The Pakistan
accountant
Magazine of The Institute of Chartered Accountants of Pakistan

COVID-19
Impact on the Global Economy

What the future holds post COVID?

Shifting Role of the Audit Committee

Emergence of Professional Ghosting

Will Robots Replace Accountants?

Debate: In future, will Digital Wallets be the only way to pay?

Erosion in Value of Pakistani Rupee

The Institute of Chartered Accountants of Pakistan

CA PAKISTAN

Governance, Transparency and Service to Members and Students

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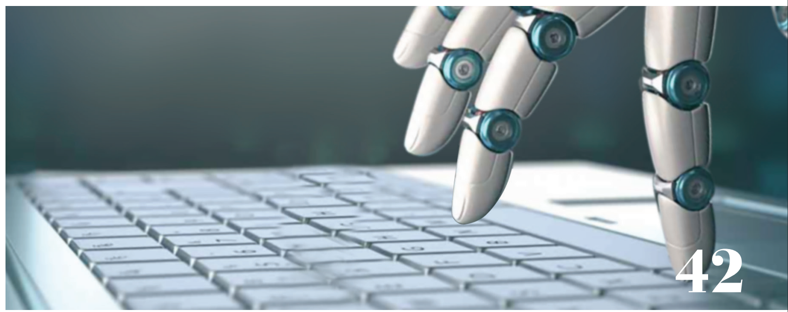
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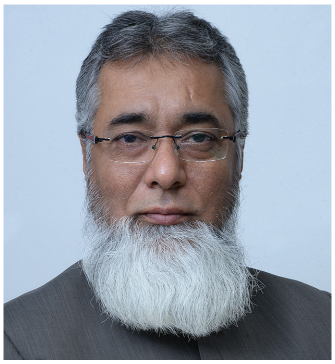


Editor's Letter

Dear Readers!

With COVID-19 taking over the social and economic structure of the world by storm, the year 2020 has had an unprecedented start. The growing number of cases globally, are not only distressing the health system, but also significantly derailing development and hurling the vulnerable deeper into poverty.

In a world that is veering towards individualism, COVID-19 serves as a reminder that global cooperation, especially in areas of public health and poverty alleviation, is the only way forward for a sustainable future.

In this issue of The Pakistan Accountant, we discuss the Impact of COVID-19 on the Global Economy, with the objective to analyze what the future holds and prospect opportunities for economic development post the pandemic.

While the lockdown measures imposed by various governments is slowing the spread of the virus, these measures have drastically halted business activity in several sectors, augmented disparity amongst the rich and the poor, upset the education system and undermined confidence in the future. The articles in this issue evaluate the peculiarities of the current crisis and the subsequent dilemma it poses – preventing the loss of human lives or inhibiting the collapse of the economy.

Despite working from home and adjusting to the uncertainties all around, I believe that the publications team and our contributors have ensured that we are able to cover the impact of the coronavirus on various sectors of economies around the world and examine its effect on policymaking, industry, business and financial markets with unwavering clarity and consummate knowledge.

I wish you and your loved ones the very best of health and happiness.

M. Sharif Tabani, FCA

President's Page

Dear Readers,
The coronavirus (COVID-19) has touched every aspect of our lives and unfolded an unprecedented healthcare cum economic crisis across the globe. Economies all over the world, including the most robust and steadfast economies of the world namely; Italy, China, Germany, Japan, and the United States have experienced socio- politico -economic meltdown after the COVID-19 outbreak! Also the economy of Pakistan is gravely affected and placed the nation in an economic crisis that requires emergency strategies to pull back the nosedived economy so as to protect the country from economic collapse. Undoubtedly, it is necessary to understand how this novel virus has impacted the financial stability of the global economy. The economies of many countries have been shattered by the pandemic, and, by extension, the economic challenges have impacted work-life balance. Particularly, social distancing restrictions curbed leisure, travel, and social life across the world. Its effects on the global economy may last for many years and, perhaps, will also strategically reshape the future outlook.

Sensing the pulse with an upbeat mindset, the current issue of Pakistan Accountant engages its readers in insightful articles on the prevalent situation of the unprecedented healthcare crisis and its impact on the global economy. The issue also covers astute views of various economists on reshaping the buying power of individuals and challenged economic sustainability of various nations. It also brings in spotlight the future economic hubs which may be reckoned as an untapped economic potentials to deal with the prevalent worst healthcare crisis and suggests good measures for the economic revival. Furthermore, this issue highlights post-pandemic multinational strategic developments, urgent and bold policy measures, not only to contain the pandemic and save lives, but also to protect the most vulnerable in our societies from economic ruin and to sustain economic growth and financial stability.

The entire world is facing a novel health crisis which has grown into different variants unlike any in the 100-year history, one that is killing people, spreading human suffering, and upending people's lives. But this is much more than a health crisis. It is a human, economic and social crisis! The coronavirus disease (COVID-19), which has been characterized as a pandemic by the World Health Organization (WHO), is attacking societies at their core. The COVID-19 pandemic will cause a dramatic drop in FDI flows across the globe. MNEs, local business and investment have been severely affected with far reaching social and economic repercussions. The coronavirus crisis is first and foremost a public health threat, but it is also, and increasingly, an economic threat.

COVID-19 brings unparalleled times for the entire world, this uncertainty will either bring in further cessation of economic activity or bring in bigger and better opportunities. In this issue, the essentials of strategic planning, management, and implementation to guide the political economy towards the path of newer economic opportunities and broader outlooks are discussed in a language of economic and financial discourse.

As a responsible Professional Accounting Organization (PAO), ICAP is taking all possible measures to keep you updated and well-informed about the threats and opportunities of this pandemic on the global economy with a special emphasis on the future outlook, global strategies and its impact on policy making when economic recovery is around the corner.

We wish our readers/ members the best of their health and hope that they will find this issue a pragmatic, perspicacious, and an insightful read!

Iftikhar Taj, FCA
President ICAP.

COVID-19: Impact on the Global Economy

Usman Shahid, ACA

INTRODUCTION

Historically, we have seen that humans have encountered many health challenges including geographical outbreaks, but we had never witnessed the impact of a global outbreak (COVID-19) which not only took precious human lives but impacted the global economy and changed our lifestyle. COVID-19, with its first case reported in December 2019, has spread globally in no time, and subsequently the World Health Organization declared it as a pandemic in March 2020.

We are living in an era of globalization where world economies are dependent on each other through trade and mutual cooperation. Soon after the global outbreak of COVID-19, we have witnessed the common global efforts of the world economies to stop the spread through various forms of lockdown. The fear of losing precious human lives to an untreated virus has impacted the global economy as follows:

- Due to travel restrictions across the globe we have witnessed significant losses in the aviation, energy, retail and tourism industry in the short term.
- Lockdowns have significantly impacted daily wage workers.
- The confinement of economy, coupled with loss of jobs has resulted in an overall reduction in the consumer demand level which will ultimately impact the businesses supply side.

> **COVID-19, with its first case reported in December 2019, has spread globally in no time, and subsequently the World Health Organization declared it as a pandemic in March 2020**

CHALLENGES FOR THE GLOBAL ECONOMY POST COVID-19

The novel coronavirus has not only impacted the business at large but also impacted the daily wage earners. According to the latest World Economic Outlook forecast Global growth is projected at negative 4.9 percent in 2020. Let us see how the COVID-19 has affected or will affect the global economy in the near future for different sectors and what are the new challenges for those economies to survive during these times;

Economy Sector	Impact of COVID-19	New Challenges for Survival
Aviation Industry	With travel restriction across the globe, the aviation industry will take a major hit on its revenues on account of low flight operations and large fixed costs.	Till the discovery of a vaccine for treatment of COVID-19 and decrease in number of affected cases to safe thresholds, it would be difficult to predict if countries allow flight operations to resume normally especially when the fear of COVID-19 shook the confidence level of consumers to travel safely as they used to. Aviation industry has to revive the confidence of their customers by implementing state of the art hygiene measures in place with strict social distancing and other safety sops in the short term coupled with reduction in their travel fares.
Tourism Industry	Following the travel restrictions, we have seen worst impact of COVID-19 on the hospitality, tourism and related services businesses. Many companies may fall in to bankruptcy if their operations are not resumed.	In order to gain confidence of tourists and attract customers, this industry now requires additional counter measures in place to attract the customers by implementing proper approved health and hygiene measures in their routine business operations along with reduction in their fares.
Manufacturing Industries	Manufacturing industries especially export oriented industries are largely impacted due to supply chain disruptions post COVID-19 as exporters have witnessed cancellation of orders due to an overall weak demand in the destination markets.	With an overall sense of fear prevailing around COVID-19 and decrease in spending power of the consumer, the manufacturing industries now have to find ways to take an advantage of automation in their business processes and overall reduction in the fixed costs in order to compete globally in their product pricing.
Energy Sector	Lockdown of countries along with halt in the aviation and tourism industry results in the decrease in demand of oil across the globe amid fears of global recession and abundant supplies. Where the decrease in oil prices on account of low demand has benefited many economies, at the same time this has posed challenges to oil producing countries whose fiscal budgets are largely dependent on the oil prices and revenues.	Oil exporter countries whose major fiscal budget is dependent on oil prices and revenues will now look in to different revenue generating avenues to fill the deficit in their budget. For example, additional tax burdens may be passed on to the consumers.
Educational Institutes	The fear of spread of COVID-19 has resulted in closure of the educational institutes especially since this involved gathering of masses in confined places.	Educational institutes will now have to start investing in providing education through online/web-based platforms as an alternate to physical class room tuition model.
Small Medium Enterprises (SME)	SMEs took a massive hit on their revenues on account of lockdown as mostly they are dependent on their daily selling of products through their shops and business centres.	The delivery of products (with all hygiene measures in place) through an online retail website system will now be the solution going forward to attract customers and gain confidence levels. These companies will need to invest in IT and infrastructure supply chain as part of their business continuity plan.

NEW AVENUES FOR THE GLOBAL ECONOMY POST COVID-19

Whenever there are new challenges there are always new avenues for amelioration. We have seen a sudden shift of the businesses towards automation and use of IT related applications in order to normally resume their business operations during a lockdown. We have witnessed the start of a work-from-home regime especially since lockdown was imposed to contain staff at home and work remotely. This model has been a success for many industries especially where automation and web-based applications were in place. This may benefit the companies to reduce their fixed costs spent on utilities and infrastructure and start the concept of work-from-home regime for their workforce.

Please see below some of the new avenues for the global economy post COVID-19.

- **E-Commerce** – the goods and service providers now have to take an advantage of online web-based selling of their products through E-Commerce.

- **Storage and Transportation** – increase in an online web-based retail platform will eventually open avenues for storage facilities and transportation industry in order to safely store and move products from one place to another.

- **IT and Telecommunication Industry** – we have seen growth in the use of IT based software and applications coupled with the use of cellular data network. COVID-19 has opened gates for the industries to automate their business processes and use IT/web-based software and applications to conduct their businesses in every function. For example, we have witnessed the increase in use of online banking business transactions; use of different IT software for virtual meetings.

CHALLENGES FOR PAKISTAN'S ECONOMY POST COVID-19

Pakistan's economy has been dealing with major challenges like current account deficits, fall in foreign exchange reserves, fiscal budget deficits and rise in core inflation. Where the COVID-19 has impacted the global economy, Pakistan has also witnessed slowdown in its economy and faces the following challenges;

1) Despite the competitive exchange rate, we foresee no significant export volume gains due to depressed international commodity prices. One can expect that global businesses will further reduce their prices to remain globally competitive which will ultimately impact Pakistan's economy through less exports and increased current account deficits.

2) We expect an overall reduction in growth of GDP of Pakistan due to implemented lockdowns around the globe which has not only supressed the business trade activities but also suspended main avenues of social interactions like retail shopping centres, restaurants, educational institutes, transport services, tourism and hospitality businesses etc. This will eventually lead to not only a weakened domestic economy and consumer demand but also significant reduction in the country's tax revenues collection due to economic slowdown.
3) Pakistan is one of the countries with lowest GDP per capita and Human Development Index raking in the globe. The biggest challenge for Pakistan post COVID-19 is not only to revive the domestic economy and create employment opportunities but also to increase the Human Development Index by investing in the health and education sector.

4) With layoffs expected to spike in response to lockdown and the decrease in consumer demand and their spending level, it is now imperative for all businesses in Pakistan to find ways to cut their prices of the product through business automation and technological advancements. It is important to create a healthy competition in the market as this will encourage firms to minimize their costs and bring operational efficiencies for businesses to maintain or increase their market share. Pakistan's government needs to ensure this through their business-friendly policies in order to attract new operating firms and cartel identification and regulation measures in place.

Pakistan Key Economic Indicators Post COVID-19	Facts / Projections
Real GDP Growth	The real GDP Growth (percentage change) for FY 2020 is -0.4 and for FY 2021 is 1.0 Source: IMF, World Economic Outlook (June 2020 update).
FBR Tax Collection	The tax collection was growing at the rate of 17 percent during July-Feb, FY 2020. However, after the outbreak of COVID-19, tax collection has witnessed a significant decline year on year basis in March (-13.2%), April (-13.5%) and in May (-32.2%). Source: June 2020 monthly Economic Update by Ministry of Finance.
Large Scale Manufacturing (LSM) Index	Amid the COVID-19 outbreak, Large Scale Manufacturing (LSM) nosedived a record low to negative 32.8% in April FY 2020 on MOM basis. YOY LSM decreased by 41.9% in April 2020 and during July-April FY 2020 LSM stood at negative 8.9% Growth of Textile, Food Beverages, Tobacco and Automobile were recorded at negative 8.7%, 4.1%, and 41.9% respectively. Source: June 2020 monthly Economic Update by Ministry of Finance.

It is inevitable for Pakistan now to self-sustain and prosper through technological advancements in its agricultural, industrial and services sector so that we do not only fulfil our domestic needs but also work towards export-led growth of the industries.

CONCLUSION

The world is going through unprecedented times. Economies previously taking an advantage of globalization now have to find ways to conduct business differently, keeping in view the health and safety of their customers and workforce.

With a growing unemployment ratio and decreasing spending power of consumers on account of COVID-19, the shift of businesses to take advantage of automation and IT based applications has now became mandatory in order to not only reduce their operating costs but also to overall reduce the prices of their products and remain globally competitive and within the reach of consumers spending-level.

Furthermore, it is now imperative for all businesses to plan the impact of COVID-19 like scenario on their businesses in their Business Continuity Planning.

Usman Shahid is a Chartered Accountant working as Financial Controller in Sapphire Wind Power Company Limited.

COVID-19

Impact on the Global Economy

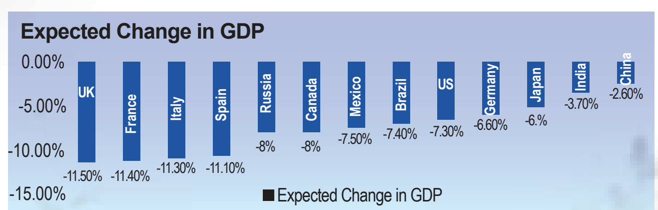
Muhammad Faizan, ACA

COVID-19 is indubitably one of a kind, systemic tremor to the global economy. Economies around the globe are on the brink of recession. While governments are taking proactive steps such as lockdowns to slow down the spread of this pandemic, these remedial measures are casting dramatic shifts on the global economy.

The world has witnessed pandemics and subsequent health crisis in the past too which include the Hong Kong Flu in 1968, SARS in 2003, H1N1 in 2009, MERS in 2012, Ebola in 2014, and Zika in 2016. However,it is believed that the impact of COVID-19 would have far worse implications on the global economy as compared to any other pandemic of the past. The world has seenmany crisis in the past, including the Global Financial Crisis in 2007-2009, but the adverse effects were slowly and gradually overcome. As opposed to this, COVID-19 has multi-fold implications on health, education and of course the global economy.

As per the Policy, Research and Statistics Department, UNIDO, an economic analysis was undertaken which projects that world trade volumes are expected to drop between -32% and -9% and the share of people living in extreme poverty will range from 0.8% to 1.5%. North America and Asia are expected to have the highest negative impact on their trade volumes, whereas, unemployment rates may rise dramatically in America, Europe and Central Asia.

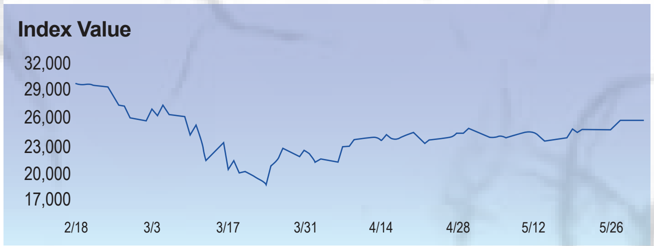
As per Statista (Global Business Data Platform), the Gross Domestic Product in the following selected countries would have some huge implications. The projected change in GDP in 2020 compared to 2019 in a single-hit COVID-19 scenario would be as follows, assuming that the year 2020 witnesses no further outbreak of any other pandemic disease.



Owing to COVID-19, businesses are posed with numerous challenges.In these extraordinary times, consumer demand for various products has been drastically concentrated. Owing to the lockdown, the purchasing power and consumption of the consumer hasalso decreased dramatically. Many organizations have put ahold on the launch of new products and withheld investment in new projects due to the high economic uncertainty. Moreover, suppliers are also unable to meetthe existing customer demands due to unavailability of raw material either due to quality issues or high cost, shortage of staff/ limited working hours and adoption of social distancing measures resulting in impaired productivity, risk of obsolescence of procured stock in respect of those goods which are not in demand, cash flow issues, repayment of debt obligations, breaches of terms of contracts etc.

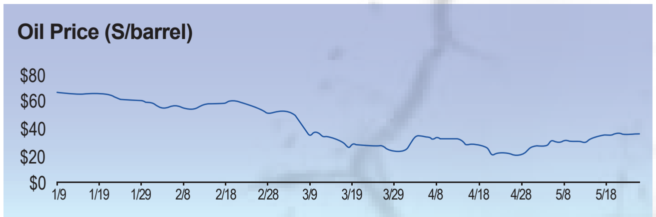
COVID-19 has multi-fold implications on health, education and of course the global economy

Dow Jones Industrial Average (stock market index that measures the stock performance of 30 large companies listed on stock exchanges in the United States), Financial Times Stock Exchange 100 Index (share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization) and Nikkei 225 Index (stock market index for the Tokyo Stock Exchange) have faced massive declines since the outburst of COVID-19 in December 2019 by -18.5%, -24.5% and -14.7% respectively. (Source Bloomberg: April 27, 2020). If we just analyze the average index of Dow Jones, between February 14, 2020 to March 12, 2020, DJIA fell by more than 8,000 points. Following is the overview of Dow Jones Industrial Average Index from February 14, 2020 to June 01, 2020:



Source: Financial Times created by CRS

Moreover, as per US Bureau of Labor Statistics (April 30, 2020), more than thirty million people have applied for availing un-employment (welfare) aid, marking the highest ever record. Brent crude ($ per barrel) dipped below $20 to the deepest level in the past eighteen years, whereas, in US, the price of a barrel of West Texas Intermediate (WTI) spun adverse to -$37.63, lowest ever in the history. (Source Bloomberg: April 27, 2020). An analysis of Brent Crude Oil Price per barrel in dollars for a period from January 9, 2020 to May 29, 2020 is as follows:



Source: Market Insiders created by CRS

The travel industry has also been affected by the pandemic, as many people have cancelled their leisure and business trips due to the travel restrictions imposed by the governments of different countries. As per the Flightradar24 (dated April 27, 2020), the number of flights have reduced to around 50,000 from 200,000 flights a day.

As per S&P Global Market Intelligence, the metal prices have also been affected by this pandemic. As per the market analysis undertaken by comparing the prices of different metals as of March 31, 2020 with February 01, 2020, prices of certain metals have drasticallyreduced, which includes platinum by 26%, silver & copper by 22%, nickel by 20%, zinc by 19% and Iron ore and Lead by 10%. As opposed to the these, the price of gold increased by 5%.

Following social distancing measures, employees have been asked to work from home in the current situation, wherever possible. In these days, the popularity and demand of Zoom has increased incalculably since its unique features offer conference calls and meetings for longer duration with greater number of participants. As per Bloomberg (April 27, 2020), the share price of Zoom has increased by 131.1%.

Moreover, in these days of lockdown, people are divulging more in online shopping and entertainment activities. As a result of these, the share price of Amazon and Netflix has also increased by 26.9% and 28.9% respectively.

The said pandemic has also affected the education system worldwide, resulting in closure of schools, colleges and universities and cancellation of examinations. As of June 07, 2020, approximately 1.725 billion learners were affected by this virus. On 23 March 2020, Cambridge International Examinations (CIE) released a statement announcing the cancellation of Cambridge IGCSE, Cambridge O Level, Cambridge International AS & A Level, Cambridge AICE Diploma, and Cambridge Pre-U examinations for the May/June 2020 series across all countries. International Baccalaureate exams also stand cancelled. (Source Wikipedia). Many students who have travelled abroad for higher education are now undertaking online classes from their home countries. The said disruption in the education system also has social and economic implicationswhich are also areas of concern for the policy makers.

Similarly, there are also various other sectors such as sports, media, hotels, automobiles, transport that have been severely impacted by the pandemic.

The banking industry is no different than theother industries, it is also suffering from this pandemic. Financial institutions are also undertaking measures toThe World Health Organization (WHO) has urged to adopt contact less payment systems since the virus can survive on bank notes for a considerably longer period. Thus, currency notes are first kept in quarantine for a few days. Given the scenario, the current circumstances across the globe have increased the demand for digital solutions to execute financial transactions without the need to visit the branch in person. As per Statista estimate, total transactions through digital payments will stretch to US$ 4,769,370 million in the Year 2020 i.e. YOY increase of over 15%.

In addition to the above, the banking sector is facing enormous challenges across the globe to sustain their performance with the constant pressure to maintain profitability. Further, increased reliance on digital payment solutions requires heavy investment on technology infrastructure to provide secure payment solutions, considering the threats of cyber-crime. Moreover, due to the lockdown and disruption of various business activities across the globe, the repayment capacity of the borrower

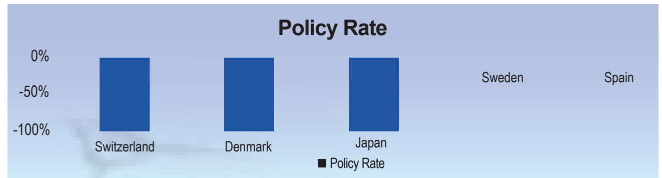
North America and Asia are expected to have the highest negative impact on their trade volumes, whereas, unemployment rates may rise dramatically in America, Europe and Central Asia

with respect to loans have been highly affected, as a result cash inflow from loan re-payments have also decreased. The credit risk default is also a concern for many financial institutions these days. The trade volume of banks is also suffering due the pandemic. Furthermore, the high volatility in stock markets has impaired the investment portfolio of many organizations, creating further pressure on profits. In addition, the devaluation of foreign exchange would also have drastic impacts on foreign assets and liabilities of the banks. Since profit levels would be under great influence due to impulsiveness, Capital Adequacy Ratio will also be under great pressure.

During the period from March 03, 2020 to March 13, 2020, the US dollar has appreciated by more than 3%, reflecting its increased demand in the international market. After March 23, 2020, the US dollar has lostits value against somecurrencies, but has remained 10% higher than it was at the commencement of the Year 2020. The universal role of the US$ also surges compression on Federal Reserves to accept role as a global moneylender of the last resort. Federal Reserves has the prime responsibility to ensure smooth running of US$ across global economies to avoid ramifications on international trade and financial transactions. An overview of US Dollar Trade Weighted Broad Index, Goods and Services from January 02, 2020 to May 22, 2020 is as follows:

Source: St.LouisFederal Reserve Bank.Created byCRS

In response to the pandemic situation, G7 finance ministers and central banks mentioned on March 03, 2020 that they would make every possible effort to sustain economic growth. Following the said statement, the US Federal reserve reduced its policy rate by 50 basis points, due to the financial crisis posed by the pandemic. Following the same, other central banks have also taken measures similar to those taken by G7 countries to strengthen their economy in response to COVID-19 such as shrinking their policy rates, providing relief of time in repayment of loans, reducing the regulatory reserve requirements and introduction of various schemes for financing to different business sectors. As of March 31, 2020, following are the five countries with the lowest interest rates aimed to prevent economies from collapsing:



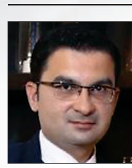
The countries in European Union (EU) presently have 0% interest rate followed by United Kingdom at 0.1% and US by 0.25%. Pakistan has also reduced its policy rate from 13.25% to 8% in the last of three to four months to promote economic progress.

As per the President of European Central Bank Christine Lagarde, **"Given the nature of the crisis, all hands should be on deck, all available tools should be used. We are providing support, as attractively as we can, so that from the household to the large big corporate account, all economic players can access financing through their banks."**

Assuming that this situation remains, policy makers need to re-visittheir strategies and policies considering the long term impacts of the pandemic. In this respect, the role of governments is decisively significant. Governments needs to extend theirunrelenting support till the pandemic continues. Governments including regulators and central banks across the globe need to synchronize the policy rate at a global level in order to sustain financial stability and economic prosperity. There is also a need to assure that financial needs of the customers are being bridged through digital solutions considering the possible threats of cyber-crime. This means organization's with support of government shall invest heavily in IT infrastructure. Governments at global level needs to introduce tax incentives for the consumer in order to increase their purchasing and spending power. Moreover, there is a need to introduce the concept of public (public sector embodied by the Government) and private partnership to work in co-relation and apportion the risks for infrastructure expenditure and economic prosperity.

Although COVID-19 has significantly added to the struggles and challenges faced by the world, but if we just concentrate on the alphabet **C** of COVID, it gives a very strong message to the world. The alphabet **C** gives us inspiration which includes Courage (is the need of the hour), Compliance (to the expert advice), Contention (to overcome the crisis), Co-operation (with the fellow beings) and Care(for the needy).

Stay Safe. Stay Alive.



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COVID-19: Impact on the Global Economy

Muhammad Farrukh Siddiqui, ACA

In the 21st era, no one in their wildest dreams could have imagined a medical crisis, which could bring down the global economy to its knees. Almost 20 million people have been affected by this novel Coronavirus till date, resulting in deaths of almost 0.75 million people.

So how has a medical/health crisis affected the global economy to such great extent? The reasons include the contagiousness of the virus, which has encouraged the world to exercise social distancing leading to closure of financial markets, economic centers etc. Another reason is that since the virus is novel, no one can predict/forecast

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> The International Monetary Fund's Managing Director has warned the world that the COVID-19 could lead the economies of the world into deep recession, which would be the worst since the 1930's great depression.

when the effects of the virus will flatten leading to more conservative/safer approach in routine tasks, from all the financial players.

The International Monetary Fund's (IMF's) Managing Director has warned the world that the COVID-19 could lead the economies of the world into deep recession, which would be the worst since the 1930's great depression. As per IMF January 2020 (before the pandemic) world economic outlook, global growth was projected to rise to 3.3%, in its revised world economic outlook IMF has forecasted that the world economy is likely to contract by 3% which is much steeper than the 2008 financial crisis.

Organization for Economic Co-operation and Development (OECD) has also given its forecast on global economy based on two scenarios:

1) Second wave hits before year-end
2) Second wave is avoided.

Under the first scenario, global economic activity will fall by 7.7% and the unemployment rate worldwide will double to 10.2%. Whereas under the second scenario, global activity will fall by 6% and unemployment rate will fall to 9.4%.

Stock markets throughout the world have plummeted; US Dow Jones fell by 3000 points in a single day in March. Fall in the stock market throughout the world include:

Country	Fall in Index Value
	From Dec 19 to May 20
Brazil	28%
China	3%
France	24%
Germany	17%
Japan	14%

Due to the lack of demand, oil prices also slipped to the lowest in more than 10 years below $19 per barrel (Brent Crude) in March 2020, which has recovered to $37 in June 2020. The benchmark for US oil fell as low as -$37.63 a barrel for the first time in history.

The worst hit economic industry is likely to be the tourism industry, amid travel and social restrictions throughout the world, flights being cancelled tourism is likely to suffer the most. Tourism accounts for 10% of the global GDP, as per the initial research and analysis it is likely that the tourism industry will lose around 300 to 450 billion USD globally due to COVID-19. The said fall will also result in loss of jobs to about 50 million people.

Automotive industry's contribution to the global economy also cannot be overlooked; direct employment in this sector globally was estimated at 14 million workers. Restrictions on movement and factory closures has resulted in a sharp fall in the demand for automotive vehicles. As we must be aware that there were zero car sales in Pakistan in the month of April 2020.

Textile and its integrated clothing industry has also suffered, as most of the worldwide orders were either being cancelled or delayed. Factories in most of the countries were closed down leading to unemployment of millions of workers. As per International Labor Organization, 2.17 million workers have been affected in Bangladesh, 0.4 to 0.8 workers are likely to be affected by COVID-19 in Vietnam etc.

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Agriculture sector has a key importance in Asia and Africa where it makes up for quite a big employment share. COVID-19 has not significantly affected the food supply, however the farmers are facing difficulties in accessing the markets (supplying the raw materials) and may find it difficult to find demand for their food, due to closure of restaurants and ban on social gatherings.

Some of the steps that should be taken or that most of the countries have already taken to lessen the impact of the pandemic on the economies include:

a) Fiscal measures

Many first world countries have given sufficient stimulus packages to reduce the impact of COVID-19 on the leaning economies. This option is far less realistic for second or

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third world countries, as they are already struggling for a good GDP growth rate, and have budget constraints in helping out people from the government's pocket. Stimulus packages given by some of the developed countries include:

USA
- US$483 billion has been funded in the Paycheck Protection Program and Health Care Enhancement Act.
- An estimated US$2.3 trillion (around 11% of GDP) has been released for The Coronavirus Aid, Relief, and Economy Security Act.
- US$8.3 billion has been granted for Coronavirus Preparedness and Response Supplemental Appropriations Act and US$192 billion for Families First Coronavirus Response Act.

China
- The government announced an estimated RMB 4.2 trillion (or 4.1% of GDP) of discretionary fiscal measures such as providing relaxation in taxes and creating new jobs.

Brazil
- To mitigate the impact of COVID-19, the government declared a series of fiscal measures adding up to nearly 10% of GDP.

India
- India's Finance Minister Sitharaman on March 26 announced an incentive package valued at approximately 0.8% of GDP.

Pakistan
- The federal government has announced a relief package worth PKR 1.2 trillion on March 24, 2020.

*All the above figures are taken from the IMF website.

b) Policy Measures
Keeping in view the impact of COVID-19, central banks all around the world have taken policy decisions, in the general public's interest, such as cutting down the interest rates drastically.

Countries	Policy rate reduction (Basis Points)
USA	150 bps
Brazil	125 bps
UK	65 bps
UAE	125 bps

c) Managing demand and supply
Governments throughout the world need to control the demand and supply of essential commodities and services, to ensure adequate supply of food and essential items, and reduce the chances of price hikes in response to increasing demand. Governments all around the world are taking steps to ensure smooth production of medicines and essential goods.

d) Foreign currency reserves
It is more important for developing countries like Pakistan to have adequate reserves of foreign currency to finance the import of medicines and essential commodities, smooth loan repayment etc.

> Third world countries, as they are already struggling for a good GDP growth rate, and have budget constraints in helping out people from the government's pocket.

e) Role of International agencies
It is very important for developing countries to have their international debts restructured/differed so that they can focus on addressing challenges of COVID-19 at present. Recently, almost 90 countries approached the IMF for short-term assistance, out of which IMF has granted debt relief to a number of poor countries in the form of relaxation in repayment schedule.

In the end, it could be said that there is no doubt whatsoever that all the countries be it developing countries or even the super powers have been struck hard by the COVID-19 pandemic. Experts predict even harder times such as recession, unemployment, imbalances of demand and supply of essential items etc. However, with the right measures taken governments can help mitigate the financial risks associated with the disease. There should be an adequate focus on the health sector (being on the forefront) but other sectors should also not be overlooked. As predicted by health experts, the virus is here to stay for a year or more, so the economies have to stay afloat and try to recover from the recession they are facing currently.

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COVID-19

Impact on the Global Economy

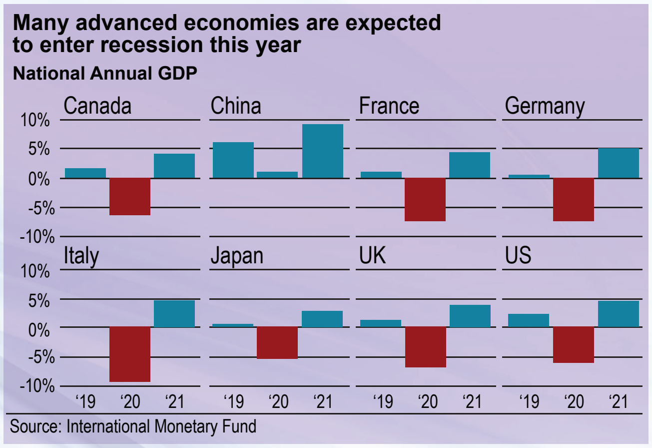
Muhammad Bilal, ACA

During March 2020, the World Health Organization (WHO) declared the Coronavirus (COVID-19) outbreak as a pandemic in recognition of its rapid spread across the globe. Governments all over the world took steps to contain the spread of the virus and implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

According to a dashboard released by the Center for Systems Science and Engineering (CSSE) at Johns Hopkins University (JHU, USA), over 4.8 million cases have been confirmed and more than 300,000 people have perished. Due to the safety measures adopted by governments, as mentioned above, lives and livelihoods of most of the global population is at risk, thereby triggering an economic crisis with dire societal consequences.

On the macroeconomic front, performance has already started to deteriorate and is expected not to stabilize till the end of the financial year. A recession is imminent and International Monetary Fund (IMF) has already revised growth forecast and GDPs of advanced and developing countries, while Asian Development Bank (ADB) has estimated that the pandemic could cost the global economy between $5.8 trillion to $8.8 trillion.

"Governments all over the world took steps to contain the spread of the virus and implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews."



In this article, we will examine the impacts of COVID-19 on a global scale and discuss what measures governments are adopting to minimize the economic shock.

Impact on Oil Prices and GCC Economic Outlook

Due to reduced or suspended economic activities, the demand for oil has decreased significantly without a corresponding decrease in supply by OPEC members, so prices have been volatile. Right now, WTI crude oil price has fallen by more than 60%. Since the budgets of certain GCC countries, especially Saudi Arabia, are majorly supported by oil revenue, they will see budget deficits due to low demand and oil price. The other GCC economies relying on non-oil revenue (such as tourism, hospitality, etc) are also foreseeing a significant decline in revenue. Due to the overall decrease in oil and non-oil revenue of these countries, IMF has revised its growth forecast for Middle East and Central Asia region from 1.2% to -2.8%.

> "Asian Development Bank has estimated that the pandemic could cost the global economy between $5.8 trillion to $8.8 trillion."

To alleviate the fiscal pressure due to reduced revenue, these countries may need to go for external financings, explore additional non-oil revenue streams (such as Saudi Arabia increased VAT from 5% to 15% effective from June 2020), reduce government spending (such as KSA announced suspension of cost of living allowances) or draw down assets from sovereign wealth funds.

To support the economy in these unprecedented times, GCC countries have introduced certain measures for small and medium sized enterprises (SMEs) in the form of government support programs. For example, among other support programs, KSA introduced a package of SR 50 billion for banks and finance companies to allow them to defer the instalments of SME customers for a period of 6 months. Similarly, Central bank of UAE announced AED 50 billion of interest free loans to banks to allow them to give temporary relief to private businesses and individuals struggling to make principal and/or interest payments on their loans.

Impact on Asian Economies and Economic Outlook

In this section, the impacts and economic outlook of China, Pakistan and India will be assessed.

Although China is several weeks ahead of many other countries on the "curve" of the virus progression, but it has already witnessed 36% decline in GDP in the first quarter of 2020. As per the data compiled by IMF, it is observed that manufacturing and services activities have declined dramatically while services appear to be much harder hit than manufacturing.

In Pakistan, the main challenge for the government was to steer a judicious path between the need to insulate the population, and to revive the economic engine. The country was already in a mild recession pre-COVID, and the extended lockdown has surely made the situation worse. The lockdown imposed by Federal and Provincial governments jammed the economic wheel and resulted in the fast-track contraction of the economy. Although the pace of economic contraction is less than -1.5% which IMF initially predicted, it resulted in a slip in the economic size from $280 million to $265 million.

Amidst reduced economic activities, government announced certain relief packages which majorly include special incentive package for the construction industry, power tariff freezing for three months (estimated at Rs. 381 billion) to ease the burden on consumers, approval of fiscal stimulus package of Rs. 1.2 trillion and establishment of Emergency Relief Fund with an amount of Rs. 100 billion. ADB approved to provide $300 million and IMF also approved a $1.4 billion under Rapid Financing Instrument to boost the country's response to the pandemic.

India, the second most-populous country, is almost facing the same issues faced by Pakistan. The curfews, debt-stricken state-owned enterprises, poverty and unemployment are making it difficult to extend the lockdown. COVID-19 costed India its 2021 economic growth as World Bank downgraded its growth outlook for fiscal year 2021. Goldman Sachs reported that India's economy will shrink by 45% on annualized basis and its real GDP will fall by 5%, marking its most severe recession since 1979. The government of India announced a relief package of $22 billion among certain other measures.

Impact on Europe and Economic Outlook

The major economies in Europe also failed to absorb the shock as the GDPs of Germany, UK, France and Spain contracted by an estimated 2.2%, 2.2%, 5.8% and 5.2% respectively. The strongest EU economy, Germany, witnessed its worst economic indicators in Q1 2020 and the decline reported reflects the biggest quarterly drop since global financial crash of 2009 and second-largest since

German unification. Accordingly, GDP forecasts were revised and IMF predicts that except India, China and Indonesia, no other G20 country is expected to grow in 2020.

For the UK, the latest estimate for GDP in Q1 showed worst quarterly decline in output in Q1 2020 since the 2008 financial crisis, despite the lockdown being in place for only 7 working days in the period. Consumer expenditure fell by 1.7% in Q1 2020 compared to the previous quarter, while capital expenditure, including business investment, fell by 2.3%. Till the end of march, close to 1 million people applied for unemployment benefits and lost their jobs due to COVID-19.

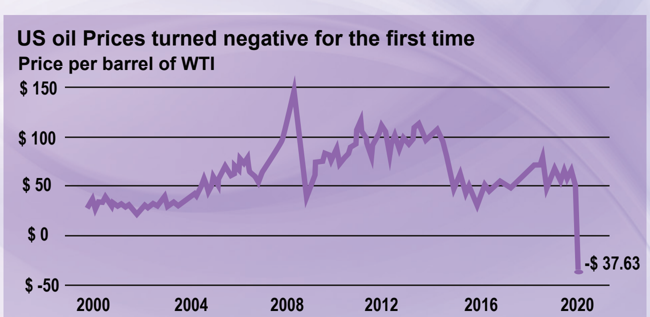
The UK introduced COVID-19 Corporate Financing Facility (CCF) and Coronavirus Business Interruption Loan Scheme (CLBILS) administered by Bank of England and British Business Bank respectively to meet liquidity needs of business enterprises, along with certain other measures. While the measures taken by EU member countries vary, the common support measures include deferral of social security contributions and taxes, temporary suspension of utility payments, provision of low-interest loans to save companies from bankruptcy, deferral of tax return filings and tax credits for sanitization efforts.

Impact on United States and Economic Outlook

The Unites States (US) was hit hard by the pandemic as the country witnessed lockdowns freezing the economy. The situation in US is further aggravated due to its ongoing verbal feud with WHO, trade war with China and allegations to China for acting irresponsibly to contain the pandemic.

Even without COVID-19, the economists were predicting recession for US economy as the economy had touched its heights. COVID-19 is just an excuse for US central bank to shift the onus.

US economy recorded 30 million applications for unemployment benefits till April 2020. The price of a barrel of West Texas Intermediate (WTI) turned negative for the first time in history.



Source: Bloomberg, 27 April 2020, 07:00 GMT

Consumption makes up 70% of America's GDP, but consumption has slumped as businesses close and households hold off on major purchases as they worry about their finances and their jobs. Investment makes up 20% of GDP, but businesses are putting off investment as they wait for clarity on the full cost of COVID-19. Arts, entertainment, recreation, and restaurants constitute 4.2% of GDP. With restaurants and movie theaters closed, this figure will now be closer to zero until the quarantines are lifted. Manufacturing makes up 11% of U.S. GDP, but much of this will be disrupted too, because global supply chains have been obstructed by factory closures and because companies are shutting down factories in anticipation of a reduced demand.

Like other countries, USA also introduced economic stimulus packages in addition to some general measures. The government announced $8.3 billion in vaccine development, $105 billion for unemployment benefits, and $2.3 trillion for business assistance.

Impact on Canada and Economic Outlook

Canada lost 2 million jobs in April due to shut down of non-essential services to contain the spread of coronavirus. The Toronto-based C D Howe Institute's Business Cycle Council announced that the first quarter of 2020 was historic in the sense that the country recorded its highest ever drop in GDP, at a 2.6% fall.

The Canadian government so far, has announced a package of more than $107 billion to help stabilize the economy and support Canadians during this difficult time. Total measures from federal funding, equivalent to more than 3.5% of Canada's GDP, include $52 billion in direct support for individuals and businesses and $55 billion in tax deferrals.

Conclusion and the Way Forward

One thing is very clear, COVID-19 forced the world to spend more on public healthcare and less on defense. Even the world's best healthcare systems miserably failed to contain the pandemic and slow it down.

While the economists describe social distancing measures as the "new normal", the post-COVID era will certainly not be the same as the pre-COVID era, as businesses will be forced to transform and reshape their core strategies, governments will have to re-assess their spending priorities, and individuals will have to re-think their social and behavioral traits.

As also presented in the first graph of our article, whatever the shape of recession it will be, the economists are certain that GDPs will rebound more quickly than they did post 2008 financial crisis as the pandemic represents exogenous shock from which recovery is swifter as compared to endogenous recessions.

Refrences:

1. IMF database
2. World Economic Forum (WEF website)
3. World Bank publications
4. Asian Development Bank
5. Other statistical material

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What the future holds post COVID?

Muhammad Mohsin Siddiqui, ACA

AN OUTLOOK

The COVID-19 Pandemic Crisis has greatly disrupted billions of lives around the globe. This is a crisis we have not seen or known before, and just like businesses around the globe are suffering; we are too.

We are still in a situation where we cannot determine the full impact this will have on our country socially, politically, religiously, and economically. However, based on the current situation, the repercussions will be far worse, if the spread of the virus is not controlled.

Even the most powerful economies like the United States and China are struggling to maintain their status quo, and putting forth best efforts to prevent their economies from collapsing. According to the expert economists, the negative impacts on financial, and economic sectors of each country, brought by COVID19, cannot be anticipated in numbers.

The most powerful economies like the United States and China are struggling to maintain their status quo, and putting forth best efforts to prevent their economies from collapsing.

The virus has spread across 185 countries as of yet. According to the Worldometer, Coronavirus cases in Pakistan have reached up to 198,883. If the spread continues, the global economic cost of this disaster is estimated to vary between $5.8 trillion to $8.8 trillion, as stated by the Asian Development Bank (ADB). This goes to as high as almost 10% of the consolidated economic global output. With the highest number of global COVID-19 cases being hit in a single day on May 31st, 2020, the leading 20 Group of countries (G20) see this global catastrophe pushing 420 million people beyond the verge of poverty.

THE ECONOMIC PERSPECTIVE

It is a matter of a simple trade-off; health at the price of economy. The great depression of the 1930s is most likely to repeat itself as IMF has predicted sheer economic slump. A 3% decline in global economic activity is expected by the end of 2020. This has even surpassed the tremendous financial depression that unleashed globally in 2009.

According to the June 2020 edition of "Global Economic Prospects" by the World Bank, the world is currently on its way to the greatest slump of the decade -world GDP tumbling by a massive 5.2%.

Since this pandemic does not look out for any socio-economic or political differentiation, it is undoubtedly affecting all, though, the quantum of impoverishment will depend on the stakes involved. As stated in the publication cited earlier, stronger economies are due to see a 7% overall shrink, whereas developing nations may expect this to be somewhere around 2.5%.

Governments throughout the world are seen to be rushing to announce relief and support conglomerations for preventing their economies from tumbling in an attempt to uphold businesses, economic activity and the struggling population. The US just announced a whopping $3 trillion relief package to support its citizens and economy in these tough times. Developing nations including Pakistan, were already suffering from a mild recession. COVID-19 has only made things worse. All the operations have unexpectedly halted which has led the economy to a standstill. Although the government is offering whatever they can, to help their people in these tormented times, this seems unattainable without foreign intervention in the form of financial assistance. The Government of Pakistan, is already striving to obtain fresh $2 billion loans from various international financial bodies, including ADB and World bank, besides the $1.8 billion dollar loan supplication from G20 nations recently. This means more loans for an already "cash strapped" government.

As countries rushed towards uniform lockdown strategy with the motive of "flattening the curve," businesses have been facing lots of difficulties and challenges. With more and more companies running bankrupt due to lack of economic activity, supply chain systems are distorting, and unemployment rates are drastically increasing – leading to severe financial crisis amongst several households.

SECTOR WATCH

While most of the industries are struggling to cope up with this turmoil, there also exist some niches that are impuissant at the moment including tourism, hospitality and hotels, event management and catering, sports facilities and travel, etc.

Take the travel and aviation industry, for instance, since the inception of countrywide lockdown throughout the world, almost all air travel activities have halted. To save themselves from bankruptcy, these businesses have adapted cost cuts in the form of 10% to even 100% salary cuts or lay-offs. A statement cited to be issued by the IATA (International Air Transport Association) has projected a lockdown that will cost of $63-$113 billion for the overall industry by the close of the calendar year 2020.

In the wake of such challenging times, companies are welcoming whatever help that comes their way, with most resorting to the form of exemptions or relief packages that the governments might offer. The CEO of Airline UK, Tim Alderslade, for instance, has been urging the government to provide industry-wide support reforms, considering the implications of the situation that have landed the economy in the "danger zone" before things get out of control.

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Tourism, which contributes to 10% to the overall GDP, is yet another sector that has taken quite a massive blow. Not just that, it holds a significant share in offering employment opportunities as well. A statistic claims that 1 in every 10 jobs in the world today pertains to the tourism industry. According to the recent numbers released by the World Travel and Tourism Council (WTTC), the world will be deprived of anything around $2.1 trillion worth of GDP as a direct consequence of loss of tourism activities and international travel. That is not all. From here on, a decent guess comes out that almost $50 billion annual loss can be apprehended from the much speculated 20-30% downturn in travel and tourism, besides jeopardizing a whole lot of jobs that are up to 75 million according to a sophisticated projection of WTTC.

Hotels go side by side with tourism and travel; therefore, they are facing no different dilemma from the sectors analyzed above. As the world has witnessed a record number of flight cancellations and delays, tour cancellations, events postponements, the number of hotel booking cancellations is without a doubt no less than that.

Italy and Rome, countries that used to be occupied throughout the year, have canceled all the bookings as soon as the outbreak took place. Subsequent occupancies have been recorded to be as low as almost 5% in most cases. The statistics from a survey conducted within the hotel industry in Malaysia states that around 3% of the employees have been laid off, 20% have been offered to go on unpaid leaves while 16% reluctantly accepted significant pay cuts. These figures tend to establish the severity of loss being sustained by the global economy in the form of decreased economic activity and unemployment as a direct consequence.

THE UPSIDE

While many people are distressing over the COVID-19 prevailing in the country, some are seeing it as a blessing in disguise. The opportunities within the technology sector has humongous increased as the world population are gradually embracing to the “new normal”; a term quite emphasized upon by the World Health Organization (WHO) from time to time. Most people are now working remotely at the comfort of their homes, the educational needs of students are being catered online people are now happily shopping “online”, more than ever before.

Applications like Zoom, Skype and Microsoft Teams are becoming increasingly popular amongst everyone, with Zoom dominating competition from Google and Microsoft. Apart from playing an integral role in online classes and work meetings, Zoom is also helping friends and family connect with each other as the coronavirus pandemic keeps them separated and indoors.

Microsoft Teams have claimed to record a 775% hike just from Italy based users in the current situation.

The E-commerce industry is booming as well, and the Digital Economy Index unveils that the volume of online shopping in the US, so far in the pandemic period (April-May) is 7% higher than where it stood during the holiday season last year (November-December) that is the highest gross selling period of the year.

According to Adobe Analytics, there has been a 10% escalation in the orders placed via smartphone in May-2020 (pandemic period) when compared with the January-2020 (pre-pandemic) figures. Another event worth mentioning is the gain in share price to double for Shopify, an online sale platform to the e-commerce industry, the 2nd most prominent name in the US after Amazon, in June-2020 since January 2020.

Besides, the medical industry and the pharmaceutical sector, the FMCG industry is also facing a fast track growth ever since the COVID-19 outbreak emerged. We have seen a rapid increase in demand for products like hand sanitizers, soap, face masks, and protective equipment besides other food and life-saving drugs.

THE WAY FORWARD

Since there is no timeline for this pandemic to end until a vaccine is developed or a cure to this virus is found, we will have to adjust to the new normal as most researchers do not see any vaccine coming in the near future. Instead of just regretting the massive socio-economic cost of this tragedy, what is really desired is to take the right steps in the right direction at the right time in order to keep things going smoothly.

Governments need to offer incentives in terms of tax benefits and reduced levies to support infant and struggling industries, that are finding innovative ways of doing their business while adapting all standard operating procedures to prevent the spread, support economic activity, and generate employment opportunities.

Businesses need to come up with more innovative and sustainable ideas to keep going. Laying people off is never a growth-oriented strategy. For most businesses, technology, along with artificial intelligence (AI), can fuel up the growth prospects to meet their medium- and long-term business objectives. An excellent example is Etihad Airways, who are working on new arenas with the help of AI to come up with innovative screening mechanism for passengers with possible COVID-19 infection. Etihad Airways believes this would help revive their business as they offer customers a comfort of mind while following international health protocols.

To meet the economic challenges for survival during these tormented times, we must co-operatively and responsibly look out for our self as well as others We must stay strong, and put in our best efforts to eradicate the virus together with a hope to getting back to our old, happy lives.

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Response to Crises

Muhammad Safder, FCA

The world has been witnessed turbulent times since the end of the **Spanish flue in 1920**. This has shaken the core of all economic models, as none was built with the possibility that the whole world would be at a standstill at a single point in time. This has pushed many successful businesses at the brink of bankruptcy and ***the race for growth has turned into a sprint for survival***. The Governments of the world are working day and night to provide stimulus packages to businesses to breathe, but survival is impossible without the hope of starting again. Many businesses will be unable come to life again despite the stimulus packages, as most of the incentives are to reschedule the loans, cut in taxes and payment of salaries of staff but ***the real challenge would be to fund the operations once the pandemic is over***. There are a lot of strategies that could help businesses to sail through this crisis because it is not the time to rest but to plan commercial response to preserve top line revenues and reinforce the ability to supply.

The ideas given below are to help businesses stand up on their feet again.

> The Governments of the world are working day and night to provide stimulus packages to businesses to breathe, but survival is impossible without the hope of starting again.

The 90% tax reduction offered for investment in Naya Pakistan Houseing Scheme and reduced rate of loans for housing make real estate very lucrative.

INVESTMENT

The post pandemic world will be greatly different from the world we knew till the end of 2019. A number of new opportunities will show a mushroom growth, while many existing opportunities will decline, therefore, now is the right time to rethink your strategies.

A number of businesses to place your bet on, are as follows:

Struggling businesses

- Mass transportation businesses
- Luxury item
- Dine in restaurant
- Aviation industry
- Tourism
- Travel agency
- Banquet halls, cinema halls and play areas
- Oil marketing companies
- Hyper markets
- Physical banking services
- Alternate energy businesses for short term
- Hospitality industry
- Canned/ packed food

New opportunities

- Technology based businesses
- Health care products
- Pharmaceutical and PPE manufacturing
- Health engineering
- E-commerce platform
- Online education
- Outsourcing business
- Co-working spaces
- Private low-cost transportation
- Cycle, motorcycle, small cars
- Food delivery
- Large scale kitchen for food supply
- Digital marketing agency
- Low cost housing units
- Artificial jewelry
- Online financial services
- Franchise business
- Robotic business
- Cyber security services
- Online streaming services
- Animation production houses
- Agriculture processing and storage
- Disinfectant and personal hygiene products
- Dairy and organic food
- Postal services

The current **real estate package** announced by the Government is a kind of amnesty scheme to put the undocumented money into business without any further costs. It is also immune to taxation and investigation by the department. The 90% tax reduction offered for investment in **Naya Pakistan Houseing Scheme** and reduced rate of loans for housing make real estate very lucrative.

FINANCE COST

If your businesses are financed by a lender, it is the right time to re-negotiate and save as much cost as you can, in addition to delaying the fixed payment commitments. The State Bank of Pakistan has already issued a number of circulars to reduce the financing costs for e.g.

1. Restructuring of existing loans to defer the principal amount for one year and it will also not affect the credit history.
2. Finance cost has been reduced to green filed project to 7%.
3. Interest cost has been reduced by 6.75% i.e. from 13.75% to 7.00%.
4. Low cost financing for payment of salaries and wages @ 3% for active tax payer and 5% for non-active tax payers. The process has been simplified and bank have instructed to process the applications on urgent basis. This can cover up to three (03) months of salary budget.
5. Loans which are rescheduled within 180 days would not be categorized as defaults.
6. There is chance of further reduction in KIBOR, therefore, fixed rate financing arrangements should be converted to variable especially for short term loans.

However, if you do not believe in interest-based financing system and want to ward off your business from **"RIBBA"** you could opt for a private equity partner to share the business and you would also get a working hand for collective wisdom. You will be free from fixed commitment of interest payment and could pay the dividend to your partner on the basis of results. Although it is difficult in Pakistan, as most of the businesses are family-owned enterprises and a closed knitted family feels uncomfortable in sharing the ownership and business insights with others, however, sharing a business is better than losing it all.

OUTSOURCING THE NON-CORE BUSINESS

There are a number of success stories for outsourcing the non-core business activities to save / optimize cost of doing business.

Banks and multinationals have been doing it since years for e.g. security, call centers, deliveries, accounting, tax advisory, internal audit, feasibility studies, market surveys, agreement vetting etc. You should re-assess the business operations and list the operations that could be outsourced without compromising the business operations, confidentiality and quality of services / goods. It needs a careful assessment, delegation of responsibilities and an effective communication channel with the service provider.

TEN EASY STRATEGIES TO REDUCE OPERATIONAL COST

Once the businesses come to operations again, there would be shift in strategy, from physical to online businesses. New strategies will have to be evolved to run along the new dynamics of the business and remain competitive.

1. The digitalization would reduce the need for a large size office for a lot of businesses, therefore, shifting your office from existing to a newer low-cost office building would result in great savings. Storage could be out sourced to specialized companies providing storage space on utilization basis.

2. It is the right time to identify the performers and the problem child in your organization for future retention during and after these testing times.

   You must sit with your achievers to make them understand your respect for their work, commitment and efforts and assure them of the reward for sailing the organization out of this crisis.

3. A lot of office maintenance and operation costs could be reduced by allowing employees to work from home. The evolution of technology allows you to monitor the activities of your staff while they are working from the comfort of their homes. You could save a lot of costs (electricity, entertainment, stationery) and can shift to reduced size of premises.

4. Management of large number of own branches will not be beneficial for businesses for the long-term success in the age of a digital economy. A shifting from standalone retail outlets in different locations to distribution network with a centralized control could reduce the hefty utilities and fixed rental costs.

5. The travelling cost could be reduced to minimum by shifting the business meetings / travelling policy to virtual meetings. There are a number of platforms **(zoom, skype, google meet, Microsoft team etc.)** that provide an excellent, reliable and consistent service for a virtual meeting / conference for an extra saving to the business.

6. The decision of shifting to high cost accounting solutions **(oracle, SAP, dynamic)** could be delayed and same result could be achieved by low cost local solutions. The local solutions are also good in providing customized integration and MIS, flexible pricing, reduced implementation time.

7. The advertisement cost on billboards and electronic media can be shifted to online digital and social media platforms. They are cheap, focused and could result in better sales than traditional mediums as the digital density is increasing on hourly basis. The businesses would not survive, without any presence on social media, therefore, your next marketing / branding strategy should be based on social media presence.

> The evolution of technology allows to monitor the activities of your staff while they are working from the comfort of their homes. You could save a lot of costs (electricity, entertainment, stationery) and can shift to reduced size of premises.

8. Most of the Pakistani entrepreneurs feel uncomfortable working on their own for tasks as simple as getting the newspaper or making a cup of tea at work, so they end up adding unnecessary cost to the business. If you could work on self-service basis, this new culture would soon be adopted in all the management layers. This snow ball effect will further save cost.

9. Expansion is not always a good idea, sometimes remaining in your domain saves a lot of problems and allows the business to grow. This offers opportunities in both ways for the businesses to offload the branches, entities which can be easily managed through outsourcing to reduce the cost and add a few good numbers to your bottom-line profits.

10. A lot of businesses would not be in a position to survive and it is the right time to buy than build the business from scratch. Look for who has closed the door in your supply chain. The offers would be at unbelievably low-price tags but the decision needs extended deliberations and precisely accurate vision. ***If you understand the time value of money, it is the right time to implement and reap the benefits.***

GLOBALIZATION

Globalization may get a hit in the short run but it may not be affected in the longer period. Globalization, for most countries in not by choice, it is their need. Some of the countries have a natural advantage, while some have a technological advantage over others. For example, countries in the gulf region have oil, west has a technological advantage, therefore, it would be hard to sway from globalization. However, political mindsets will play a great role in determining how long one can avoid globalization. The exporters / Importers who are under stress would not be in a bad position for a longer period of time.

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How to Avoid Burnout During the COVID Crisis?

Humayun Habib, FCA

When will we get back to normal and when will we fully understand the consequences of this crisis? Do we understand the unpredictable consequences of this crisis?

Covid-19 has triggered a unique health crisis that has significant consequences. The world is going to change socially and economically. Normally, we see sharp increase in economic activity even after a war or a natural disaster. However, the Covid crisis has brought significant behavioral changes in the society, such as the change in willingness to travel and working from home (WFH).

Supply Chains (SC) for essential items are more resilient than originally perceived. We did not see major SC disruptions across the globe.

The world is going to change socially and economically. Normally, we see sharp increase in economic activity even after a war or a natural disaster.

Governments all over the world took steps to contain the spread of the virus and implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

However, the Covid crisis has brought significant behavioral changes in the society, such as the change in willingness to travel and working from home (WFH).

Trade is going to change. From initial response to Lock Downs and Restricted Movement Orders, we experienced that governments and corporations were able to respond and manage the first reaction of consumer panic buying within the first two weeks. This was a sharp learning curve to de-risk Supply Chains and make it more local. This has also started interesting consideration to re-shore businesses back to the base economy not only for supply chain benefits but also to jump start the local economy. This means that being agile and adaptable is the key.

To keep economies afloat, there are huge government borrowings across the world and interest rates are going to be low and people will worry about deflation. Demand for social insurance is going to increase. People who have no saving will be leaning towards safety net protection and employment protection in labor market. That will require taxes to rise.

Inequality in economies will be revealing - most extreme inequalities will be between rich and poor countries. Inequalities in the safety net for different working categories will be more pronounced for example blue collar workers, gig workers, part time workers etc. Self-employed, low skilled and those who are part of the informal economy will be more exposed for lack of steady flow of income, insurance and other healthcare social benefits.

The Global Trading World lacks a global response to this health and economic crisis. There is inadequate international response towards poor countries. World leaders are weighing in their options, depending on each country's individual economic situation, either to open up the normal business activity and face health emergency consequences or maintain the lock down which hits hard on low skilled workers and puts non-essential job market people out of work.

Economies will be more digital with an increasing reliance on domestic consumption; international trade in service is going to be digital too.

The situation is still fluid and there are a lot of moving parts around concerns for a second wave of Covid-19 as the countries have started to ease out restrictions. Here are some of the good crisis management practices and lessons from leadership teams:

a) Ability to do more with less - companies have been able to run business operations with skeleton operations staff. Such lean structure will not be sustainable from safety perspective but this has started a discussion about over staffing, employee productivity and process automation.

b) Visibility and Transparency has never been more important: Over-communication is critical during this situation to avoid false assumption among the team which could lead to non-synchronized actions. In the beginning, there is frustration, resistance, non-cooperation but this could be mitigated by celebrating small wins.

   Tactical plans replace the long-range plans with heavier focus towards execution and agile tactical response. The scenario analysis becomes critical. This is crucial to reallocate right resource to attack immediate urgency and protect the balance sheet, which means, holding discretionary expenses, monitoring and managing credit risk and staying alert to any changes in customer behavior, delaying capex, holding increments and bonus payouts and spending on care packs for employees. Tone from the top must be firm and clear. This does not mean long term strategy become less important, but it merely is a reprioritization.

c) Crisis has brought to the front new leaders who have demonstrated great skills as thought leadership and execution excellence leaders:

Behavior Changes - Professionals are now cozying up and actively considering work from home in the post Covid world because it allows them an opportunity to be more flexible, independent and productive. This trend is more obvious in millennia as well as experienced professionals and experts who are going to retire from work in this decade.

Teams have experiences of enhanced productivity and team work. At the same time, teams are experiencing an increase in number of working hours.

Trust and Empowerment - In the manufacturing environment, walking the plant is a norm. This is now become a luxury especially when the plant manager is not around. Trust and empowerment must be embedded into the culture for the next level to step up and fill any voids.

d) Organizations are investing time and money to arrange Mental Healthy virtual sessions with health professionals. Organization's execution draws its energy from social interaction; now the leaders are organizing "Team Virtual Coffee" via video calls to let the steam out.

e) All businesses will have pressure to manage their costs. In the post Covid world, customers will come down for a tough bargain on prices. Six sigma lean processes and cost optimization should be the organizational focus.

f) Structural Changes - With these behavior and structural changes, leadership teams are more keenly discussing and exploring IR4.0.

Countries who are dependent on foreign labor in their Agriculture and Industrial production sectors are actively contemplating to incentivize and create opportunities for local population with upskill and reskill programs; and also to encourage automation, reducing people dependence.

There is an enhanced focus and resource allocation to accelerate e-commerce adoption and to leverage digital platforms. Few consumer goods companies have already trialed direct Go to Customer with home delivery options which essentially cuts out the middle man in supply chain; it changes the distribution networking map and enhances importance of agility of logistics.

g) Business Development - New product development and new business development projects are delayed but an important lesson is to keep connected with the customer by means of digital channels. Commercial, business development and R&D teams are less likely to be able to travel in the near future but customer engagement through webinars and shipping product samples is absolutely critical. This is an important investment in trust & confidence and also to be able to stay on top of customer needs and plans as things start moving towards new normal.

Lost Customers and New Customers: Coming out of this crisis, an outcome from existing customers would be that some of them who were relying on sole supplier will possibly look for an alternative supplier as part of their sourcing risk management; and others will increasingly rely on more dependable suppliers.

The Global Trading World lacks a global response to this health and economic crisis. There is inadequate international response towards poor countries.

Countries who are dependent on foreign labor in their Agriculture and Industrial production sectors create opportunities for local population with upskill and reskill programs; and also to encourage automation, reducing people dependence.

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Shifting Role of the Audit Committee

Saira Nasir, FCA

Effective governance is reinforced by purpose, vision, values, and ethics that are reflected in the behaviors and actions of the board members and the executive management which is then cascaded throughout the organization. The board along with the management team is responsible for setting the tone at the top. They together shape the culture and set the strategic direction of the organization. Organizations need to be pro-active in bringing about improvements in their governance beyond adherence to minimum requirements only.

Corporate failures and their impact on financial reporting are consequences of poor governance and management decisions. The board as a whole is responsible for the accuracy of the financial statements, adoption of appropriate accounting policies and the oversight of the company's affairs. To ensure compliance of various laws and regulations these responsibilities are delegated to the Audit committee but the ultimate responsibility and accountability to the stakeholders rest with the board.

IFAC strongly supports efforts to strengthen and clarify the roles of boards and audit committees in exercising oversight of the statutory audit and financial reporting processes led by management, including addressing perceptions that audit committees are not sufficiently independent of management, or that there is insufficient communication from the audit committee to shareholders.[1]

The Audit Committee is very dynamic and plays a pivotal role in ensuring the effectiveness of corporate governance in any company. Its responsibilities not only vary across jurisdictions but many a times between companies also. There is no 'one-size-fits-all' model for an audit committee, thus enhancing its effectiveness. It has the best position to offer effective oversight of performance, the financial reporting process, the audit process, the company's system of internal controls and compliance with laws and regulations.

Audit Committee – Composition

An Audit Committee is appointed by the board usually comprising of three to seven members. The Listed Companies (Code of Corporate Governance) Regulations, 2019, (Referred as revised Code) requires that the Audit Committee should have at least three members, comprising of non-executive directors and at least one independent director. The members of this committee are expected to be independent of management. Other requirements regarding the constitution of Audit Committee under the revised Code are as under:

- Chairman of the committee shall be an independent director, who shall be other than chairman of the Board;
- At least one member of the audit committee shall be "financially literate";
- The code explains the meaning of "financially literate" person as a person who,
  - (a) is a member of a recognized body of professional accountants; or
  - (b) has a post-graduate degree in finance from a university or equivalent institution, either in Pakistan or abroad, recognized by the Higher Education Commission of Pakistan; or
  - (c) has at least ten (10) years of experience as an audit committee member; or
  - (d) at least twenty (20) years of senior management experience in overseeing financial, audit-related matters.

The most challenging task is the composition of the Audit Committee. The revised code requires at least one person to be financially literate, putting a lot of onus on a single individual.

Keeping in view the splayed mandate of this committee, diversity of experience, economic expertise and overall relevant industry knowledge becomes a key factor in selection of the committee members. The members need to keep themselves completely abreast with professional developments and the changing demands of the businesses. The Audit Committee can opt for external advice but they must also be updated with the relevant developments of accounting and corporate reporting. It should be ensured by the company that the members are provided adequate training and professional education enabling them to be in harmony with the challenges of the rapidly changing business environment.

Audit Committee – Role & Workings

For reporting of Audit Committee to be meaningful, there should be a candid

> The Audit Committee plays a pivotal role in ensuring the effectiveness of corporate governance in any company.

> Corporate failures and their impacts on financial reporting are consequences of poor governance and management decisions.

disclosure of its work, providing insight on the significant issues the audit committee considered in financial statements, and how these issues have been addressed over time.

The most expected role of Audit committee includes the determination of appropriate measures to safeguard the company's assets; review of annual and interim financial statements of the company; review of preliminary announcements of results; facilitating the external audit and discussion with external auditors of major observations; review of management letter issued by external auditors and management's response thereto; and ensuring coordination between the internal and external auditors of the company.

(Refer Chapter 9 Section 27 (4) of the revised Code of Corporate Governance 2019 for Responsibilities of the Audit Committee).

Beyond its traditional role, if there is no other appropriate committee, the Audit Committee is also expected to take in its fold whatever is leftover; like cyber security or risk management beyond financial risk.

Scope of this committee has been broadened over time resulting in increased expectations and responsibilities. In certain countries reviewing the company's Risk Management framework and Whistleblowing policy also falls under the ambit of this committee. It requires an efficient system of work to carry out the assigned role diligently.

While it may be appropriate for the audit committee to take responsibility for reviewing the guidelines, processes, and policies management has in place to identify, assess, and manage risk, boards should take care not to overburden the audit committee.[2]

The Conducive environment should be provided by the board enabling the committee to carry out its responsibilities effectively. The revised code clarifies that it is necessary to have in place explicitly documented terms of reference of the Audit Committee. The board **must** provide adequate resources and authority to enable the audit committee to carry out its responsibilities effectively and the terms of reference of the audit committee shall be explicitly documented.

The Audit Committee is expected to play a vital role in the appointment of the Chief Financial Officer(CFO). It would be pertinent for the Audit Committee Chair to be a part of the panel constituted for interviewing the candidates applying for this position. The Audit Committee Chair will be in a better position to spell out the qualities that are 'must haves' and which are 'nice to have' for a person embarking on this position. The committee must ensure that the finance of the company is steady and there is a planned succession of the CFO.

Good practices include:

- Having well-defined terms of reference setting out a clear scope of responsibilities, which are widely understood by the audit committee members, as well as by others in the organization including the board, CFO and finance function;
- Coordination between auditor, audit committee, and internal auditor to prevent duplicated effort increased cost and poor effectiveness;
- Appropriate frequency and efficiency of meetings with focused agendas that allow sufficient time and attention for an in-depth discussion on critical areas, as well as the flexibility to add additional items as they arise;
- Producing short summaries to circulate to audit committee members in advance of meetings outlining key areas of focus for discussion;
- Holding a call or prep meeting between the audit committee chair and the auditor before each audit committee meeting.[3]

The responsibility of the Audit Committee is to oversee the entire financial reporting process. The board must objectively evaluate the reports of the Audit Committee and look into the process of how the committee has discharged its duties. The board should undertake a proper discussion on any significant matter identified by the committee which merits full board attention.

Audit Committee and the Management

The demand for increased transparency into audit committee duties, including the oversight of the independent auditor, is expected to escalate. For an Audit Committee to function effectively it is of utmost importance that management provides accurate and reliable information. To fulfill its role diligently, the committee needs to have effective communication with not only the board but also with the management specifically the CFO and internal and external auditors. The amount of information expected to be reviewed by the Audit Committee can be voluminous. Producing reliable and auditable information is the duty of management. It is the expectation of the Audit Committee that all the unexpected issues will be handled by the CFO and will be adequately informed by him to the Audit Committee. Therefore, there is a dire need that there exist a cordial relation between the two and the Audit Committee is always ready to support the CFO in handling difficult issues.

"In high-functioning relationships between CFOs and audit committee chairs, trust and dialogue are critical. Challenges can occur if a CFO comes to an audit committee meeting unprepared or presents a surprising conclusion to the audit committee without having sought the audit committee chair's opinion, leaving the audit committee chair without the ability to influence that conclusion," says Henry Phillips, Vice Chairman and National Managing Partner, Center for Board Effectiveness, Deloitte & Touché LLP.

Audit Committee is a vital link between the board, internal audit department, CFO and external auditors. It is entrusted to ensure effective compliance of the financial reporting process, the audit process, the company's system of internal controls and with laws and regulations. Audit Committee must play its fair role to provide assurance to the investors and other stakeholders.

> The board is responsible for the accuracy of the financial statements, adoption of appropriate accounting policies and oversight of the company's affairs.

Refrence:
1 Five Key factors to enhance Audit Committee effectiveness-IFAC.
2 Role of Audit Committee- Center for Board Effectiveness-Deloitte-April 2018.
3 Five Key factors to enhance Audit Committee effectiveness-IFAC.

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Public Private Partnership – Accounting Implications

Aamer Abdul Razzak, ACA

The concept of Public Private Partnership (PPP) was introduced to combine contrasting objectives of the public sector, which serves to provide maximum service to the general public and the private sector, whose main objective is to maximise profits and returns for its shareholders. There is no consensus on the definition of Public Private Partnership, however, the most relevant definition would be the one derived by David Weimer, Professor of Political Science, Harvard University and Aidan R. Vinning, Faculty at Simon Fraser University. According to the two professors:

"Public Private Partnership involves a private entity financing, constructing, or managing a project in return for a promised stream of payments directly from government or indirectly from users over the projected life of the project or some other specified period of time."

Considering the government's emphasis on undertaking more and more projects under the PPP framework, it is important for us accountants to understand how profits under projects will flow.

The accounting considerations for the PPP were raised back in 2001 when Standard Interpretation Committee issued SIC 29 – Service Concession Arrangements: Disclosures. However, SIC 29 only provided guidance on what to disclose in the notes to the financial statements of the operator (private investor) and grantor (public sector entity). In November 2006, International Accounting Standards Board (IASB) issued IFRIC 12 'Service Concession Arrangements' which was effective for annual periods beginning on or after January 1, 2008. International Financial Reporting Interpretations Committee (IFRIC) 12 addresses the accounting issues in the books of operator. Before we understand how accounting transactions will be recorded in the books of the operator, we need to understand some key definitions provided in the interpretation:

Grantor	A public sector body (including a governmental body, or a private sector entity to which responsibility for a public service has been devolved) that grants the service arrangement.
Operator	A private sector entity that is contractually obliged to provide services to the public on behalf of the public sector entity. The operator is responsible for at least some of the management of the infrastructure and related services and does not merely act as an agent on behalf of the grantor.
Services Arrangement/ Service Concession Arrangement	A contract that oblige the operator to provide services related to infrastructure to the public on behalf of the grantor. The Contract sets the initial process to be levied by the operator and regulates price revisions over the service arrangement.
Control Criteria	(a) The grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and (b) The grantor controls any significant residual interest in the infrastructure at the end of the term of the arrangement, through ownership, beneficial entitlement or otherwise.

It is important to note here that the interpretation only provides guidance on accounting by operator, not the grantor and it specifically addresses public to private

SIC 29 only provided guidance on what to disclose in the notes to the financial statements of the operator (private investor) and grantor (public sector entity).

service concessions. It does not apply on services concession arrangements between private parties. Though there may be a situation when the private party is partly owned by government but as long as it is acting independently, the interpretation applies to it. In addition, the interpretation only applies accounting for operators and not the grantor.

In summary, all of the following criteria are required to be met for an arrangement to fall under IFRIC 12:

(a) The arrangement is a public-to-private service concession.
(b) The grantor controls or regulates the services.
(c) The grantor controls any significant residual interest.
(d) The infrastructure is constructed or acquired (or the grantor provides access to that infrastructure) for the purpose of the service concession.
(e) The operator has either a contractual right to receive cash from or at the direction of the grantor; or a contractual right to charge users of the service.

In general, all build-operates-transfer and rehabilitate-operate-transfer arrangements fall under the IFRIC 12.

The following distinguishing accounting principles were introduced by the interpretation:

- The operator does not recognise infrastructure assets as its property, plant and equipment.
- The operator also provides 'construction services' and nor for example, constructs an item of property, plant and equipment for sale. Construction services are to be accounted for separately from 'operation services; in the operations phase of the contract.
- The operator either recognizes a financial asset or an intangible asset depending on how the payments are received and who makes the payments.

The interpretation provides two distinct accounting models based on the return flow:

Financial Asset Model – It applies if the entity has an unconditional contractual right to receive cash or another financial asset.

Intangible Asset Model – It applies when the financial asset model does not apply.

The Financial Asset Model

The model applies when the operator is entitled to receive fixed amount of contractual cash. This cash can be paid by the grantor himself or by the user/consumers with a guarantee from the guarantor that any shortfall will be paid by the grantor. The financial asset will be measured on initial recognition at its fair value, and interest will be calculated on

The application of IFRIC 12 significantly change the recognition of revenues and resultantly the net profits of the project.

the balance using the effective interest method. Revenue will be recognised in accordance with IFRS 15 when the performance obligation in relation to the construction work is performed.

E.g. 1 Service Concession Agreement – Financial Asset

A private company enters into a service concession agreement with the government to build, operate and transfer a road. The terms of the contracts are as follows:

Description	Amount	Years	Margin / Rate
Construction Cost	Rs. 520 Million	1-2	10%
Operating Cost	Rs. 10 Million	3-10	20%
Effective Interest Rate	-	1-10	5.8%
Fixed Revenue	Rs. 200 Million	3-10	-

The operator does not record the asset as property, plant and equipment instead records a financial asset. The operator will recognise the revenues and costs in its statement of financial performance as follows over the 10 year contract period:

Rs. in million

Financial Asset Model										
Description/Years	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Construction Revenue	572	572	-	-	-	-	-	-	-	-
Construction Cost	520	520	-	-	-	-	-	-	-	-
Operating Revenue	-	-	12	12	12	12	12	12	12	12
Operating Cost	-	-	10	10	10	10	10	10	10	10
Interest Income	-	33	68	61	54	46	38	29	20	10
Net Income	**52**	**85**	**70**	**63**	**56**	**48**	**40**	**31**	**22**	**12**

The financial position over the project life will be as follows:

Financial Asset	572	1,177	1,057	931	797	655	505	346	178	1

The fixed revenue received by the operator will reduce the amount of financial asset recognized and accordingly reduce the interest income over the project life.

The Intangible Asset Model

The operator recognises an intangible asset to the extent that it receives a right to charge users of the public service. This is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The operator measures the intangible asset at fair value.

E.g. 2 Service Concession Agreement – Intangible Asset

A private company enters into a service concession agreement with government to build operate and transfer a road. The terms of the contracts are as follows:

Description	Amount	Years	Margin / Rate
Construction Cost	Rs. 520 Million	1-2	10%
Operating Cost	Rs. 10 Million	3-10	20%
Effective Interest Rate	-	1-10	5.8%
Variable Revenue	Estimated Rs. 200 Million per annum	3-10	-

Similar to financial asset model, the operator does not record the asset as property, plant and equipment instead record an intangible asset. The operator will recognise the revenues and costs in its statement of financial performance as follows over the 10 year contract period:

Intangible Asset Model										
Description/Years	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Construction Revenue	572	572	-	-	-	-	-	-	-	-
Construction Cost	520	520	-	-	-	-	-	-	-	-
Operating Revenue	-	-	200	200	200	200	200	200	200	200
Operating Cost	-	-	10	10	10	10	10	10	10	10
Depreciation/Amortisation	-	-	143	143	143	143	143	143	143	143
Net Income	**52**	**52**	**47**	**47**	**47**	**47**	**47**	**47**	**47**	**47**

The financial position over the project life will be as follows:

Intangible Asset	572	1,144	1,001	858	715	572	429	286	143	-

There may be circumstances where the operator will be required to divide the right cash flows into a financial asset and an intangible asset. To the extent that the operator is remunerated for its construction services by obtaining a contractual right to receive cash from, or at the direction of, the grantor, the operator would recognise a financial asset and, to the extent that the operator receives only a license to charge users, it would recognise an intangible asset.

Public Private Partnership is important to bring necessary investments from the private sector into the public sector and more effectively manage the public resources. The application of IFRIC 12 significantly change the recognition of revenues and resultantly the net profits of the project. Therefore, it is important that the investor has necessary knowledge of appropriate accounting to calculate the project IRR and plan their project returns especially the dividends that they can take out from the profits of the project.

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Emergence of Professional Ghosting

Muhammad Amin, ACA

Ghosting is usually termed as severing a relationship by halting all correspondence and contact with others without giving any clear notice or justification, as well as overlooking others endeavor to connect or impart. The term ‘ghosting’ is usually used in between Recruiter and Prospective candidate but, in my opinion, there is professional ghosting as well which can mean anything from not answering e-mails or phone calls to avoid contact with people associated to your workplace.

The phenomenon of professional ghosting has emerged with the increase in use of e-mails, phone calls and social media platform in the workplace. People ghost in order to avoid their own emotional discomfort without realizing how it makes the other person feel unpleasant. People do it in their personal as well as professional lives by just disappearing or walking away

People ghost in order to avoid their own emotional discomfort without realizing how it makes the other person feel unpleasant.

> **Ghosting creates doubt, sense of denial, anger, depression, frustration and raises uncertainty in the minds of being ignored. It shows lack of consideration and professionalism.**

from difficult or uncomfortable situations in order to get short term relief. However, it damages the person's reputation in the long term.

Since the advent of digitalization and increase in use of non-physical communication over emails, phone calls and other social media platforms, ghosting is now prevalent in our professional lives and it is impairing our relationships with people we deal with. Some of the common ghosting behaviors in the professional world are as follows:

- Recruiters ignore communication from prospective candidates.
- Prospective candidates ignore the interview or job calls from the recruiter.
- Avoiding suppliers call for releasing their payment.
- Avoiding participation in meetings in which critical decisions are to be taken.
- Avoiding having regular contact with your departmental head or CEO.
- Non-responsiveness to e-mails in order to subside any conflict.
- Not having face to face appraisals to avoid listening to employee grievances.
- Quitting the job without giving any notice.

In order to avoid any difficult situation/decision in a professional workplace, people do become a ghost in order to step out of a difficult spot. It creates doubt, sense of denial, anger, depression, frustration and raises uncertainty in the minds of those being ignored. Although, ghosting is accepted, it does not mean that it is right. It shows lack of consideration and professionalism, and may lead to some serious consequences some of which are mentioned below:

- It damages your professional reputation.
- It weakens your network.
- It severely limits your career prospects.
- It stunts your personal growth and development.
- It limits your negotiation, leadership and conflict resolution skills.
- People will start portraying you as a coward and treat you as an unimportant member of the company.

People have to become brave in order to remove the prevailing uncertainty due to inadequate communication. Remember, if you ghost and do not follow professional etiquette just to feel comfortable for the moment, there can be long term undesirable consequences which will become difficult to handle at later stages of your career. I would say, instead of resorting to ghosting, be courteous of letting others know your side of the story. Therefore, people as a ghoster (the one who is ghosting) or ghostee (the one being ghosted) should develop the following habits in their professional work place to minimise the consequences of professional ghosting:

- **Minimise the use of screen to hide yourself** – It is applicable to both ends that they should establish a personal relationship through one on one meetings or making a phone call and show that they are willing to address any concerns or questions on the spot.

- **Be a great listener** – It allows you to validate someone else's emotions in order to create enough trust, remove the doubt or uncertainty of being ignored.

- **Establish trust** – Build confidence and real trust in a relationship by ensuring that all the questions and concerns are being answered.

- **Follow up** – People working in large organisations don't have enough time to greet every request so, we should make our habit of weekly follow up.

- **Be patient and understanding** – As a ghostee, we should avoid any assumption of being ghosted by someone in case there is no response from the other side and should be patient and understanding in our dealings.

- **Don't take it personally** – As a ghostee, we should not take it too personally. People will ghost for a variety of reasons, there are chances that they may have forgotten or got too busy or wanted to avoid an awkward conversation.

- **Look forward and move on** – Being ghosted feels frustrating and disrespectful, but it is important to stay professional and not hold onto any grudges. We should look forward and keep going and should avoid burning the bridge, especially when we are in doubt.

No matter how tough it is, deal with it; people should show courage in all types of difficult situations as it is better to face and resolve the hurdle in that moment rather than making it a future nightmare.

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Will Robots Replace Accountants?

Muhammad Umair Ismail, ACA

The popular answer is yes, but I, humbly disagree. The current commercial Robotic Processing Automation Solutions (RPAs) (simply robots or BOTs) are not self-learning or Artificial Intelligence enabled. They simple work on pre-defined rules and largely on digital inputs. These BOTs require other technologies, like Optical Character Recognition (OCR) and Intelligent/Ink Character Recognition (ICR), to cope up with the non-digital or manual inputs.

The profession has continually transformed itself, and continues to do so to keep up with changing times.Therefore, the traditional accounting skillset will be replaced by machine learning and Artificial Intelligence. This will need accountants to support their growth to remain competitive in the emerging market.

As mentioned earlier, BOTs work on rules and standard inputs or converted into standard inputs through other technologies (like OCR). Therefore, in future, accountants who are capable of designing the process in such a manner, whereby its output can be consumed by BOTs, will surely be on the rise. This re-designing means modifying human interactions or steps in such a way that the outputs can become inputs for Robots. For example, Receipt of supplier's invoice over email in a pre-defined format or sorting or placing scanned supplier's invoices in a separate Microsoft SharePoint portal or on a google drive.

The next logical question is how to acquire this skillset. It is easy for individuals who have ever designed any business process. S(he) only needs to learn how robotic processes are designed and developed.

Fortunately, two Robotic processing automations, as per Gartner 2019, out of the top three provide free versions (i.e. community editions). One of them provides extensive training materials free of cost. All top three software are drag and drop versions therefore anyonehaving elementary programming skillset can 'at least' attempt to create the basic BOTs.

Therefore, investing time on RPA may sound a hobby today to the masses, however, it will become a necessity for future accountants.

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Leadership Skills 101:

Dania Ehtesham Zahid

In the modern world, leadership has evolved from just being specifically for kings and rulers where it was more of an exercise of power and force, to an important skill for anyone looking to grow people around them as a team.

In recent times a lot of work and studies have been done on leadership qualities. Authors such as Daniel Goleman-a pioneer in emotional intelligence, have changed our perception of what leadership is. According to him leadership has more to do with having a vision as well as being able to motivate teams to work towards a common goal.

Leadership now has evolved into having democratic traits. This means the leader of the organization allows the team to grow and learn as well. A great leader might not necessarily have a show of power but his unique skill is in understanding human and social interactions and using it to move his team forward day in and day out in varying circumstances.

So what is this unique skill? How does one develop it?

To develop the ability to understand people requires a leader to be emotionally intelligent. The best part of this kind of intelligence is, it can be developed and learned like a skill, unlike IQ. Being emotionally intelligent means, understanding emotions of self and others, being able to communicate those emotions and manage them in a productive and positive way.

If we go deeper into this, we will find one word binding all of these together; that is communication. How we communicate with ourselves and with others; is how we show up in the world.

Fun fact: We don't just communicate with words, but with our whole body!

A great leader might not necessarily have a show of power but his unique skill is in understanding human and social interactions and using it to move his team forward day in and day out in varying circumstances.

If a leader is able to 'master' this skill, half the job is done. Here I will go on to explain a few tips which encompass effective communication with others. Remember the quality of; not just your leadership skills, but your life depends on the quality of your communication.

Here are a few tips to shift perspectives and help in developing a better communication style:

1. **Everyone has their own map of the world:** This means we all have attached certain meanings to certain things according to our experiences through life. We create our own 'world model', which drives our behavior. Each of us will create a different map/model of the world around us. For some this world might come across as scary, as if everyone is out to get them. It's their experiences which have led them to believe this. Another perfect example of this is social media, where when one sees the profile of a friend with a lot of happy pictures.

   We automatically assume they are having a ball of a time, while the reality might be quite different.

A leadership expert and author, coming from the belief that people are doing their best is a vital leadership skill.

Our maps can become obsolete with changing times and its best we are aware of this fact to be able to keep updating our software.

Being aware of this fact is especially helpful in understanding ones team members.

2. **People do the best they can with the resources they have:** According to Dr. Brene Brown, a leadership expert and author, coming from the belief that people are doing their best is a vital leadership skill. This helps the leader to show kindness and respect to its people. It's a skill set not easy to learn but it definitely is a rewarding one.

   Dr. Brené Brown writes that asking leaders to assume others are doing the best they can moves them from "pushing and grinding on the same issues" to the more difficult task of: teaching their team, reassessing their skill gaps, reassigning them, or letting them go. "It's a commitment to stop respecting and evaluating people based solely on what we think they should accomplish, and start respecting them for who they are, and holding them accountable for what they're actually doing," she says.

3. **The meaning of your communication is the response you get:** The effectiveness of our communication is the response we elicit from the receiver. Interestingly, this puts the responsibility on us to make sure our message is understood and is aligned with the response we are seeking. Quite a shocking revelation, isn't it?

   For example, if we ask a certain question from someone out of curiosity and care, but the other person responds by feeling pressured and defensive, then the meaning of our communication for that person was feeling pressured and defensive, regardless of what our intentions were. Hence it is important to know what we exactly want to communicate and be able to assess how the other person is responding to our messages. This brings me to our next point.

4. **Observation:** This is a skill which enables one to be more aware of not just verbal patterns but also non-verbal ques. As mentioned earlier we donot just communicate through language but our body is also communicating. When you pay attention to the listener and their listening style you can become more aware of whether your message is going through or not.

5. **Deep listening:** I once read somewhere "We don't listen to understand rather we listen to reply". Deep listening is probably the most basic of communication tools required yet, the most ignored and least developed in us. There is a difference between hearing someone and listening to them. It is a transformative tool and if practiced properly it allows us to develop our sense of observation and understand the other person. It means we temporarily stop judging and become willing to receive information whether it is pleasant or unpleasant. Deep listening helps develop trust between two people. It allows the speaker to feel heard, understood and it cultivates an authentic connection. In today's fast paced world, building true deep connections has been the first one to take a fall. Deep listening helps rebuild it and as a result the quality of our relationships improves.

6. **Rapport building:** Rapport is the ability to relate to others in a way that it creates trust and understanding. Ever wondered how we 'hit it off' with someone instantly or 'get on really well' without even trying? That is what rapport is.

   Always remember "People like people who are like themselves". This is how friendships develop. We do it naturally all the time. Developing rapport is an essential part of every relationship. Without rapport, no relationship would flourish.

   However, rapport can also be built and developed consciously by finding common ground and being empathic. This is where deep listening comes in!

   As a skill, it means that you can build relationships faster, and improve communication more rapidly. Your working relationships will be more effective, and your personal relationships will be stronger as a result.

   Establishing rapport at the beginning of a conversation will often make the outcome more positive. It is important to keep in mind the body language as well. We read (subconsciously) and instantly believe what the body language is telling us. Hence building rapport begins with displaying appropriate body language. For example, when a colleague comes in to discuss something be welcoming, relaxed and open.

It is also helpful to match words of the speaker. Reflecting back and clarifying what has been said are useful tactics. Not only will it confirm that you are listening (deep listening-mind you) but also give you opportunity to use the words and phrases of the other person. This will further emphasize similarity and common ground.

Communications is a field of study in itself, and these are just the tip of the iceberg but enough to make a considerable difference for those seeking a change. However, this change is deep enough to equip you to head out and lead your way; enriching your relationships and as a result enriching your life.

Don't worry if at first this seems a lot to absorb, some of the things we almost always do without realizing like building rapport; while others would need some practice. And practice brings perfection.

Dania Ehtesham Zahid is a Neuro Linguistic Programming (NLP) Transformation and Executive Coach, certified by International Coach Federation (ICF). The writer is based in Dubai and can be reached at boundariesredefined@hotmail.com.

In Conversation with Dr. Huma Sodher

FCA, ACMA (UK), CGMA, CIPA | LLB, LLM, PhD (UK)

1. Please tell us a little about your career achievements.

I have the honour to be the first ICAP Gold medalist Fellow Member trained from A. F. Ferguson & Co. who is a London-based Barrister, a PhD in Law (UK), a CIMA (UK) Member and a Certified Islamic Professional Accountant from AAOIFI's first batch of global CIPA graduates.

I have been awarded various national and international Gold Medals, Scholarships, Fellowships and Research Grants from world-renowned institutions including Harvard University (USA) and the Institute of Chartered Accountants of Pakistan (ICAP).

I was the first ever Pakistani Director Technical and Corporate Development at AAOIFI, Bahrain. At AAOIFI, I was involved in the development of Accounting, Auditing and Governance Standards with Board Members (C-suite Executives and Senior Representatives of Central Banks, FIs, National Accounting Standards Boards, Big 4 and Legal 500 firms).

I have had the privilege of working in the United Kingdom with leading Queen's Counsel, Barristers, Forensic Experts and Senior Partners of Law Firms on High Profile Complex Cross-Border Multi-Billion Dollar Financial Crimes and Commercial Cases.

> "I was the first ever Pakistani Director Technical and Corporate Development at AAOIFI, Bahrain. At AAOIFI, I was involved in the development of Accounting, Auditing and Governance Standards with Board Members."

I have been a Research Fellow with Harvard Law School (USA) and ISRA (affiliated with Central Bank of Malaysia - BNM). I have also served as a Member of Editorial Board for International Law Journal on Artifical Intelligence (AI) and Robotics, and as a Referee for leading International Economics & Finance Journal. My academic research papers and professional legal research have been published by Harvard University and Thomson Reuters respectively. In addition to this, I regularly contribute to various international research and development initiatives.

My passion to learn and share knowledge keeps me intellectually engaged with finance professionals, bankers, judges, lawyers, technologists and academia across the globe. It involves public speaking, media appearances, judging international mooting competitions, start-up mentoring, conducting high-quality research and training engagements. I frequently present at leading international forums in EMEA, CIS, APAC and North American regions.

2. From being a Chartered Accountant to a Barrister, what inspired your journey?

I was never interested in number crunching only but rather in the broader aspects of the story told by the numbers, their interaction with the external environment and impact on the stakeholders particularly in the context of legal and regulatory framework and the general promotion of corporate governance.

My interest in legal and financial modus operandi of corporates and financial institutions led me to gain multi-jurisdictional and multifaceted C-Suite advisory and leadership experience of Policymaking, Litigation, Adjudication, Cross-Border Financial Crimes, Governance, Technology and Artificial Intelligence.

3. What is a day like "in your heels"?

Every day is a new day for me and that's what I like about my career path. I am either dealing with a complex cross-border high profile financial crime case examining its financial and legal aspects, working on an academic research project, conducting a training workshop for legal and finance professionals or working on a consultancy assignment. In short, it's exciting, challenging, thrilling, difficult but fulfilling!

There have been a couple of "make or break" moments in my career, that gave a new direction to my professional life and contributed to my professional growth.

4. What have been some make or break moments in your career?

There have been a couple of "make or break" moments in my career, that gave a new direction to my professional life and contributed to my professional growth. I would like to share one of those moments with you. I always had a passion to serve the wider community through my multi-jurisdictional and multifaceted legal and finance expertise. Therefore, I decided to pursue a PhD in Commercial Law alongside my challenging professional commitments in the United Kingdom.

My PhD research project aimed to develop sustainable solutions for unrepresented consumers and business communities as well as established corporates and financial institutions. My high-quality research proposed breakthrough solutions, which were very well-received by the leading academia and specialist researchers. And now I aspire to develop similar legal and regulatory solutions for Pakistan.

5. What is the greatest challenge you faced in your career as a woman?

I didn't face any particular challenges in my career as a woman except for the typical challenges. The challenges that are generally faced by women striving to achieve professional excellence and position of leadership in the environments with low levels of social and cultural acceptance for gender balance and women empowerment. I have worked for both Muslim and Non-Muslim countries and have faced varying intensity of challenges depending on the social and cultural environment prevailing in that country. It's unfortunate that despite being blessed with early Muslim women entrepreneurs and role models such as Khadija (R.A), Muslim societies are still struggling with the concepts of women empowerment in its true sense.

6. Why do you think gender balance and diversity is important, especially in the senior management?

Gender balance and diversity particularly within the top management is a feature of successful, thriving, inclusive and forward-looking organisations. However, I believe and the research in this area also indicates that diversity and gender balance, if imposed only by the force of legal and regulatory framework, do not guarantee the same increased levels of growth and benefits to organisations which their counterparts with cultural acceptance of these concepts reap.

The challenges that are generally faced by women striving to achieve professional excellence and position of leadership in the environments with low levels of social and cultural acceptance for gender balance and women empowerment.

For example, Japan is one of the jurisdictions with most generous parental and homecare system across OECD and EU countries. However, the country, due to its patriarchal work patterns and discriminatory beliefs, does not benefit much from gender diversity as compared to its European counterparts with social and cultural acceptance of gender diversity.

Furthermore, the overall attitude and culture of society towards inclusivity and diversity is crucial for enabling the organisations to enjoy the financial, cultural and reputational benefits expected from diversity and gender balance.

7. It must be hard to take time out of your work schedule many a time. When you do get free time, what hobbies or interest do you pursue?

I agree with you that it is indeed challenging to pursue multiple and diversified professional and academic interests. However, I do take out time on a daily basis at least "half an hour" of "Me time" to enjoy little things in life. To me, it is important to replenish physical, mental, emotional and spiritual energy to lead a blissful and purposeful life. I try my best to take regular breaks to reflect and reset, if required. Nature is both my friend and my teacher. Depending on how much time and flexibility I have, you will find me either enjoying doing yoga, hiking, mountain walking, parasailing, travelling, reading or cooking.

8. What one piece of advice would you give to aspiring female chartered accountants?

My success mantra is "to strive is human, to reward is divine". Hard work, perseverance and conviction are the key ingredients of my professional success recipe.

In the words of Iqbal in Jawab-e-Shikwa:

کوئی قابل ہو تو ہم شان کئی دیتے ہیں | چاہتے سب ہیں کہ ہوں اوجِ ثریا پہ مقیم
ڈھونڈنے والوں کو دنیا بھی نئی دیتے ہیں | پہلے ویسا کوئی پیدا تو کرے قلبِ سلیم

Monitoring Proceedings of Withholding of Taxes, Penalization & Related Proposals

M. Muzammil Hemani, ACA, ADIT (UK)

The tax culture in the developing countries is not that much encouraging, due to which it has been observed that the taxpayers are reluctant to pay tax on the income they generate, which is generally termed as Income Tax. Even the taxpayers try to avoid obtaining registration under Income Tax laws. The tax collection in this case would definitely be reduced, due to which, the law makers have inserted provisions making those liable for collection of tax who are making the payments to the recipients. These persons have been classified as Prescribed Persons or in other words they are also the Withholding Tax Agents, who collect the tax from the payment made to the recipients and deposit same in the national treasury. The tax being collected or deducted is of the recipients only, they are just the intermediary.

In order to monitor the withholding tax agents, whether the compliance is appropriately being made or not, section 165 of the Income Tax Ordinance, 2001 [the Ordinance] requires every person who is collecting or deducting tax from a payment shall furnish to the Commissioner a bi-annual statement in the prescribed form. The statement generally comprises of the name, National Tax Number (NTN), Computerized National Identity Card (CNIC) and address of person from whose payment the tax is being collected or deducted in each half year, along with the taxable amount and the amount of tax. The statement shall also mention the details where the tax could have been collected or deducted but have not been done as the recipient presented exemption certificate for non-withholding of tax, undertaking

The tax culture in the developing countries is not that much encouraging, due to which it has been observed that the taxpayers are reluctant to pay tax on the income they generate, which is generally termed as Income Tax.

In case, if this person fails to do so, it will be termed as doing non-compliance and will ultimately be subject to the penal provisions of the Ordinance.

as the tax was for instance collected at import stage as commercial imports or the amount of which the payment is being made pertains to the re-imbursement.

Now, the ambiguity remains, whether every person who has actually collected or deducted tax from any payment is liable to furnish withholding tax statement and the person who has not collected or deducted tax from any payment by any reason is not liable to furnish same or every person who is liable to collect or deduct tax but for whatever reason has not collected or deducted tax is also liable to furnish withholding tax statement. The later one is correct. Meaning thereby, any person who is liable to collect or deduct tax shall also be liable to furnish withholding tax statement. In case, if this person fails to do so, it will be termed as doing non-compliance and will ultimately be subject to the penal provisions of the Ordinance.

If the withholding tax agent doesn't file the withholding tax statement at all or doesn't file same on time then the person shall be subject to the penalty under sub-section 1 of the section 182 of the Ordinance. Per the provisions of the Ordinance, the person shall pay a penalty of Rs. 5,000 if the person had already paid the tax collected or is withheld by him within the due date for payment and the statement is filed within ninety days from the due date of filing of statement. Whereas, in all other cases, a penalty of Rs. 2,500 for each day of default from the due date subject to a minimum penalty of Rs. 10,000 shall be charged.

It is crystal clear from the preceding paragraph, that if a person is not liable to collect or deduct withholding tax then he shall not be liable to file withholding tax statement and thus cannot be subject to any penalty by revenue authorities for non-filing of withholding tax statement.

The question however remains, that if a person who was liable to file withholding tax statement but either doesn't files on time or files at all, but simultaneously have collected or deducted tax which is timely deposited to national exchequer will also be liable to the penalty provisions. It has been observed that the revenue authorities are charging huge penalties in these cases and generating revenue. Although, the taxpayer disagreeing to it then takes it to next appellate forum. The matter has remained subject of discussion in various judgements of superior courts which have been decided on the principle of **"mens rea"**. This principle states that regardless of the actual action of the person the intention behind that action needs to be checked in order to conclude that person has committed a willful default. The onus in case of penalty proceedings is on the tax department to prove regarding intent, knowledge, recklessness and negligence.

In the light of the said principle, the intent of legislation in respect of provisions laid under section 182 of the Ordinance are to penalize only where the person has made a willful default and it has also resulted into loss of revenue. The intent of section 182 however, is not to make money or generate revenue rather to penalize a person. The tax authorities cannot use it as a source of achieving their budgetary targets. These provisions are used for the improvement of the taxpayer for the subsequent compliances not to give them an undue hardship. These undue penalties are not only a reason of incurring excess compliance cost and administrative cost creating a burden to the economy, but it also affects the taxpayers time in pursuing the cases further.

The above issue can be resolved if tax department abides by mens rea principle to avoid dispute at later stage. Alternatively, it can also be resolved by insertion of a single penalty for instance of Rs. 25,000 to Rs. 50,000 in case when taxpayer has collected or deducted tax appropriately but files the withholding tax statement anytime before the commencement of monitoring of withholding tax proceedings. However, in case if withholding tax statement is not filed till the initiation of monitoring proceedings then Rs. 1,000 to Rs. 1,500 per day of default should be levied as ensuring compliance is also essential based on the time limitation specified in subsequent paragraphs. While, this amount should be double for the taxpayer who is liable for filing of withholding tax statement and has not filed same and the tax collected or deducted have also not been deposited to the National Treasury.

If the withholding tax agent doesn't file the withholding tax statement at all or doesn't file same on time then the person shall be subject to the penalty under sub-section 1 of the section 182 of the Ordinance.

If a person who was liable to file withholding tax statement but either doesn't files on time or files at all, but simultaneously have collected or deducted tax which is timely deposited to national exchequer will also be liable to the penalty provisions.

Apart from this it has also been observed that monitoring of withholding proceedings are not subject to time limitation as per existing law. Although, an aid is taken from the record keeping time of minimum six years under section 174 of the Ordinance. The time limitation should be clearly and explicitly mentioned under the Ordinance so that it doesn't become an issue of dispute at later stages as it has also been observed that the tax department is carrying out proceedings beyond record keeping time giving an argument that monitoring proceedings are nowhere subject to time limitation. Again, the pressure then comes to the Hon'ble High Courts where the stay for proceedings are obtained resulting in the increase in number of cases without attaining the finality of the case.

In continuation of above, the limitation of the time for these proceedings should be of not more than two years from the end of the tax year to which it relates. The reason being, it is easier for the taxpayer to reconcile the payments with the financial statements in form of movements when the reconciliations are demanded in shorter period from closure of the tax year. The problem arises when reconciliations are demanded several years after the end of the tax year when it becomes a cumbersome exercise for the taxpayer to reconcile. The purpose of these proceedings in general is to monitor the compliance, thus, the ideal time to monitor and rectify should be the time near to the period when transaction takes place so that correction is done on timely basis and the same mistakes are not repeated again in the future.

Furthermore, a concept of materiality should be introduced for the purpose of reconciling the withholding tax statement with the financial statements considering it is not practically possible for the huge entities having thousands of transactions in a year to reconcile with the withholding tax statements file after lapse of many years. It has been witnessed that department never challenges the rate applied which could also be incorrect, rather, the entire focus in creating demand under these proceedings are from the unreconciled amount provided by the taxpayer or documentation.

In order, to further make this process transparent and beneficial, Information Technology (IT) should be introduced. For instance, as the taxpayer uses the opening and closing balances of the vendors to reconcile the movement, the system should automatically select the material transactions based on risk and amount and an external confirmation to the related parties for opening and closing balances should be sent without human intervention. This will help the department to check whether the amounts being given for the purpose of monitoring proceedings, by taxpayers are correct or not.

Presently, after the introduction of Tenth Schedule of the Ordinance which is a commendable measure to bring In-Active taxpayers in list of the active taxpayers, but the same is not being fully utilized. For instance, IT systems shall be used to detect where the withholding tax agent has collected a tax at a rate for In-Active taxpayers that is twice of the usual rate, then the person shall automatically be sent a notice of non-filer of return of income seeking justification, again without human intervention, after system checks that the NTN / CNIC on which tax have been withheld is actually In-Active. However, the subsequent response of that person shall definitely be evaluated by the concerned department and then onward decision should be taken. This will help increasing the number of active taxpayers to a greater extent.

To conclude, there are many unattended aspects and measures of monitoring proceedings of withholding of taxes which if implemented can result in increase in justified tax revenues and the number of active taxpayers. Only, the way of carrying out is to be given a correct direction if the positive results are to be obtained.

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Debate

In future, will Digital Wallets be the only way to pay?

I think digital wallets will be the only way of making payments in the internet-driven, tech-savvy future and physical cash will soon be forgotten. This will be mainly driven by user convenience in receiving and making payments without the hassle of carrying physical currency, safe keeping, counterfeits etc., with secure innovative solutions and robust infrastructure providing some peace of mind against hackers and exploiters. For some users, it may also aid in getting organized with their spending as everything gets neatly recorded. For the government, it will greatly help in documenting the economy and possibly detect cases of tax theft and money-laundering etc. I believe it is a win-win solution for public-private partnership. Lastly, the current pandemic and the contact-less payment approach might add a punch for its quicker implementation and acceptance.

Ammar Shaukat, ACA
Dubai

I believe this is true, and could be backed by a number of reasons:

- The world is focusing on digitization of economy so that it is documented and transparency is ensured, while limiting the leakage of cash money.
- The world is going towards e-commerce due to easy access of internet across the globe and also trending in current COVID-19 situation.
- The Government of Pakistan is also taking initiatives to digitize the economy and many financial institutions have been working on such wallet products.

Yasir Saeed, FCA
Lahore

Technology has already won human trust due to its convenience, security and the ability to enable us to communicate with peers across the globe. People at large are now buying stuff on the web; using digital applications of banks for monetary transactions; and so on. This is because of the fact that counterfeit currency is still a key demerit of paper money, despite all the available precautionary measures. Besides, aftermath of COVID-19 includes deep concerns regarding circulation of paper money as hundreds of hands might have touched one note in circulation, before it reaches us. In such circumstances, digital wallets are the best possible solution to pay, given the prerequisites like highest level of transaction processing security; autonomy & privacy; nation-wide free/cheapest possible internet coverage for this specific purpose; lowest possible transaction cost; and eliminating language barriers are met. Above all that, political will is a must as transparency, accountability and anti-corruption are other positive side-effects of payments through digital wallets.

Syed Muzahir H. Kazmi, ACA
Lahore

Our society has taken a long time to switch from currency notes to cards, even now cards specially credit cards are not widely accepted, mainly due to religious reasons. However, with the passage of time, the rate of change has increased exponentially. This can be seen in all technological advancements. The presence of digital wallets has been there for some time, however, the number of companies offering this solution have increased which shows its increasing demand and success. Its demand will further increase due to the current COVID-19 pandemic which has created an atmosphere of moving people away from physical contacts (social distancing). Also, with the increasing use of smart phones in our country it won't be long before we see digital wallets being used by the masses. However, the use of other forms of currency such as notes, and cards will remain, but their usage percentage will fall drastically.

Aamer Abdul Razzak, ACA
Lahore

Yes, in this 21st century, digital way of payment has become very common in everyday life. Cryptocurrency is an example of 'Digital Wallets', a sort of medium of exchange – a function of money.

Presently, in Western countries, the use of digital wallets to pay for goods and services, and other payments have become very common and it has replaced cash and cheque payments.

If we study the history of civilization and the industrial revolution, in the beginning, it was barter trade, then came cash payments, then it was cheque/bank payments, then payment by 'plastic money' i.e. credit cards, and now in the 21st century, it is payment through digital wallets.

In the 21st century, smartphones have become an integral part of our lives. It has bid good-bye to various other technologies, which were earlier considered necessary, for e.g. watch, calculator, camera, note pad, alarm clock, and many other widely used technologies. Now the latest use of smartphones in this century has brought a revolution in payment procedures i.e. it is being used to make payments through Digital Wallets. And the time is not far when it will be the only way to pay for goods and services as well.

Qasim Abbas, FCA, FCMA
Toronto, Canada

In Future, digital wallets will not be the only way to pay. This is because of the following reasons:

1. Prevalent technology gap in underdeveloped countries.
2. Reluctance on part of the developed countries to transfer technological equipment to the underdeveloped countries at nominal/decreased costs.
3. International and regional disputes halting the digital wallet system.
4. Poor digital financial literacy of substantial percentage of the world population.
5. Absence of strong and 24/7 communication links network.
6. Lack of uninterrupted power supply for communication links.
7. Lack of fool Proof virus security software system.
8. Lack of a fool proof physical security system.

In view of the above, for a country like Pakistan, a digital wallet system in the future will always remain a dream. However, it might already have become a reality for certain closed business systems and developed parts of the world.

Safdar Ali, ACA
Shangla, KPK

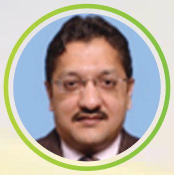
Absolutely, with the progress in technology, it has become increasingly easier for us to perform our daily chores. I am certain that digital wallets will lead the way in times to come, because when we see the pros and cons of the same, we see that the pros greatly outweigh the cons. For me, the possibility of privacy breach is the only downside of digital wallets. Physical wallets will soon be obsolete, and we already see a decreasing trend which suggests that it is not long before when the only mode of exchange will be digital wallets.

Muhammad Fahad, ACA
Karachi

Digital wallets are reshaping the future of payments and millennials, often described as 'digital and mobile natives,' have a profound impact on the usage of cash. Consequent to the pandemic "COVID-19", the revolution ahead may also surge the mode of digitalization in transactions. However, the global market for cash usage will experience generally healthier growth as the overall market size for banknotes forecast to increase by 3% annually.

With ease of access, the trend to use e-wallets may seem attractive, but despite of its easy access, traceability and efficient system, e-wallets to date have failed to replace cash in the society. Cash provides certain resilience in situations like war, economic crises and electronic scams by providing confidentiality as people tend to hold more cash in uncertain situations. People prefer to use cash while paying for small things representing 55% of transactions under $ 10.

While e-wallets may reduce or replace debit and credit card as 21% of the world population does not use banks, but the cash will stay, as multiple countries are investing on the infrastructure of the currency printing operations, which reveals that future demand is still on escalation. Whatever happened to the paper-less world, global paper production still shows positive growth, despite the impact of email and other technologies – a clear indication that the digital and the physical can and do co-exist. Likewise, e-wallet is in fact a great example of how cash and digital finance can co-exist to promote social and financial inclusion.



Asad Nouman, FCA
Karachi

The current pandemic has given birth to many unprecedented events and has forced us to think beyond traditional solutions. One of them is the use of digital wallets for executing financial transactions in our daily routine.

The use of digital wallets has many benefits but at the same time it poses increased risks of cyber frauds. Therefore, there is an immense need to capitalize heavily in IT infrastructure for securing the payments to an optimum level.

However, the majority of the masses still believes in exchange of physical cash or use of debit/credit card for doing their transactions.

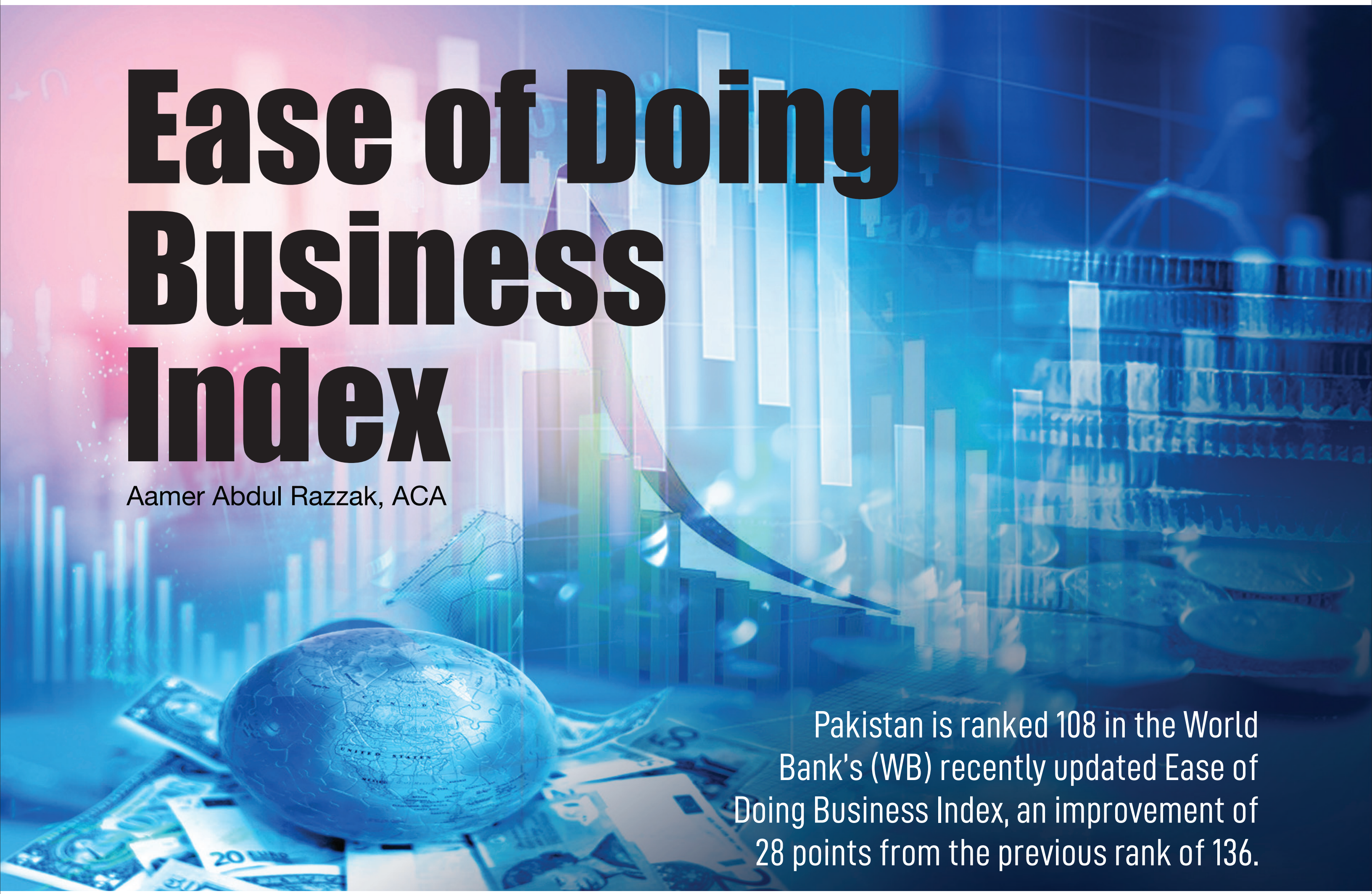
Nevertheless, the presence and use of conventional monetary system will remain in our economic system, but the priority and preference would be for virtual money in future, for sure.

The role of physical currency and digital wallets both, is too palpable to repudiate.

Muhammad Faizan, ACA
Karachi

Ease of Doing Business Index

Aamer Abdul Razzak, ACA



Pakistan is ranked 108 in the World Bank's (WB) recently updated Ease of Doing Business Index, an improvement of 28 points from the previous rank of 136.

A major achievement that the current government can claim in this troubling environment, is bringing about an improvement in the ease of doing business index. So, does this mean that golden economic days have begun? Should a flood of foreign direct investment be expected? Anyone who is thinking this is sadly mistaken and overly optimistic. It is important to understand what actually the ease of doing business index means and how is it calculated?

Origin

The history of the ease of doing business index goes back to 2002 when Simeon Diankov, a Bulgarian economist, along with his fellow colleagues published a paper called 'The Regulation of Entry' in the Quarterly Journal of Economics. The paper concluded that heavier entry regulations favour politicians and bureaucrats and result in corruption, whereas countries with more democratic and limited governments have lighter regulation of entry that results in lesser chances of corruption. The phenomena became popular and appealing and the countries started launching reforms to improve their entry process. World Bank started collecting these facts and data and started publishing them every year.

Methodology

The index is based on the 10 topics across around 190 economies. The topics covered are as follows:

- Starting a business
- Dealing with construction permits
- Getting electricity
- Registering property
- Getting credit
- Protecting minority investors
- Paying taxes
- Trading across borders
- Enforcing contracts
- Resolving insolvency

Inputs are collected across economies via questionnaires from local experts including lawyers, business consultants, accountants, freight forwarders, government officials and other professionals advising on legal and regulatory requirements. The questionnaire is followed up with interaction by the Doing Business Team, involving conference calls, written correspondence and visits by the teams. The data is verified and revised where required.

Pakistan

In the latest update published by World Bank on October 24, 2019, Pakistan's ranking has improved from 136 to 108 where the Ease of Doing Business Score has improved from 55.5 to 61. Pakistan has made progress on 6 topics, no progress in 3, and decline in 1.

Topics*	DB Rank	Change in DB Score
Starting a business	72	7.4
Dealing with construction permits	112	14.6
Getting electricity	123	20.9
Registering property	151	5.8
Getting credit	119	-
Protecting minority investors	28	-
Paying taxes	161	5.9
Trading across borders	111	1.3
Enforcing contracts	156	-
Resolving insolvency	58	(0.9)
Overall	**108**	**5.5**

Source: https://www.doingbusiness.org/en/data /exploreeconomies/pakistan

Some of the reforms introduced by Pakistan that contributed towards an improvement in the score are as follows:

Starting a Business: Pakistan made starting a business easier by expanding procedures available through an online one-stop shop. This reform applies to both cities of Karachi and Lahore as the main business hub of Pakistan and being covered by World Bank in conducting the survey and calculating the score. Furthermore, for Lahore, the Labour Department abolished the registration fee.

Dealing with Construction Permits: Karachi made obtaining a construction permit easier and faster by streamlining the approval process and also made construction safer by ensuring that building quality inspections take place regularly. Lahore also made obtaining a construction permit easier and faster by streamlining the approval process and by improving the operational efficiency of its one-stop shop for construction permitting.

Getting Electricity: Pakistan made getting electricity easier by enforcing service delivery time frames and by launching an online portal for new applications. The transparency of electricity tariff changes was improved. This reform applies to both Karachi and Lahore.

Registering Property: In Karachi, the process of registering property was expedited, thus easier to execute and register a deed at the Office of the Sub-Registrar. Lahore made registering property easier by increasing the transparency of the land administration system.

Paying Taxes: Pakistan made paying taxes easier by introducing online payment modules for value added tax and corporate income tax, and less costly by reducing the corporate income tax rate. This reform applies to both Karachi and Lahore.

Trading across Borders: Pakistan made trading across borders easier by enhancing the integration of various agencies in the Web-Based One Customs (WEBOC) electronic system and coordinating joint physical inspections at the port. This reform applies to both Karachi and Lahore.

The ranking of different cities of Pakistan surveyed are as follows:

Economy	Ease of Doing Business Rank
Faisalabad	1
Multan	2
Lahore	3
Islamabad	4
Sheikhupura	5
Gujranwala	6
Sukkur	7
Peshawar	8
Karachi	9
Rawalpindi	10
Sialkot	11
Quetta	12
Hyderabad	13

Astonishingly, Karachi (the business hub of Pakistan) is ranked 9th among the 13 cities being surveyed. The major contributor to this dismal ranking is caused by the tax payment mechanism, property registration and obtaining construction permits.

The way forward

The improvement in the Ease of Doing Business Index is encouraging, especially when seen relative to other countries such as Brazil (ranked 124) and Bangladesh (ranked 168), which are among the fastest rowing/emerging economies of the world.

How to build on this?

A lot is still to be done and can be done specially in the areas of taxation, contract enforcement and property registration. There are lots of bold and positive steps that are been taken by the new government such as hiring good professional specialists like the one appointed as Chairman FBR. However, there is still a lot that can be done. The use of technology and one window solutions are the need of the time to ensure lowering cost of compliance, fast track business transactions and maintaining audit trails for quicker resolution of commercial disputes.

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Erosion in Value of Pakistani Rupee

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In Pakistan financial analysts can appreciate the erosion in rupee value on account of continuous devaluation of local Currency. Using the detailed analysis performed below it can be proposed that the after tax rate of profit/interest from deposits with National Saving Schemes/banks must be kept equal to at least the rate of erosion in value of Pak rupee in terms of Gold/-Basket of foreign in order to encourage deposits in banks.

Before delving further into details it is important to take a step back and understand the role of a bank in a society. The banks and the Government take deposits from people who have surplus money at their end and provide loans for the business and other needs of the society. In order to carry the banking business buildings, human resources and equipment etc, are employed; like any other business of the world. It is also important to note that the alternative non-banking system charges annual rate of

National Saving Schemes/banks must be kept equal to at least the rate of erosion in value of Pak rupee in terms of Gold/Basket of foreign in order to encourage deposits in banks

The price of Gold in Pakistan per 10 Grams in 1947 was about Rs.50; whereas now it is about Rs.100,000. In addition to devaluation people also have to pay a wide variety of taxes, which is the necessity of various laws of the land

It very important to note that the rate of profit/interest on UK Pound and US Dollar account maintained with bank is about 0.10% to 0.20% in Pakistan like other countries of the world

interest higher than conventional banks and in some cases over 100% of the principal loan amount. Using non-conventional methods would result in a higher cost to businesses and society, which is not ideal for the economy.

The price of Gold in Pakistan per 10 Grams in 1947 was about Rs.50; whereas now it is about Rs.100,000. In addition to devaluation people also have to pay a wide variety of taxes, which is the necessity of various laws of the land. These taxes also reduce the net real cash available to every one.

The before tax average profit/interest given by banks was about 5% to 7% from 1947 till 2020; whereas the average erosion in value of Pak rupee is over 15%; as is evident from the difference in value of Gold from 1947 till May 2020. The average income tax rate from 1947 to 2020 is about 40% as the tax rates have varied from 60% to 30%.

If the 40% tax cut is made to the average 5% to 7% rate of profit/interest given to an account holders, the net figure yields around 3% to 4%; whereas the average erosion of value of Pak rupee in terms of foreign currencies/Gold is over 15% as explained earlier. It very important to note that the rate of profit/interest on UK Pound and US Dollar account maintained with bank is about 0.10% to 0.20% in Pakistan like other countries of the world. Thus the higher rate of after tax profit/interest of 3% to 4% on Pak rupee deposits by banks is only part compensation towards erosion in value of Pak rupee. In developed world where inflation rate is zero; the banks pay the account holders about 0.25% to 0.50% and in some countries even 0% or service charges @ 0.20% are also taken from the account holders for providing banking services including money parking charges for security reasons etc.

Since in Pakistan the erosion in value of Pak rupee in terms of Gold/Foreign currencies of the developed world (where inflation rate is near zero) is much higher, the banks are forced to compensate the depositors for the erosion in value of Pak rupee. However, that still too is not sufficient with the net yield figure of 3%-4% vis offset by a 15% devaluation of currency as noted above.

However, this does not mean that there aren't benefits of banks giving out interest to gather excess cash from depositors and lending out money to corporations. All types of loan are 1st liability on the income or assets of the person who take loan. The interest/profit is an allowable expense for the person who has taken loan and thus reduces the interest expense by the rate of tax. This is explained through a hypothetical example as under:

Loan Liabilty	100	Million
Interest/Profit e.g	15%	
Income Tax e.g.	33%	
Net Interest/Profit 15% - 5% Tax expense =	10%	

If the loan is mixed with the business capital prudently like other business decisions; the business profit to the owner increases. It is trite principal of management that the rate of return on investment business run by part of loan must be around double the rate of interest/profit on loan. However, on a side-note it is also important to note that problems occur when these loans are used to warrant luxuries and buying expensive vehicles etc. This ultimately leads to losses for business as capital is starved leading ultimately to bankruptcies. A prudent man always controls the expenditure side of his life and leads a planed life. Loans taken by businesses must be retired as soon as possible through retained profits to lead a debt free life. Mark Twain said "A banker is someone who lends his umbrella when the sun shines and wants it minutes after the rain starts."

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Moving on, in order to fundamentally understand devaluation of currency we also need to point out its potential reasons. The need to devalue currency is partly driven by an excess of fiscal deficit that exists in Pakistan. An increased amount of fiscal deficit means an extra need to print cash that would ultimately drive inflation of products. This would reduce exports, resulting in trade deficits and ultimately depreciation of currency. The Pakistan Accountant (July-September 2019 edition) published an article in the name of State of Public Finances written by Dr. Waqar Masood Khan former Federal Finance Secretary Government of Pakistan. In this article, the writer has given the figures of Pakistan Finances for seven years. As per this article the position of Pakistan Finances for the year ending 30.06.2019 is as under:

		AMOUNT
Net revenue Govt. of Pakistan for the year ending 30.06.2019	Rs	2.038 Trillion
Less: Interest + Defense expenses		3.238 Trillion
Net Deficit Financed by the Lending Institutions	Rs	1.2 Trillion
% of Deficit to Net Revenue Collection		59%

The net deficit noted in the table above of 59% would ultimately lead to devaluation of currency as noted earlier in the paragraph.

In another article titled as Taxes in Pakistan – Bottleneck published in The Pakistan Accountant July-September 2019 edition; the position of Taxes in our Country, India and Hong Kong has been tabulated as under:

Country	World Bank EODB Ranking (out of 190)	Number of Taxes
Pakistan	173	47
India	121	13
Hong Kong (Best in World)	1	3

Analyzing the table above it is noted that generally an increased number of taxes result in a higher effective tax rate, which again erodes savings made by people in bank accounts, and hence requiring a higher level of interest rates.

Finally, on the concept of issuing money by governments I would also like to draw attention of the readers to the Modern Monetary Theory introduced by the London School of Economics which in summary concludes that governments can issue its own fiat money to boost economic samples. It is to be noted that Pakistan is adopting this theory since long on account of high expenditure of Interest and Defense and hence the erosion in value of Pak Rupee is also a natural factor.

Taking into account the above submissions; in my opinion, the after tax rate of profit/interest from deposits with National Saving Schemes/banks must be kept equal to at least the rate of erosion in value of Pak rupee in terms of Gold/Basket of foreign currencies which are not affected by erosion in value. This would encourage the peoples to save money and keep the same with banks and Government schemes, rather than other assets like property, which would provide a higher rate of return relative to bank accounts.

In my conclusions I have tried to provide an independent perspective and given a few ideas on the interest rates provided by banks in Pakistan. As "Brian Resnick' states in his article "Intellectual Humility" - "To be intellectually humble does not mean giving up on the ideas we love and believe in."

On the idea of savings in the economy there is one final item that I would also like to point. It is important that in the 21st century the new generation continues to appreciate the value of money and save extra cash when possible. This has be seen in conjunction with the following quote picked from the Daily Business Recorder; wherein a public service message from Quaid-e-Azam Mohammad Ali Jinnah (in Ziarat, Balochistan, 1948) is published daily. This message is reproduced as under:

"We Musalmans in general and youngmen in particular do not know the value of money. A paisa saved today is two paisa tomorrow, four paisa after that and so on and so forth. Because of our addiction to living beyond means and borrowing money we lost our sovereignty over this Sub-continent."

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Future of Audit in UK

Sarmad Khan

2020 is an exciting year for the UK's audit industry owing to the efforts of many dynamic thinkers devoted to its reformation. Following the likes of Sir John Kingman and the CMA, Sir Donald Brydon published his final report on audit reform in December 2019, containing a total of 64 proposals aimed at refining and revitalising the profession of audit in the UK. Here are nine key elements of the Brydon report which make it both innovative and practical in the long run.

Redefining The Purpose of Audit

One of the most significant contributions of the Brydon report lies in its strict articulation of the auditing profession's purpose: creating and sustaining "deserved confidence" (p.22) through the provision of "decision useful information" (p.24). Hence, Brydon not only emphasises the need for auditors to establish a credible and trustworthy environment for their users, but that the way to do so is through knowledge that is helpful, more than anything else. Investors need to know WHY they should or should not make certain decisions in the future, and equipping them with information that is unambiguous, honest, and intended for their benefit is the path to obtaining their trust.

Clarity of Expression Goes a Long Way

In keeping with audit's purpose to provide useful and trustworthy information to its users, Brydon makes an important suggestion about the need to reword certain misleading clauses of the Companies Act, thereby improving their implementation. He stresses most thoroughly the replacement of "true and fair" with "present fairly, in all material respects" (p.58), arguing that claiming absolute truth to one's findings is in itself a bias. Where auditors are encouraged to be objective facilitators to their investors, it seems almost absurd, as Brydon suggests, to portray one's results as free of anything but the truth. Instead, he encourages auditors to adopt a more humble alternative, demonstrating that their work has been produced to the best of their ability (which leaves room for the possible consideration of inevitable errors), thereby "strengthen(ing) the value of that opinion" (p.58). Another example of a similar amendment he proposes is that of substituting the obscure phrase "adequate accounting records" with a specific and targeted alternative (p.60). The report therefore places the user's understanding of the information as a precursor to making use of and relying on it.

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Public Interest is the Key Focus

The report maintains inclusivity as it takes into account not just shareholders as the direct beneficiaries of audit work, but also other users including stakeholders, customers and possible investors. Therefore, the redefinition of audit's purpose in the Brydon report caters to the interests of the larger public, calling for published information to have not just clarity of the utmost degree, but also the occasional flexibility in including "original information" if necessary for transparency (p.24). It therefore encourages auditors to keep the aforementioned purpose of audit in mind while reporting their findings, reminding them that public interest should never be compromised out of fear of the outcome. In fact, Brydon goes a step ahead in recommending that "this obligation should be extended to material outside the

It therefore encourages auditors to keep the aforementioned purpose of audit in mind while reporting their findings, reminding them that public interest should never be compromised out of fear of the outcome.

Annual Report that is used in investor presentations…" (p.26), thereby enhancing the role of both, corporations' and PIE's responsibilities in ensuring that the public has access to maximal information, as is their due right.

Broadening the Scope of Current Audit

Brydon highlights a very common yet overlooked issue regarding the interchangeability of 'audit' and 'statutory audit' in our current diction (p.27). He argues instead that there is a significant difference between audit as a much broader concept and statutory audit which is linked solely to a company's financial statements, claiming that the latter is merely a part of the former whole, while also stressing the importance of non-financial audit (p. 49). Building upon the various forms of auditing other than financial, such as environmental and cybercrime, the Brydon report calls for the Audit, Reporting and Governance Authority (ARGA) to ensure the specialised education and training of these non-financial auditors. Furthermore, this new arrangement would ensure that only financial auditors will need to be certified accountants (p.32).

Corporate Auditing as a Brand New Profession

Brydon makes a rather commendable recommendation about establishing corporate auditing as an entirely distinct profession, with its own professional association, and ARGA as its regulatory body (p.31). This is a highly valid suggestion because contrary to popular belief, not all accountants are authorized auditors; in fact, auditors require more advanced forms of training including sharp inspection skills in order to qualify for their position (p.27). Moreover, making corporate auditing a profession in its own right ensures a considerably wider scope for various kinds of audit as discussed above. It can host a variety of specialisations, attracting more and more newcomers to the field, while awarding the profession its own unique identity instead of letting it lie under the accounting umbrella.

A Distinct Qualification

Building on the above, the Brydon report also suggests that ARGA devise a "specific auditor qualification" (p.37) along with a carefully tailored education and training program. It puts special emphasis on inculcating forensic accounting techniques into the curriculum, allowing auditors to aptly exercise suspicion, as opposed to mere scepticism, when required (p.36). At the same time, Brydon also suggests the development of post-graduate courses for auditing in the UK, referring to the likes of Germany, Jordan and Chile (p.37). Designing a curriculum unique to the audit profession will pave the way for many talented individuals, presenting a significant opportunity especially for auditors who are not trained accountants.

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Greater Involvement of the Public

The Brydon report prioritises the users of audit, not just in terms of the protection of their interests, but also in deeming their input valuable enough for effectively transforming audit. In this regard, the report calls for the Public Interest Disclosure Act to enable communication between the workforce and a primary auditor by including the latter in its list of "prescribed persons (p.90), thereby allowing workers to voice concerns related to the company i.e. risk factors. Such a system, according to Brydon, should also be implemented within companies, holding them accountable to employees regarding whether and how they responded to the former's concerns, if any (p.56). With reference to the PIDC, Brydon also recommends extending the Act to allow other beneficiaries such as customers and suppliers to raise issues related to the company with the auditor in charge (p.90). However, it does not end here. The report stresses not just companies', but also audit firms' accountability to the public. Brydon calls for a platform of productive discourse by suggesting the establishment of the Audit Users' Review Board (AURB), allowing users to give constructive recommendations to ARGA on further improvement of audit (p.53). In this respect, he also suggests that a "formal confidential mechanism" be developed by ARGA to hear out investors' issues related to the auditor and/or the nature of an audit, without any compromise (p.104).

Strengthening the Ethical Backbone

Since a strong moral foundation constitutes the essence of the auditing profession, the Brydon report suggests the development of the Principles of Corporate Auditing as a distinct framework to guide the actions of auditors and maintain topnotch standards of performance (p.33). Moreover, the report suggests that this set of rules should be formulated along the lines of the ISBA and FRC's ethical guidelines (p.35). Along with recommendations like maintaining objectivity and sidelining any personal gains, corporate auditors are advised to do everything necessary to make their reports easy to understand for the user, while maintaining maximum integrity and transparency in their work.

Identifying and Responding to Red Flags

Part of effective audit is being able to identify warning signals ahead of time, which is why the Brydon report suggests that ARGA create a list of such cues, allowing auditors to be prepared in advance and begin their investigation (p.72) instead of waiting for shareholders to express concerns first. This is where the application of professional judgment (p.37) will be indispensable to the audit profession. As far as companies are concerned, Brydon suggests that directors maintain the utmost transparency about their payment policies and practices with their shareholders i.e. their compliance with the Payment Practices Reporting Duty (PPRD), allowing the latter then to identify any possible concerns regarding the company's viability (p.89). Finally, Brydon also recommends that directors issue statements about their company's future based on three distinct time periods (short, medium, and long terms) as opposed to the standard three-year interval (p.81). This approach would enable a company as well as its users to be more conscious of possible risks to its sustainability in the long run, and address those risks promptly.

Conclusion

Despite mixed reactions, it is evident that the proposals within the Brydon report are comprehensive and far-reaching. ACCA endorses Brydon's suggestion to establish ARGA as the main regulatory body for the UK's accounting and audit profession "as soon as possible", stating that such a move is "of fundamental importance". Although the government has already begun its work on making ARGA a reality, it is still unclear whether or not other extensive proposals in the report, such as the establishment of a new audit profession, will be furthered. Regardless of the implementation of these proposals in the future, in Brydon's own words, "(even) if we can change the mindset in that period, it would be a huge achievement."

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