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As we complete the first quarter of 2019, it is evident that Pakistan is beset with grave economic challenges that will require bold economic planning and strong political will to surmount. A devalued currency, increasing import bills and huge debt obligations have contributed to a fractured balance of payments parity, causing a gaping current account deficit that seems to be in a tailspin; a dire need for radical reforms in economic policy would be an understatement.

The broad issues are stacked in front of our policy makers thus: external debt repayment obligations and the ever hovering risk of default, plunging foreign exchange reserves owing to a previously heavy import bill, the risk of international financial sanctions emanating from Pakistan’s possible non-compliance with the Financial Action Task Force (FATF) regime, and the burgeoning inflation indices owing to recent devaluations and recovery in international oil prices.

To steady the ship, the government has taken some welcome measures: a strict control on foreign exchange remittances has been imposed by the State Bank of Pakistan (SBP), together with the imposition of regulatory duties on non-essential items. Foreign remittances and the export sector have been lent a helping hand through the government’s push to attract foreign investment by easing regulatory and legal compliances of doing business in Pakistan, encouraging overseas workers to remit their savings through formal banking channels and devising policies for comprehensive incentives packages for overseas workers.

Next, the government has wisely returned to the drawing board in terms of its foreign policy with friendly countries, many of whom have stepped in to offer Pakistan the much needed financial support to steady its balance of payments position. Bilateral assistance, both as funding and deferred oil payment facilities have been pledged from the Kingdom of Saudi Arabia, the United Arab Emirates and some other countries. China too has vowed to continue supporting Pakistan’s economy through the China-Pakistan Economic Corridor (CPEC) agreements. For the time being a potential balance of payments crisis has thus been averted and the current account deficit has declined to a manageable range as reported by the local press.

But this is just the beginning. The country’s general economic policy paradigm needs to shift from consumption towards investment. Such a shift would be no mean feat, and would require a comprehensive readjustment to monetary and fiscal policies, that would only be realised through strong political will. Encouraging investment in small and medium business sectors, in education – particularly country wide poly-technical education-upgradation of agricultural techniques with a focus on mechanisation of farming, investment in dormant sectors, value additions in the textile sector, revamping of sick industrial units, broadening the tax base and generally focusing and promoting modern, pro-business policies to encourage investor confidence and steer the country towards industrialisation, is the need of the hour.

To this end, the policy direction of the current government appears to be correct. Monetary and fiscal policies are being realigned towards exports, investments and productivity growth. Significant efforts are being applied to the ‘ease of doing business’ initiative; a new tariff policy is in pipeline, which will encourage duties on imports of raw materials and machinery; the simplification in taxes and filing procedures for individuals, corporations and businesses demonstrate the government’s seriousness about tax reform. And the results are slowly trickling in. More multinational companies have expressed their interest to invest in Pakistan and the CPEC continues to present excellent opportunities for Pakistan’s economic growth, power and infrastructure development.

Our combined aim must be to ensure that Pakistan is firmly placed on the path of sustainable growth and is thus able to contribute towards the Transforming Our World: 2030 Agenda for Sustainable Development. The Sustainable Development Goals (SDG) cover a broad range of social and economic development issues including sanitation, energy, the environment and social justice. The government’s bold steps to facilitate these goals are welcome and much needed to ensure Pakistan keeps abreast of global technological, geo-political, environmental and economic transformations.

Muhammad Awais, FCA
Daron Acemoglu and James A. Robinson in their groundbreaking research, presented in a book, ‘Why Nations Fail,’ have argued that nations fail because of poor economic condition of the general population of the country.

Poor economic condition of the general population is due to denial of economic opportunities to the common man and restricting it to elite of the society.

Creating such environment of restricting economic opportunities to the elite and condemning the common man to abject poverty is possible only, according to the authors, by creating exclusive politics in which all political institutions are dominated by the so-called elite. In such countries, common men have no participation in the politics of the country and thus they have no meaningful participation in the economy of the country. They further argue that insufficiently secured property rights are also a contributory factor to the failure of the nation.

If we analyse the situation of Pakistan in the light of the above premise, we find our politics dominated by landed aristocracy, owners of large businesses and religious hierarchies. We hardly find any representation, in our politics, of small and medium businesses, professionals, small landowners and other segments of the society considered as middle class or lower middle class. As a result, economic opportunities are available to the politically exposed persons only. Policies made by the government suit them only and are often to the disadvantage of other segments of the society. All significant governmental and non-governmental contracts are awarded to them. Facility of sizable financing by the lending institutions are also available to them only.

When it comes to security of property rights, land mafia are so common place that even the government is not safe from their excesses. Uncertainty prevailing in the stock market and mafia operating there are driving away investors. Cases in banking and civil courts are dragged to an extent that the money recovered, if any, is robbed of its purchasing power.

When we talk about intellectual property rights, the situation is so dismal that it hardly requires any explanation. It has the effect of discouraging any investment in research and development, which in turn, leads to reliance on old technologies which makes businesses non-competitive in the international markets. Our export of services is also affected due to this phenomenon. These are the challenges being faced by Pakistan’s economy.

To my mind, low exports, high imports, an adverse balance of trade, a negative balance of payment, low foreign exchange reserves, low growth rate of the economy, low GDP to tax ratio and unemployment are not the causes of poor economic condition but the effect of an unfair political environment, which has led us to a bad economic environment.

In order to overcome this situation, we need both short-term and long-term strategies. In the short-term, we will have to make people who have access to most economic opportunities, to pay their taxes. We will have to plug leakages of capital and economic resources and to rationalise our expenditure. The government should create opportunities for investment of savings of individuals to avenues that would generate employment and production of goods and services rather than dumping them to non-productive lands.

As a long-term measure, we need to create effective institutions and reform our existing institutions. Authors of ‘Why Nations Fail’ argue that nations have progressed through strong institutions only. Strong institutions can be built only through a national consensus of all segments of society, both rich and poor; and through concerted efforts of successive governments and concerted agreement of all powers in the society.

The opportunity we have at this moment in history is that there appears to be a general consensus at national level that things cannot continue the way they presently are.

Perhaps this is our moment. Let us grab it.

Jafar Husain, FCA
Pakistan’s Economy: Challenges & Choices
by Dr. Waqar Masood Khan

The new government has inherited a difficult economy. The key challenges it is facing are rising fiscal and balance of payments deficits, broken government bond market, rising circular debt and a stalled privatisation program. Besides, the process of structural reforms in the energy sector, corporate governance, banking and financial sector, central bank autonomy and restructuring of public sector entities has been abandoned or reversed since the last International Monetary Fund (IMF) program was successfully completed in September 2016. The resulting instability in macroeconomy is fully reflected in rising inflation, interest rate and declining reserves and weakening rupee. In this paper we will briefly discuss the state of the economy and then evaluate the choices available to the government for retrieving the health of the economy.
The previous government had left behind a huge fiscal deficit of Rs. 2260 billion or 6.6% of GDP, which would have been much higher if the tax receipts under the amnesty scheme of nearly Rs. 100 billion were added to deficit; in that case it would have been closer to 7%. Curiously, the government also gave the Budget 2018-19, which was not its due, as it would have been out of office at the start of new fiscal year. In the new budget it pitched the deficit at 4.9% based largely on unrealistic estimates of revenues and expenditures. Many analysts had estimated underlying deficit again at 7%.

The new government failed to make the required adjustments in the budget, despite giving two mini-budgets. It is all set to surpass the budget deficit of last year. After nearly six months in office, the government doesn’t seem to be on top of the economy and its movements. The fiscal side is in a real bad shape.

On the revenues side, the data for July 2018-January 2019 is disappointing with tax revenues showing a growth rate of only 3.5% as opposed to the required growth of 14.5%. The tax gap during the year looks all set to exceed Rs. 350 billion, close to one percent of GDP. Mercifully, starting this January, the government has decided to recover full taxes from petroleum products. The February price adjustment was also sensible as the recommended decreases in prices were not allowed and instead recouped to make up some tax shortfall in the first half. The loss of revenues from telecom taxes (Rs. 125 billion) has also to be plugged by approaching the Supreme Court and requesting a review of its earlier decision to suspend these taxes, of course by incorporating whatever reforms the Court would recommend.

On the expenditure side, things are no less precarious. The single most pronounced expenditure that is out of line with the budget is debt servicing. The policy rate increase of 375 bps mostly by the new government will cost more than Rs. 900 billion (including foreign debt servicing in rupee terms which has risen due to significant depreciation) in additional debt servicing which was only partially accounted for in the first mini-budget. The growth in public debt during July-December 2018 at Rs. 2.4 trillion is about 10%, which is unprecedented. This comprises Rs. 1.2 trillion in exchange rate loss on existing external debt and Rs. 1 trillion in deficit financing. At this level of deficit in five months, year-end deficit would be Rs. 2.4 trillion or 6.0pc of GDP. Chances are it would be significantly higher as no corrective measures are planned.

Balance of Payments
Current Account Deficit (CAD) was recorded at $19 billion or nearly 6% of GDP. This led to massive decline in reserves of $6 billion and short-term borrowings of nearly $10 billion. This was clearly unsustainable. The key challenge was to cut this deficit, in one year, to less than half.

Contrary to this challenge, the CAD is facing equally intense pressure as last year. In the first six months July-December
The central bank’s assessment is that stresses facing the economy remain persistent.

2018, there was a marginal decrease in current account deficit, thanks entirely to an exceptional increase in remittances. If the effect of remittances is excluded, the CAD has worsened. The reason is that the main elements of trade account showed disappointing trends. Exports were flat and imports were up 3pc, leading to an increase of 5pc in trade deficit. At this rate it is again heading for a repeat of last year.

Monetary Policy and Government Debt Market
The State Bank of Pakistan (SBP) policy rate is an important instrument of monetary policy and a key variable to measure economic stability. This is out line for quite some time. The previous government kept this rate at 5.75% for more than two years and developed a pride in its constancy. It was slow in allowing adjustment and allowed some 75 bps during January and May 2018. The brunt of adjustment was borne by the interim government, which increased it by 100 bps, and the new government which increased the rate by 250 bps until the last meeting of Monetary Policy Committee (MPC), where it was raised again by 25 bps leading to the current level of 10.25%.

Although this last increase is modest, its importance is in the signal of tight monetary policy that it continues to pursue. The central bank’s assessment is that stresses facing the economy remain persistent. In the monetary policy statement, after expressing some satisfaction on the effects of corrective measures, the MPC noted: “However, challenges to Pakistan’s economy persist: (a) despite narrowing, the current account deficit remains high; (b) fiscal deficit is elevated; and (c) core inflation is persistently high. This situation calls for continued consolidation efforts.” The bank should have further pointed out that the foreign reserves are also continuing to fall despite intermittent injections from the friendly countries. This is the life-line of any economy and its continued bleeding is an unmistakable sign that economic instability remains elusive.

Inflation
After jumping to 6.8% in October, the year-o-year (YoY) inflation had slowed down to 6.2 in December but has jumped again to 7.2% in January, thanks mainly to the decline in international oil prices and government’s failure to recover applicable taxes on petroleum products. The food inflation (with a weight 37% in total) remained modest at 2.2% while the non-food (with a weight of 63% in total) was quite alarming at the double digits of 10.5%. The average inflation during July 2018-January 2019 was recorded at 6.2%, well above 3.85% recorded for the same period last year. Even more concerning is the double digit inflation in the wholesale price index (WPI), which was recorded at 10% and this has recently moderated.

The upshot of the above review is that inflation looks all set to hit double digits even with the present low oil prices, as a...
host of other factors are impacting on its rising trend. In fact, the rate is vulnerable to food supplies and any disruption in supplies would exert significant effect on inflation. The factor that is most threatening is the money supply. The monetisation of fiscal deficit has never been so pervasive as has been the case in last two years. In 2017-18, 50pc of the deficit was financed by borrowing from the central bank (printing of money). During 2018-19, up to February 1, SBP has provided Rs. 3.8 trillion in deficit financing, out of which Rs. 3 trillion were divestment (substitution) of commercial bank lending (part of which were borrowed from the SBP). This gives a net funding for fiscal deficit of at least Rs. 800 billion from the central bank. The outstanding stock of government borrowings from the central bank has risen to an unprecedented level of Rs. 7.3 trillion, a five-fold increase from Rs. 1.4 trillion as on 30-6-2016. This massive increase in high-powered money may have already started impacting inflation, as we noted above. But the relationship between money supply and inflation has a lagged effect so the increased stock would continue to exert pressure on prices in the coming years. Double digit inflation would most likely become a norm barring the stable supplies of food that helps temper overall inflation.

Inflation affects economic growth and, in all likelihood, the process has already started. All international agencies, as well as SBP, have lowered their growth forecast from 6.2pc to less than 4pc for the current year. Large Scale Manufacturing (LSM) growth is negative while agriculture would not meet most of its main crops targets.

**Choices Open to the Government**

The challenges we have sketched are undoubtedly formidable. They call for a resolute action to avert the impending meltdown. The new government has not chosen the high road to stabilisation and recovery. Our malaise cannot be cured by the friendly help. It is a temporary fix, not a solution.

The government has recently reaffirmed its resolve to go to the IMF. It would take considerable effort to successfully negotiate the program and remain on track during its duration. Pakistan’s problem has been to negotiate programs but has failed to carry them out till the end, except the last program in 2013-16. Only a determination to do the program as the critical need of the economy would enable the government to successfully lay the foundation of a stable and growing economy.

The writer is a former federal finance secretary, government of Pakistan and ex-Council member of The Institute of Chartered Accountants of Pakistan.
Pakistan's Debt Journey - the Real Culprits
by Ashfaq Yousuf Tola

The time when Pakistan’s economy was growing at a steady pace from the period beginning June 2013, there was one economic indicator that was perceived to be the looming threat: government debt. At 70% of its Gross Domestic Product (GDP), Pakistan’s total debt as on June 2018 was higher than that of most other major Asian economies, except for Japan.

Pakistan’s total debt as on June 2018 was higher than that of most other major Asian economies, except for Japan.
A government typically borrows to spend on subsidies, infrastructure, Public Sector Development Programs (PSDP) and other social sectors. Hence, although the rising debt may be a concern, the ultimate use of borrowed funds is critical for proper analysis. Typically, emerging markets have high debt since government spending is higher. But borrowings must be channeled towards increasing investments and productivity. The ultimate use of debt is more important to be analysed rather than the level of debt. However, there is a problem if borrowed funds are not being spent productively.

Although the rising debt may be a concern, the ultimate use of borrowed funds is critical for proper analysis.

The numbers (in below paragraph) show national debt (both domestic and external) in Pakistan from June 2013 to June 2018. The analysis shows the real reasons and utilisation of incremental debts. The hike in debt is due to change in exchange rates (USD parity), public sector spendings, incremental revenue shares to provinces by federation, post 7th National Finance Commission (NFC) awards subsidies and other factors.

Prior to 7th NFC in 2010-11, the shares in revenues for provinces were 43.75%, 45% and 46.25% for 2008, 2009 and 2010 respectively, after deduction of 5% collection charges and remaining was for federation including collection charges. After taking into account the collection charges, the effective sharing rates for provinces were 41.56%, 42.75% and 43.94% for 2008, 2009 and 2010 respectively.

After the announcement of 7th NFC awards, shares of revenues for provinces were enhanced to 56% for 2011 and to 57.5% for subsequent years, after deduction of 1% share to Khyber Pakhtunkhwa (KPK) for war on terror. After taking into account 1% share to KPK, the effective rates were 56.44% for 2011 and 57.93% for subsequent years.

The total debt in June 2014 was Rs. 15,784 billion (Domestic debt Rs. 10,907 billion, External debt Rs. 4,877 billion), Rs. 1,776 billion higher from 2013 levels. The increase was represented by spending of Rs. 441 billion in Public Sector Development Programs (PSDP), incremental NFC awards of Rs. 339 billion and other factors.

The debt increments between 2014 and 2015 was Rs. 1,184 billion reaching to Rs. 16,968 billion (Domestic debt Rs. 12,193 billion, External debt Rs. 4,775 billion). The change was due to the increase in USD rate from Rs. 98.80 to Rs. 101.79 causing an increase of Rs. 147.12 billion, spending in PSDP by Rs. 502 billion and additional share of Rs. 371 billion to provinces.

The total debt in June 2016 reached Rs. 19,044 billion (Domestic debt Rs. 13,626 billion, External debt Rs. 5,418 billion) posting a year on year increase of Rs. 2,075 billion. The debt rise was due to the increase in USD rate from Rs. 101.78 to Rs. 104.76 causing an increase of Rs. 139 billion, PSDP spending of Rs. 602 billion, and additional NFC costs of Rs. 449 billion.

By June 2017, total debt hiked to Rs. 20,768 billion (Domestic debt Rs. 14,849 billion, External debt Rs. 5,919 billion) resulting in an increase of Rs. 1,724 billion from 2016. However, this increase in debt was fueled due to increase in USD parity by Rs. 6 billion, PSDP spending of Rs. 733 billion and additional share of revenue to provinces of Rs. 474 billion.

Between the period from June 2017 to June 2018, the total debt rose by Rs. 3,441 billion reaching to Rs. 24,212 billion (Domestic debt Rs. 16,416 billion, External debt Rs. 7,796 billion). Out of Rs. 3,441 billion, Rs. 940 billion was due to increase in USD rate from Rs. 104.88 to Rs. 121.54. Moreover, Rs. 555 billion contributed to PSDP spending and Rs. 530 billion were on account of additional payments to provinces.

In order to alleviate the impact of inflation on citizens, especially the poor segments of society, the federal government spends a fairly large sum on providing power and food subsidies. The subsidies have remained a big chunk of public spending and reason for rise in public debt. However, for fiscal consolidation efforts and to decrease public debt, the government has reduced in phases the quantum of subsidies in the last five years. The subsidies were Rs. 305.7 billion (Revised: Rs. 323.02 billion) in FY 2014, Rs. 241.6 billion (Revised: Rs. 243 billion) in FY 2015, Rs. 207.2 billion (Revised: Rs. 196.54 billion) in FY 2016,
Rs. 153.7 billion (Revised: Rs. 168.95 billion) in FY 2017, Rs. 138.8 (Revised: Rs. 147.6 billion) in FY 2018, thus posing an overall decrease by 54.68% during the last five years.

During the four-year tenure from June 2013 to June 2017, Pakistan’s total debt was increased by Rs. 6,760.4 billion from Rs. 14,007 billion to Rs. 20,768 billion posting a 48% increase. However, as detailed above, out of Rs. 6,760.4, Rs. 292.99 billion was due to devaluation of PKR against USD (From Rs. 99.11 in June 2013 to Rs. 104.89 in June 2017) which accounts a total increase of 4%. Increment of Rs. 2,278 was due to PSDP spending which accounted a total debt increase of 34%. Federal spending in form of subsidies contributed Rs. 931.5 billion to the public debt representing 14% of the total increase for four years. Lastly, Rs. 1,635.5 was added due to additional share in revenue to provinces consequent to 7th NFC awards, which accounted a total increase in debt by 24%.

The analysis above shows that 76% of the debt increase during the first four years of previous government was utilised in PSDP spending, additional NFC shares, subsidies and PKR devaluation and a meagre 24% was left to be utilised at the discretion of federation.

During 2017-18, which was the election year and was partly governed by ‘caretakers,’ Rs. 3,444.1 billion was added to public debt in a single year, which is 51% in comparison to debt increment during previous four years. Devaluation, PSDP spending, subsidies and additional NFC payments contributed 27%, 16%, 4% and 15% to the total increase during the year.

The above table shows breakup of External debt from June 2014 to June 2018. The Paris Club, common name for 18 developed countries, formerly known as Aid to Pakistan Consortium shows a decreasing trend from 2014 to 2018 by 14.43%. The most preferred options of mode of foreign financing being Multilateral Loans and bilateral loans shows increase in same period by 10.63% and 97.8%. While the non-conventional mode of financing Euro/Sukuk increase by 105.63% during the same period. The commercial loans representing support from China and others shows steep rise in same period by 2209.9%.

As it is now clear that debt of any nation cannot be seen in isolation to assess economic performance; there are other indicators which are used while comparing indebtedness of any nation. One such commonly used factor is debt to GDP ratio which was 62%, 58%, 64%, 65% and 70% for 2014, 2015, 2016, 2017 and 2018 respectively. Debt to GDP ratios of other regional countries of Bangladesh, India, China and Sri Lanka for 2017 were 27%, 69%, 48% and 78% respectively.
Debt of any nation cannot be seen in isolation to assess economic performance; there are other indicators which are used while comparing indebtedness of any nation.

Lastly, the most important criteria to evaluate debt burden is to compare the debt of any person, organisation or country with the assets owned by such person, organisation or country, as the case be. However, unfortunately, no balance sheet of Pakistan is prepared to objectively asses the debt burden of Pakistan.

The writer is a chartered accountant working as president of Tola Associates.
Pakistan seems to be on course for another year of low figures for foreign investment. Is it disappointing? Of course. But is it really surprising? Not really.

A United Nations dataset of foreign investment in various countries put Pakistan among the least favoured countries. It attracted an amount of $2.9 billion for 2017, putting it below countries like Kazakhstan, Ethiopia, Nigeria, Ghana and many, many more.
and many, many more. The list is quite long. For context, India attracted close to $40 billion in investment, placing it among the top 10 in the list.

Yet, when it comes to actual market size – determined plainly by the population at first – Pakistan is among the most populated. It is not like as if the need of Pakistan’s 207 million people are different from the rest of the world. So how come a huge market and a location that would enable exports to several countries through the Arabian Sea isn’t tempting enough? The answer lies deep within Pakistan’s complex socio-economic situation, which has landed it out of investors’ good books.

Political wrangling has caused investors in Pakistan to remain on their toes. In an environment, where policies are introduced without much intellectual debate – either on the news or parliament platforms – adhocism rules.

As other countries in the region, most notably China, India, Singapore and the UAE improved their infrastructure, put in policies that attract investors, Pakistan struggled to find its balance. It faced a choice – go for development with a long-term view or ponder over its next move long enough to be stranded in terms of the development race. No prizes for guessing what choice the country eventually made.

Nationalisation and its poor execution were key issues that took the country back many years after it displayed promise till the early 1970s. Businesspersons, discouraged at government policy, were happy to take their money out. Corruption inside the country did not make it easier either. Costs of production inflated as a layered system of kickbacks, bribery and old-fashioned inefficiencies meant Pakistan lost several years. The end-result: the country failed to recover.

At the same time, other countries kept developing, and innovating. China was able to attract Apple – the world’s most valued company – on the basis of its cheap labour and technical expertise. Amazon still doesn’t think it has a place in the sixth most populous country in the world. For a country that is in its eighth decade, it boasted only three carmakers operating as assemblers/manufacturers inside its boundary. That has, however, changed in the last few years. Where is Pakistan on the global investors’ map?

It is low on priority, high on risk, and not too high on the returns either – mainly due to its high cost of doing business, inefficiencies, low purchasing power of most consumers, and poor brand image.

In 72 years, only two governments have completed their terms, and inconsistent policymaking has remained a hallmark. Even if a stand has been taken, it has been taken back with equal swiftness. A case in point would be the ban on non-filers buying motor vehicles. Introduced by the previous government, the move was meant to encourage the filing of tax returns so that the government, suffering due to Pakistan’s low tax-to-GDP ratio, would reduce a part of its deficit. Barely a year later, the successive government has notified a complete reversal, citing encouragement for investors and customers alike.

The point here is: if the plan was to increase tax receipts, did the move really pay off? If it didn’t, and we know it couldn’t have in a year, why take the move back? If it did, then why reverse a move that was paying off? Political wrangling has caused investors in Pakistan to remain on their toes. In an environment, where policies are introduced without much intellectual debate – either on the news or parliament platforms – adhocism rules.
In this environment, can anyone really blame foreign investors or even local businesspersons who are disinclined to put their money in? The consequence of such a marketplace is that sectors that are mostly rent-seeking are the ones that attract capital. This is a huge reason, in addition to some contribution from demand-supply dynamics, why Pakistan’s real estate continues to outperform other sectors.

So what can be done to help policymakers in addressing Pakistan’s crucial need to attract foreign investment?

Firstly, holding investors’ conferences and trade shows alone will not cut it, and won’t be enough. These places attract certain individuals who already have enough information. What can be done is identify which areas Pakistan is good at – cheap labour and provides access to other markets through its geographic location. It needs to capitalise on these two points. India is becoming an expensive market. It is time Pakistan develops its infrastructure, invests in its human resources, builds its skills, and focus on education that is geared towards trends of the world. Universities need to focus on research and contribute towards innovation.

Very few countries have progressed without the involvement of their youth. Pakistan has a young population – close to three-fourths of its entire is less than 40 years of age. This is a huge opportunity. Foreign investors will not take the risk of putting their money on the basis of ‘promises.’

The government, on the other hand, needs to identify a proper roadmap, and say, ‘this is our plan for the next 10 years, and we will implement policies that complement it.’ All plans will not succeed and not all strategies pay off. But they convey a mindset – a vision, a roadmap. People then work towards that vision and even if a detour occurs, the destination is clear.

This may sound like a clichéd version of suggestions – but there is a reason why they are repeated over and over again. They work in the long term. Pakistan needs to be re-branded as a place that has now become safer, and more stable. It has had two smooth transitions in power, and needs to promote that. Instances like strikes, protests need to be peaceful. Violence needs to stop, and discouraged. Stakeholders need to exercise patience when conveying their point and listening to others.

Pakistan needs to be re-branded as a place that has now become safer, and more stable.

Ideas need to be encouraged, and tolerance spread. Very few countries have progressed without the involvement of their youth. Pakistan has a young population – close to three-fourths of its entire is less than 40 years of age. This is a huge opportunity.

Foreign investors will not take the risk of putting their money on the basis of ‘promises.’ However, as growth slows down in the west, Pakistan stands a good chance of attracting inflows if it markets itself. For this, the private and public sectors, including academic institutions, will need to play their part.

The writer is a working journalist who specialises in financial markets and taxation matters.
Pakistan’s Economy: Challenges & Choices

by Muhammad Waqas Khalid

The cartoonist/illustrator is a chartered accountant working as a partner in Waqas and Co., Multan.
Pakistan’s economy doesn’t look in good shape. The incumbent government argues that it inherited a disoriented, trade-based, import-led and consumption-driven economy. The direct consequence of this is the staggering current account and fiscal deficits. Therefore, rethinking government this year is vital but there is a caveat; the government capacity is limited, it is hamstrung by a governance regime that is obsolete, still centers on bureaucrats, and lacks pro-active smart approaches.

Can we cope with our economic challenges with the same governance structures? Probably not.
Pakistan’s economy doesn’t look in good shape. The incumbent government argues that it inherited a disoriented, trade-based, import-led and consumption-driven economy. The direct is a caveat; the government capacity is limited, it is hamstrung by a governance regime that is obsolete, still centers on bureaucrats, and lacks pro-active smart approaches.

Can we cope with our economic challenges with the same governance structures? Probably not. This is why, one would assume, the government, to provide a corrective direction for the future of our economy, has turned towards industrialisation, export promotion, ease of doing business and import substitution. While these measures might serve as remedial tools and strategies to get our economy back on track, there are six things Pakistan must urgently do this year to become strong, sustainable and stable.

Firstly, we must empower women economically and politically. In Pakistan, women constitute around 48% of the population but they fall far behind in terms of political representation. We have to fully commit ourselves to changing current, though outdated, social and legal structures, which hinder gender focused legislation. Extensive research into women’s issues both at work and at home as well as a liberal environment are equally important to allow women to become entrepreneurs. A big facilitating factor could be the various chambers of commerce and industries across the country.

Secondly, create jobs and alleviate poverty by moving quickly towards labour-intensive industrialisation. This can be achieved through gradual and pragmatic structural reforms such as ease-of-doing business. The Board of Investment (BoI) has already cut down the steps involved in business registration from 47 to 16. This will hopefully encourage domestic and foreign investments.

Pakistan, in the present state of affairs, requires connected and integrated industrialisation, which is an important driver of employment generation and poverty alleviation in developing countries encouraging small and medium scale industries. In the past, this sector – the Small and Medium Enterprises (SMEs) – which provides employment and support to large sections of the population, was highly discriminated against and neglected, with inadequate financial incentives. Promotion of SMEs per say has never really been the focus, though economies in other countries depend a lot on the SMEs.

The manufacturing sector in a developing economy has greater potential to absorb surplus labour compared to the services’ sector. Combined with an export-driven strategy, more jobs can be created in labour intensive segments of the manufacturing sector. Employment in manufacturing, particularly in traditional labour-intensive industries like agriculture, footwear and clothing, mostly require on-the-job training. Thus, the need to focus on capacity-building and education.

Thirdly, prioritise education. Access to quality education can improve the economic outputs of citizens and determine the prospects of future generations. It increases human capital and serves as a driver of innovation and economic growth. While education levels have risen
By lowering tax percentages across all industries, especially SME’s since they make up some 90% of the business population in developing countries, we can incentivise business owners to get registered through a proper, not-intimidating mechanism.

rapidly and impressively around the world in recent decades, Pakistan’s performance in this sector is far from satisfactory.

The Millennials, baby boomers, public office holders, policy makers, and technocrats should all be reoriented towards one major goal i.e. make Pakistan great. Hence, educating ourselves in areas like emotional intelligence, organisational behaviour and inter-personal communications and leadership is of utmost importance. Additionally, we must stop intellectual bleeding or ‘brain drain’ by incentivising students and young professionals to stay in Pakistan or return after completing their education and work experience abroad. They bring with them a different exposure and work ethics, refined skill sets, and knowledge from abroad, which they can deploy here if given a chance.

Fourthly, water management. We cannot emphasise enough that water is vital for agriculture, human life, industry, and energy generation. Globally, agriculture accounts for over 70 per cent of freshwater consumption. Industries make the second largest claim on the world’s water bodies, accounting for nearly 25 per cent of global water use. Water used by households, schools and businesses accounts for less than a tenth of global water use today. As much as 40 per cent of Pakistan’s energy comes from water. Over 90 per cent of freshwater supply is used towards agriculture. An estimated $21 billion worth of water (roughly 35 million acre feet) is dumped into the sea, annually, since water conservation systems are absent. Unfortunately, Pakistan’s record in harvesting water i.e. collecting water in small reservoirs wherever possible is extremely poor. While collecting funds from the public for the Diamer Bhasha dam may be ambitious, there is little hope that this project will be executed soon because the difference between the actual and expected funding requirement is immense.

Additionally, working for new dams is necessary but equally important is judicious management of available water resources. No awareness campaign on this aspect of water is visible – neither at the centre nor provincial level. Water conservation and smart management of existing water resources, too, needs to be prioritised.

Can we then learn from Israel? It implemented a centralised water planning market-pricing system, which works like a pay-as-you-use model. Furthermore, it appointed regulators and educated its citizens to conserve water. We can build water reservoirs and kill two birds with one stone; conserve water and generate employment. We have to start awareness campaigns which are customised to educate farmers, industrialists as well as individuals.

Fifth, bring more small businesses and individuals into the flier category of tax payers. With clear erosion of state writ to collect due taxes in the past, we must radically reverse this trend and increase efficiency.

As much as 40 per cent of Pakistan’s energy comes from water. Over 90 per cent of freshwater supply is used towards agriculture. An estimated $21 billion worth of water (roughly 35 million acre feet) is dumped into the sea, annually, since water conservation systems are absent.
Rapidly and impressively around the world in recent decades, Pakistan’s performance in this sector is far from satisfactory. And technocrats should all be reoriented towards one major goal i.e. make Pakistan great. Hence, educating ourselves in areas like emotional intelligence, organisational behaviour and interpersonal communications and leadership is of utmost importance. Additionally, we must stop intellectual bleeding or ‘brain drain’ by incentivising students and young professionals to stay in Pakistan or return after completing their education and work experience abroad. They bring knowledge from abroad, which they can deploy here if given a chance.

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We have to embrace technology to disrupt our outdated governance systems.

to increase our tax base, preferably using technology. By lowering tax percentages across all industries, especially SME’s since they make up some 90% of the business population in developing countries, we can incentivise business owners to get registered through a proper, not-intimidating mechanism. Business owners like shopkeepers, taxi drivers, restaurants, wholesalers, agents, chaiwala’s and barbers, to name just a few, ought not to be scared away but lured into contributing to the national kitty. They should be given the confidence that paying taxes is a sacred, voluntary cause and not a punishment or penalty. The trust gap ought to be closed if the government could reassure citizens that tax revenues will actually be spent on good governance i.e. education, health care and administration. Similarly, from an implementation point of view, all citizens should realise that non-compliance would result in corrective measures taken by the government.

Last but not the least, we have to embrace technology to disrupt our outdated governance systems. Tech-based solutions – from tax collection to innovative agriculture and to business registrations – can hopefully benefit us all, including raising the state revenues through documentation and digital checks and balances on all business and services.


The writer has a business administration and marketing background and is an upcoming private entrepreneur in Islamabad.
Gross Domestic Product (GDP) and Gross National Income (GNI) measure our economic well-being. GDP per capita and GNI per capita is obtained by dividing these measures by population. Finally, the per capita figures are expressed in terms of US$ to achieve comparison with the rest of the world economies.

There is plenty of scope in our economic success. Our GDP per capita for the fiscal year (FY) 18 was US$ 1,558 as compared to US$ 2,135 of India; US$ 10,088 of China and US$ 62,152 of USA.
The national discourse on economy largely focuses on increasing the size of the GDP. However, the increase in size of GDP or GNI alone is not sufficient. The surging population and devaluation of our currency adversely impacts our economic well-being.

We only need the GDP, GNI, population and parity figures to make our point: population and parity affects each one of us. Our source for these figures is State Bank of Pakistan annual report 2017-18, ‘The State of Pakistan’s Economy – Statistical Supplement’.

We will compute exactly how much is the impact of population and parity on our GDP, GNI and per capita for the FY14 and FY18 (see Table). This two-point analysis depicts the long-term trends and clearly brings out the impacts attributed to each. Graph 1 shows our GDP from FY14 to FY18 and Graph 2 shows our population.

**Graph 1: GDP FY14-18**

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP at current basic prices (Billion Rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY14</td>
<td>25,169</td>
</tr>
<tr>
<td>FY15</td>
<td>27,443</td>
</tr>
<tr>
<td>FY16</td>
<td>29,075</td>
</tr>
<tr>
<td>FY17</td>
<td>31,963</td>
</tr>
<tr>
<td>FY18</td>
<td>34,397</td>
</tr>
<tr>
<td>Avg FY14-18</td>
<td>29,609</td>
</tr>
</tbody>
</table>

**Graph 2: Population FY14-18**

<table>
<thead>
<tr>
<th>Year</th>
<th>Population (in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY14</td>
<td>186.19</td>
</tr>
<tr>
<td>FY15</td>
<td>189.87</td>
</tr>
<tr>
<td>FY16</td>
<td>193.56</td>
</tr>
<tr>
<td>FY17</td>
<td>197.26</td>
</tr>
<tr>
<td>FY18</td>
<td>200.96</td>
</tr>
</tbody>
</table>

**Findings**

Our population growth for FY15-18 cost us Rs. 2.52 trillion of our GDP (Rs. 632 billion per year). The Supreme Court of Pakistan took suo motto action of the surging population and provided a roadmap for implementation containing legislative and financial measures. We, as a society, need to understand responsible parenthood and make choices that restores gender and economic parity and women education. Uncontrolled surge in population is the biggest threat to our economic well-being. Our economic managers need to acknowledge that single track pursuit of increasing GDP or GNI is not sufficient and complete.

Secondly, the devaluation of our currency hurts us. The rupee relatively devalued during FY14-18 by Rs. 7 only, but its impact on GDP was Rs. 2.03 trillion. Recent currency devaluation by Rs. 21 hurt us three times more.
The combined impact of population and parity is Rs. 4.55 trillion. This is more than the size of our annual budget. In other words, these two items have had an impact of almost 25% of our annual budget per year in the last four years.

The computations below and the Table show impact of population and parity on GDP, GNI and per capita. (Remember: Two-point analysis where the base year FY14 figures are compared with FY18 figures as the latest annual data available. Impacts for each year may also be computed similarly).

**Gross Domestic Product and the surging population**

Our GDP (in billion rupees) increased by Rs. 9,227 (36.6%), from Rs. (in billions) 25,169 (FY14) to Rs. 34,396 (FY18).

Our population (in million) increased by 14.77 m (7.93%) during the same period. It was 186.19 m at FY14 and 200.96 m at FY18. The net increase in our population over five-year period was 7.93%. Our birth rate was much higher, as the change in population here is net of mortality rate.

Dividing GDP by population, the GDP per head was Rs. 171,158 (FY18) and Rs. 135,179 (FY14). The net increase was 26.61 percent or Rs. 35,979 per capita over the last four years. Why the increase in per capita GDP of 26.6 percent is less than increase in the GDP of 36.6? Because the only way the increase in GDP and per capita GDP can be equal is when the population had remained constant at FY14 level. Holding the population constant means the birth and mortality rate were equal.

Bottom-line? Increase in population adversely affects economic well-being. The newborn during the period took off ten percent of our GDP per capita. Our per capita GDP at constant population of FY14 would be Rs. 184,736 (FY18 GDP/FY14 population). Each one of us paid Rs. 13,578, roughly 10% of our FY2014 GDP of Rs. 2.25 trillion.

The only way to hold a population constant is when birth rates equal mortality rates. When birth rate exceeds mortality rate, the result is the kind of population explosion that we have experienced in the last five years.

The conclusion from this analysis is clear: our population needs to be held constant to enjoy the fruits of economic growth. Our choice is how we wish to tackle this problem.

**The impact of currency parity on GDP**

We are now in a position to express our GDP in terms of US$ per head.

In FY2014 it was US$ 1314.2 and FY18 it was US$ 1558.2. Net increase US$ 244. (18.57%). The question one may ask is: why is it not 26.66%? The response is that the devaluation of Rs. 7 over last five years took away GDP growth of Rs. 2.03 trillion.

The US$ increased by Rs. 6.98 from Rs. 102.96 to Rs. 109.84 from FY 14 to FY18. Without any devaluation, our GDP per capita would be US$ 1,664. Each one of us paid US$ 106 for the devaluation.

**Population and parity impacts on GNI FY14-18**

We now turn to a wider measure of economic growth, the Gross National Income. GNI is GDP + Net factor income from abroad.

Our Gross National Income increased by Rs. 4,915 billion (15.7%) during FY14-18. It was Rs. 36,214 and Rs. 31,299 in FY18 and FY14 respectively. The net increase was 15.7 percent during four-year period. Our GNI per capita was Rs. 180,204 for FY18 and Rs. 168,102 for FY14. The net increase was Rs. 12,102 (7.2%).
Our economic statistics do not analyse the individual impact of the population and currency devaluation on the GDP and GNI.

The net increase in our population eroded the impact of GNI from 15.7% to less than half at 7.2%. Without this burden of extra 15 m people, our GNI per capita would be Rs. 194,495. The gain in population during FY14-18 cost each one of us Rs. 14,295 (-8.5%) or Rs. 2.66 trillion over four years (Rs. 665 billion annually) of GNI.

Similarly, the rupee parity cost us Rs. 2,131 billion or Rs. 532.86 billion a year of the GNI. Each one of us paid $ 111 for the devaluation. These two left us with Rs. 118 billion only during the period FY14-18.

Conclusion
Our economic statistics do not analyse the individual impact of the population and currency devaluation on the GDP and GNI. These facts are too bitter to publish.

The findings are eye-opening. The population growth has cost us Rs. 2,250 billion (Rs. 562.5 billion per year) which is 10% of our GDP (2.5% per year). Devaluation has cost us 8% (2% per year) or Rs. 2,030 billion. The combined impact of these two reduced our growth in GDP from 36.6% to 18.6% during FY14-18.

We corroborate our findings by computing the impact of population and parity on the GNI. The net increase in population cost us Rs. 2.7 trillion or 8.5% of the GNI and devaluation cost us Rs. 2.1 trillion or 6.8%. Combined, these two took away 15.3% out of 15.7% or Rs. 4.8 trillion and leaving us with positive impact of Rs. 120 billion only over last four years.

Developments subsequent to FY18
There are two major developments. First, the Supreme Court released its verdict on suo motto action on population control. Second, the US$ devalued and is presently trading above Rs. 135. The net impact of Rs. 26 will adversely impact our growth prospects if rupee parity is not restored by June 30, 2019.

One wishes the Supreme Court had also directed the federal government to drastically reduce the weightage of allocating funds to the provinces on the basis of population. The Supreme Court took notice and released its judgement (available on its web-site dated January 15, 2019). It contains a roadmap for the federal government to follow. The government’s seriousness in its implementation remains to be seen. The judgement is comprehensive in scope.

We need a long overdue effort to invest in the human capital and make our population more productive. Keeping us healthy is a daunting challenge that becomes more so with every increase in birth. With income inequality and 84% of our population not having access to safe water.

With peace returning to our territories, we need women to be educated and be partners in the economic well-being of our families.

Women development remains the best economic strategy. A progressive society in this age establishes an order with a greater gender parity to improve the economic situation. It’s the men of this country who need to empower our women to contribute more in nation and family building with better education, learning and earning opportunities. Everyone of us has a part to play.

We also need to target the right segments of the society for sustained relentless awareness. Economically challenged localities and families with low literacy tends to account for the highest birth rates and we need an intense focus in terms of measures. Women need to be given more right in the family decisions.
Legislative measures such as raising marriageable age limit, and incentives for parents for educating their daughters up to matric or intermediate level may result in better economic outcomes.

Table: Impact of Population and Parity on Gross Domestic Product and Gross National Income

<table>
<thead>
<tr>
<th>Indicators</th>
<th>FY14</th>
<th>FY18</th>
<th>Change</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>a/c</td>
<td>GDP (Billion Rs.)</td>
<td>25,169</td>
<td>34,396</td>
<td>9,227</td>
</tr>
<tr>
<td>b/c</td>
<td>GNI (Billion Rs.)</td>
<td>31,299</td>
<td>36,214</td>
<td>4,915</td>
</tr>
<tr>
<td>c</td>
<td>Population (million)</td>
<td>186.19</td>
<td>200.96</td>
<td>14.77</td>
</tr>
<tr>
<td>d</td>
<td>US$=Rs.</td>
<td>102.86</td>
<td>109.84</td>
<td>6.98</td>
</tr>
<tr>
<td>a/c*d</td>
<td>GDP per capita (Rs)</td>
<td>135,179</td>
<td>171,158</td>
<td>35,979</td>
</tr>
<tr>
<td>b/c*d</td>
<td>GNI per capita (Rs)</td>
<td>168,102</td>
<td>180,204</td>
<td>12,102</td>
</tr>
<tr>
<td>a/c*d</td>
<td>GDP per capita (US$)</td>
<td>1,314.20</td>
<td>1,558.20</td>
<td>244.00</td>
</tr>
<tr>
<td>b/c*d</td>
<td>GNI per capita (US$)</td>
<td>1,634.30</td>
<td>1,640.60</td>
<td>6.30</td>
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</tbody>
</table>

GDP Analysis

<table>
<thead>
<tr>
<th>FY14</th>
<th>FY18</th>
<th>Change</th>
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<td>1,314.20</td>
<td>1,558.20</td>
<td>244.00</td>
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</table>

Impact: population n parity

<table>
<thead>
<tr>
<th>Change</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>-10.04%</td>
<td>(2,528.09)</td>
</tr>
<tr>
<td>-8.05%</td>
<td>(2,026.05)</td>
</tr>
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Net Positive Impact

<table>
<thead>
<tr>
<th>FY18</th>
<th>Change</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>25,169</td>
<td>18.57%</td>
<td>4,672.86</td>
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GDP Impact computation

<table>
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<tr>
<th>FY18</th>
<th>*FY18</th>
<th>GDP per capita Impact</th>
<th>Percent</th>
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</thead>
<tbody>
<tr>
<td>Population GDP per capita (Rs)</td>
<td>171,158</td>
<td>184,736</td>
<td>(13,578)</td>
</tr>
<tr>
<td>Parity GDP per capita (US$)</td>
<td>1,558.20</td>
<td>1,663.99</td>
<td>(106)</td>
</tr>
<tr>
<td>Erosion of GDP</td>
<td>-18.09%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>34396/186.19=184.736</em>1000</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*171158/102.86=1663.99</td>
<td>-</td>
<td></td>
<td></td>
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GNI Analysis

<table>
<thead>
<tr>
<th>FY14</th>
<th>FY18</th>
<th>Change</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNI (Billion Rs.)</td>
<td>31298.9</td>
<td>36213.7</td>
<td>4914.8</td>
</tr>
<tr>
<td>Population GNI per capita (US$)</td>
<td>1634.3</td>
<td>1640.6</td>
<td>6.3</td>
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Net positive impact

<table>
<thead>
<tr>
<th>FY18</th>
<th>Change</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>31298.9</td>
<td>0.38%</td>
<td>120,186.1</td>
</tr>
<tr>
<td>31298.9</td>
<td>-8.50%</td>
<td>-2661.585</td>
</tr>
<tr>
<td>31298.9</td>
<td>-6.81%</td>
<td>-2132.109</td>
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GNI Impact computation

<table>
<thead>
<tr>
<th>FY18</th>
<th>*FY18</th>
<th>GDP per capita Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population GNI per capita</td>
<td>180,204</td>
<td>194,499</td>
</tr>
<tr>
<td>Parity GNI per capita (US$)</td>
<td>1,640.60</td>
<td>1,751.93</td>
</tr>
<tr>
<td>Erosion of GNI</td>
<td>-15.32%</td>
<td></td>
</tr>
<tr>
<td>*36213/186.19=194499</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>*180204/102.86=1751.93</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Women development remains the best economic strategy.
It’s the men of this country who need to empower our women to contribute more in nation and family building with better education, learning and earning opportunities. Everyone of us has a part to play.

Women need to be given more right in the family decisions.

**Writer’s note:** Population figure: A census was conducted in Pakistan in 2017 and the figure of population was 207.77 m and 210 m for FY18. These will hopefully be revised in the forthcoming 2019 SBP report. A UN study released on January 1, 2019 recently estimated that 15,000 children are born every day. Accounting for the mortality, we are adding about 3.5-4.5 million to our population annually.


The writer is a chartered accountant and in public practice as Altaf Noor Ali, Chartered Accountants.
Pakstān’s Economic Challenges
by Hina Kazi

Introduction
Pakistan, since its inception, has faced innumerable challenges and problems. Still, the situation in past was not as bad as it is today. With time, the ever-increasing uncertain political situation coupled with flawed and redundant economic policies became an inevitable hurdle in the economic growth and development of the country. Such a scenario has not only created long-term challenges and threats but in many places, has brought the country to brink of disaster and left the economy in shambles. The last 25 years have brought about a major decline in the economic growth rates and, especially, in the last decade, Pakistan’s economic situation has lagged behind the other South Asian economies on many fronts. Factors such as unpredictable law and order situation, frail trade and foreign policy, decline in Foreign Direct Investment (FDI), widening current account deficit, crippling fiscal and trade disparity, pressure on domestic currency and resultant inflation, mounting domestic and foreign debt, lack of policy implementation and other reforms, poor governance, disruption in the democratic process, inequitable taxation system, revenue shortfall, lack of confidence of general public in the government process, non-adoption of latest technological trends and equipment on corporate levels; all of these are responsible for giving way to the deteriorating economic conditions of the country.

The latest United Nations (UN) report on World Economic Situation & Prospects for 2019 released by its Department of Economic and Social Affairs (DESA) has presented a very gloomy view of the current economic situation of our country whereby, “Country’s Heavy reliance on foreign borrowings is like compromising the national security of the country. But do we have other options?”
Tax evasion in the form of tactics is being used by both local and foreign companies operating in Pakistan whereby they hire experienced professionals to help them design their financial statements in such a way that minimum profits are shown on face, thus, resulting in the payment of least possible taxes.

Our defective foreign policies have already deprived us of many golden opportunities in the past.

The economy is facing severe Balance of Payments (BoP) difficulties amid larger fiscal and current account deficits, a visible decline in foreign exchange reserves and mounting pressures on the domestic currency. Macro-economic imbalances and financial fragilities pose significant risks of future slowdown.

Challenges facing the economy
At present, the economic outlook of Pakistan is both critical and fragile, being affected by both domestic and global factors due to which the economy is moving towards a considerable decline in all areas. The internal and external challenges facing the country are, like for instance:

- Lack of efficient and well-organised governance system and institution in practice. Incompetence, inefficiency and lethargic attitude of the leaders on top results in corrupt and unethical practices down the line, which in turn, brings about a fall in the economic growth. Lack of planning coupled with lack of consensus and coordination at the top government functionaries and buaoratic levels in respect of opportunities available results in non-utilisation of human and capital resources. Non-accountability of the corrupt and lack of transparency is one of the biggest loopholes in the present governance system.
- Due to the poor evaluation and implementation of the fiscal policy along with frequent changes in these policies, fiscal policy in combination with the monetary policy fails to achieve the objectives that it is designed for; which includes; creating job employment, poverty reduction, and development of human and physical infrastructure, stabilising prices and wages and curtailing inflation. The higher fiscal deficit is essentially due to revenue collection shortfall (both tax and non-tax), slow foreign inflows, and a significant increase in current expenditures while development expenditures have come to a halt. Average Consumer Price Index (CPI) inflation stands at six percent for the first half of financial year 2018-2019 as compared to 3.8 percent in the same period of last year. Core inflation, as measured by the non-food non-energy components of the CPI basket had reached 8.4% in December 2018. Accordingly, as per the trend, the fiscal deficit in the first half of 2019 is expected to be higher than the same period last year. Now, this fiscal deficit is to be financed through somewhere either from the central bank or the external donors. If financed by the central bank, it might create a more risky situation by giving way to high inflation, thus, harming the middle and poor class with fixed income and wages. But if we choose to go for external donors like International Monetary Fund (IMF), paying foreign debts along with high interest rates puts the country in a high debt situation which keeps multiplying as to pay these loans; the government borrows more and more, thus, entering into a bigger debt trap.

- As per the latest data released by central bank of the country, the federal government’s borrowings for budgetary support from the banking system have surged by 86% to Rs. 722 billion during the first half of financial year 2018-2019 as compared to Rs. 387.7 billion in the same period of last year. Most troublesome fact is that borrowings from central bank have jumped by Rs. 1.436 trillion during the first half of financial year 2018-2019 as compared to Rs. 288 billion in the same period of last year. This substantial shift of government borrowings from scheduled banks to the central bank happened as a result of maturity of Pakistan Investment Bonds (PIBs) and unwillingness of scheduled banks to reinvest in these bonds due to unattractive rates of interest. Such an act would ultimately lead to inflationary pressures, thus, forcing authorities to tighten the monetary policy and devalue the currency further which, in turn, would increase the debt servicing cost of the government and make the life of the ordinary man more miserable.
- In order to cope up with the internal financial crises, the country has looked out for external financing from IMF, World Bank and other friendly countries from time to time. Heavy reliance on foreign borrowings is like compromising the national security of the country. But do we have other options? When we are exhausted with our domestic borrowings, we are left no option than to beg at the doors of the developed nations and agencies. Borrowings from external sources, which is rising at an unprecedented speed, also includes accepting their unsolicited terms and conditions being part of the package, which, in turn, creates even a bigger problem in devising our national laws and policies to run the country independently.
- Tax revenue is one area where the affluent and powerful ones play the most. Currently,
Federal Board of Revenue (FBR) is facing a revenue shortfall of about 170 billion and collected net revenues of Rs. 1,779 billion as against the target of Rs. 1,949 billion during the first half of financial year 2018-2019. Tax evasion in the form of tactics is being used by both local and foreign companies operating in Pakistan whereby they hire experienced professionals to help them design their financial statements in such a way that minimum profits are shown on face, thus, resulting in the payment of least possible taxes. Not only corporate sector but the individuals also play a very major role in tax evasion. A very small percentage of citizens in our country are tax filers. An efficient and competent tax administration is nowhere visible in our economy. Tax machineries at federal and provincial levels lack requisite level of digitisation, professionalism and human skills. Economic managers and successive civil and military governments have failed miserably to use automation tools and information technology for revenue mobilisation and creating and updating the profile of every citizen/taxpayer. Infrastructure required to administer these revenues is always being neglected as entire concentration was made towards revenue generation only. It is dreadfully needed to bring about major tax reforms, punish the corrupt and design laws where evasion can be minimised.

▪ During the last decade, Pakistan’s share in the world’s trade has also dropped considerably. Many reasons are attributable to this fact: firstly, our export is restricted to fewer commodities like rice, textiles, leather, sugar, sports and other surgical goods and we are not able to enter the market for more dynamic products. Also, the quality of our products has not been improved and that’s why we are unable to capture the foreign markets where high quality products are required. Secondly, we are in a situation where we are importing more than we are exporting. Due to low quality of our products, certain class in our country prefers to use only foreign high quality products over the locally produced ones, thus, the need to import more becomes a necessity to satisfy these consumers. Such an attitude from a particular segment of society is responsible for creating a wide gap between our exports/imports. Third and foremost is the weak trade policy being the main cause of trade imbalance in the country. Pakistan was unable to enter into any trade agreement with other countries in the last five years. Although, the governments had started negotiations on Free Trade Agreements (FTA) and Preferential Trade Agreement (PTA) with a number of countries, nothing so far has materialised. Previously, Pakistan had entered into FTA and PTA with six countries, namely, China, Malaysia, Indonesia, Iran, Sri Lanka and Mauritius, however, it failed to benefit from any of these agreements as it could not get tariff incentives from its trading partners.

▪ International trade is not only affected by trade policy but also by a country’s foreign policies. Our defective foreign policies including weak relations with neighbours, especially India and other South-East Asian nations along with western world have already deprived us of many golden opportunities in the past. We urgently need to revise our foreign policy to make it more friendly and accommodating in order to boost our international relations so that our products get chance to enter into diverse markets, which in turn would bring increased foreign exchange reserves. With the friendly foreign policy, not only our exports would enhance but our students would get better options to study abroad through scholarships and other incentives and our labour force would get opportunities to work abroad and earn money.

▪ There was a time when Pakistan was one of the favourite destinations for foreign investors. However, in the last one to two decades, we have lost credibility due to which foreign investment in the country also took a negative trend. Not only foreign but also local investors are discouraged, as with current practice prevalent in the country, every new government abandons the inherited projects and promises entered into with investors by the predecessors and starts afresh.
encouraging to lay eggs in one basket: if any dispute arises between the two countries, our country will be the biggest loser. Low FDI is very distressing for economic planners as it is desperately needed to supplement low domestic investment and saving rates, create job opportunities, reduce poverty, and bring about technical advancement and modernisation of the industrial base to increase exports. Our prohibitive visa policy whereby visa-on-arrival is offered to travellers as part of group or business and that is also on request made in advance by the local sponsor is not being offered to individual traveller. A country where there is a dire need for foreigners to come and explore in terms of investing and tourism, such a law is a real impediment in the way of economic progression. Contrary to it, grant of visa-on-arrival is now a regular feature in every other country.

• Not only foreign but also local investors are discouraged, as with current practice prevalent in the country, every new government abandons the inherited projects and promises entered into with investors by the predecessors and starts afresh. Many development projects in the past like, new motorways, ports, highway, hospitals, educational institutes etc, were left incomplete with the change of rulers. Lack of continuity and commitment of the existing ventures does not only shake investors’ confidence but also results in cost escalation and wastage of time. Such unpredictability makes the investor double-minded as to whether they should invest or not as they feel that any time, the political instability might revert the situation for them.

• This political instability has also given way to energy and water crisis. Due to indecisive policies and lack of harmony amongst the top, the dam debate everyday with no futile results is taking the country to another dark end. As per the latest report, IMF has pointed out that amongst countries facing water shortage, Pakistan is ranked as the third worst. Every citizen in the county has a basic right to clean drinking water which, unfortunately, is not available in our country. We are not sure as to whether we are running short of water or we are unable to store the available water or water distribution is proper/improper amongst the masses. Thus, economic activity in terms of producing agriculture and industrial output is badly affected where not only water but sufficient energy is also required.

Conclusion
In order to revive the sick economy, the new elected government announced a mini budget. However, it is still not as appealing as it was expected as it did not provide solutions to address the economy’s fiscal constraints and widening current account and external deficit, due to which debt sustainability will continue to remain at risk.

The country needs to come out with massive reforms and restructure the economy by formulating long-term and consistent fiscal, industrial and labour policies in order to make the climate conducive for foreign and domestic investment. Also, the government should devise pragmatic policies that support digital technology, global connectivity and broad-based use of Artificial Intelligence (AI) so that these could have a positive impact on economic activity and growth. A true democratic system should be put in place where every ruler should be held accountable and no one should get any opportunity to misuse public money. Corporate and business entities should implement strong management compliance system within organisation to control bribery and corruption. FBR should develop a strategy to promote tax culture in the country by reviving the lost confidence of people in FBR and the system. Also, FBR should focus on big tax evaders and bring non-filers under tax net instead of penalising the already taxed ones. Fiscal policy will have to be proactive and play a supportive role to generate stable conditions and sustainable growth. Integration with world economies is to be augmented and trade barriers to be addressed so that investors are optimistic to come and make investment confidently.

Pakistan is a country full of potential and opportunities so in order to exploit the prospects, we need to be united and work towards major transformation and positive revolution which is not possible overnight but can be achieved with thorough planning and execution in due course of time both on the part of leaders and citizens.

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Pakistan’s Economic Policies: Prioritise One Strategic Area at a Time
by Samir Ahmad

With reserves already causing economic managers a headache, Pakistan can ill afford to let its external debt going beyond control.

In its quarterly report on the state of the economy, Pakistan’s central bank started off on a bleak note: “Major indicators pertaining to the first quarter of the fiscal year (Q1-FY19) suggest that economic activity is losing momentum after observing a 13-year high in FY18.” It goes on with its grim message, citing “rising macroeconomic imbalances in the fiscal and the external sectors that have arrested the forward motion in economic growth.” It is not rare for a central bank to sound dreary on its notes, but considering that Pakistan’s economy had only started to pick pace in the last few years, it sounds like as if the growth momentum was very short-lived.
Pakistan has experienced a similar boom-and-bust cycle with quite a bit of volatility in the last six decades. Its growth rate has been consistently lower than other South Asian economies during the same period, pointing to a lack of ability to capitalise on the boom the region undergoes at the same time.

At the same time, its debt profile has worsened. While economists point out that Pakistan’s debt-to-GDP ratio is lower than that of the UK, Canada, France or even the US, the fact is that it is nowhere near the development these other places boast. Their infrastructure, quality of life, standards of education – for a bigger size of the population – are better than in Pakistan. For the South Asian economy, improving on these metrics require a higher borrowing and/or much higher taxation, which would essentially raise the debt-to-GDP ratio anyway.

Further analysis reveals that Pakistan’s total debt has risen from Rs. 28.45 trillion at the end of fiscal year 2018 to Rs. 31.54 trillion at the end of the second quarter of fiscal year 2019. Within six months, it has risen 10.9%. However, the greater worry is that the overall proportion of external debt has risen from 38.6% to 40.6% in just 180 days. An economics professor would tell you that debt is not entirely a bad thing. But the professor would always add that it matters who you owe this money to. If you owe it to external creditors, you are essentially causing the money to flow out of the country, contributing to wealth elsewhere. With reserves already causing economic managers a headache, Pakistan can ill afford to let its external debt going beyond control.

It comes as no surprise that almost a huge portion of Pakistan’s federal budget goes into just servicing overall debt, limiting the extent to which the government can pursue development plans. With tightly-fisted hands, education, healthcare and infrastructure continue to get ignored.

If this wasn’t enough, loss-making state-owned entities that could have instead added to government income continue to pile on Pakistan’s economic issues that hinder continued growth. On the other hand, low level of exports and a highly import-dependent economy increase the pressure on foreign exchange reserves, causing the currency to depreciate and bring home inflation. The central bank, in response, raises interest rates, slowing down growth and making matters worse.

Pakistan remains at the crossroads, and has been for several years now. It fuels economic growth by heavy borrowing – both domestic and external – and gives a temporary boost to its private and public sectors. What do economic managers do at such a time? Frankly, if there was a simple answer, then problems would not continue to exist.

Pakistan remains at the crossroads, and has been for several years now. It fuels economic growth by heavy borrowing – both domestic and external – and gives a temporary boost to its private and public sectors by telling them that it is okay to expand, invest and import. It happened in the mid-2000s, and happened a few years ago as well. The country may be self-sufficient in agriculture and clothes, but when it comes to energy, heavy machinery, autos, pharmaceuticals or even electronics, it has very little to write home about. It relies on either smuggled or imported goods.

Pakistan’s foreign exchange reserves never really reach a comfortable level. For context, Pakistan’s kitty has four times less foreign exchange reserves than Bangladesh’s.

This, in turn, adds to the pressure on foreign exchange reserves that never really reach a comfortable level. For context, Pakistan’s kitty has four times less foreign exchange reserves than Bangladesh’s. While this money is not entirely meant to be used for payments as much as to provide cover and maintain the currency – if need be – in Pakistan’s case, the situation is just outright embarrassing.

Given the discussion, it would be quite safe to say that exports are a key area where Pakistan needs to improve.
Its roughly $25 billion of export portfolio is nowhere near developed nations and points to a severe lack of attention to the area. What Pakistan needs is consistent economic policies that are kept with the long term in mind. Bangladesh did not reach a more stable economic position by focusing on short-term needs only. It got there by developing areas which were its strongpoints such as textile. Pakistan, on the other hand, has not. The energy crisis put a huge dent on its development, and an unstable political and socio-economic situation cast further doubt on its image as well as ability to meet export orders.

What Pakistan needs is consistent economic policies that are kept with the long term in mind. Bangladesh did not reach a more stable economic position by focusing on short-term needs. It got there by developing areas which were its strongpoints such as textile.

Foreign investors as well as global companies may refer to Pakistan as a country having potential, but when it comes to reliability, there are many more options available to them. Why would an investor focus on Pakistan that has only begun to show signs of stability?

Foreign investors as well as global companies may refer to Pakistan as a country having potential, but when it comes to reliability, there are many more options available to them.

Exporters need to be given incentive, and for a longer term. The auto sector, for example, was at a time told that they would be supported. It didn’t last long. And when the support came, it turned out to be too late. Years of underinvestment and reliance on imports meant their raw material orders continue to be outsourced to countries like Japan and Thailand.

Pakistan shouldn’t try to focus on a lot of metrics – not right now. It needs to prioritise and say, ‘here is our focus and we will look to support it.’ Exporters are that segment.

Pakistan shouldn’t try to focus on a lot of metrics – not right now. It needs to prioritise and say, ‘here is our focus and we will look to support it’. Exporters are that segment. In economics, and life, there are always tradeoffs. Pakistan just needs to learn which areas are more important for the time being, and which sectors can do with less support for the time being.
How can Pakistan Overcome its Economic Challenges?

by Muhammad Farrukh Siddiqui

Every once in a while i.e. after every change of government, we hear that Pakistan is doomed, we as a country are about to default and the economy is about to collapse. So are these claims real every single time? In Pakistan's case, it seems reasonable to say that they are. It is mainly due to the superficial/cosmetic steps taken by most of the past governments to revamp the economy rather than sorting out the root causes of the problems.

There is a misconception that devaluation of currency will in turn reduce the current account deficit.

Let’s take a look at the current situation. As per the State Bank of Pakistan (SBP) figures, overall fiscal deficit has reached at Rs. 541.7 billion in first quarter of FY19. For all those who are not aware of the said term, it is the difference between the total revenue and total expense of the government. This deficit is mostly financed by borrowing from the SBP, scheduled banks or getting the banks to finance the purchasing of commodities.

Is fiscal deficit always a negative sign? Yes, in most of the cases it is. However, in some situations deficit spending can be used to revamp/jump start the economy by financing development projects i.e. projects which can play their part in economic growth and development.

Long term steps that Pakistan should take include making the export industry competitive.

So how can Pakistan overcome this challenge? In simple terms, by increasing its revenues. However, it is easier said than done. This would involve long term measures such as increase in the tax base, revamping the Federal Board of Revenue (FBR), giving incentives to people in getting themselves registered in the tax base, etc. This may also include short term measures such as funding the deficit by issuing bonds.

On the other end, the government can reduce its non-developmental expenditures to reduce the fiscal deficit; this may include taking austerity measures. The fiscal deficit will always slow down the economic progress of any country as it would lead to cutting down the development projects which will have an overall negative impact on economic growth.

Now the second figure which is also quite alarming is the current account deficit which was US$ 3.6 billion in first quarter of FY19 as per SBP. For all those who do not know the term, the current account deficit is a broader trade measure that encompasses the trade deficit along with other components. A country would have trade deficit if the total value of goods/services imported is greater than the total value of goods/services it exports.

There is a misconception that devaluation of currency will in turn reduce the current account deficit, which is not true in all the cases. That is because while increasing the exports (because of increase in exchange rate) it will also in most of the cases make the imports more expensive.

Almost eight million Pakistanis who live abroad can play a vital role in revamping the economy.

Long term steps that Pakistan should take include making the export industry competitive, this may include giving them incentives such as reducing in the utility cost, giving refunds on exports, encouraging the investors to setup export industries and giving tax reliefs to the industry.

Other steps include increasing the foreign remittance received from abroad. Almost eight million Pakistanis who live abroad can play a vital role in revamping the economy. These Pakistanis need to be given incentives to send in the remittances through banking channels and not use conventional modes such as hundi, etc.

So whether we can get the economy back on its feet needs to be seen, but this will depend upon taking concrete measures addressing the root causes rather than taking superficial steps.

The writer is a chartered accountant working as assistant vice president Habib Metropolitan Bank.
Pakistan's economy has definitely seen better days. In a recent article International Monetary Fund (IMF) stated: "Macroeconomic stability gains have been eroding, putting the outlook at risk. Growth is expected to moderate to 4 percent in 2019, and slow to about 3 percent in the medium-term."1

This predicted tough times ahead means unemployment could rise and total household expenditure may increase with food prices going up, as well as what people spend on health and education. Social indicators are often going unnoticed like how many children do not have proper education and the funds for schools are mismanaged. Currently, a lot of the resources accounted for schools are misused and rural areas are filled with ghost schools. Ignoring these issues can lead to bigger problems ahead – keeping in mind that illiteracy and poverty go hand in hand.

Currently, Pakistan has over 40 percent illiteracy which may also explain the trend of the country’s exports and services. The number of educated workers directly affects the sort of services and products produced. Pakistan is mostly an agricultural country with exports mainly comprising cotton, fruit and other agricultural products. Whereas imports are more value added like automobiles and mobile phones. This
is a big disappointment considering that most of the neighbouring countries are well ahead of Pakistan. Along with this, Pakistan also imports a large amount of petroleum based products whereas according to the United States Energy Information Administration (EIA), Pakistan may have nine billion barrels of crude oil and a hundred and five trillion cubic feet of shale oil and natural gas reserves.²

It may be a good choice now to invest on harvesting the country’s own resources instead of relying on other countries. Also, it’s about time to work on making and exporting more value added products.

Investors cannot be blamed though, as far as industries are concerned, factories are in bad shape. Power outages, weak contract enforcement, dwindling infrastructure and outdated technology are only some of the problems. Industries are not even capable of meeting local demand, for instance, the need for cement has increased over time but since a lot is now being exported, production can no longer meet the local demand. The textile industry which accounts for 60 percent of the economy has seen a decline of 16.1 percent as of July 2018.

The country’s savings are low and political unrest have wounded reserves. The most obvious choice Pakistan seems to have now is loans. Negotiating emergency loans seems like a good choice but it comes with strings attached. The country still has a lot to give back. Right now Pakistan owes an approximate US$ 90 billion with a fifth of its total debt to China. China Pakistan Economic Corridor (CPEC) loans will put another US$ 14 billion to the public debt burdening the already struggling economy. According to the IMF, Pakistan will have to pay US$ 3.5 billion per annum by 2023-2024 to return these loans. More so, the country’s unstable fiscal position is badly affecting the economy and its share in world trade.

The other choice for revenue collection are taxes by the government. This too is not secure from corruption. Even though personal income tax rate was 20.77 percent from 2006 to 2018, tax revenue is corrupted and tax collection is uneven with many people escaping taxes altogether, many of whom are very wealthy. It may come as a shock that only 72,000 people in Pakistan claim their income to be above Rs. 200,000.

This burdens the class who are paying. Along with this, a large percentage of the nation is unable to pay. This includes many women, children and elderly who are not registered as taxpayers. According to a number of sources, less than one percent of Pakistan pays taxes on their income. This excludes the 20,000 wealthy non-filers. Many of these individuals as well as multinational companies use tax havens abroad to hide their assets. The Federal Board of Revenue (FBR) even issued notices to more 3,000 high net worth individuals with tangible assets.

Pakistan is a country where peoples’ feelings for the government are soured. The public does not rely on the government to use their money for the benefit of the nation and judging from the fact that a lot of facilities like ambulances, hospitals and even orphanages are Non-Governmental Organisation (NGO) funded, people are not completely at fault. Along with addressing other issues, incentives must be taken by the parties to take the nation in their confidence.

At the end of the day, with a new government elected, reforms made and oaths taken, let’s see what this year has in store for Pakistan.

References: ¹Dawn News; ²Economic Times.
Pakistan is a developing country and like many other developing countries facing numerous economic challenges like fiscal deficit, balance of payment, foreign reserves, economic growth, inflation, tax collection, and so on. The issues are diversified, however, a sound financial strength of the economy is central to all. Our expenditures are much more than our revenues. Total annual outlay of federal funds is budgeted at Rs. 8,523 billion for fiscal year 2018-19 against the internal budgeted revenue of Rs. 6,389 billion, whereas 25% of the total outlay is budgeted to be spent from external sources including grants, loans and bank borrowings. The mark-up on borrowings is budgeted at Rs. 1,620 billion, approximating 25% of the total internal revenue. The mark-up payment consumes 93% of the total direct tax collection and 37% of overall tax collection by the federal government.

The government needs to take revolutionary steps, devise policies favourable to the tax filers and provide them with incentives, focus its efforts towards non-filers and improve tax collection.
These statistics are alarming, and the only way out is increased tax collection which warrants significant changes in tax laws, administration and the systems. Small adjustments in tax rates, minor relaxation to some sectors and slight increase in others won’t solve the problem anymore. The government needs to take revolutionary steps, devise policies favourable to the tax filers and provide them with incentives, focus its efforts towards non-filers and improve tax collection. Following are the few steps that can be undertaken for significant increase in tax collection:

**Provision of incentives to the filers**
Taxpayers don’t see any direct benefit of paying taxes, therefore remain uneasy at paying taxes. There is a need to provide incentives to tax filers. A number of options can be used for this purpose, however, initially, the government could provide medical and life coverage to all tax filers through an insurance policy by providing them health and life insurance cards. A premium equal to 2% to 5% of the total tax paid by the taxpayer could be allocated to this policy. This will enable the government in fulfilling its responsibilities towards provision of medical care, financial aid to the families of the deceased taxpayers, reduce burden from government health facilities, build trust among citizens and provide a direct reason and incentive to pay taxes.

**Relaxation to filers and focus on non-filers to double tax collection**
According to estimates around 60 million people in Pakistan are earning living, and it can be assumed that at least 15 million are earning taxable income. However, only 1.5 million people have filed their tax returns for the year 2018, which only constitutes 10% of the people required to file tax returns. Traditionally, it is observed that the major focus of the Federal Board of Revenue (FBR), in terms of audit, other tax compliances and recovery procedures, is primarily on those 10% filers while ignoring the other 90%.

If the FBR could manage to recover some tax from those 90% non-filers, the tax collection could be doubled within a year. There is a need for a radical change in the taxation system like the one that was instilled in 2001 by shifting the tax filing to self-assessment scheme. Now, the government may dispense with the audit requirement of those business persons who pay 10% more tax than last year and file returns in accordance with its audited financial statements along with those salaried persons whose returns are in accordance with the employers’ tax certificate. This will free-up the human resource of FBR and enable them to focus their efforts towards non-filers. Non-filers need to be tracked through bank transactions, property transactions, withholding tax statements, vehicle registration, etc. It will not only enable FBR to increase the tax collection but will also encourage non-filers to file returns. If the FBR could manage to recover some tax from those 90% non-filers, the tax collection could be doubled within a year.

Huge number of transactions are being conducted in Pakistan through cash and it provides the avenue to the businesses to evade taxes. Businesses succeed to hide sales tax collection from the consumers along with their revenues. There is a strong need to stop this leakage and the government should take strong measures to route the transactions through banking channels.

Switch from cash base economy to cashless economy
Huge number of transactions are being conducted in Pakistan through cash and it provides the avenue to the businesses to evade taxes. Businesses succeed to hide sales tax collection from the consumers along with their revenues. This is one of the reasons for having lower tax to Gross Domestic Product (GDP) ratio despite the levy of only the General Sales Tax (GST) @ 17%. There is a strong need to stop this leakage and the government should take strong measures to route the transactions through banking channels. This has to be a gradual process. As a first step, payment through debit/credit cards could be made mandatory for shopping at big malls and any

Traditionally, it is observed that the major focus of the Federal Board of Revenue, in terms of audit, other tax compliances and recovery procedures, is primarily on those 10% filers while ignoring the other 90%.
A large number of businessmen operate through small retail shops across the country. Most of them are not literate enough to maintain proper books of account and file tax returns. Neither can they afford to hire professional services or pay lump sum annual taxes.

Special procedure for tax collection from small retailers

A large number of businessmen operate through small retail shops across the country. Most of them are not literate enough to maintain proper books of account and file tax returns. Neither can they afford to hire professional services or pay lump sum annual taxes; and owing to the administrative difficulties, they are often reluctant to get themselves registered while being keen to contribute taxes towards the economy. There is a strong need to develop special procedure for tax collection from those small retailers.

A fixed monthly tax may be imposed on the retailers depending upon the size and location of the business ranging between Rs. 500 to Rs. 5,000 per month. Size of the business may be determined on the basis of electricity bill, shop rent and number of persons employed at the retail store. A simple annual tax return declaring the details, necessary to determine the size of the store, i.e. electricity bill, shop rent and address along with month-wise breakup of depositing tax, may be required from those retailers, which small step could enable massive increase in tax collection.

Only effective tax collection can solve the long lasting problems of the economy.

It is time for the government to take revolutionary measures and create an environment in the country where tax filers feel secure and confident in the system and non-filers incline towards filing. Only effective tax collection can solve the long lasting problems of the economy.
Composition & Financial Reporting
Responsibilities of Audit Committees
by Asif Ali

In the current legal paradigm, Audit Committees are playing a fundamental role in effective stewardship. Audit Committees serve the investors as well as other stakeholders’ interest through independent oversight of an entity’s corporate reporting process and bridge an entity’s relationship with its external auditors.

The contemporary Audit Committees concept began in the late 1930’s when the US Security and Exchange Commission (SEC) recommended that publicly held companies form a committee of non-officer board members that would assure independence, nomination and arrangement of engagement process of external auditors. Afterwards, the Audit Committees played a vital role in the governing structure of public companies. In the last two decades, Audit Committees became a commonly used mechanism for good corporate governance practice globally.
Audit Committee is a committee of the board of directors responsible for oversight of the financial reporting process, selection of the independent auditor, and receipt of audit results from both internal and external audit functions. Audit Committee is one of the core mechanisms to ensure effective corporate governance and sound financial reporting process. Financial reporting quality will be higher if Audit Committees have mixed expertise in accounting, finance and supervisory and are able to deliver as expected from them. Audit Committees assist the board of directors to fulfill its corporate governance and overseeing responsibilities in relation to an entity’s financial reporting, internal control system, risk management system, internal and external audit functions and ethics and compliance programs. To fulfil these responsibilities, Audit Committees build strong relationships with internal and external stakeholders who have an impact on the company’s risk profile and ability to create value. Audit Committees should also stay apprised of new accounting and regulatory requirements and consider the increasing demand for greater transparency in financial reporting process.

This document contains the specific guidance relating to the composition, independence, effectiveness and corporate reporting responsibilities of Audit Committees.

The Listed Companies (Code of Corporate Governance) Regulations 2017 provides the way forward towards the composition, size, independence, responsibilities, operations and communication mechanisms of Audit Committees. It sets out the membership requirements to include more independent directors. Further, it requires the listed companies to disclose the names of audit committee members in annual reports.

The Listed Companies (Code of Corporate Governance) Regulations 2017 requires Audit Committees to recommend to the board of directors the appointment of external auditors, their removal, their remuneration, the provision of any services permissible to be rendered to the entity by the external auditors in addition to audit of its financial statements.

A paper published in World Journal of Social Sciences examined the roles and effectiveness of Audit Committees as provided by corporate governance codes, in relation to corporate failures, whether the failure is due to the ineffectiveness of the Audit Committees. Given that the Audit Committee is perceived to be a means of strengthening the external financial reporting process and facilitating the detection and prevention of corporate misconducts and scandals. It is believed that many financial and governance failures experienced in the recent past could be detected much earlier, had Audit Committees been discharging their duties effectively and efficiently.

In this paper, secondary sourced data were used to investigate the roles of Audit Committee in the case of Lehman Brother’s corporate failure. A qualitative case study method was employed to carry out the study, by identifying and evaluating specific areas of interaction between Audit Committees and other parties which affect the audit process. The finding shows that many corporate failures are associated with the ineffective working of Audit Committees, and that Audit Committees could have prevented the occurrence of several corporate failures if they had been efficient. However, the Audit Committees cannot be 100% blamed for the failures, as their effectiveness is subject to many factors, and lack of any one factor always renders the Audit Committee ineffective. Some of the findings are consistent, while others are contrary to previous empirical studies on effectiveness of Audit Committees. The study exposed specifically the process involved in the conduct of Audit Committees in an organisation and this add to the current debate on the need for improvement in the roles played by the Audit Committee as public gatekeepers. Source: World Journal of Social Sciences.

The effectiveness of Audit Committees largely depends on their composition, degree of independence and reporting requirements.
Under the current legal framework in Pakistan, the composition and independence of Audit Committees are compromised. Further, it lacks the reporting requirements and is not evaluating the performance of Audit Committees.

There are no legal requirements for evaluating the performance and results of Audit Committees on periodic basis as no such evaluation is prescribed by the new Listed Companies (Code of Corporate Governance) Regulations 2017. In this context, Audit Committees should either complete a self-evaluation annually to identify improvement opportunities or this activity may be conducted by the board or management. This might include comparison of Audit Committee’s performance with its terms of reference, charter, and other best practices and feedback given to the committee members accordingly.

Performance evaluation also provides useful information that the Audit Committee can be used to improve governance processes. The following factors are often considered when evaluating the Audit Committee’s performance:

- **Independence**: Independence of the Audit Committee members from management.
- **Clear Responsibilities**: Clarity with which the Audit Committee’s responsibilities are defined and the degree to which they are understood by management and the members of Audit Committee.
- **Interaction**: Interaction of the Audit Committee with the independent auditor, internal auditor, senior executives, other management personalities and the board.
- **Observations**: Whether the Audit Committee highlighted the right questions at the right time with management and the independent auditor.
- **Understanding**: Whether the members of Audit Committee have the understanding of critical accounting policies and judgements that challenge management’s judgements and conclusions.
- **Continuing Professional Development (CPD)**: Whether members of Audit Committee obtained relevant professional trainings.
- **Responsiveness**: Whether the Audit Committee has been responsive to issues raised by the independent auditor.
- **Format**: In case of a self-assessment, a questionnaire might be used by Audit Committee members. If the board or management conducts the evaluation, the format may consist of evaluation forms, interviews, or both.

The introduction of the concept of Key Audit Matters (KAMs) in the new audit report opens door of dialogue between the external auditors and Audit Committees. In some jurisdiction, there are specific reporting requirements for Audit Committees. Audit Committees are required to report on audit and financial reporting related matters and the extent to which they have achieved their roles and responsibilities in annual report of public interest entities. In Pakistan, there are no reporting requirements relating to Audit Committees. Listed companies are only required to disclose the names of Audit Committees members in their annual reports. However, Audit Committees might voluntarily provide their commentary on KAMs reported by the auditors. Reporting requirements for Audit Committees permits Audit Committee effectiveness to be externally observed and a way forward to present the entity’s point of view before the outside world.

Audit Committees can be an effective tool for strengthening the governance of their companies. Robust regulatory requirements and proper guidance can help the Audit Committees to discharge their responsibilities enhancing the confidence of users of financial statements and thereby strengthening the financial market in Pakistan.

The writer is a chartered accountant working as senior quality assurance inspector at the Audit Oversight Board, Islamabad.
Important Tax Consideration for Multinational Corporations in Pakistan

Brief introduction
The Organisation for Economic Co-operation and Development (OECD) consist of 36 permanent members to date with the objective to promote policies that will improve the economic and social well-being of people around the world. In addition, it provides a platform for governments to work together, share experiences and seek solutions to common problems.

To meet the above objective, OECD has launched 15 action plans on Base Erosion and Profit Shifting (BEPS) in July 2013 with the purpose to identify the importance of the borderless digital economy and proposes to develop a new set of standards to prevent BEPS and to equip the governments with the domestic and international instruments to prevent corporations/Global Multinational Enterprises (MNEs) from paying little or no taxes. BEPS is the first truly global attempt for harmonisation of international tax system. Further, closer international co-operation, greater transparency, as well as more data and reporting requirements by MNEs, are also the objectives of these plans.
These specific actions are called the BEPS action plans. The concept of BEPS reflects the strategies adopted by the MNEs to avoid tax by obtaining the benefits of mismatches in tax rules of the different jurisdictions by artificially shift profits to low or tax free locations. After the promulgation of BEPS action plans, the economic scenario for the MNEs shifting from country specific models to global models i.e. Globalisation of the economic affairs.

So far, 126 countries and jurisdictions have joined the OECD framework to implement BEPS action plans by signing the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MCMAA). Our country Pakistan, as the 104th jurisdiction, signed the MCMAA on September 14, 2016. As a result of the above, Pakistan also signed two more sub arrangements. The first one pertains to automatic exchange of tax related information signed on June 7, 2017 (till January 29, 2019, 87 countries signed the said arrangement). Second relates to exchange of Country-by-Country Reports (CbCR) on June 21, 2017 (till January 24, 2019, 76 countries signed the said arrangement). Based on the signing of all of the above convention, till February 5, 2019, the government of Pakistan has an effective arrangement with 49 countries to exchange financial or tax related information including CbCR.

Pakistan’s perspective
After the signing of above international convention, Federal Board of Revenue (FBR) extends the domain of Section 108 of the Income Tax Ordinance 2001 and issuing the rules through SRO 1191(1)/2017 dated November 16, 2017 (with slight amendments through SRO 144(1)/2018 dated February 9, 2018) in Chapter VI A to the Income Tax Rules 2002. As a result of these amendments, every MNE in Pakistan is required to maintain and be available with the relevant documentations which includes local file, master file and CbCR. Some important definitions are as under:

Important definitions
**Constituent Entity (CE)** means (1) any separate entity of an MNE group that is included in the consolidated financial statements of the MNE group, or (2) any such entity that is excluded from the MNE group’s consolidated financial statements solely on size or materiality grounds, or (3) any permanent establishment of any separate entity of the MNE group included in (1) or (2) above.

**Ultimate Parent Entity (UPE)** means a CE of an MNE group that meets the criteria of (1) it owns directly or indirectly a sufficient interest in one or more CEs of MNE group such that it is required to prepare consolidated financial statements under any law for the time being in force and (2) there is no other CE of such MNE group that owns directly or indirectly an interest described in (1).

**Surrogate Parent Entity (SPE)** means any CE of the MNE group that has been designated by such MNE group, in place of the UPE, to file the CbCR in the territory in which the said CE is resident, on behalf of such MNE group. For detailed definition, please refer to the relevant SRO.

**CbCR and its contents**
CbCR report is required to be prepared by MNE group whose consolidated group revenue is Euro 750 million or more during a fiscal year. The report contains the information and identification of each CE based on each territory including the revenue, profit or loss, income tax paid and accrued, capital, accumulated earnings, employees and tangible assets not being cash or cash equivalents and nature/activity of main business.

The contents are summarised in the tabulated form under the BEPS Action Plan 13, which is also adopted by the FBR in the SRO 1191(1)/2017 in the form of two tables, which is given below:
Table 1: Overview of allocation of income, taxes and business activities by tax jurisdiction

<table>
<thead>
<tr>
<th>Name of the MINE Group, Fiscal Year Concerned, Currency</th>
<th>Revenues</th>
<th>Profit (Loss) before Income Tax</th>
<th>Income Tax Paid (on cash basis)</th>
<th>Income Tax Accrued – Current year</th>
<th>Stated Capital</th>
<th>Accumulated Earnings</th>
<th>Number of Employees</th>
<th>Tangible Assets other than Cash and Cash Equivalents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Jurisdiction</td>
<td>Unrelated Party</td>
<td>Related Party</td>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
<td>(7)</td>
<td>(8)</td>
<td>(9)</td>
</tr>
</tbody>
</table>

Table 2: List of all the Constituent Entities of the MNE group included in each aggregation per tax jurisdiction

<table>
<thead>
<tr>
<th>Name of the MINE Group, Fiscal Year Concerned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Jurisdiction</td>
</tr>
<tr>
<td>Constituent Entities Resident in the Tax Jurisdiction</td>
</tr>
<tr>
<td>1.</td>
</tr>
</tbody>
</table>

Applicability of Multinational Corporations (MNCs) operates in Pakistan and due dates

1) **Only intimation is required**, on or before the due date of filing of annual income tax return, if:

a) The MNCs operating as a CE of MNE as resident in Pakistan, but not being a UPE or SPE, then it has to intimate the FBR regarding the information of UPE or SPE of the MNE group and the country of its residence; and

b) CE of MNE as resident in Pakistan, acting as UPE or SPE, then it has to intimate the FBR regarding the information CE in Pakistan is UPE or SPE, on or before the due date of filing of annual income tax return.

2) **Filing of CbCR is required in addition to the above intimation** within twelve months from the end of reporting fiscal year (complete report of the MNE group containing all contents):

a) If the UPE or SPE is resident in Pakistan (relate to 1b above).

b) If the MNCs operating as a CE of MNE as resident in Pakistan, but not being a UPE or SPE, subject to the following conditions: (relate to 1a above)

i) If UPE or SPE not required to file CbCR in their residential territory unless the threshold of revenue not met, or

ii) UPE or SPE is resident in that territory which is not the signatories of above convention or with Pakistan for this purpose; or

iii) If required by the FBR from such CE, due to some circumstances called as systematic failure (in this situation, the deadline is 45 days from the notification by FBR).
Mode of filing
As per the SRO 144(1)/2018, the FBR prescribed that the CbCR either the intimation or the filing of complete report, required to be furnished by electronic transmission. However, practically and as mentioned in SRO, for the purposes of filing of intimation of the information relating to UPE or SPE, the ‘cbcr@fbr.gov.pk’ is used to submit the intimation to FBR.

Further, with respect to the filing of CbCR (complete report) the electronic mode was introduced at the website of FBR with the heading Automatic Exchange of Information (AEOI) portal. This portal requires the CbCR in XML schema format to upload on the portal. The relevant guides to use AEOI portal and sample XML also available on that portal.

Appropriate authority in Pakistan
As per the SRO 1191(1)/2017, the director general of Transfer Pricing is the authorised authority to deal the affairs of receiving or exchanging the CbCR and till the non-appointment of director, member (Inland Revenue Policy) shall have the authority.

Conclusion and recent development in Pakistan
OECD’s delegate visited Islamabad during July 16-19, 2018 and conducted various workshops and awareness sessions relating to BEPS. They also met the sitting Finance minister and FBR officials with the aim to launch the induction program to support implementation of BEPS measures.

Beside all of the above, the concept of CbCR has been introduced in November 2017 but the same is still new in the context of Pakistan, as the portal on the web is newly introduced and a lot is required to be done by the governmental authorities. Further, as far as MNCs are concerned, the obligation has already been established on them for the tax year 2017, even though few issues need to be resolved including the hurdles in obtaining AEOI portal registration and uploading of CbCR in specific version.
Wealth Management

In childhood, we came across a famous proverb: “If wealth is lost, nothing is lost, if health is lost, something is lost, if character is lost, everything is lost.”

The above proverb was absolutely correct in the context of days gone by, when character was considered the most valuable asset as compared to wealth. However, in this 21st century, wealth has dominated health and character. People lose their health and character, running after wealth.

Wealth
Wealth is defined as having abundance of money i.e. cash and bank balance, property, investment, various types of

Functions of bookkeeping and accountancy circle around wealth. Existence of accounting and finance is due to wealth i.e. proper accounting of wealth and related components.

To acquire wealth, legally or illegally, is the prime task of people in every sector, be it commercial, social or politics.

There is a famous dictum: “I lost my health to acquire wealth. To restore my health, I lost my wealth.” The result is back to basics.
assets, etc. Wealth can be tangible as well as intangible. Money, property, various assets, etc. are tangible, whereas trademark, goodwill, franchise, etc. are intangible.

Role played by wealth
Wealth play a very important role in human life, in society, in business and commerce and in politics as well. Wealth has also impact on international level in respect of trade and commerce. Wealth is the root cause of dispute. It causes dispute within the family, business and society. Wealth can be used in good or bad ways depending upon one’s wisdom and intention.

Wealth and Bookkeeping & Accountancy
Functions of bookkeeping and accountancy circle around wealth. Existence of accounting and finance is due to wealth i.e. proper and systematic ways of dealing with wealth and related components.

In this 21st century, wealth has dominated health and character. People lose their health and character, running after wealth. To acquire wealth, legally or illegally, is the prime task of people in every sector, be it commercial, social or politics.

Wealth as mentioned in Holy Qur’an
The Holy Qur’an has several verses on the usefulness of wealth, its significance, importance, outcome, etc. Arabic word ‘maal’ (plural ‘amwaal’) has been used for wealth in the Qur’an. Let us see what Qur’an says about wealth and related components.

Quranic concept
Qur’an has been revealed in Arabic language and for non-Arabs, its translation in various languages have been made by scholars. Based on my personal observation, each scholar of different language has used the most appropriate words to translate Arabic words. However, on comparison of different translations in the same language, many translated words are different as used by each scholar according to his understanding. Therefore, certain Quranic verses mentioned in this article, are as per my understanding based on my knowledge of Arabic language.

Accounting/recording of financial transactions
Verse 282 of Surah Al Baqarah (which is longest verse in all 6,236 verses of all 114 Chapters of the Qur’an) commands believers to write down/record when entering into financial transaction for a specified period. It also commands to have witnesses. This verse deals in detail about the procedure of writing down/recording. Therefore, it can be said that this verse is the origin or foundation of bookkeeping and accountancy.

Forbidding acquisition of ill-gotten wealth
Verses 188 of Surah Al Baqarah, 29 of Surah Al Nisaa, etc. forbid believers to acquire wealth by false, illegitimate and illegal means/ways. Verse 188 of Surah Al Baqarah also states not to use/influence the authorities (having powers e.g. judges, decision makers, law makers, etc.) in order to acquire peoples’ wealth/property by false, illegitimate and illegal means/ways. Peoples’ property includes government money/property as well as tax money.

Wealth as test in life
Verses 28 of Surah Al Anfal and 15 of Surah Al Taghaabun warn believers about wealth as a test/trial/temptation (Arabic word ‘fitnah’) in human life, since it has been observed that often wealth becomes root cause of quarrel, trouble, fight, litigation, etc. within the family as well as within the society. Heinous crimes like murder, robbery, theft, etc. are committed even within the family for wealth. Therefore, human being has to use his wisdom to manage the wealth in the best interest of himself, his family and the society.

Wealth as worldly decor
Verse 46 of Surah Al Kahf says that wealth is the worldly decor of life. Against this, the good deeds are better, from which the best reward from the Lord can be expected.

Best use of wealth as charity
Qur’an addresses mankind to spend part of their wealth as charity in Verses 215 and 274 of Surah Al Baqarah, 92 of Surah Aale Imran, 29 of Surah Bani Israel, etc. In Verse 10 of Surah Al Munafiqoon, it is said to spend wealth as charity before one’s death, when there will be no time to spend wealth as charity. In Verses 254 of Surah Al Baqarah and 31 of Surah Ibrahim, it is said to spend the wealth as charity before the Day of Judgement, when there will be no time for mutual bargaining and befriending.

Whenever the command for charity is given to mankind, it is specifically mentioned to spend on charity out of what Allah has bestowed upon mankind i.e. rizq. On the principle of “equal distribution of wealth,” the system of Zakat (compulsory charity) is ordered in the Qur’an.
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Overspending of wealth – Unnecessary expenses
To control unnecessary expenses is a wise policy in life. Verses 141 of Surah Al An’aam, 131 of Surah Al Aa’raf, 26 and 27 of Surah Bani Israeel, etc. forbid overspending i.e. incurring unnecessary expenses. Indeed, this is a wise policy to maintain optimum spending.

Underspending of wealth – Misery
Verse 29 of Surah Bani Israeel commands not to resort to misery in order to spend wealth less than actually required. Indeed, this practice is not good in life.

Wealth in excess of requirement
Verse 219 of Surah Al Baqarah explains how much wealth is to be spent as charity. It explains that whatever is beyond one’s need, is to be spent in the cause of Allah as charity. It means that the needs of an individual and his family members are to be fulfilled first.

Wealth to use as charity strictly for the cause of Allah without showing any obligation, generosity, reproach or causing injury, etc.
Verses 261 to 265 of Surah Al Baqarah describe not to use charity to show off your obligation, generosity, etc. otherwise, it will go in vain and the purpose of charity will not be fulfilled.

Wealth to use to attain righteousness
In verse 92 of Surah Aale Imran, it is said that to attain righteousness, one has to spend freely (benevolently) what he loves. Here, ‘what he loves’ means wealth in addition to his family, health, time, etc. which are obviously loved most by mankind.

Greed of wealth
In Verses 1 and 2 of Surah Al Takathur, it is said that too much greed of wealth has diverted mankind from doing good until he reached the grave. These verses warn mankind not to have greed for wealth.

Hoarding of wealth
Verses 2 and 3 of Surah Al Humaza describes those who amass and hoard wealth without using it and always consider their wealth will be with them forever, and will make them immortal. Though the fact is that immediately after death, their wealth does not remain theirs, and is passed on to someone else.

Orphans’ wealth
Verses 10 of Surah Al Nisaa, 152 of Surah Al An’aam, 34 of Surah Bani Israeel, etc. forbid acquiring an orphan’s wealth by illegal means; and if such an act is committed, it is compared with fire swallowed into bellies.

Wealth may divert from remembrance of Allah
In verse 9 of Surah Al Munafiqoon believers are cautioned that their love towards their wealth and children may divert them from remembrance of Allah, and those who will do this, will be among the losers.

Verse 282 of Surah Al Baqarah is the origin or foundation of bookkeeping and accountancy.

Wealth and source and application of funds
Whenever the command for charity is given to mankind, it is specifically mentioned to spend out of what Allah has bestowed upon mankind i.e. rizq. This act is to be understood in the context of source and application of funds i.e. rizq is considered as source of wealth and when spent as charity, it is considered as application of wealth.

The bottom line: From all the above commands of Almighty Allah, we can very well understand about the management of wealth in the best possible way, as taught to human being by his Creator, Who has bestowed upon him the wealth.

The writer is a retired chartered accountant and a cost and management accountant based in Canada.
Challenges Facing Banks vis-à-vis Outsourced Credit Information
by Sohailuddin Alavi

Abstract
Credit creation is an important function of banks to generate economic activity; catalyse enterprise development and augment consumer spending. Banks, however, are constrained to do so without a robust risk management system, for they are the custodians of public deposits: loss on their assets directly causes loss to public.

Risk assessment (due diligence) of the subjects (borrowers) is of utmost importance in the credit value chain. Ironically, the prevalent capacity of third party risk assessment of the subjects is far below the minimum standard. It would not be wrong to say that at present credit reports produced by third party agencies only suffice to the ritualistic regulatory compliance requirements.

Major constraints include a number of strategic factors. Of all, quasi-professionalism is at the forefront followed by a host of other factors. Lack of verbatim regulations for third party agencies; absence of professional standards; non-availability of business data in public domain; and, last but not the least, vulnerability to corrupt practices are a few major restraints.

Introduction
Credit process occupies central position in the profit function of any commercial bank. Whether a bank extends collateralised loans or on-balance sheet financing, credit decisions are based on credit information provided by the customer. In a prevalent collateralised lending, fair market and net realisable values of borrowers’ tangible assets is of prime importance in determining safe credit exposure. Income estimates and business and financial risks assessment provides objective basis to determine credit exposure in case of on-balance sheet lending in particular and collateralised financing in general both for business and consumer loans.

Conventionally, banks used to perform due diligence of the borrowers’ and their business on their own. At one point it was considered as a...
It would not be wrong to say that there has been literally mushroom growth of third party due diligence agencies in Pakistan. These agencies have dual roles. They conduct due diligence of the borrowers on their own as well as function as agents of international credit reporting agencies, allowing the banks to access credit information of international business counterparts of their customers. The former function entails certain level of professional competence and outreach, while the latter function is more of a link between international credit agencies and the banks.

A number of useful credits due diligence services have evolved over time. However, the question about their reliability and validity for the banks is difficult to answer. In this article, I shall attempt to unfold the gaps that exist in third party due diligence reports. Major due diligence services include:

A. Assets Valuation
B. Income Estimates
C. Business Credit Reports

Analysis
Before I analyse each service, let me identify a few strengths and weaknesses of third party agencies. Theoretically speaking, these agencies mobilise specialised resources (people and information) needed to conduct due diligence. Besides, the agencies have wider access to customers and their markets as compared to banks and finally they are cost efficient. Nevertheless, in typical scenarios, the business model (profit function) of these agencies is based on minimised cost of operations to compete on price and optimise profits. Ironically, being a service business means low paid employees. As the saying goes, “You pay peanuts, you will get monkeys.” Unfortunately, this saying reflects the typical culture of these agencies. Obviously, the professional capacity of their employees is generally of clerical nature. Generally speaking, they lack minimum professional training and education even at the managerial level. Besides, these agencies are vulnerable to dysfunctional facilitation to bank customers for trivial gains as practically no monitoring framework exists within the agencies to keep check on the employees’ integrity and at the regulators’ level to ensure institutional integrity of the agencies. Last but not the least, the agencies deny any responsibility whatsoever in the event of the loan that becomes classified, a president of a commercial bank remarked. It would not be wrong to conclude that until the weaknesses are improved upon, and, professional standards are implemented in the letter and spirit, the output of these agencies shall remain a costly ritual for the banks.

A. Asset Valuation
Asset valuation is a specialised and diverse function. It covers land and building; plant and machinery; stocks in trade; business as an entity; intellectual property rights; information technology systems; and product brand equity; and, last but not the least, project valuation which is a composite of many different valuations described above. In the context of usual requirements of banks, valuation of land and building, stocks in trade and plant and machinery are in vogue.

Valuation is a process of assessing ‘fair market value’ and ‘net realisable value’ of an asset at a particular date in the context of a specific purpose. For instance, value of an asset for the purpose of reporting in the financial statements would be different from its estimated forced sales value or net realisable value. A fair market value is more relevant for acquiring the subject asset and buying its insurance cover. Sometimes, fair market value is also used for re-evaluating assets on the balance sheet or assessing the worth of a going concern. Net realisable value of an asset is more relevant in the credit decision making or from business liquidation perspective. It provides a basis to estimate safe credit exposure and expected minimum cash inflow in a liquidation scenario.

It is pertinent that neither a business entity provides nor a bank accepts collateral (asset) as a primary source of repayment of loan. Instead, collaterals are available to banks as last resorts for salvaging their loans if they become bad. Selling of mortgaged collaterals for salvaging loan entails a costly legal process. Likewise, setting-off outstanding loans against charged collaterals like financial papers and stocks in trade are subject to market risk in a forced sales scenario. Hence, it is important that while estimating net realisable value of an asset, due consideration to the expected legal cost and forced sales risks factors are duly accounted for.

Having said so, it is evident that asset-valuation task requires diverse skills-set of professional standard such as, relevant technical knowledge, trade and market knowledge, and financial skills. Besides, the team should be well-conversant with International Valuation Standards commonly referred to as International Valuation Standards Council (IVSC) and local relevant regulations. These are basic requirements for conducting asset-valuation on international standards. Ironically, the valuation reports generally produced by the quasi-valuation gurus are merely a memorandum of asset description and financial value without any substantiation what to talk about IVSC standards. In many cases, fair market values are bench-marked with quotes available on web-portals and net realisable values are discounted fair market values on thumb rule basis. The valuation reports lack qualitative analysis of the assets and inherent risk factors therein. I have basis to say that at times, financial value is estimated as a result of bargaining between the customers (asset owners) and banks.

Sadly enough, Pakistani valuation agencies cannot afford professionals per-se and let go the need to comply to international best practices in the back drop.
B. Income Estimates

Income estimates are validation of customers’ income on as-is basis as well as estimates of future income streams. These are mostly used for assessing self-employed small and medium entrepreneurs’ financial capacity. Unfortunately, the situation in this kind of service is not much different from asset-valuation. In practice, the income estimates are limited to validation of as-is income only. Above that, validation process lacks conforming to minimum standards. Instead of constructing financials independently by collecting financial data on 360°, the information provided by the customer is generally used for the purpose. It is pertinent here that at many instances, subject companies maintain skeleton financial and business data, which is highly vulnerable to tempering.

Once again, the human resources capacity and organisational systems of third parties fail to meet the minimum training requirements and systems standardisation, respectively. Low-cost business model and apathy on the part of banks are major constraints in this service too. Lack of standardisation also contributes to the vulnerability of malpractices leading to forced income estimates.

C. Business Credit Reports

Typical business credit reports portray credit history of a business entity. FICO model suggest following aspects of the subject, namely, payment history, amount owed, length of credit history, new credit (borrowings), types of credit (loans) used, and litigations and adjudication history. Payment history reflects how disciplined the subject has been in making loan repayments on time. Amount owed is the current total outstanding against the subject. Length of credit history tells us since how long the subject has been borrowing. How much the subject has borrowed recently and through which credit instrument, such as term finance, credit line, personal loan, credit card, etc. are reflected under length of credit history and types of credits. Litigation and adjudication history covers the actual data of legal proceedings that have taken place against the subject.

In the context of Pakistan, this information is easily available from Electronic Credit Information Bureau (eCIB) of State Bank of Pakistan (SBP), however, only to the member banks. Third-party agencies cannot access this information as it is not available in public domains. They resort either to the subject itself or the registry in case of limited companies to access this information, however limited it may be. So practically, third party agencies are not capable of writing a credit report. Nevertheless, since it is business of selling, third party agencies provide Business Credit Reports under the disguise of a Business Information Reports.

A typical business information report in vogue consists of general description of the subject’s business: nature of business, date of incorporation, products, major customers, major suppliers, financial data, asset base, contact person and his or her contact details. Preferably, the information is solicited from the subject directly. However, if the subject refuses to provide the information, which is a usual scenario, then skeleton information is gathered from registry, website, etc. to fill the report. On the prima-facie of the reports, I have basis to say that analytics are not done save few financial ratios on thumb rule basis. Interestingly, with the skeleton information even credit rating of the subject is done on intuitive basis, which does not have value beyond a ritual. Two major factors can be highlighted being responsible for the prevalent scenario, namely, quasi-professionalism and lack of credit data in public domain. I leave it to the reader to decide if such documents should be considered as credit reports?

Problems & Recommendations

Purpose of due diligence’ is to provide reliable and valid information for allowing the banks to make informed credit decisions to decide whether to take exposure or not with a particular subject, and what are the risks and how best the same can be mitigated. In local context, third party credit information agencies seem to have failed to deliver expected value in the context of reporting reliable and valid credit information of the subject. Due diligence is a highly complex process and it entails specialised professional capacity of the agencies engaged in this business. Unstructured nature of business operations and financial data of the subjects poses biggest constraint in producing reliable and valid credit reporting. Non-availability of business information in public domains is yet another reality facing the industry. Finally, price competition in the market has constrained professionally astute agencies (professionals) to enter. Consequently, quasi-professionals are prevailing in the industry.

The industry needs to be regulated in the letter and spirit encouraging astute professional entities like professional accountants to dominate the industry; formulation of regulations requiring subjects (businesses) to publish their non-specific business and financial data in public domain; eCIB should be allowed to offer similar information to the public as well; integrity management systems should be implemented to avert possible malpractices; last but not the least, international standards and best practices should be introduced and implemented strictly at all levels.

The writer is currently working as an executive director at KG Traders.
Will Robots Replace Accountants?

Muhammad Amin, ACA
Karachi

**ROBOTS WILL TRANSFORM AND NOT REPLACE ACCOUNTANTS**
Not really. Robots are machines programmed with the help of Artificial Intelligence (AI) technology. Robots are only capable of handling standard, repetitive and monotonous task with a greater speed and accuracy than humans. In the modern world, the role of accountants has been significantly changed from mere bookkeepers to business experts who will not just focus on the numbers but have a role in policy making, building investor relationship, risk management, business analysis, corporate governance and policy compliance management.

Robots will help accountants to spend more of their time in performing data analysis and consulting while the traditional role of accountants will be performed by robots with the use of AI technology as there will always be a need for human intelligence along with artificial intelligence. To conclude, I must say that robots will complement accountants’ functions and increase their abilities in analysis and making timely decisions with greater accuracy. Thus, robots will transform and not replace accountants.
IT WILL NOT ONLY BE THE ACCOUNTANTS WHO WILL BE REPLACED BY ROBOTS

History of this planet shows that humans are evolving since birth. In recent centuries, we moved from agricultural to industrial economies. This evolution brought different challenges especially the income relationship between capital and labour. This challenge resulted in introduction of two economic systems – capitalism and socialism. Irrespective of which is the right system, we experienced capitalistic philosophy dominate the world during the last 250 years. Ideally, with the invention of machines, productivity should have increased with more efficiency, which should (ideally) have resulted in less working hours and healthy lifestyles. However, today, we are more stressed due to our work-life than our ancestors from agricultural age.

Now, we are moving from industrial to digital age with lots of new technologies like robotics, Artificial Intelligence (AI), Big Data, etc. In industrial age, employees were not capable to compete with machines, likely, we are witnessing that it is near to impossible that human work force can compete with digital era as well. Now, the advent of technology is not harmful but our economic system will make it much harder for all of us to survive in it. It will not only be the accountants who will be replaced by robots, but more than 80% of the professions on earth today.

As a result of ineffective transition from agricultural to industrial age, we currently have 10 human souls hold wealth equivalent to gross assets owned by 3.5 billion other souls on the planet. If we fail to introduce a fair economic system for the human society, the digital era will bring more inequality in the society which is harmful for all, not just for the chartered accountants. We need to address this issue by not stopping the progress in digital science but by introducing a system by which human society at large can benefit.

WELCOME TO THE NEW ERA OF ACCOUNTING

Buzzing drones over the heads, robotic arms frantically sorting out goods on a conveyor belt and the complex world of artificially intelligent modules and programs performing complex calculations in fraction of seconds – welcome to the new era of accounting which has a nimbus of robotics, automation and digital streamlining around it. All of the above are not the elements which form a cinematic frame for a sci-fi movie but this is where we, as accountants and auditors, are headed. The dynamic changes which the accountancy field is witnessing are calling for the day when, eventually, robots will replace accountants. Recently, PricewaterhouseCoopers (PwC), one of the Big 4 audit firms revealed its use of a drone in its audit of an energy company where the drones were used to measure the coal reserves, being the company’s inventory. This and other similar developments are phenomenal and groundbreaking on many levels and we can foresee more of such genius use of technology in matters like stock count, inventory management and invoice processing, to name a few. The use of robots will ensure effective and efficient use of human resources on tasks which are less mundane and more exciting to challenge the human intellect.

AI WILL CREATE MORE JOBS FOR ACCOUNTANTS

In contrast to the often-heard commentaries that robots will actually create more jobs than it is expected to eliminate.

Robots are programmed to do monotonous and repetitive jobs and professionals will be more involved in advisory roles that will allow those financial thinkers to get better positions. We can see that Robotic Process Automation (RPA) has reduced accounting, taxation, advisory, and assurance services processing time drastically, and we would see more data analysts, financial analysts and investment specialist advisors in the market by getting more time for detailing and analysing insights of the business.

In future, accountants will be involved in designing the systems and making the patterns on which the machines will perform their daily tasks but humans will be needed to audit the reliability and accuracy of the machines performing those tasks.
ROBOTS WILL ACTUALLY HELP ACCOUNTANTS PREDICT THE FORESEEABLE FUTURE BETTER THAN EVER BEFORE

In recent years, we have seen many professionals talking about the modern world terminology ‘robots’ taking over numerous jobs very soon and, to no one’s surprise, accounting is one of such professions – thanks to the common misconception that accounting is just a set of mechanical tasks that a robot can easily repeat.

I agree that quite a handful of core accounting tasks can be accomplished by programmed processors e.g. data capture at source, error detection and correction, visual presentation and audits of large scale data, etc. but that’s not really the core purpose of modern day accounting profession in my view. In this era, accountants are expected to use and analyse recorded information meaningfully and contribute towards stakeholders’ interests by making informed business decisions.

And as I see it, robots will actually assist accountants perform their duty more efficiently, by reducing the time spent on recording and processing historic information and making it available in real time, which will also help accountants to predict the foreseeable future better than ever before. What accountants need today is to adapt to this uprising fourth industrial revolution, as it is being termed, and utilise the new ways of intelligent book keeping for the betterment of corporations and entities they lead.

BE READY FOR THIS MAJOR BREAKTHROUGH

Yes, based on fast technology in automation in business sector, in the near future robots will replace accountants and also various other skilled workers, since various unskilled workers have already been replaced by robots.

In Western world, robots have replaced various skilled workers, performing these jobs perfectly, accurately and efficiently. Almost all major supermarkets have ‘self-checkouts’ perfectly operating with accuracy and efficiency – performing the task of recording and accounting sales, discount, cash receipt, credit card charge, General Sales Tax (GST)/Value Added Tax (VAT), inventory movement, etc. and finally issuing receipt to customers.

The latest breakthrough of robots is in Canada where from 2019, tax returns can be filed by phone. No paper work, no e-filing. By using the phone keyboard, required information is transmitted at the other end to robots.

Robots will also provide investment advice based on mass storage of past data and stock performance trends.

Using robots to perform accounting tasks has biggest advantage in cost-cutting. One-time cost of acquisition and programming robots are much less than various recurring accounting staff expenses including fringe benefits.

Accordingly, we should be ready for this major breakthrough in future, when accountants will not perform functions of bookkeeping and accountancy but will be involved in decision and policy making.

PURE ACCOUNTANTS WILL NOT BE REQUIRED IN THE NEAR FUTURE

We do not need robots or Artificial Intelligence (AI) to replace accountants: it has already been done by technological advancement in information systems. So it can be said with high probability that pure accountants will not be required in the near future. However, it will take some intelligence of artificial intelligence to replace finance professionals. Therefore, if one wishes to pursue a career out of accountancy, he/she will better be equipped with high decision making and sharp analytical abilities along with presentation skills rather than just accounting and reporting.

Feeding the company’s performance in financial numbers on a spreadsheet or any other reporting tool may be a gigantic task for someone external to this profession but it only becomes worthy to the organisation and society when it is coupled with analytics, intelligent reasoning for variances and proactively understanding management priorities and suggesting ways to achieve objectives. The latter part of this function robots will find hard to replace, that is for sure.
IN MY FIELD OF FORENSIC ACCOUNTING, ROBOTS HAVE ALREADY STARTED TO TAKE OVER

In my field of forensic accounting, robots have already started to take over. I am afraid, if not all, many might end up losing their jobs to these robots. All we have to do, is to feed them the data in large volumes, set up a few scenarios and the rest is just magic, without even saying the magic words. They identify the red flags, every possible relationship, unusual data patterns, trail of transactions from cradle to grave and, in most cases, responsible individuals too. What is left for us to do, is to carry out admission seeking interviews only. The major impediment for now is the use of incompatible technologies by different organisations. But the way everything is moving towards standardisation, this will soon no longer be a problem.

GLOOM IS ONLY FOR THOSE WHO ARE NOT ADAPTING TO CHANGES

As soon as I read the title of the debate, the glass-half-empty-or-half-full connotation came to my mind. As the world is developing with newer technologies, there are things that will be replaced by these technologies but this does not mean that all is gloom for people. In my opinion, gloom is only for those who are not adapting to these changes. Robots can make life easier for accountants by automating a lot of transactional activities. A good accountant will use this change to further add value to his/her work and be a better informed and agile business partner. Businesses do not need anyone physically to maintain their books as software can do that easily. They want someone who can help them better forecast things, better manage their financial resources, give them strategic input based on solid analysis, etc. Accountants who are agile and up-to-date with the technologies can use these tools to further enhance their role and provide better value to the business.

SHIFT IN THE NATURE OF JOBS BETWEEN HUMANS AND MACHINES

With the rate of new innovation in information technology, it seems possible, if not completely, atleast to some extent that robots will replace accountants. The routine tasks with little decision making requirements are being substituted with automations. The use of expert systems and hi-tech facilities in business environment is growing. However, the same could be considered as an opportunity where the human capabilities are honed in general to take up more innovative and strategic tasks and leave the repetitive and time consuming tasks to robots. So though the risk exists, proper training and development programs could be used to cause a shift in the nature of jobs between humans and machines. The lower level positions will definitely dilute, giving birth to more areas of working at higher levels. So, instead of taking it as a fear it should be welcomed and customised in a way where the automation supports the achievement of goals in a more effective way.

ACCOUNTANTS, POLISH YOUR SKILLS!

Yes, you read it right – that robots will replace accountants. However, instead of getting frightened, it is appropriate to consider this as an opportunity. The advent of artificial intelligence and fast paced developments in IT mechanisms have directly impacted the profession of accountancy. It is inevitable that the role of qualified accountants would be quite different, in the near future, from what it has been till recent times. We all have experienced that post 2000 the technological advancements have made things obsolete much faster than our expectations.

A large number of roles have disappeared, while others are on their way to becoming redundant. It is to be noted that, still, this is a marginal opportunity for us, the accountants, to focus on the ever-changing business and economic environments. We need to learn and develop new skills, embed latest techniques, look up to the current and futuristic financial and operational models, so that we embark upon equipping ourselves with appropriate skill set, which is essentially required to perform our professional assignments. We need to understand this very fact that as professional accountants, we need to polish our skills to become adaptive to innovation in our working environments. Only in this way, we tend to be less vulnerable to dynamic changes at the workplace.
ANY CREATION CANNOT OUTSMART ITS CREATOR

Any creation cannot outsmart its creator. Robots will not replace accountants entirely, however, robots will transform the way accountants operate. With robots lies the opportunity for accountants to focus more on true value creation for an organisation rather than performing monotonous time-consuming activities. There always was, and always will be, a need for human intervention.

It’s easy to automate a repetitive predictable task, however, a task where complex decision making is involved, requires a whole lot processing. Also, the integrity of the system is a big question, even if the machine performs all the tasks of accountants. The ethical code is also an important issue because the user is a human and humans need to trust their advisors/accountants. With worldwide technological changes, comes many opportunities for accountants, but so does the problems/threats which were never there in the first place. And to find solutions and feed them into robots, we will again need human accountants.

To sum it all up, robots will not replace accountants altogether but their roles will be limited to depicting creativity and complex decision making. The lower level repetitive tasks will mostly be replaced as was the case with typewriters, etc. when computers arrived.

THE ONE WHO COULD NOT TRANSFORM HIMSELF WILL BE WIPED OUT

Robotics and Artificial Intelligence (AI) are exceedingly affecting the various industries from manufacturing to air space, from financial services to the banking sector. The impact is not only restricted to process level jobs in the production cycle, but also targeting white-collar jobs such as accountants, lawyers, and auditors. As per the ‘Future of Jobs Report 2018’ issued by World Economic Forum (WEF), the roles that will be redundant by 2022 across the industries, mainly include data entry, bookkeeping and payroll clerks, accountants and auditors, and financial analysts. Considering the development in technology, Big 4 consulting firms have also started to spend a substantial amount on new technologies and innovation like cloud-based technologies and cyber risk management to be ahead in the lucrative digital transformation consulting industry. Many positions are already replaced by the strong ERP systems, such as SAP and Oracle in various companies; they are performing the work more efficiently than humans. On the other hand, the change will bring new opportunities in various fields, such as data analytics and innovation professionals. The role of accountants will no longer require the traditional bookkeeping rather it will require more creativity, active learning, complex problem solving and innovation. The one who could not transform himself will be wiped out.
ACCOUNTANTS IN FUTURE WOULD BE THE BRAINS BEHIND THE BLOCKCHAIN

Ali Raza, ACA
Karachi

With the recent significant developments in Robotic Process Automation (RPA), it is evident that the accountancy profession (as we know it) is set to be extinct in two decades. Blockchain would replace transactional work, algorithms would replace the review, analysis and reporting work and drones would replace the verification and other physical activities of accountants and auditors.

YOU NEED HUMAN INTELLIGENCE TO MAKE ETHICAL JUDGEMENTS

The evolution of Artificial Intelligence (AI) has brought significant advances in technology which might have an impact on almost all the professions, including accountancy. Whether this is something to fear or to cherish, it is a hot topic for debate all around the world. Initially, this was considered a great threat to the profession, with accountants afraid of losing their jobs in the near future. However, after considerable debates and discussion, the views of accountants and business leaders seem to tune into one track, that although new technologies pose certain risks for the professionals, however, at the same time, it brings new opportunities to enable accountants to perform their work more effectively and efficiently. Just imagine the opportunity for accountants, with the advent of blockchain technology, it seems that whole financial operations would go online and in light of the growing cybercrimes, the importance of accountants and assurance providers would substantially increase. Companies are offering profitable business opportunities to those accountants who have gracefully embraced the technological developments. AI is very good for automating decision making when it is rule based, however at the end of the day, you need human intelligence to make ethical judgements and act in the public interest.

AI WILL HELP ACCOUNTANTS IMPROVE THEIR SERVICE

Ali Raza, ACA
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Often touted as the Fourth Industrial Revolution, the onslaught of Artificial Intelligence (AI) and Machine Learning (ML) technology is bound to have a lasting impact on us. As with many industries, AI has made its way into finance, and more specifically, accounting departments. While there is no denying that AI will have an unprecedented impact on the accounting industry, many fear that robots will replace accountants. But before accepting this claim at face value, it is of critical importance to recognise the capabilities of AI, and then extrapolate on how it can affect the accounting industry.

In many ways, AI will help accountants improve their service. The fundamental selling point of the technology is that it can handle many of the mundane and repetitive tasks done by an accountant today. This will, inevitably, reduce the number of staff required to do such tasks. But this also means that accountants will have more time to focus on other aspects of their jobs, such as consulting and analysing data to provide clients with sound business solutions. AI technology will improve data entry accuracy and lower the liability risk for accountants, thus enabling them to improve their services. Therefore, rather than replacing accountants, AI will enable accountants to be much more efficient and productive.

A MACHINE CAN NEVER BOND AND GIVE THAT HUMAN ELEMENT TO A CLIENT

Shiraz Noordin, FCA
USA

The arguments may never end but at this time, when technology seems to have broadened its limits to the unfathomable, who knows what will come up next. It may be a bit early to pick a side, but one thing we know for sure, robots and artificial intelligence will, if not already, have an impact on accountants. In the least, the accountant of tomorrow will be very different from that of today.

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AI MAY ENHANCE THE ROLE OF ACCOUNTANTS

Artificial intelligence (AI) in basic terms is the development of computer systems able to perform tasks normally requiring human intelligence. So, are these computers/systems replacing the jobs of accountants any time soon? The answer is not always that clear. Although AI has started to replace many jobs in manufacturing, retail and service industry but whether this phenomenon will affect the accountants needs to be seen. There are differing views. Experts are of the opinion that accountants' role will not altogether become obsolete but these developments will give a more strategic perspective to the role of accountants. Computers/softwares have started performing routine tasks but there will always be a need of human intelligence/intervention to analyse the data extracted by the system/computer and to provide consultancy. In fact, many experts even say that AI may lead to enhancing the role of accountants. As accountants will have a greater role to play to analyse the data generated by computers/systems, this will allow accountants to devote more time on data analysis rather than on repetitive tasks. In the end, it can be said that AI is a reality, which has to be embraced with open arms.

Muhammad Farrukh Siddiqui, ACA
Karachi

On the contrary, technological advancement i.e. Industry 4.0 will create more jobs for adequately skilled accountants; machine learning, blockchain and big data are the areas where accountants would add more value. The chartered accounting institutes of technically advanced countries like Singapore are already training its members high-level programming languages like Python and other tools for big data analysis in order to equip them for their future roles. So it can be concluded that the accountants in future would be the brains behind the blockchain and other distributed ledger technologies; brains behind the algorithms reviewing, analysing and preparing the information and brains behind the drones conducting physical verifications.

EMBRACE NEW TECHNOLOGY AND STAY AHEAD WITH THE EMERGING WORLD

A burning question in every accountant’s mind is whether accountants will be replaced by robots? Times are changing. The rise of the robot is causing many accountants to toss and turn with worry and distress. Robots or Artificial Intelligence (AI) is taking center stage in workplaces around the globe. Industries having AI have replaced various positions that has left workers scrambling to find new career options. Researchers’ says that around 800 million jobs would be replaced by 2030.

Robots are not going to substitute human accountants; at least not anytime soon, rather they will transform the role of an accountant more strategically. Integration of AI technology with the proficiency of human accountant will lead to competitive improvement. The position of the accountant will not become outmoded but rather be revolutionised. It may be more of an accountant's associate or apparatus than a replacement for the concrete professional accountant. In fact, AI is set to craft supplementary jobs, leaving workers, including accountants with options. There is a need to embrace new technology as a powerful solution and stay ahead with the emerging world.

Muhammad Faizan, ACA
Karachi
Cyber Risk Management

by Farheen Shehzad

According to a report of World Economic Forum (WEF), Future of Jobs Survey 2018, the most demanded jobs by the year 2022 would be related to Information Technology, innovation and automation. We have entered into an era of Fourth Industrial Revolution where machines and technology are going to be more and more involved in daily lives. We are talking about robots, artificial intelligence, cryptocurrency and blockchain, etc. Not only businesses but individuals have also become dependent on IT. The concept of global village/economy would have not come into existence in the absence of IT. It has become an essential contributor to our daily lives.

In Pakistan, banks are considered to be the most vulnerable to cyberattacks.
With so much of dependency and importance of information systems it is also essential to assess the potential risks and threats to businesses and economies associated with the use of these systems. The concept of firewalls, passwords, virus scans, backups, etc. has now become a little outdated, though still needed. Information Risk Management is no more a topic to be discussed by IT professionals only but needs attention at executives and board level to take appropriate measures against any kind of disruption to business and potential loss of data as a result of failure of Information Systems. It should become part of risk management process of an entity.

Cyber Risk
If we take the concept of information risk management a step forward, there comes a need to understand cyber risk.

“Any risk emerging from the use of Information and Communication Technology (ICT) that compromises the confidentiality, availability, or integrity of data or services. The impairment of Operational Technology (OT) eventually leads to business disruption, critical infrastructure breakdown, and physical damage to humans and property.”

Cyberattacks are on the rise globally. Cyber risk may result due to natural disaster e.g. earthquakes, floods or fire which may destroy a company’s IT hardware, software, servers and network or it can be man-made (malafide intention of hackers, terrorists, criminals, human failure). In any case there is a risk of potential loss of confidential data and data integrity is compromised. Business reputation and credibility could also be affected.

The potential effects of these risks can be assessed according to the nature of business and its dependency on information systems. For example, banks, financial institutions, online businesses, hospitals, etc. are more vulnerable to cyberattacks as compared to others. The reason is they are dealing with an individual’s confidential data, account numbers, email addresses, credit card information, personal health history, etc.

Companies should take a proactive approach to identify their susceptibility to cyber risks and take appropriate measures to mitigate the potential consequences in the event of any threat or loss of data. This will enable the company to be operational quickly and also minimise the costs incurred in recovery of data.

Cyber Security in Pakistan
In Pakistan, banks are considered to be the most vulnerable to cyberattacks. The recent attacks on Pakistani renowned banks put question marks on the banks’ ability to counter such data crimes, as it shows that there are security lapses which enables hackers to succeed in their attacks.

US-based IT research company, Gartner Inc., says that there are now 6.4 billion connected devices globally and by 2020 this figure will balloon to 20.8 billion. Similarly, Russian cyber security company, Kaspersky Lab, states that the next world war will be a cyberwar.

A Russian cyber security company states that the next world war will be a cyberwar. Therefore, there is a need at both institutional and government level to look into the matter before it’s too late.

There is a need to continuously monitor and upgrade the IT systems and network as well as educate the users and employees about security measures to be adopted during online transactions.
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Any organisation that stores and maintains customer information or collects online payment information or uses the cloud, should consider adding cyber insurance to its budget.

Therefore, it has become necessary to make a thorough assessment of what other countries are doing to deal with this complex issue of the century. There is a need at both institutional and government level to look into the matter before it’s too late. A comprehensive Cyber Security Policy should be promulgated by the regulator and implemented at banks to deal with online financial frauds. There is a need to continuously monitor and upgrade the IT systems and network as well as educate the users and employees about security measures to be adopted during online transactions.

An entity with a robust cyber risk management plan can minimise the potential damage from a breach and get itself back on track more quickly in the wake of a disruptive event. The first step is cyber risk assessment followed by protection, detection, response and recovery.

**Cyber Insurance**

A cyber insurance policy, also referred to as Cyber Risk Insurance or Cyber Liability Insurance Coverage (CLIC), is designed to help an organisation mitigate risk exposure by offsetting costs involved with recovery after a cyber-related security breach or similar event. According to PricewaterhouseCoopers (PwC), about one-third of US companies currently purchase some type of cyber insurance.

Any organisation that stores and maintains customer information or collects online payment information or uses the cloud, should consider adding cyber insurance to its budget. Cyber insurance typically covers expenses related to first parties as well as claims by third parties. Although, there is no standard for underwriting these policies, the following are common reimbursable expenses:

- Forensic investigation
- Business losses
- Privacy and notification
- Lawsuits and extortion

There is a good opportunity for insurance companies to explore and penetrate into this area as there is huge potential in the market. The relatively small size of cyber insurance market shows that it has not been taken serious by corporations and individuals till now. Insurance companies can also act as an advisor by pushing corporations to adopt best security practices in order to avoid data breaches.

Finally, a cyber future strategy needs to be developed by the corporations, regulators and government at large. Cyber education should also be given due importance as there is lack of technical or professional support in this area. There is a need to develop a digitally literate and responsible society in order to compete and sustain in a technology driven future.

The writer is a chartered accountant currently working as chief executive officer Business Risk Consultants (Private) Limited.
A New Perspective
The oft heard quotation 'Time is Money' has mostly not been given its true importance and considered as a mere essay topic for students at school. However, the experiences of life teach us the true meaning and unravel the underlying powerful philosophy which we undermine.

A colleague once suggested a Hollywood movie 'In Time,' which was based on the above mentioned concept. The currency in the movie was -- time. You were paid in 'minutes and hours' and you bought the necessities of life with 'time.' So basically, you had to work to live. If your time ran out, you would vanish. You had to continuously work to survive. This temporal dimension was a whole new perspective for me and changed the way I perceived life and its happenings.

Absorbing the Concept
Imagine a person working for 20 days a month and earning PKR 90k monthly. His daily earning turns out to be PKR 4.5k. If he buys a watch worth PKR 9k, he is actually trading two days of his life for the watch. If he buys a car worth PKR 450k, that means an exchange of 100 days of his life. A semester's tuition of PKR 700k is 156 days of work and so on. It's a fascinating outlook towards life and its blessings.

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Let's look into another instance, a family. A person works in the office tirelessly to support his family. The basic necessities he provides - health and education - and the little surprises he gives to his children when he comes home from a business trip, all are an exchange of his time spent in the office, buried in work.

Friends, the social companions of life. What does friendship require from a person? To listen, to nurture, to guide, to laugh, to bail out, to stay. Using the temporal element,
we would be able to see that all this dilutes to only one thing - friendship needs time.

**Inference**

Having made the point clear using these illustrations, let’s look at the implications of this philosophy and how it impacts our lives.

The first implication is ‘money.’ Every item you purchase in life is an exchange of a part of your allotted time in the world. Some exchange less for more, some exchange more for less. What we should keep in mind is whether our time is worth the experiences or material things we are spending our money on. We have to be wise in choosing one thing over the other. Also, the goal in our lives should be to be able to buy more, for less time. So that way, you have to spend less time in office and more time to get new items and experiences in life.

The second implication is ‘appreciation.’ The next time when someone sends you a gift, takes you out for a treat or remembers you in their best wishes, you should appreciate the fact they are actually giving you a part of their lives. Hours or days or weeks in this new perspective, is a way they are showing their love and care for you. Because at the end, the best gift you can give anyone is a portion of your life, which is time.

The third implication is ‘trade off.’ Imagine working till you retire at the age of 60. You have spent around 30-35 years of your life time in earning a fortune. Your bank account shows a good seven or may be eight-digit number. You have a good car and a house. At this age, would you be able to enjoy this hard earned fortune? Your age and energy would certainly become an obstacle at this point in life. You would have traded off your time to earn money so that you may enjoy your life. But instead, you are now out of time to enjoy it. This concept proposes us to enjoy every current moment of our lives. To enjoy life on-the-go, rather than to wait and experience it later on. Live in the present.

The famous American essayist and poet Ralph Waldo Emerson has rightly said, “Money often costs too much.” Money costs time. Time is the real currency in this world. How you treat time would result in how your life would be. Waste it, and you’ll waste your life. Appreciate it, and you’ll experience life like never before. Because at the end, time is the essence of everything.

The writer is a chartered accountant working in the business planning team of Telenor Pakistan.
Some of us enjoy the challenge of attempting quizzes that test our knowledge. It is a good way of learning too. The other day I found a quiz that assessed one’s ability to infer the right course of action in a situation. Thankfully, it turned out to be one of those rare ones where I scored perfectly. That gave me immense satisfaction.

I reflected back on time when I picked up the habit of attempting the quiz from my grandparents. They used to open up and first attempt the vocabulary quiz ‘Word Power’ of Reader’s Digest before reading anything else.

I found attempting quizzes appearing in the magazines and newspapers (there was no internet then) to be very interesting; it gave me an idea about where I would stand in front of authors of those quizzes.

My grandparents used to open up and first attempt the vocabulary quiz ‘Word Power’ of Reader’s Digest before reading anything else.

When you are young and there is so much to learn, it is but natural not to score well in these quizzes. However, I was told that’s nothing to be disappointed about. If you do not know the meaning of a difficult word, the solution will tell you. If you do not know a fact, the solution will tell you. If nothing else, you get to learn new interesting words and facts this way. Remember them, they may come handy on some occasion. The questions in a quiz are specific and the solutions verifiable from other sources.

During the process of my growing up, I learned that learning and wisdom is because of questions we ask or others ask us. I came to know that many wise teachers used to have dialogues with their students in the form of question answer. I also found that my general score in most quizzes also improved. However, I learned one more thing. That is, the authors of quizzes can also make mistakes. And to mark those mistakes, you should spare some time to access multiple resources to verify the answer to your question.

Authors of most quizzes may be meticulous and diligent in coming up with the right kind of quiz and its solution but the possibility of inaccuracy creeping into the quiz always remains. Its biggest disadvantage is that the user of a quiz is likely to remain uncorrected unless one diligently undertakes to verify a quiz and its solution.

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With the internet, it is test-paradise. A small search will bring so many links that will keep a person like me entertained with quizzes for hours. But remember, not all that you read is correct. You must make it a point to get into more details about those in which you were not correct. This may sound like more work. But technology has enabled data to be verifiable in no time. For example, in case of a word reinforcing your understanding by finding its meaning on the net, the same goes for most facts.

Attempting quizzes add colour to my learning. I have learned immensely by doing so many quizzes in my lifetime. I still find the activity to be worthwhile for a directed learning even with all its flaws.

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meet & events

Seminar on 2nd Supplementary Budget & Key Income Tax Withholding Provisions

The Institute of Chartered Accountants of Pakistan (ICAP) plays a pivotal role in strengthening the regulatory framework in Pakistan through working in cooperation with important policy making institutions and regulators. In quest for excellence, the Institute feels that the knowledge base of its members and stakeholders should be kept up to date as to keep them aligned with emerging laws, trends and practices. The Continuing Professional Development (CPD) Committee Lahore of Northern Regional Committee (NRC) ICAP organised a seminar on Second Supplementary Budget announced on January 23, 2019 and Key Income Tax Withholding Provisions on January 28, 2019 at ICAP House, Lahore. The session was live through video conference and members from other stations including Faisalabad, Multan and Gujranwala attended the session through VC at their respective ICAP offices.

The session started with a welcome note by Rafaqat Hussain, chairman CPD Committee Lahore. The keynote speaker on Significant Amendments Proposed vide Second Supplementary Budget was Muhammad Awais, Council member and partner EY Ford Rhodes. The second keynote speaker on Key Income Tax Withholding Provisions was Faisal Iqbal Khawaja, partner Parker Randall - A.I.S.

The session was followed by a panel discussion. The panelists were Mazgood Ahmad, partner A. F. Ferguson & Co., Muhammad Awais and Faisal Iqbal Khawaja. The moderator was Rafaqat Hussain, member Fiscal Laws Committee ICAP and partner Rafaqat Hussain & Co.

The chief guest of the seminar was Jafar Husain, president ICAP.
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