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Income Tax Paid	8.85	9.64	8.94	7.94	0.00647	35.37647

Analysis

a) **) Profitability Analysis (in Million)**

Year	2017	2016	2015	2014	2013	Percentage Increase 2014-17
Fee Income (millions)	767	732	761	714	592	30%
% Change	5%	-4%	7%	21%		
Number of students	3,288	3,147	3,276	3,465	3,584	-8%
Fee income per student per annum	233,273	232,602	232,295	206,061	165,179	41%
Fee income per student per month	19,439	19,384	19,358	17,172	13,765	41%
% Change	0%	0%	13%	25%		

The detailed profitability analysis, so as to give reader a bigger picture of the performance of SSS is given below: -

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	786	754	792	749	618	3699
Total Expenses	765	728	720	685	558	3456
Profit before taxation	21	26	72	64	60	243
Income Tax Expense	8	7	9	0	0	24
Net Profit after Tax	13	19	63	64	60	219
RoE	3.75%	5.95%	21.84%	25.10%	31.32%	
Number of students	3,288	3,147	3,276	3,465	3,584	
Monthly profit per student	319	504	1611	1546	1398	

It can be seen that the profit per student per month is surprisingly low. Given that the average monthly fees being charged is Rs. 19,000, the net profit per month seems to be unrealistic.

The increase in total income of a school can be attributed to an interplay of the two factors as below: -

1. Increase in monthly tuition fees
2. Increase in number of students

As can be seen, the profit per student is decreasing trend in the five years under review. The number of students is also stagnant in the five years under study.

b) Trend Analysis

Year	2017	2016	2015	2014	2013	Average Change per Annum	% of Total Income	Percentag Increase 2013-17
Fee Income	767	732	761	714	592		96%	30%
%age	4.78%	-3.81%	6.58%	20.61%		7%		
Total Income	786	754	792	749	618		100%	27%
%age	4.18%	-4.83%	5.75%	21.22%		7%		
Total Expense	765	728	720	685	558		93%	37%
%age	5.08%	1.11%	5.11%	22.76%		9%		
Net Profit	13	19	63	64	60		6%	-79%
%age	-33.85%	-69.92%	-1.45%	6.89%		-25%		
Teachers Salary	306	293	70	249	238		31%	29%
%age	4.44%	318.57%	-71.89%	4.62%		64%		
Administrative expenditure	380	362	352	340	240		45%	58%
%age	4.97%	2.84%	3.53%	41.67%		13%		
CEO/Dir Remuneration	18	18	18	18	18		2%	0%
%age	0.00%	0.00%	0.00%	0.00%		0%		

c) Comments

1. The fee income of the company has risen consistently (30% in 5 years) but its profit has shown a declining trend and remained at Rs 13million (2013: 60 million). This means that the expenses have risen significantly due to which the profit did not increase in comparison to the income.

2. The administrative/operating expenses are generally not within company control like rent, fuel, utilities etc. However, it is for company itself to decide staff salary, CEO/Directors remuneration and any expenses to be incurred on them.

3. In the case of the subject Company where income increased by 27%, the administrative expense increased by 58%. The CEO/Directors remuneration remained constant at Rs 18 million which is 2% of the company's income. The remuneration is too high if seen in conjunction with the declining trend in profit after tax.

4. In simple words, the Company kept its remuneration and expense of Directors very high to keep the overall expense at the level of about 93% of the revenue so as to minimize profit figure and thereby the tax paid to the national exchequer.

5.. The CEO/Directors got a total of Rs. 90 million in 5 years as remuneration. This is besides other expenses like entertainment, travel etc. which were spent on the Directors/Owners in this period.

It is worth mentioning that despite being in heavy profits in year 2013 and 2014, no income tax was paid.

6. The above trend analysis clearly show that the actual profit earned by owners has been much higher than what has been declared in the financial statements. The owners have drawn heavy amounts as their remuneration and in the form of expenses incurred on them and by doing so the profit has been suppressed and much lower tax has been paid.

SECTION II

PROFITABILITY ANALYSIS AFTER ADD BACK INTO REVENUE

Expenses incurred on CEO/Directors

SSS Educational Management (Pvt) Ltd is a company registered under Companies Ordinance as a Private Limited Company. The rules allow such companies to use "No Arm's length Principle". They are allowed to determine their own salaries, benefits and other expenses without limit. This permission appears to have been abused in the instant case to very amounts and suppress profits instead of drawing profit from the business after paying taxes, according to law. Expenses have been inflated to keep the gross profit low and managed.

Although It would take examination at transaction & voucher level to further authenticate the expenses given in financial statements, a shorter and safer way to make such expenses realistic and reasonable is to deducted part of such expenses and add them back to the revenue on presumptive basis, to arrive at a realistic estimate of the actual profits made by the school/school/system:

	2017	2016	2015	2014	2013
Total Remuneration of CEO and Directors	18	18	18	18	18
Addback to Profit					
75% of Remuneration	13.5	13.5	13.5	13.5	13.5
10% of Entertainment Cost	0.3	0.3	0.3	0.3	2
10% of Conveyance	3	2	2	2	0
Total Addback to Net Profit	17	16	16	16	16

a) Profitability Analysis after Presumptive Add Back (in Million)

Financial Year	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**2012-13**
Total Income	786	754	792	749	618
Total Expenses	765	728	720	685	558
Add Back	17	16	16	16	16
Presumptive Profit before Taxation	37	42	88	80	76
Income Tax @ 30%	11	13	26	24	23
Net Presumptive Profit after Tax	26	29	62	56	53
RoE on Presumptive Profit	7.79%	9.15%	21.27%	21.89%	27.57%

b) Trend Analysis after Presumptive Add Back (in Million)

Year	2017	2016	2015	2014	2013	Average Change per Annum	% of Total Income	Percentage Increase 2013-17
Fee Income	767	732	761	714	592			
%age	5%	-4%	7%	21%		7%	96%	30%
Total Income	786	754	792	749	618			
%age	4%	-5%	6%	21%		7%	100%	27%
Total Expense	765	728	720	685	558			
%age	5%	1%	5%	23%		9%	93%	37%
Net Profit	13	19	63	64	60			
%age	-34%	-70%	-1%	7%		-25%	6%	-79%
Presumptive Net Profit	26	29	62	56	53	19		
%age	-11%	-53%	10%	6%		-12%	6%	-51%
Teachers Salary	306	293	70	249	238			
%age	4%	319%	-72%	5%		64%	31%	29%
Non-Teaching staff salary	67	64	60	55	49			
%age	5%	7%	9%	12%		8%	8%	37%
Administrative expenditure	380	362	352	340	240			
%age	5%	3%	4%	42%		13%	45%	58%
CEO/Dir Remuneration	18	18	18	18	18			
%age	0%	0%	0%	0%		0%	2%	0%

c) Comments

It is evident from the above that if the total amount withdrawn by owners, under whatever head, is taken as their profit, the position of the profitability considerably changes. As reported in financial statements, the net profit for the latest year is Rs.13 million and ROE is only 3.75% but upon the add back, the profit becomes double i.e. Rs. 26 million and ROE becomes as high as 8%. The net profit reported for the year 2016-17 was Rs 13 million, however, after addback, the presumptive profit calculation goes up to Rs 26 million. If compared with 2013, a declining trend for the reported net profit was observed mainly because of the reason that income tax was not paid in years 2013 and 2014.

SECTION-III

a) Conclusion

The important results, which enable us to comment on the relative increase in fees collection and corresponding expenditures, are reproduced below: -

Year	2017	2016	2015	2014	2013	Average Change per Annum	% of Total Income	Percentage Increase 2013-17
Fee Income	767	732	761	714	592		96%	30%
%age	5%	-4%	7%	21%		7%		
Total Expense	765	728	720	685	558		93%	37%
%age	5%	1%	5%	23%		9%		
Net Profit	13	19	63	64	60		6%	-79%
%age	-34%	-70%	-1%	7%		-25%		
CEO/Dir Remuneration	18	18	18	18	18		2%	0%
%age	0%	0%	0%	0%		0%		

1. The organization is working as an unrealistically low profit margin of 6% which raises suspicions of inflated expenses
2. The organization is working at RoE of 3.75% in year 2016-17 which is a simple reflection of low profits as indicated above.
3. The organization is working at surprisingly low monthly profit per student around Rs. 300 only which seems unrealistic in view of the monthly fee per student which is around Rs 19,000.
4. The organization has been consistently raising fee with an average increase of 7% per year in the period 2013-17. Logically, it should have resulted into greater profits if an increase of 9% in the expenses at the same time had not taken place.
5. The CEO remuneration has been kept fixed at Rs 18 million per annum but it is still high if compared with declining trend in net profit.
6. On the expense side, it can be seen that the salaries and administrative expenses have also increased considerably, more than 31% and 45% during the period 2013-17.
7. The fee collection has increased by 30% in the five years from 2013 to 2017. The fee collection per child has increased by a slightly lower amount, probably because of some

discounts/concessions given. The reported net profit, however, remained flat in year 2017 if compared with year 2013.

8. When the remunerations of CEO and directors are added back to the profit, the final position emerges as under: -

Performance Ratio	Stated	Presumptive
Tax Expense	24 m	97 m
Total Net Profit	219 m	226 m

Generations School, Karachi

Introduction

Generation's School Private Limited, Karachi, established in 1990, is a small school chain in Karachi. Generation's school is based on three campuses located in three different areas of Karachi, educating students from playgroup, pre-nursery to O/A levels.

Assignment Objectives/Terms of Reference

The Auditor General of Pakistan was directed vide Supreme Court order of October 16th, 2018 to examine and analyze the audited accounts and tax returns of selected private schools /school systems & Franchises to determine the following:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Besides above, the honorable Supreme Court also established a Committee through the same order, to discuss the issues of private schools and make recommendation for possible fee reduction and mechanism for future fee increases. Audit team therefore was tasked by the said Committee to carry out further analysis of the data submitted by schools which could assist the Committee in formulating its recommendations for consideration of the honorable Supreme Court of Pakistan.

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the last 5 years i.e. 2012-13 to 2016-17
- Tax Returns for the last five years

The additional data regarding breakdown of some costs, number of students etc. as requested by AGP through Law and Justice Commission of Pakistan was not provided.

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. The absence of such essential information has constrained the analysis to the aggregated and summarized figures only. Once further information is received, further analysis will be accordingly presented by Audit which could help the Committee in formulating evidence based recommendations.

Analysis

SECTION 1

Results in Compliance with Para 3 of the Court Order

Rs. in million

Years	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment (share capital plus RE)	193.53	169.36	142.40	118.12	105.29
Various Costs Incurred/Expenses	575.28	545.61	482.54	378.48	273.63
Finance Cost (included in cost above)	50.41	0.28	-	-	0.03
Deductions Claimed*	72.17	164.45	255.89	151.5	32.38
Income Tax Expense	14.05	5.67	5.09	10.48	10.61
After Tax Net Profit	24.17	26.96	24.29	12.83	15.42

* The amount mainly includes depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of IT Law

Income tax Expense

Rs in million

Year	2016-17	2015-16	2014-15	2013-14	2012-13
Tax	14.05	5.72	5.09	10.49	10.61

The aggregate investment has increased by 84 %, expenses by 110 % and net profit by 57 % in the five year period under examination. There is variation in tax expense in two years due to tax adjustments.

Analysis of the Reported Figures/Financial Statements

a. Profitability Analysis (in Million)

The increase in fees collection is summarized for other schools where this information had been made available. However, fee collection per student cannot be calculated in case of Civilization's

School because they have not provided the data. Hence, only the summarized fee collection figure is shown in the table below: -

Rs. in millions

Year	2017	2016	2015	2014	2013	Percentage Increase 2013-17
Fee Income (millions)	612.13	571.42	505.95	398.08	298.28	105.22%
% Change	7.13%	12.94%	27.10%	33.46%		
Number of students	**DATA NOT PROVIDED**					
Fee per student per annum	**UNABLE TO CALCULATE**					
Fee per student per month	**UNABLE TO CALCULATE**					

The detailed profitability analysis, so as to give reader a bigger picture of the performance of the school, is given below: -

Rs. in millions

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	613.50	578.28	511.92	401.80	299.67	2,405.16
Total Expenses	575.28	545.61	482.54	378.48	273.63	2,255.55
Profit before taxation	38.22	32.67	29.38	23.31	26.03	149.61
Tax Expense	14.05	5.67	5.09	10.48	10.61	45.90
Net Profit after Tax	24.17	26.996	24.29	12.83	15.42	103.71
Return on Equity (RoE)	2.91%	3.35%	2.91%	2.97%	2.13%	
Number of students	**DATA NOT PROVIDED**					
Monthly Profit per Student in Pak Rupees	**UNABLE TO CALCULATE**					

In the absence of number of students, the profit per student cannot be calculated and compared to other schools.

The increase in total income of school can be due to a combination of increase in monthly tuition fees or increase in number of students or both. It is not possible to comment upon the fees without knowing other details.

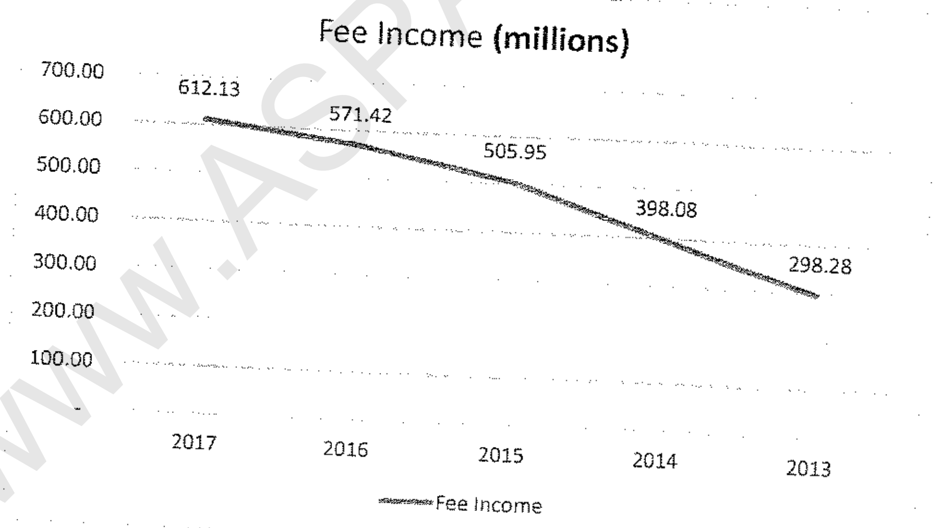
b. Trend Analysis

Year	2017	2016	2015	2014	2013	Total	Average Change per Annum	% of Total Income	% Increase 2013-17
Fee Income	612.13	571.42	505.95	398.08	298.28	2,385.86		99.20%	105.22%

% change	7.13%	12.94%	27.10%	33.46%			20.16%		
Total Income	613.50	578.28	511.92	401.80	299.67	2,405.16		100.00%	104.73
% change	6.09%	12.96%	27.41%	34.08%			20.14%		
Total Expense	575.28	545.61	482.54	378.48	273.63	2,255.55		93.78%	110.24
% change	5.44%	13.07%	27.49%	38.32%			21.08%		
Net Profit	24.17	26.96	24.29	12.83	15.42	103.67		4.31%	56.72
% change	-10.33%	10.98%	89.35%	-16.83%			18.29%		
Teachers Salary	272.32	264.34	277.10	167.71	118.03	1,099.50		45.71%	130.73
% change	3.02%	-4.60%	65.22%	42.10%			26.43%		
Management salary	**DATA NOT PROVIDED SEPARATELY**								
Administrative expenditure	**DATA NOT PROVIDED SEPARATELY**								
CEO/Dir Remuneration	35.36	30.58	26.22	6.65	3.90	102.72		4.27%	806.67%
% change	15.63%	16.62%	294.09%	70.62%			99.24%		

c) Comments

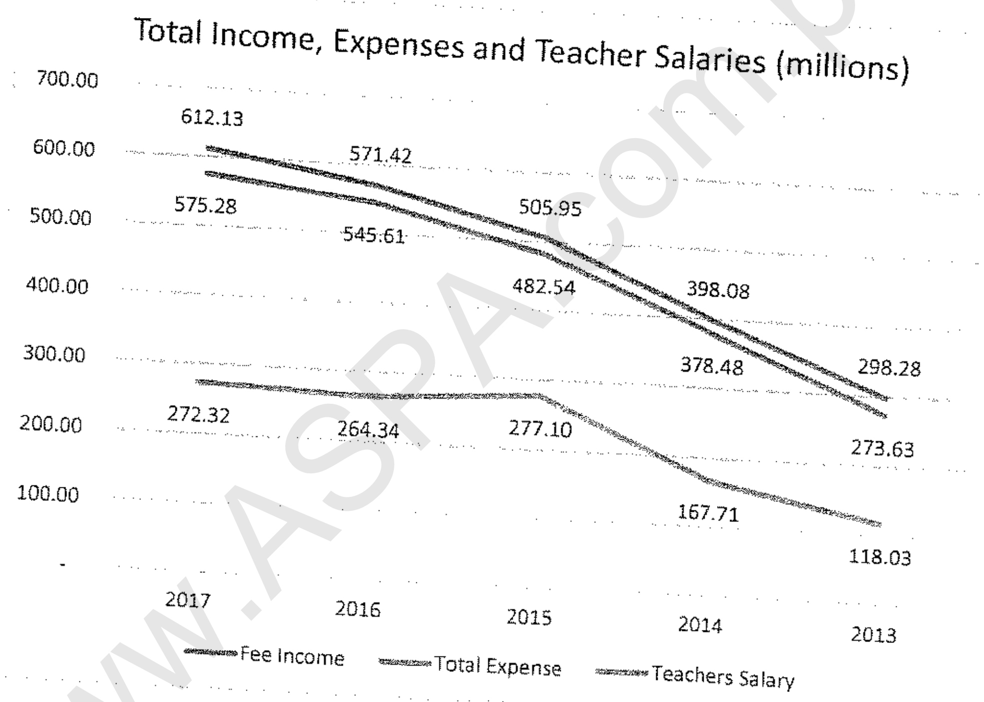
i) The total fees income has increased 115% in the last four years. However, there the trend in the profit per student cannot be calculated due to lack of data and hence cannot be compared.



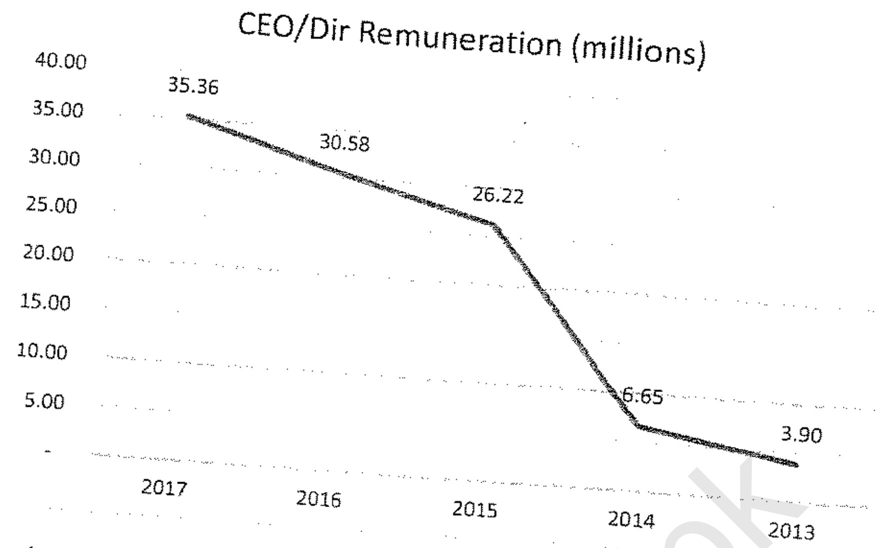
ii) For the five year period, the total expenses have been very high, i.e. 93.78% of the total income.

iii) The profit has increased at an annual average rate of 18.29% but the main jump in the profit was in the year 2015 when it increased by 90%. In most recent data, the profit has decreased by 10%. Hence, a trend in profit cannot be ascertained on basis of these figures.

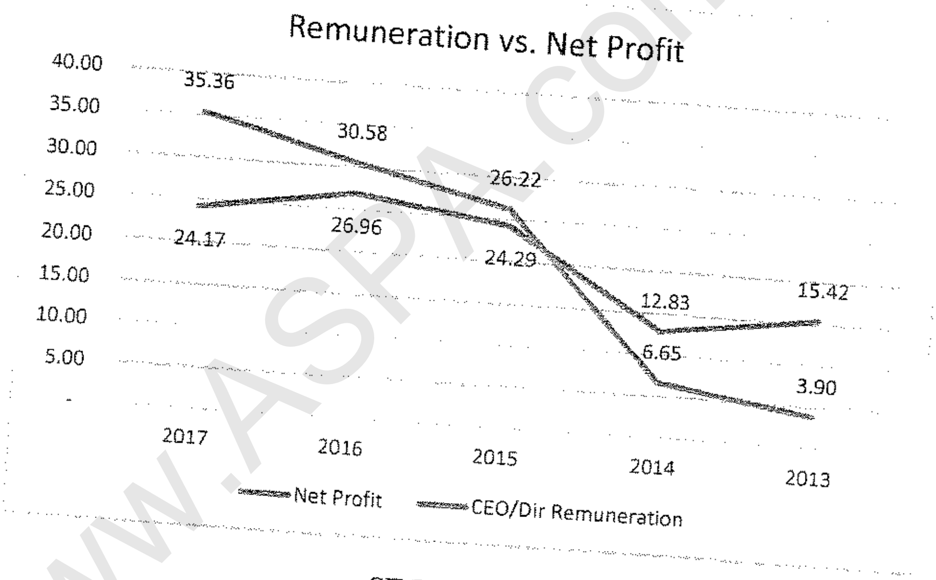
iv) If we plot the fee collected, reported expenses and teachers' salaries for each of the five years, an interesting observation comes up. The total income and total expenses are closely tracking each other. It means that either the school follows very well-defined cost drivers and has very immaculate budgets or there is some creative accounting in which expenses are jacked up exactly in relation to the increase in fees collection. The teachers' salary has been more or less stagnant in the last three years. Hence, teachers' salary alone cannot be considered as cost driver for higher income.



v) The increase in remunerations of the CEO and directors, the owners, shows a shocking trend. The remunerations increased by 860%, or almost 9 times, in the years 2013-17.



It is clear that the increase in remunerations is arbitrary as none of the other costs have gone up by this high percentage. Moreover , for the last three years, the remunerations are



SECTION II

PROFITABILITY ANALYSIS AFTER ADD BACK INTO REVENUE

Expenses incurred on CEO/Director's

Executives in private limited companies are allowed to determine their own salaries, benefits and other expenses without limit. Although it would take examination at transaction & voucher level to further authenticate the expenses given in financial statements, a shorter and safer way is to deduct part of such expenses and add them back to the revenue on presumptive basis, to arrive at a realistic estimate of the actual profits made by the school/school/system:

	2017	2016	2015	2014	2013
Total Remuneration of CEO and Directors	35.36	30.58	26.22	6.65	3.90

A financial analysis of adding back remunerations of directors and CEO to the profit is as follows:-

Financial Year	**2017**	**2016**	**2015**	**2014**	**2013**
Total Income	613.5	578.28	511.92	401.8	299.67
Total Expenses	575.28	545.61	482.54	378.48	273.63
Profit before taxation	38.22	32.67	29.38	23.32	26.04
Addback	35.36	30.58	26.22	6.65	3.9
Presumptive Profit after Addback of remuneration	73.58	63.25	55.6	29.97	29.94
Presumptive Tax Expense @ 30%	22.07	18.98	16.68	8.99	8.98
Presumptive Net Profit	51.51	44.28	38.92	20.98	20.96
Net Profit after Tax	24.17	27.00	24.29	12.83	15.42
Presumptive Net Profit Margin	8.40%	7.66%	7.60%	5.22%	6.99%
Net Profit Margin	3.94%	4.67%	4.74%	3.19%	5.15%
Presumptive Return on Equity (RoE)	26.61%	26.14%	27.33%	17.76%	19.91%
Return on Equity (RoE)	12.49%	15.94%	17.06%	10.86%	14.65%

SECTION-III

a) Conclusion

i. The fee income of the company has risen consistently (105% in 5 years) but its profit has increased by only 56.72% in 05 years. The school has increased its fee but without its getting translated into higher profit as the expense was supposedly carefully increased at the same time so as to suppress the profit and ensuing tax payment.

ii. This expenditure is incurred under "**No arm's length Principle**"- the owners/management are free to fix their own salaries and expenses, as allowed under Companies ordinance for Private Limited Companies. In short, this expense can be exaggerated to whatever the owners decide thereby squeezing profit down to a desirable level.

iii. Since 2015, the fee income increase has not resulted into proportionate increases in the salaries of teaching staff.

iv. The remuneration of CEO/Directors of the Company is Rs. 35 million for the year ended 30 June 2017 in addition to other expenses like entertainment, travel etc. which were spent on the Directors/Owners in this period.

v. When the remunerations of CEO and directors are added back to the profit, the final position emerges as under: -

Performance Ratio	Stated	Presumptive
Average RoE	14.2 %	23.55 %
Average Net Profit Margin	4.34 %	7.17 %
Average Tax Expense	15.14 m	9.18 m

Civilizations School, Karachi

Introduction

Civilizations school in Karachi requires its students to matriculate in 12 subjects ranging from German language to Additional Mathematics to History. It attaches great importance to physical training in sports. In addition to that, theatre and debate are recognized as key skills taught to its students.

Assignment Objectives/Terms of Reference

The Auditor General of Pakistan was directed vide Supreme Court order of October 16th, 2018 to examine and analyze the audited accounts and tax returns of selected private schools /school systems & Franchises to determine the following:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Besides above, the honorable Supreme Court also established a Committee through the same order, to discuss the issues of private schools and make recommendation for possible fee reduction and mechanism for future fee increases. Audit team therefore was tasked by the said Committee to carry out further analysis of the data submitted by schools which could assist the Committee in formulating its recommendations for consideration of the honorable Supreme Court of Pakistan.

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the last 5 years i.e. 2012-13 to 2016-17
- Tax Returns for the last five years

The additional data regarding breakdown of some costs, number of students etc. as requested by AGP through Law and Justice Commission of Pakistan was not provided.

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. The absence of such essential information has constrained the analysis to the aggregated and summarized figures only. Once further information is received, further analysis will be accordingly presented by Audit which could help the Committee in formulating evidence based recommendations.

Analysis

SECTION 1

Results in Compliance with Para 3 of the Court Order

Rs. in million

Years	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment (share capital plus RE)	23.84	22.06	18.85	12.53	8.21
Various Costs Incurred/Expenses	77.05	66.32	55.67	49.51	42.84
Deductions Claimed*	1.42	1.42	1.24	1.98	2.05
Income Tax Expense	2.17	1.31	1.19	0.56	0.23
After Tax Net Profit	4.83	5.27	6.32	5.69	3.83

* The amount mainly includes depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of IT Law

Income tax Expense

Rs in million

Year	2016-17	2015-16	2014-15	2013-14	2012-13
Tax	2.17	1.31	1.19	0.56	0.23

The aggregate investment has increased by 190 %, expenses by % and net profit by 26 % in the five year period under examination. There is variation in tax expense in two years due to tax adjustments.

Analysis of the Reported Figures/Financial Statements

a. Profitability Analysis (in Million)

The increase in fees collection is summarized for other schools where this information had been made available. However, fee collection per student cannot be calculated in case of Civilization's School because they have not provided the data. Hence, only the summarized fee collection figure is shown in the table below: -

Rs. in millions

Year	2017	2016	2015	2014	2013	Percentage Increase 2013-17
Fee Income (millions)	612.13	571.42	505.95	398.08	298.28	105.22%
% Change	7.13%	12.94%	27.10%	33.46%		
Number of students	**DATA NOT PROVIDED**					
Fee per student per annum	**UNABLE TO CALCULATE**					
Fee per student per month	**UNABLE TO CALCULATE**					

The detailed profitability analysis, so as to give reader a bigger picture of the performance of the school, is given below: -

Rs. in millions

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	82.23	70.60	60.00	53.10	45.04	310.97
Total Expenses	77.05	66.32	55.67	49.51	42.84	291.39
Profit before taxation	7.00	6.57	6.98	6.38	4.06	30.99
Tax Expense	2.17	1.31	0.66	0.69	0.23	5.06
Net Profit after Tax	4.83	5.27	6.32	5.69	3.83	25.94
Return on Equity (RoE)	20.28%	23.87%	33.53%	45.44%	46.69%	
Number of students	**DATA NOT PROVIDED**					
Monthly Profit per Student in Pak Rupees	**UNABLE TO CALCULATE**					

In the absence of number of students, the profit per student cannot be calculated and compared to other schools.

The increase in total income of school can be due to a combination of increase in monthly tuition fees or increase in number of students or both. It is not possible to comment upon the fees without knowing other details.

b. Trend Analysis

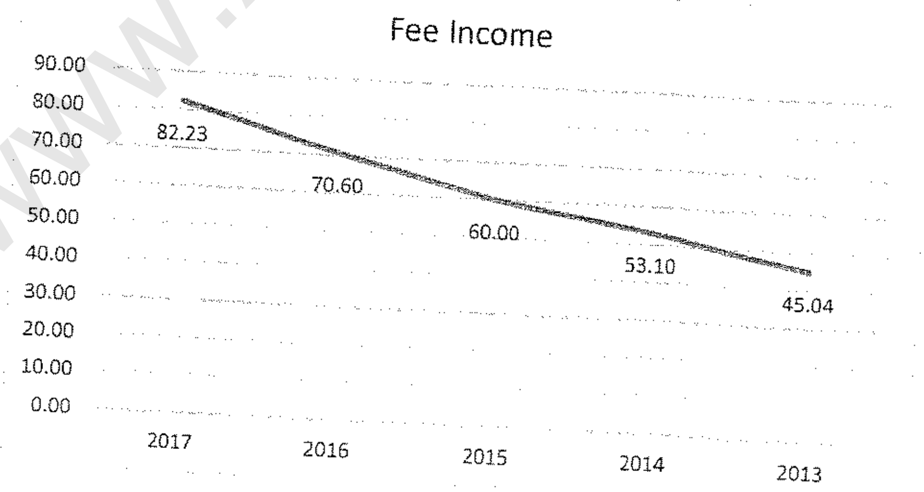
The major determinants of a firm's profits and operational feasibility are various types of costs, such as utilities, salaries of teachers and managerial staff, remunerations of directors etc. hence, it is imperative to analyze their behavior in order to comment upon the overall finances of the school under study. Hence, a trend analysis for some important accounts heads is given below: -

PKR Millions

Year	2017	2016	2015	2014	2013	Total	Average Change per Annum	% of Total Income	% Increase 2013-17
Fee Income	82.23	70.60	60.00	53.10	45.04	310.97	16.26%	97.09%	82.58%
% change	16.48%	17.66%	13.00%	17.90%					
Total Income	84.05	72.59	62.14	55.14	46.36	320.28	16.06%	100.00%	81.29%
% change	15.79%	16.82%	12.68%	18.94%					
Total Expenses	77.05	66.32	55.67	49.51	42.84	291.39	15.83%	90.98%	79.83%
% change	16.18%	19.12%	12.44%	15.56%					
Net Profit	4.83	5.27	6.32	5.69	3.83	25.94	8.67%	8.10%	26.11%
% change	-8.35%	-16.61%	11.07%	48.56%					
Teachers Salary	38.15	35.65	28.84	25.38	22.00	150.02	14.91%	46.84%	73.45%
% change	7.03%	23.58%	13.64%	15.39%					
Non-Teaching staff salary	3.21	2.44	1.87	1.25	0.94	9.72	36.12%	3.03%	241.19%
% change	31.67%	30.53%	49.60%	32.70%					
Administrative Expenses	25.25	19.47	17.16	14.88	13.13	89.89	17.95%	28.07%	92.31%
% change	29.66%	13.46%	15.36%	13.32%					
CEO/Dir Remuneration	3.81	3.61	2.54	1.61	1.34	12.91	31.35%	4.03%	184.13%
% change	5.45%	42.04%	57.38%	20.54%					

c) Comments

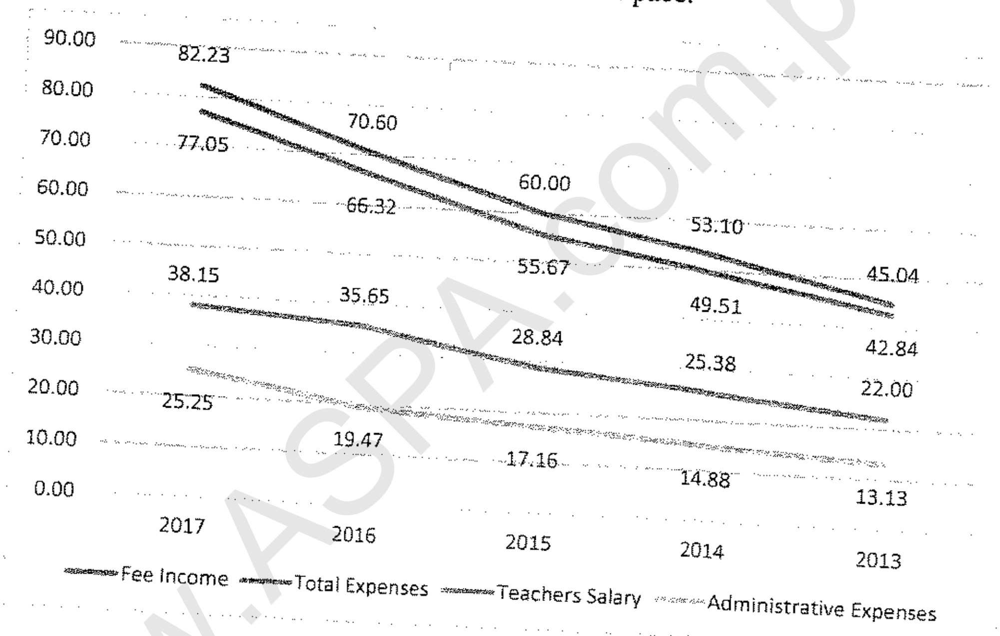
i) The total fees income has increased 83% in the last four years. However, there the trend in the profit per student cannot be calculated due to lack of data and hence cannot be compared.



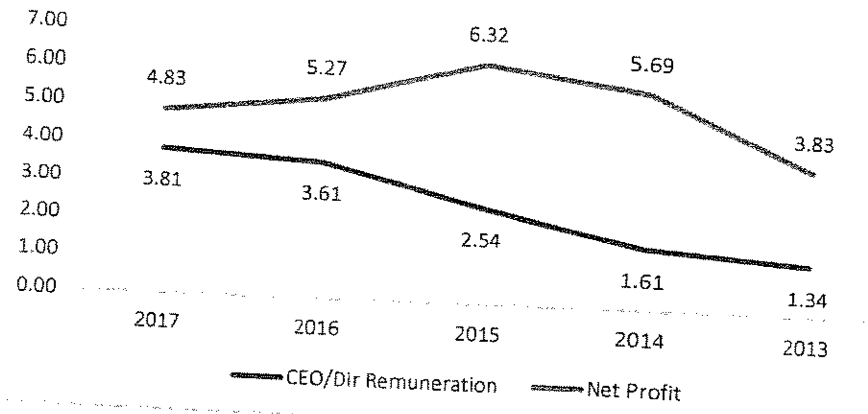
ii) For the five year period, the total expenses have been very high, i.e. 91% of the total income.

iii) The profit has increased at an annual average rate of 8.67 % but the main jump in the profit was in the year 2013 and 2014 when it increased by 48%. In most recent two years, the profit has decreased by cumulative 23%. Hence, a trend in profit cannot be ascertained on basis of these figures.

iv) If we plot the fee collected, total expenses and salaries of teachers and management for each of the five years, an interesting observation comes up. The total income and total expenses are closely tracking each other. It means that either the school follows very well-defined cost drivers and has very immaculate budgets or there is some creative accounting in which expenses are jacked up exactly in relation to the increase in fees collection. The salaries of teachers and management have increased at a slower pace.



v) The remunerations shows no correlation to the net profit. It seems as if the remunerations are deliberately being enhanced to lower the profit. The profit has increased 80% in the 5 years while the remunerations have registered an increase of 184 % in the same period.



SECTION II

PROFITABILITY ANALYSIS AFTER ADD BACK INTO REVENUE

Expenses incurred on CEO/Director's

Executives in private limited companies are allowed to determine their own salaries, benefits and other expenses without limit. Although it would take examination at transaction & voucher level to further authenticate the expenses given in financial statements, a shorter and safer way is to deduct part of such expenses and add them back to the revenue on presumptive basis, to arrive at a realistic estimate of the actual profits made by the school/school/system:

	2017	2016	2015	2014	2013
Total Remuneration of CEO and Directors	3.81	3.61	2.54	1.61	1.34

A financial analysis of adding back remunerations of directors and CEO to the profit is as follows:-

Financial Year	**2017**	**2016**	**2015**	**2014**	**2013**
Total Income	84.05	72.59	62.14	55.14	46.36
Total Expenses	77.05	66.32	55.67	49.51	42.84
Profit before taxation	7.00	6.57	6.98	6.38	4.06
Addback	3.81	3.61	2.54	1.61	1.34
Presumptive Profit after Addback of remuneration	10.81	10.18	9.52	7.99	5.40
Presumptive Tax Expense @ 30%	3.24	3.05	2.86	2.40	1.62
Presumptive Net Profit	7.57	7.13	6.66	5.59	3.78
Net Profit after Tax	4.83	5.27	6.32	5.69	3.83

Presumptive Net Profit Margin	9.00%	9.82%	10.72%	10.14%	8.15%
Net Profit Margin	5.75%	7.25%	10.17%	10.33%	8.27%
Presumptive Return on Equity (RoE)	31.75%	32.31%	35.35%	44.63%	46.04%
Return on Equity (RoE)	20.28%	23.87%	33.53%	45.44%	46.69%

SECTION-III

a) Conclusion

i. The fee income of the company has risen consistently (82% in 5 years) but its profit has increased by only 26% in 05 years. The school has increased its fee but without its getting translated into higher profit as the expense was also increased at the same time so as to suppress the profit and ensuing tax payment.

ii. This expenditure is incurred under "**No arm's length Principle**"- the owners/management are free to fix their own salaries and expenses, as allowed under Companies ordinance for Private Limited Companies. In short, this expense can be exaggerated to whatever the owners decide thereby squeezing profit down to a desirable level.

iii. In the last five years, the managerial salaries have increased by 241% but the teachers' salaries have increased by only 73%.

iv. The remuneration of CEO/Directors of the Company is Rs. 3.8 million for the year ended 30 June 2017 which is quite low as compared to other schools.

v. Due to higher tax payments at higher profits, Presumptive RoE is smaller than the stated RoE, which is counter intuitive, in the years 2013-15.

vi. When the remunerations of CEO and directors are added back to the profit, the final position emerges as under: -

Performance Ratio	Stated	Presumptive
Average RoE	33.96 %	38.01 %
Average Net Profit Margin	8.35 %	9.57 %
Average Tax Expense	1.01 m	2.63 m

Alliance Resource

Introduction

Alliance Resource (Pvt) Ltd is a business conglomerate running many companies besides operating two branches of co-educational schools that offers certifications of the Cambridge Assessment International Education Board. The campuses are located in DHA Lahore and at Faisalabad. At DHA, International Baccalaureate Middle and Primary Years Programmes; and the Diploma Programme are offered. The DHA campus has recently introduced the International Baccalaureate Middle and Primary Years Programme to its curriculum. Learning Alliance is considered as one of the most exclusive academic institutions in Pakistan.

Assignment Objectives/Terms of Reference

The terms of reference of the AGP team entrusted with the assignment were the examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following, on the basis of provided record:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2013-14 to 2017-18
- Tax Returns for the last five years

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. The absence of such essential information could have constrained the analysis to the aggregated and summarized figures as in case of other schools, but the **management of Alliance Resource school system was very forthcoming in providing additional data** as requested in the requisition. Hence, the office of the AGP was able to perform greater analysis of the school system.

Analysis

SECTION 1

Results in Compliance with Para 3 of the Order

Rs in Million

Years	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment (share capital plus RE)	251	231	93	81	10
Various Costs Incurred/Expenses	746	647	600	457	348
Finance Cost	11	12	12	13	10
Deductions Claimed*	47	46	48	15	18
Income Tax Expense	28	25	40	16	13
After Tax Net Profit	68	69	42	35	28

*. The amount mainly includes depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of IT Law

Tax Expense

Rs in million

Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Tax Expenses	28	25	40	16	13	122

Analysis

Number of Students

Campus	2017-2016	2016-2015	2015-2014	2014-2013
DHA Campus	1759	1595	1504	1335
FSD Campus	330	304	288	263
Total No of Students in the year	**2089**	**1899**	**1792**	**1598**

Fee per student per annum & per month

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Average per year
Fee Income	835	737	680	504	390	629.2
% increase in fee	13%	8%	35%	29%	-	21.25%
Number of Students	2089	1899	1792	1598	-	1,845
Fee per student per annum	399,713	388,099	379,464	315,394	-	370,668
Fee per student per month	33,309	32,342	31,622	26,283	-	30,889
Fee increase percentage	3%	2%	20%	-		8.33%

SECTION-II

a) Profitability Analysis (in Million)

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	842	741	681	507	390	3,160
Total Expenses	746	647	600	457	348	2,797
Profit before taxation	96	94	81	50	41	363
Tax Expense	28	25	40	16	13	122
Net Profit after Tax	68	69	42	35	28	241
Return on Equity (RoE)	27%	96%	45%	43%	61%	-
Fee per student per year	399,713	388,099	379,464	315,394		370,668
Fee per student per year	32,455	36,125	23,281	21,719	-	28,395
Fee per student per month	33,309	32,342	31,622	26,283	-	30,889
Profit per student per month	2,705	3,010	1,940	1,810	-	2,366
Fee increase per student per year	3%	2%	20%	-	-	9%

b) Trend Analysis

Year	2017	2016	2015	2014	2013	Average increase per annum	Total	% of Total Income	%age Increase 2013-17
Fee Income	835	737	680	504	390	17.19%	3,146		
%age change	13.27%	8.45%	34.74%	29.49%				99.54%	114%
Total Income	842	741	681	507	390	17.37%	3,160		
%age change	13.59%	8.75%	34.36%	30.15%				100.00%	116%
Total Expense	746	647	600	457	348	17.14%	2,797		
%age change	15.33%	7.84%	31.36%	31.15%				88.51%	114%
Net Profit	68	69	42	35	28	21.25%	241		
%age change	-1.17%	64.43%	20.21%	22.77%				7.63%	140%
Teachers Salary	257	238	191	147	109	19.54%	942		
%age change	8.38%	24.19%	30.57%	34.57%				29.80%	136%
Non-Teaching staff salary	141	108	100	66	42	29.39%	457		
%age change	29.99%	7.94%	51.98%	57.04%				14.45%	235%
Administrative expenditure	54	46	41	28	23	19.61%	193		
%age change	17.44%	12.61%	46.27%	21.74%				6.09%	135%
CEO/Dir Remuneration	272	224	177	131	60	40.50%	864		
%age change	21.46%	26.96%	34.92%	119%	-			27.33%	356%
Fee per student per year	399,713	388,099	379,464	315,394	-	370,668	-		

% age change	3%	2%	20%	-	-	9%	-		27%
Profit per student per year	32,455	36,125	23,281	21,719	-	28,395	-		
% age change	-10%	55%	7%	-	-	9%	-		49%
Fee per student per month	33,309	32,342	31,622	26,283	-	30,889	-		
% age change	3%	2%	20%	-	-	9%	-		27%

* On average, the total compensation, including entertainment allowance, mobile allowance, club memberships and insurance is roughly 5% more than the remunerations given in the financial statements and hence the remunerations have been multiplied with a factor of 1.05.

c) Comments

1. Income

The total revenue earned by the Company in 05 years has been Rs. 3160 million with annual average revenue of Rs.629 million with an annual increase of 22%.

2. Profit

The Company/school system has earned a total net profit of Rs. 241 million in last 5 years. Average annual profit therefore comes to Rs 48.2 million which is 7.63% of the average annual revenue.

3. Return on Equity/Investment

The Return on Equity during these 05 years comes to 55% per annum on average.

4. Tax Paid

The total tax paid in 05 years is Rs. 122 million with average annual tax of Rs 24.4 million which is only 19% of the revenue.

5. Expenses

The total expenses for 05 years come to Rs 2797 million with annual average at Rs at 559. Million which is 88.5% of the total income for the 05 years.

6. Salaries

The Salaries is the most important cost after rent and utilities for the school system. They fall under three categories, CEO/Board, Teaching staff and non-teaching & Executive staff.

The remuneration of CEO/Directors has been has been Rs 864 million for last 05 years with Rs 172.8 million on average per year. This expense is 27.34% of the total revenue and seems to be on very high side. It has also increased by 356% in the years 2013-17. It has increased by 51% per annum on average. This expense is besides the non- monetized perks of travel, transport, entertainment, travel and medical of the two Directors on which the school incurs expenditure.

Salary of teaching staff is most important as it is a direct contributor to quality of education being imparted by the school. The total under the head of Teachers salary has been Rs. 942 million which is 29.80 % of revenue and has increased by 24% per annum.

Non-teaching staff does not contribute directly to quality of education but are an essential element of quality of service. In case of Alliance Resource, the total salary of non-teaching staff including administrative, operational and executive staff for the last 05 years comes to Rs 457 million which is 14.46 % of total revenue and has increased by 112% during the 5 year period with average annual increase of 37%.

7. Non Salary Expenses

Non salary expenses reflect the increase in general prices. These expenses include Utility, rent travel, medical expenses etc. Their total for last 05 years come to Rs 193 million and they are only 6.09% % of the total revenue..

8. Fees

Fee is the most important element from parent's perspective and is charged under multiple heads/titles on monthly, annual and one time basis. The fee charged per month per student on average has been Rs 30889. It has increased on average by 9 % per year only.

SECTION-III

a) Conclusion

The important results, which enable us to comment on the relative increase in fees collection and corresponding expenditures, are reproduced below: -

Year	2017	2016	2015	2014	2013	Average per annum	Percentage Increase 2013-17
Fee Income	835	737	680	504	390	629	
%age change	13.27%	8.45%	34.74%	29.49%		21.49%	114%
Total Income	842	741	681	507	390		
%age change	13.59%	8.75%	34.36%	30.15%		21.71%	116%
Total Expense	746	647	600	457	348		
%age change	15.33%	7.84%	31.36%	31.15%		21.42%	114%
Net Profit	68	69	42	35	28		
%age change	-1.17%	64.43%	20.21%	22.77%		26.56%	140%
Teachers Salary	257	238	191	147	109		
%age change	8.38%	24.19%	30.57%	34.57%		24.43%	136%
Non-Teaching staff salary	141	108	100	66	42		
%age change	29.99%	7.94%	51.98%	57.04%		36.74%	235%
Administrative expenditure	54	46	41	28	23		
%age change	17.44%	12.61%	46.27%	21.74%		24.52%	135%
CEO/Dir Remuneration	272	224	177	131	60		
%age change	21.46%	26.96%	34.92%	119.14%	-	50.62%	356%
Fee per student per month	33,309	32,342	31,622	26,283	-		27%
Profit per student per month	2,705	3,010	1,940	1,810	-		49%
% of profit per student per month	8%	9%	6%	7%	-		-

The fee has been increased every year by 9 % per annum. Salaries have increased as well although that of the highest for the CEO/Directors saw the highest increase of 50.62% on average every year

Net profit increased by 26.86% on average per annum and 7.61% of the average annual revenue.

The administrative expense increased by 24.52% per annum on average.

The profit per student of Rs. 2,366 for the period 2013-2017 and is around 8% of the monthly fees charged which is very low as compare to industry trend.

It can be safely concluded in the case of Alliance Resources that it is making 26.56% on average with above 55% ROE which is on higher side. Fee increases therefore need to be curtailed

The Learning Tree School

Introduction

The Learning Tree was founded in 2000. Today, as one of certified IB World Schools, and a Certified Cambridge University registered school, and a 16 year journey, the Learning Tree provides education to 600 students, and employment to over 100 faculty and staff.

Assignment Objectives/Terms of Reference

The terms of reference of the AGP team entrusted with the assignment of was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following, on the basis of provided record:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2013-14 to 2016-17
- Tax Returns of TLT School (SMC-Pvt) Ltd for the year 2016-17

Assignment Limitations

Financial Statements provided are not the signed audited statements except for the FY 2016-17. The tax returns are submitted at individual level, in the name of Mrs. Naila Alladin, instead of being submitted at company level. The Balance Sheet of school has negative equity because of loans from the directors and insufficient profits.

Financial statements and tax returns available do not provide information on fee charged, number of teachers, number of students or the number of branches besides other such data which can help in determining fee charged and increases in it over the years. The absence of such essential information has constrained the analysis to the aggregated and summarized figures.

Analysis

Results in Compliance with Para 3 of the Order

Rs in Million

Years	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment (share capital plus RE)	335.58	319.59	289.76	256.27	132.05
Various Costs Incurred/Expenses	37.68	117.16	97.45	86.71	56.79
Finance Cost	0.46	0.91	3.15	2.57	0.32
Deductions Claimed*	5.53	6.65	0	0	0
Income Tax Expense	0.35	N/A	N/A	N/A	N/A
After Tax Net Profit	-3.12	8.74	8.6	-6.87	5.80

*. The amount mainly includes depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of Income Tax Law.

Tax Expense

Rs in million

Year	2016-17	2015-16	2014-15	2013-14	2012-13
Income Tax Expense	0.35	N/A	N/A	N/A	N/A

6. Analysis

a) Profitability Analysis (in Million)

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	34.90	125.90	106.06	79.84	62.59	409.29
Total Expenses	37.67	117.16	97.45	86.71	56.79	395.78
Profit before taxation	-2.77	8.74	8.61	-6.87	5.80	13.51
Income Tax Expense	0.35	0	0	0	0.00	0.35
Net Profit after Tax	-3.12	8.74	8.61	-6.87	5.80	13.16
RoE	117.70%	-63.16%	-63.46%	40.25%	-117.34%	-86.00%

b) Trend Analysis

Year	2016	2015	2014	2013	Total	Average Change per Annum	% of Total Income	% Increase 2013-16
Fee Income	123.82	104.83	77.81	59.11	400.10		97.75%	109.49%
% Change	18.12%	34.73%	31.64%			3.09%		
Total Income	125.9	106.06	79.84	62.59	409.29		100.00 %	101.14%
% Change	18.71%	32.84%	27.55%			1.70%		
Total Expense	117.16	97.45	86.71	56.79	395.79		96.70%	106.29%

% Change	20.23%	12.39%	52.68%			4.36%		
Net Profit	8.74	8.6	-6.87	5.80	13.15		3.21%	50.66%
% Change	1.63%	-225.18%	-218.43%			-144.43%		
Teachers Salary	58.74	43.81	37.46	32.15	190.96		46.65%	82.73%
% Change	34.08%	16.95%	16.53%			-0.11%		
Operating expenditure	58.43	53.64	49.24	24.65	204.83		50.05%	137.07%
% Change	8.93%	8.94%	99.78%			12.49%		
CEO/Dir Remuneration	N/A	N/A	N/A	N/A	N/A		N/A	N/A

c) Comments

i. Concern arose over the reliability of amounts and related disclosures given in Financial Statements, due to non-availability of Audited Financial Statements except for the year 2017, and Tax Returns were not available.

ii. **Since 2017's data was not authentic, it has been excluded from analysis.**

iii. TLT's Financial Statements shows an un-usual trend over the past 5 years (2013-17). School is generating either low profits or incurring losses. During the years 2013 - 2017 overall net profit margin is 3.21% which is very minimal. There is an inconsistency in the generations of profits over the years which is evident from the results i-e loss in FY -2014 and making profits in FY-2015 & 2016 and then again recurring loss in FY-2017.

iv. From FY 2013 to 2016, the fee income has risen by 109.49% but the net profit by 50.66%, whereas analysis of FY 2013-2017 trends shows a reduction of 41.57% in fee income and 153.87% in net profit. This is mainly due to loss incurred during FY 2016-17.

v. It has been observed from the above table that the net profit is 3.21% of total income as compare to total expenses which are 96.70% of total income. There is a risk that expenses might be overstated thus understating the profits.

vi. As per above table, total expenses are 96.70% of total income, comprising 46.55% as salaries & allowances which inferred that the TLT kept its salaries very high which makes up the major portion of the expenses.

vii. There is no separate disclosure for segregation for Teachers', Non-teaching staff, Directors and CEO's remuneration making separate interpretation not possible.

viii. The Finance costs have not been separately classified in Profit and Loss account hence markup and leasing cost were assumed to be the Finance Costs incurred

City Public School, Gujranwala

Introduction

It is a small school in on Nowshehra Road, Gujranwala, and has nothing to do with the large City Schools chain.

Assignment Objectives/Terms of Reference

The terms of reference of the AGP team entrusted with the assignment of was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following, on the basis of provided record:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2012-13 to 2016-17
- Tax Returns for the years 2012-13 to 2016-17

Assignment Limitations

Financial statements and tax returns available do not provide information on fee charged, number of teachers, number of students or the number of branches besides other such data which can help in determining fee charged and increases in it over the years. The absence of such essential information has constrained the analysis to the aggregated and summarized figures.

Analysis

SECTION 1

Results in Compliance with Para 3 of the Order

Rs in million

Years	2016-17	2015-16	2014-15	2013-14	2012-13
Aggregate Investment (share capital plus RE)	N/A	N/A	N/A	N/A	N/A

Various Costs Incurred/Expenses	2.789	2.268	1.930	1.920	1.901
Finance Cost	N/A	N/A	N/A	N/A	N/A
Deductions Claimed*	-	-	-	-	-
Income Tax Expense	0.021	0.021	0.039	0.016	0.017
After Tax Net Profit	**0.616**	**0.615**	**0.557**	**0.544**	**0.532**

*. The amount mainly includes depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of Income Tax Law.

Tax Expense

Rs in million

Year	2016-17	2015-16	2014-15	2013-14	2012-1
Income Tax Expense	0.021	0.021	0.039	0.016	0.0

Analysis

a) Profitability Analysis (in Million)

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	**3.426**	**2.903**	**2.526**	**2.480**	**2.451**	13.78
Total Expenses	2.789	2.268	1.930	1.920	1.901	10.80
Profit before taxation	**0.637**	**0.635**	**0.596**	**0.560**	**0.550**	**2.97**
Income Tax Expense	0.021	0.021	0.039	0.016	0.017	0.11
Net Profit after Tax	**0.616**	**0.614**	**0.557**	**0.544**	**0.533**	**2.86**
RoE	36.68%	38.50%	35.51%	35.30%	33.26%	

b) Trend Analysis

Year	2017	2016	2015	2014	2013	Total	Average Change per Annum	% of Total Income	Perce Increa 2013-
Fee Income	3.42	2.898	2.520	2.472	2.446	13.756		99.78%	39.8
% Change	18.00%	15.00%	1.94%	1.06%			9.00%		
Total Income	3.426	2.903	2.526	2.480	2.451	13.786		100.00%	39.7
% Change	18.00%	14.92%	1.85%	1.18%			8.99%		
Total Expense	2.789	2.268	1.930	1.920	1.901	10.808		78.40%	46.6
% Change	22.96%	17.51%	0.52%	1.00%			10.50%		
Net Profit	0.616	0.614	0.557	0.544	0.533	2.864		20.78%	15.5

% Change	0.33%	10.23%	2.39%	2.06%			3.75%		
Salaries	N/A	N/A	N/A	N/A	N/A			N/A	N/
Operating expenditure	2.789	2.268	1.930	1.920	1.901	10.808		78.40%	46.69
% Change	22.96%	17.51%	0.52%	1.00%			10.50%		
CEO/Dir Remuneration	N/A	N/A	N/A	N/A	N/A			N/A	N/

c) Comments

i) Financial statements of The City Public School does not present segregation of receipts & expenses which limits the analysis done in above table. Moreover there were no notes to financial statements available.

ii) It is pertinent to mention here that due to the absence of notes to financial statements & separate disclosures for segregation of receipts presented, it is being assumed that the receipts shown in Profit & Loss Account is the fee income that is why there is a minimal difference in fee & total income (receipts + other income) of The City Public School.

iii) It has been observed from the above table that the fee income is 99.78% of the total income whereas net profit constitutes only 20.78% of total income hence it can be inferred that there is a risk that expenses might be overstated thus understating the profits.

iv) Fee Income has risen by 36% whereas the total expense has risen by 46% over the past 5 years (2013-2017) which indicates poor management of expenses by The City Public School or might be school is giving out high salaries to its staff. In the absence of notes to the financial statements and proper disclosures, this is only a limited observation.

v) The City Public School has improved its financial performance by increase in its income as it is evident from the above results i-e in FY-2016 school had a big jump of 14.92% & in FY-2017 18% increase in income as compared to previous trend i-e only 1.85% change in FY-2015 & 1.18% change in FY-2014

vi) Average change per anum in total income is 8.99%, but average change per anum in net profit is only 3.75% which also indicates the risk of understatement of profits.

viii) On average school is earning 35.85% as Return on Equity.

Eden School

Introduction

Introduction not available in the details provided.

Assignment Objectives/Terms of Reference

The terms of reference of the AGP team entrusted with the assignment of was examination, analysis and scrutiny of the audited accounts and tax returns /school systems & Franchises to determine the following, on the basis of provided record:

- Aggregate Investments
- Various Costs/Expenses
- Deductions Claimed
- Net Profits After Tax
- Total Taxes paid

Data Availability

Following data was made available in compliance with directions of the Hon'ble Court.

- Audited Financial Statements for the years 2014-17
- Tax Returns for the last four years

Assignment Limitations

Audited financial statements and tax returns do not provide information on fee charged, number of teachers, number of students or even number of branches besides other such data which can help in determining of fee limits or increases etc. Also, financial information relating to the period 2012-13 was completely missing and not submitted. The absence of such essential information has constrained the analysis to the aggregated and summarized figures as in case of Eden Schools (Private) Limited. Hence, the office of the AGP was not able to perform the desired comprehensive analysis for the last five years. However an analysis is conducted on the limited information provided by the subject school.

Analysis

Results in Compliance with Para 3 of the Order

Rs in Million

Financial Year	2017-18	2016-17	2015-16	2014-15	2013-14
Aggregate Investment	N/A	N/A	N/A	N/A	N/A
Various Costs	N/A	N/A	N/A	N/A	N/A
Deductions Claimed*	N/A	N/A	N/A	N/A	N/A
Income tax Expense	0.115	0.032	0.024	0.021	
After Tax Net Profit	0.83	0.72	0.63	0.59	

*. The amount mainly includes depreciation and initial allowance besides other smaller amounts on account of sale of assets, amortization etc. as per relevant provisions of IT Law

Tax Expense

Rs in million

Year	2017-18	2016-17	2015-16	2014-15	2013-14
Tax Expense	0.115	0.032	0.024	0.021	

Analysis

a) Profitability Analysis (in Million)

Financial Year	2016-17	2015-16	2014-15	2013-14	2012-13	Total
Total Income	11.54	8.68	8.00	7.50	N/A	35.72
Total Expenses	10.59	7.93	7.35	6.89	N/A	32.76
Profit before taxation	0.95	0.75	0.65	0.61	N/A	2.96
Tax Expense	0.115	0.032	0.024	0.021	N/A	0.19
Net Profit after Tax	0.83	0.72	0.63	0.59	N/A	2.77
Return on Equity (RoE)	**Not possible to calculate on basis of available data**					
Number of students	**Data not provided**					
Monthly Profit per Student in Pak Rupees	**Data not provided**					

The increase in total income can be due to increase in monthly tuition fees or increase in number of students.

b) Trend Analysis

Year	2017	2016	2015	2014	2013	Average Change per Annum	% of Total Income	Percentage Increase 2013-17
Fee Income	Data not available							

Total Income	11.54	8.68	8.00	7.50		11.54	8.68	8.00
% Change	32.89%	8.50%	6.67%				8.50%	6.67%
Total Expense	10.59	7.93	7.35	6.89		10.59	7.93	7.35
% Change	33.48%	7.89%	6.68%				7.89%	6.68%
Net Profit	0.83	0.72	0.63	0.59		0.83	0.72	0.63
% Change	16.30%	14.70%	6.28%				14.70%	6.28%
Salaries	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Administrative expenditure	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CEO/Dir Remuneration	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* On average, the total compensation, including entertainment allowance, mobile allowance, club memberships and insurance is roughly 5% more than the remunerations given in the financial statements and hence the remunerations have been multiplied with a factor of 1.05.

c) Comments

a) From the information given in the table above, it can be identified that the total income has gradually increased and in the last two years there has been a sharp rise from 8.5% to 32.89%. The total expenses show a similar trend of gradually increasing initially and then a sharp rise from 7.89% to 33.48%. However, despite rising expenses, it can be seen from the table above, that the net profit figure shows a steady increase in last two years.

b) Due to insufficiency of data provided no comments can be formulated in respect of fee income.

c) Again no information has been provided relating to teaching and non-teaching staff salaries which is a crucial portion of this report and the basis for the required analysis.

d) No further information has been provided on the expenses of the subject school. Therefore, it is not possible to comment that which specific expenses have increased over the years.

e) There is no information relating to CEO/Director's remuneration. Hence, no comments can be offered regarding CEO/Director remuneration.

f) The tax expense has gradually increased over the years. This appears to be in line with the gradual increase in the net profit figures.

Annexure - I

General minimum requirements for each category

1. **CAT V schools**

   Following requirements, besides those recommended in para 8 above, may be stipulated:

   a. Be registered with the relevant authority
   b. Maintain accounts in a basic format and submit its copy signed by Principal to the concerned regulator/registration authority.
   c. Make salary, rent and all 3rd party payments through bank only.
   d. Provide complete disclosure of owners/shareholders/Directors in their
   e. Cash transactions for schools, whether collection of fee or any other charges from parents, payment of rent, vendors or salaries of teachers may be completely forbidden.
   f. Collection of fee or any other charges in advance from parents may be completely forbidden.
   g. Collection fee should only be monthly and not on quarterly basis.
   h. No summer fee may be allowed. The division of 12 months expenses would now be done on 10 months thereby resulting in a slight increase in monthly fee amount collection, however, this would reduce the advance fee payment burden of parents.
   i. Fee and other charges collected from parents should be under standard heads as follows. There should be a ban on creating new heads and innovative charging to the parents under different pretexts
      i. Admission fee
      ii. Security Fee
      iii. Monthly Tuition fee
   j. Parent Teacher Associations (PTAs) may be mandatory for all schools with active role in fee decisions, complaint redressals, major investments etc.
   k. Schools may be mandated to charge Stationary cost, photocopying cost, uniform costs etc on the basis of their actual costs with no profit margin whatsoever.

2. **CAT IV schools/school systems**

Following requirements may be stipulated:

a. Be registered with the relevant authority
b. Maintain accounts according to IFRS and have them audited from an audit firm.
c. Make salary, rent and all 3rd party payments through bank only.
d. Collect fee and other charges from parents through bank only
e. Provide complete disclosure of owners/shareholders/Directors in their accounts.
f. Cash transactions for schools, whether collection of fee or any other charges from parents, payment of rent, vendors or salaries of teachers may be completely forbidden.
g. Collection of fee or any other charges in advance from parents may be completely forbidden.
h. Collection fee should only be monthly and not on quarterly basis.
i. No summer fee may be allowed. The division of 12 months expenses would now be done on 10 months thereby resulting in a slight increase in monthly fee amount collection, however, this would reduce the advance fee payment burden of parents.
j. Schools/ school systems being run as private limited companies may be forbidden from diversifying their investments from earnings of the school. The owners may do so from their dividend after having paid the corporate tax
k. Ban should be placed on borrowing from "related parties" where the owners or the company holds interest and from the owners themselves. They may invest directly in equity instead of financing activity.
l. A limit needs to be placed in percentage terms on the maximum remuneration and expenses that the owners as CEO/Directors can incur/take out as remuneration/expenses according to the school categories. It can be around 1% of the revenue
m. Fee and other charges collected from parents should be under standard heads agreed with the Regulator. There should be a ban on creating new heads and innovative charging to the parents under different pretexts

n. There is a major issue of school switching costs creating captive market conditions. There should be a ban on collecting any charges related to previous period upon joining of school during the study year.
o. Parent Teacher Associations (PTAs) may be mandatory for all schools with active role in fee decisions, complaint redressals, major investments etc.
p. Schools may be mandated to charge Stationary cost, photocopying cost, uniform costs etc on the basis of their actual costs with no profit margin whatsoever.

3. CAT III schools/school systems

Following requirements may be stipulated:

a. Be registered with the relevant authority
b. Maintain accounts according to IFRS and have them audited from an audit firm.
c. Make salary, rent and all 3rd payments through bank only.
d. Collect fee and other charges from parents through bank only
e. Provide complete disclosure of owners/shareholders/directors in their accounts.
f. Cash transactions for schools, whether collection of fee or any other charges from parents, payment of rent, vendors or salaries of teachers may be completely forbidden.
g. Collection of fee or any other charges in advance from parents may be completely forbidden.
h. Collection fee should only be monthly and never quarterly etc. After all most parents only earn their moneys through monthly salaries and not in advance.
i. No summer fee may be allowed. Although the division of 12 months expenses would now be done on 10 months thereby a slight increase in monthly fee amount collection, this would reduce the advance fee payment burden of parents.
j. Schools/ school systems being run as private limited companies may be forbidden from diversifying their investments from earnings of the school. The owners may do so after declaration of dividend after having paid the corporate tax
k. Ban should be placed on borrowing from "related parties" where the owners or the company holds interest and from the owners themselves. They may invest directly in equity instead of financing activity.

l. A limit needs to be placed in percentage terms on the maximum remuneration and expenses that the owners as CEO/Directors can incur/take out as remuneration/expenses according to the school categories. It can be around 0.5% of the revenue.

m. Fee and other charges collected from parents should be under standard heads agreed with the Regulator. There should be a ban on creating new heads and innovative charging to the parents under different pretexts

n. There is a major issue of School switching costs creating captive market conditions. There should be a ban on collecting any charges related to previous period upon joining of school during the study year.

o. Parent Teacher Associations (PTAs) may be mandatory for all schools with active role in fee decisions, complaint redressals, major investments etc.

p. Schools may be mandated to charge Stationary cost, photocopying cost, uniform costs etc on the basis of their actual costs with no profit margin whatsoever.

q. Being public interest entities dealing with public good, the Disclosure requirements of education related companies/ institutions need to be raised above what is required from normal Private Limited Companies under Companies Ordinance 1984. The bare minimum requirement is indicated below which should be disclosed in their annual accounts as well as on their website.

- Total number of students (branch & grade wise)
- Total number of teachers with their qualification (branchwise)
- Fee charged (Branch & Grade wise)
- List of all bank accounts maintained by the school.
- Figure of salaries paid segregated clearly into
- Teaching staff salary
- Non- teaching staff salary
- Executive staff salary
- Salaries of CEO & Directors
- Copies of rent contracts
- Tax returns
- Audited Financial Statements

- All expenses incurred on CEO/directors under any head of expense account

4. **CAT II schools/school systems**

Following requirements may be stipulated:

a. Be registered with the relevant authority
b. Maintain accounts according to IFRS and have them audited from a big 4 audit firm.
c. Make salary, rent and all 3rd party payments through bank only.
d. Collect fee and other charges from parents through bank only
e. Provide complete disclosure of owners/shareholders/Directors in their accounts.
f. Cash transactions for schools, whether collection of fee or any other charges from parents, payment of rent, vendors or salaries of teachers may be completely forbidden.
g. Collection of fee or any other charges in advance from parents may be completely forbidden.
h. Collection fee should only be monthly and not on quarterly basis.
i. No summer fee may be allowed. The division of 12 months expenses would now be done on 10 months thereby resulting in a slight increase in monthly fee amount collection, however, this would reduce the advance fee payment burden of parents.
j. Schools/ school systems being run as private limited companies may be forbidden from diversifying their investments from earnings of the school. The owners may do so after declaration of dividend after having paid the corporate tax
k. A certain limit on borrowing equal to dividend given has to be put in place.
l. Ban should be placed on borrowing from "related parties" where the owners or the company holds interest and from the owners themselves. They may invest directly in equity instead of financing activity.
m. A limit needs to be placed in percentage terms on the maximum remuneration and expenses that the owners as CEO/Directors can incur/take out as remuneration/expenses according to the school categories. It can be around 0.5%
n. Fee and other charges collected from parents should be under standard heads agreed with the Regulator. There should be a ban on creating new heads and innovative charging to the parents under different pretexts

o. There is a major issue of school switching costs creating captive market conditions. There should be a ban on collecting any charges related to previous period upon joining of school during the study year.

p. Parent Teacher Associations (PTAs) may be mandatory for all schools with active role in fee decisions, complaint redressals, major investments etc.

q. Schools may be mandated to charge stationary cost, photocopying cost, uniform costs etc on the basis of their actual costs with no profit margin whatsoever.

r. Being public interest entities dealing with public good, the Disclosure requirements of education related companies/ institutions need to be raised above what is required from normal Private Limited Companies under Companies Ordinance 1984. The bare minimum requirement is indicated below which should be disclosed in their annual accounts as well as on their website.

   i. Total number of students (branch & grade wise)
   ii. Total number of teachers with their qualification (branchwise)
   iii. Fee charged (Branch & Grade wise)
   iv. List of all bank accounts maintained by the school.
   v. Figure of salaries paid segregated clearly into
   vi. Teaching staff salary
   vii. Non- teaching staff salary
   viii. Executive staff salary
   ix. Salaries of CEO & Directors
   x. Copies of rent contracts
   xi. Tax returns
   xii. Audited Financial Statements
   xiii. All expenses incurred on CEO/directors under any head of expense account

5. **<u>CAT I schools/school systems</u>**

Following requirements may be stipulated:

a. Be registered with the relevant authority
b. Maintain accounts according to IFRS and have them audited from a big 4 audit firm.
c. Make salary, rent and all 3rd party payments through bank only.

d. Collect fee and other charges from parents through bank only

e. Provide complete disclosure of owners/shareholders/Directors in their accounts.

f. Cash transactions for schools, whether collection of fee or any other charges from parents, payment of rent, vendors or salaries of teachers may be completely forbidden.

g. Collection of fee or any other charges in advance from parents may be completely forbidden.

h. Collection fee should only be monthly and not on quarterly basis.

i. No summer fee may be allowed. The division of 12 months expenses would now be done on 10 months thereby resulting in a slight increase in monthly fee amount collection, however, this would reduce the advance fee payment burden of parents.

j. Schools/ school systems being run as private limited companies may be forbidden from diversifying their investments from earnings of the school. The owners may do so after declaration of dividend after having paid the corporate tax

k. A certain limit on borrowing equal to dividend given has to be put in place.

l. Ban should be placed on borrowing from "related parties" where the owners or the company holds interest and from the owners themselves. They may invest directly in equity instead of financing activity.

m. A limit needs to be placed in percentage terms on the maximum remuneration and expenses that the owners as CEO/Directors can incur/take out as remuneration/expenses according to the school categories. It can be around 0.5%

n. Fee and other charges collected from parents should be under standard heads agreed with the Regulator. There should be a ban on creating new heads and innovative charging to the parents under different pretexts

o. There is a major issue of school switching costs creating captive market conditions. There should be a ban on collecting any charges related to previous period upon joining of school during the study year.

p. Parent Teacher Associations (PTAs) may be mandatory for all schools with active role in fee decisions, complaint redressals, major investments etc.

q. Schools may be mandated to charge stationary cost, photocopying cost, uniform costs etc on the basis of their actual costs with no profit margin whatsoever.

r. Being public interest entities dealing with public good, the Disclosure requirements of education related companies/ institutions need to be raised above what is required from normal Private Limited Companies under Companies Ordinance 1984. The bare minimum requirement is indicated below which should be disclosed in their annual accounts as well as on their website.

xiv. Total number of students (branch & grade wise)
xv. Total number of teachers with their qualification (branchwise)
xvi. Fee charged (Branch & Grade wise)
xvii. List of all bank accounts maintained by the school.
xviii. Figure of salaries paid segregated clearly into
xix. Teaching staff salary
xx. Non- teaching staff salary
xxi. Executive staff salary
xxii. Salaries of CEO & Directors
xxiii. Copies of rent contracts
xxiv. Tax returns
xxv. Audited Financial Statements
xxvi. All expenses incurred on CEO/directors under any head of expense account