

The Pakistan
accountant

Magazine of The Institute of Chartered Accountants of Pakistan



**Accelerating Focus on
Digital Transformation**



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Chartered Accountants
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Editor's Letter

The world is changing at a rapid pace, the advancement of technology is not only improving people's lives, but is also facilitating in making work easier in industries across the globe.

Digital transformation is the cultural, organizational and operational change of an organization, industry or ecosystem through integration of digital technologies, processes and competencies across all levels and functions in a staged and strategic way. Digital transformation has helped organizations to create value for customers, develop new services for stakeholders, innovate and adapt to new technologies, capabilities. Organizations has leveraged digital transformation for gaining competitive advantage in constantly changing business environment.

In this edition of The Pakistan Accountant, we intent to highlight the businesses enhanced focus on digital transformation and why this has become a strategic agenda point. Companies across the globe are under constant pressure to increase profitability and enhance safety, security and sustainability of systems. We are delighted to include valuable and insightful contributions from our respected members including Cybersecurity for Small and Mid-Size Enterprise, Leveraging excellence through BI tools and Accelerating Digital Transformation.

I would like to thank the publication team for bringing up the latest Pakistan accountant edition and hope that the readers will appreciate and enjoy reading the articles presented in this edition.

The novel coronavirus (COVID-19) pandemic has changed how we interact work, and learn. As a good citizen we should abide by government guidelines and focus on keeping ourselves as healthy as we can by getting vaccinated.



Saifullah, FCA
Vice President, ICAP

President's Page

The rapidly accelerating pace of change caused by globalization and the widespread use of digital technologies is having a significant effect on the way in which companies and governments create economic and social value. Organizations that have successfully transformed themselves are those that understood, managed and saw the competitive advantage in completely changing how they worked, to achieve their strategic objectives.

Industry and society have witnessed several historic disruptions. The first industrial revolution brought mechanization of production, the second, mass production, while the third revolution introduced digitization into manufacturing and production. The fourth industrial revolution focuses on utilizing integrated and smart technologies to create new products and services to generate additional value.

Digital transformation takes time, and consists of series of evolutionary, and occasionally disruptive, steps. Like in any journey, you need to decide where to go first. Digital transformation is now necessary, with artificial intelligence and hyper automation as its key drivers. Digital transformation is the rethinking model of how an organization uses technology, people, and processes in pursuit of new business models and new revenue streams, driven by changes in customer expectations around products and services.

Increasing digitization is creating opportunities for individuals and companies to create value in powerful new ways. By using connectivity to interact with end-users directly, digital organizations can provide services to global audiences anywhere, anytime, while simultaneously making them increasingly personal through sophisticated analysis of individual behaviors. In future, value creation via accelerated digital transformation will require businesses to review and implement changes in organizational approach, human resources, and technology. Acceleration in digital transformation will inherently provide the businesses the ability to rapidly change and transform their operations to address constantly changing market dynamics. Additionally, organizations will need to develop a culture where technology tools, market analysis, and customer feedback drives insights.

I hope this issue of The Pakistan Accountant will help our readers to learn more about Digital Transformation and its implications.



Ashfaq Yousuf Tola, FCA
President, ICAP

Understanding Cryptocurrency

Farrukh Rehman, FCA



Cryptocurrency and Central Bank Digital Currency phenomenon is growing in popularity. From a complete unstructured mechanism to introduce cryptocurrency to an all government backed advent of digital currencies are in the offing. The latest such development comes from India where with the presentation of annual budget there is an announcement about an indian digital rupee. For sometime also there is news from China that their digital yuan is being trialled. We also heard about a Facebook led digital currency 'Libra', the fate of which has recently come to an end. Cryptocurrencies in the name of Bitcoin and Ethereum are widely known and have gained substantial valuations. This article in middle of such happening would like to explain what basic information leaders need to know about the Cryptocurrency.

There are three aspects to understand, i) technical; ii) commercial; and iii) legal and regulatory.

Technically, we should understand what is the need for cryptocurrency. In 2009, a paper was published in the name of 'Satoshi Nakamoto' with the title 'Bitcoin: A Peer-to-Peer Electronic Cash System'. This paper provided the details of first cryptocurrency 'Bitcoin' and the blockchain structure. The rationale was explained that there is commerce on the internet which relies almost exclusively on financial institutions serving as trusted third parties to process electronic payments. However, there is an inherent weakness of this trust based model. There is really no possibility of completely

Cryptocurrency and Central Bank Digital Currency phenomenon is growing in popularity. From a complete unstructured mechanism to introduce cryptocurrency to an all government backed advent of digital currencies are in the offing.

non-reversible transactions and with the possibility of reversal, the need for trust spreads. The involved merchants hassle customers for more information that they would otherwise need. Also a certain percentage of fraud is considered unavoidable. The cost and payment uncertainties can be avoided in person by using physical currency but no mechanism exist to make payment over a communication channel without a trusted party. Therefore what is needed is an electronic payment system based on cryptographic proof instead of trust. This allows any two willing parties to transact directly with each other without the need of a trusted third party.

A publication of US Congressional Research Service, "Bitcoin: Questions, Answers, and Analysis of Legal Issues," provided a good understanding about cryptocurrency that "A cryptocurrency is a medium of exchange, such as the US dollar. Bitcoin, the first cryptocurrency, appeared in January 2009 and was the creation of a computer programmer using

the pseudonym (a fictitious name) Satoshi Nakamoto. Like the US dollar, cryptocurrency has no intrinsic value in that it is not redeemable for another commodity, such as gold. Unlike the US dollar, however, cryptocurrency has no physical form, is not legal tender, and is not currently backed by any government or legal entity. In addition, its supply is not determined by a central bank and the network is completely decentralized, with all transactions performed by the users of the system. The term cryptocurrency is used because the technology is based on public-key cryptography, meaning that the communication is secure from third parties. This is a well-known technology used in both payments and communication systems."

From a commercial aspect, the acceptability of cryptocurrency needs to be analysed. As stated, Bitcoin began operating in January 2009 and is the first decentralised cryptocurrency. Today there is flurry of cryptocurrencies. More than 4000 token types tracked by industry research site coinmarketcap.com had a collective value of over US\$1.6 trillion as of 31 January 2022. A substantial increase in about two years from US\$ 192 billion on 1 January 2020. That's also up from about 600 token types worth about US\$ 17.7 billion at the beginning of 2017, the site's data showed.

The common element of these cryptocurrechny systems is the public ledger ('blockchain'). There are four key cryptocurrency industry sectors today: 1. Exchanges (used to buy, sell and trade cryptocurrencies); 2. Wallets (provide a means to securely store cryptocurrencies by handling key management); 3. Payment companies (composed of companies that provide a wide range of services to facilitate cryptocurrency payments); 4. Mining (responsible for confirming transactions and securing the global record of all transactions (the 'blockchain')).

To understand the role of cryptocurrency industry sectors, initially, a cryptocurrency exists in a vacuum, a closed system that has no connections to other systems (e.g. other cryptocurrency systems, traditional finance, the real economy). In order to participate, users need to start mining in order to earn the cryptocurrency, which can only be used for transacting with users of the same system as there is no way to spend or sell them. To counter this, exchanges were established that let users trade cryptocurrency for other cryptocurrency and/or national currencies. As a result, a price can be established for these tokens and they become digital assets that have a certain value. With increasing transaction volumes, merchants begin accepting cryptocurrency as payment method in some jurisdictions, thus making the token a medium of exchange. Payment companies that emerge to help merchants facilitate cryptocurrency payments and reduce exposure to price volatility, act as gateways and provide bridges between cryptocurrencies and the global economy.

From the legal and regulatory aspect the study of international attitudes about cryptocurrency is important. Government attitudes around the world towards cryptocurrency has been inconsistent when it comes to the classification, treatment, and legality of this technology. Regulations are also evolving at different paces in different regions. Those countries that have embraced cryptocurrencies have been cautious, for example: Australia, Canada and Singapore have either released or are in the process of releasing tax guidelines on how to treat cryptocurrencies. The UK government has

focussed on building financial crime regulations for digital currency companies. On a more global level, the intergovernmental Financial Action Taskforce (FATF) has issued guidance on 'Risk based approach to virtual assets and virtual asset service provider in the context of financial crime standards as they relate to cryptocurrency. In the US, government appears to have let this marketplace evolve but recently is showing concern that it poses a significant detection problem by facilitating illegal activity broadly including tax evasion. There are other jurisdictions that have chosen to heavily regulate and, in some case ban the use of cryptocurrency.

For majority of exchanges there appears formal government license or authorization however security breaches and regulation in general are considered to be posing the highest risk to the exchanges operations. In contrast with exchanges, the compliance requirements for the cryptocurrency storage function performed by wallets are less clear. There are concerns about wasting electricity and environment costs in relation to the mining activities.

In Pakistan the cryptocurrencies and its related structure is not allowed to operate. From the recent news it has come to knowledge that a committee formed by Sindh High Court under the supervision of State Bank of Pakistan has recommended complete ban on cryptocurrency and its related activities as risks of cryptocurrencies far outweigh its benefits for Pakistan. The committee has opined that only use of cryptocurrency in Pakistan seems to be speculative in nature where people are being enticed to invest in such coins for short term capital gains. The committee went on to suggest that such enticement may result in the flight of precious foreign exchange as well as transfer of illicit funds from the country. The Court has directed that the report be considered by the relevant ministries.

Accounting of cryptocurrencies is also a matter of interest to financial reporting community internationally. Cryptocurrencies are initially 'mined' but could subsequently be bought, exchanged, awarded or granted. Therefore, it undoubtedly meets the definition of an asset and the international consensus is to treat cryptocurrencies as intangibles as it is capable of being separated from the holder and sold or transferred individually, and is not a monetary asset, i.e., does not give the holder a right to receive a fixed or determinable number of units of currency. Holdings of cryptocurrencies should be accounted for as intangibles unless they are held for sale in the ordinary course of business, in which case it will be inventory. A commodity broker trader of cryptocurrencies would be able to measure its cryptocurrency inventories at fair value less costs to sell.

The evolution and exploration process around cryptocurrencies and central bank backed digital currency is continuing and stand at various stages of maturity.



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Are you ready for Digital Transformation?

Ahmad Salman Arshad, FCA

Digital transformation is the process of using digital technologies to create, modify and update business processes and culture of the organization. Every day we hear buzz that digital transformation is essential to survive and remain competitive in the market. Every organization want to transform digitally but only few succeed in the process and attain optimum benefit of the transformation.

There is difference between 'doing digital' to 'being digital'. Businesses must understand the difference between these concepts. In our part of the world, businesses take an overly technology

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focused approach to digitally transform which fails to provide desired results. We must shift our focus from automating existing business processes to optimize business models by adopting digital capabilities. Businesses also confuse capacities with capabilities which eventually result in failure to transform the processes and models to take full benefit of the transformation. Capability is more relevant. Digital capability is the term we use to describe the skills and attitudes that individuals and organisations need if they are to thrive in today's world. At an individual level we define digital capabilities as those which equip someone to live, learn and work in a digital society. At an organisational level we need to look beyond the capabilities of individuals and consider the extent to which the culture and infrastructure of an institution enables and motivates digital practices.

How to start Digital Transformation?

Defining the goal of business transformation and development of integrated digital transformation strategy that will provide with executable roadmap and keep every element essential for the successful completion of the project aligned with objects. This roadmap will allow leaders to analyze business capabilities against strategy, identify impacts, and propose the investments required to enable digital transformation.

There are five areas to focus for digital transformation:

- a. Leadership
- b. Technology,
- c. Processes,
- d. Data, and
- e. People and Organization.

Leadership

Leaders need to know themselves in order to be able to lead others. A leader needs creativity, wit and a vision for the future of the industry they are working with. They must also have a sense that change is necessary when it comes down to doing things better for example, taking already established strategies and implementing new systems. Leaders should maintain culture at all times so that changes can take root properly.

Success in digital transformation requires leaders to be more than just philosophically aligned and speak favorably of the common goals of the initiative. True success in transformation requires leaders show their support through their actions.

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Technology is the tool that allows us to get the job done. Technology is a delivery agent, a solution, a cog in the machine. Technology provides a solution to a problem.

This might be in a positive manner, such as the prioritization of activities and goals that align with the transformation. Leading by example might also be through calling out bad behaviors and individuals or teams that are stuck in their old ways or resisting change, whether it well-intentioned or not.

Leaders must also engage in more than one-way of communication. They must open up a dialogue with their team to better understand any reluctance or misgivings around the initiative. Many times employees simply want this dialogue and are willing to get on board with change once they are listened to and their issues are heard. As you can see, there is a strong relationship between leadership's actions and commitment, and the success of a digital transformation initiative. While many factors contribute to the long-term success of transformation, leadership's involvement is critical in both the short- and long-term.

Technology

Big data, to blockchain, to data lakes, to artificial intelligence, the potential of emerging technologies is staggering. And while many of these are becoming easier to use, understanding how any particular technology contributes to transformational opportunity, adapting that technology to the specific needs of the business, and integrating it with existing systems is extremely complex. The goal of digital transformation is to create digital businesses as opposed to businesses that are 'doing digital'. Digital businesses survive and thrive in the digital age. Digital businesses are competitive, agile, innovative, customer focussed, great to business with and rewarding and fun to work in.

Technology is the tool that allows us to get the job done. Technology is a delivery agent, a solution, a cog in the machine. Technology provides a solution to a problem. Defining the problem and understanding the context and desires around that problem is the key to successful technology design and implementation. When it comes to creating a digital business, technology is one of the change blocks that must be addressed to bring about the changes we desire.

Processes

If organization fails to focus on processes, transformation is reduced to a series of incremental improvements, important and helpful, but not truly transformative. Process transformation involves radically changing the elements of your processes to meet new digital transformation goals. These new goals are centered around a new digital transformation implementation. Companies engage in process transformation when they need to make a drastic update to existing processes. Using these process transformations methodology, you can modernize your processes, incorporate new technology, save costs, and better integrate your core systems.

Data

Data is at the heart of transformation and provides the fuel to generate meaningful insights. We have reached a point where all businesses recognize they cannot compete in a digital age using analog-era legacy solutions and architectures. Data is a key pillar for digital transformation because every interaction in the digital world generates data. This data lets you create baselines and benchmarks for your transformation journey and provides a good indicator of progress. Historically, this data was consumed for traditional reporting and analytics for stakeholders. However, thanks to today's rapidly changing market data is organizational competitive edge.

Digital transformation with data is digital enablement and enhancement across a business, delivering value through greater understanding, alignment and actioning of digital and offline data. Digital data transformation is not limited to traditionally offline data. In fact, as it works to bring fragmented data points and platforms together across an organization's wider ecosystem both online and offline. Digital data transformation creates a clear overview of how to enhance and expand and see greater value even for organizations who are already online.

People and Organization

Digital transformation is not just about embracing technology alone. It is about using technology to transform business processes, models and organizational culture. It is about using the insights brought by technology to envision new business models, markets and more efficient ways of attracting, engaging and delivering value to customers. This is why organisations that focus on putting talented people in key positions at the start of their digital transformation projects are more likely to see

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success. Some degree of employee pushback during a significant change like the current digital transformation shift is normal, if only because there's some comfort in what's familiar. But there's no going back. The world is changing and evolving, and it's up to us to change with it. To come out ahead, rather than letting the pushback overwhelm or control you, intentionally build a customer and employee-centric culture that allows you to pivot based on needs.

Research and data showed that in most of the cases where digital transformation failed to produce desired results, the problem was not the technology, it was the people and the ability and willingness of people to make the most of the technology. Research result shows the numbers are quite alarming: around 65 per cent of organisations that started this transformation journey in 2020 have not yet achieved the full benefit of the digital transformations. Other 25 per cent that are doing better are those organisations which are investing as much in their people and talent as they are in the technology."

Being successful with digital transformations starts with senior leaders coming into alignment about the vision and invest in changing culture and peoples capabilities. Organisations need to invest some budget and efforts in assessing where their current skills sit versus the future skills they'll need,

Employees must have access to digital toolbox. Digital toolbox is comprise of tools and technologies your employees need to do their jobs. All organizations have a digital toolbox but their tools vary depending on their industry and job functions. Ideally, your business strategy and the goals of your digital workplace initiative should determine which tools belong in your digital toolbox. Digital tool box can include i.e. messaging apps, productivity tools, crowd sourcing tools, collaboration tools, connectivity tools, communication and mobility tools.

Every industry and every organization will have to transform itself in the next few years. What is coming at us is bigger than the original internet and you need to understand it, get on board with it and figure out how to transform your business.



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Accelerating Digital Transformation

Khizar Hayat, FCA

Transformation had impacted voice, data, money exchange mediums, mechanics, electronics, and high tech support predominantly in way that there is no alternative ease for handling of inputs in automated systems with a little cushion for betterment.

Transformation revaluation may be stemmed from 1944 (mid of century) in form of traditional number machine named as mark - I PC with sizeable dimensions which converged now into smaller PC. Just to visualize and imagine about that big structure machine having capabilities i.e. [(ASCC) Power - 5 horsepower (3.7 kW) , Dimensions 816 cubic feet (23 m3) – 51 feet (16 m) in length, 8 feet (2.4 m) in height, and 2 feet (0.61 m) deep Mass 9,445 pounds (4.7 short tons; 4.3 t)]. Harvard Mark I being Close up of input/output and control readers was also known as IBM Automatic Sequence Controlled Calculator.

Today every walk of life from offices, factories, shopping malls, financial houses and industrial units as well as individuals are prime end users of many state of Art digital technologies.

Technological accelerating changes have taken major shift in shape of excessive reliance over aerial wave lengths, satellites, optics , high definition digital (HD) higher resolution equipments and installations.

Technological accelerating changes have taken major shift in shape of excessive reliance over aerial wave lengths, satellites, optics , high definition digital (HD) higher resolution equipments and installations.

In Pakistan, there is growing trend towards IT skills enrichment. However, relevant infrastructure and number of holdings are at infant stage. Particularly, technological hardware manufacturing and high tech Supportive as well as production facilities are yet to be triggered at very modest pace to get in par with big giants in arena.

Any incidental or wishful divergence of resources be properly protected through legislators. Role of Regularization by means of Governance and Government measures is of predominant importance in foreseeable future.

It is now evident that a substantial shift had already made in soft field from just computing or calculus to modern intelligence based computing.

Another hallmark on way to sophistication is widening use of crypto currency exchange. It is a alternative mode for digital trade Liberty which is now practiced widely for wealth creation and as well as medium of exchange. Now a days dollars alternative mechanism is constantly under evaluation and may be a good option for pegging trades among Nations.

True forms of Digitization is hard to applied across the boards. Resources scarcity may be a limiting factor for less developed masses.

Data / information contents dissemination, voyage traffic, ultimate information termination or transmission would remained areas to be subject to constant innovation.

Modernized fibers , optics, micro wave lengths and other digital transmissions are still to be function of beyond controlled taps or otherwise designed wormwares diets.

It is a very lucrative source for bridging gap between advanced and lagging nations to be at par with best as well as technological enriched set-ups. True form of Digitization is a ultimate long term initiative to be set forth with for getting status of requisite development. Plus and minuses may be associated with usage of machines as well as sophisticated tools or technology. However, utmost gains are in form of efficient disposal of inputs in commercial arena.

For many advanced jurisdiction, it is being applied as resource plannings, optimal allocations, decisions modelings, reassurances, dynamic ditized assembling and stakeholders wealth creation as well as sharing tools. While many traditional giants are still looping information systems modernization as a tool for mastering hook and Hawking only to maintain marginal competitive niche with moderate exposures within domains of afflux contributions to supply chain. Input and skill set like Silicon Citi are prime consideration for nations across the globe.

Team or Resource Orientation:-

For nations - wide drives, particularly in Southern Asia and African contents, Institutionalized economy and professional support is need of hour to empower graduates and professional fabric with sophiscated high tech and graphics based networks and tools to trigger dynamic upsurges for digital trade development.

Conception like digital coverages be opted for all e-commerce trade as well as any online medium both at domestic and international trade with collaborations of institutions of big names. It might be in form of a little proration of every e-execution either localized or international domains. It would be appropriate to term as international Digital soft takaful.

Artificial intelligence forms:-

In near future, it would be encompassing role of currency parity in terms of digital trade and for e - commerce. Reliance over paper currencies would be probably shift to more - faster and more - convenient digital forms and formats.

In some trade terms , it may be positioned in form of transfer of technology as a barter for international commodities among States. Following below manifestations are of vital prongs of world e – economy;-

- Sharing of technology skill set among cross borders:-
 - Institutionalized support for e -platforms:-
 - Transmission of exchange medium from money to digital mode.
 - Transfer freely e industrial inputs.
- Legal Backing for online space and trading modes is still in early phase of life cycle. Robust form of bilateral arrangements are still to be determined and made part of international e - trafficking.

Legal Backing and oversight is very much needed for digital strategy across the globe.



Rules for good uses:-

A very alarming and futuristic episode of digital phenomenon is setting of ethical boundaries and dimensions for good and socio permissible domains operations. It would be areas of concern for all international digital world Economic players and end users along with International regulators.

SDLC stages and subsequent innovation or building of add-on are predominantly carried out in piecemeal allocations. Team mix are to be inter - meshed with appropriate representations of relevant skills sets.

Integration and Final disposal:-

With promising future led by transformation gear, the areas of attention are quality, safety assurances, commercial optimization, obsolescence gauges, transfer of technology among masses and easier access, longer life cycles with

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cushion for upgrades, bilateral joint ventures, parity maintenance, trade mark as well as licensing protection, and expanded research and development coupled with trade liberation.

Currently in EU and Asia , systems development life cycles are being tailored to meet end users required specifications and requisitions. Rather , these SDLC are designed for enterprises- wide and national levels inter connection as well as messing. Although, currently working is in early phase among financial institutions and regulators. Modern Enterprise Management Systems had made a very promising node for way forward.

Representation at Terminal planning:-

Most of avenues, Digital intelligence have created ample end user facilitation in form of enhanced information access. At same time, it may be subject to variety of occasionalities in term of topologies failures, resource scarcity, controls beyond capacity, systems legacy, terminals semi disposal capabilities, static adoption to applications and inherent limitations on systems operatiabilities.

Excessive experimental work in digital sophistication had been undertaken to make products as well as features eye catching. Durability and safety are utmost importance for longer life spans for modernized digital set ups. International standards be liberated and innovated for iterative quality assurances among developed and semi developed cross-borders. Safety and Durability is a major concern all the time.

Embark of digital marvellence had also led to blessings in disguise for handling automation and speedier processes as well as Innovative solutions. Blessings are being coupled and tailored to just gimmick and prototyping stages in most of cases to take full potential. Excessive Automations must be reciprocated as Superb and Handy.

Technological marvellence has created possibilities of innovative ideas for nuclear, solar , wind energy thus shifted paradigm of traditional mechanical based energy and articulations. Modern digital themes parks, electric bullet mass transit systems, laser medical diagnosis and

treatments, electricity generation and aviation industry advancements are key determinants for technological sophistications.

Modernized metro systems are just glimpses of sophistication in terms of technology and infrastructure development for the globe. State of art facilities alongside speedier processes had made bigger contributions to environment friendliness, divulging resources as well as skilled set to other alternative opportunities, social wellness, hazards controls, and carbon emissions being kept in lower side. All it had been made achievable through exploiting of modern technological advancement and revolution.



Electric and digital power options had also led to eye catching celebrations by globe just to keep safe world from fire works emissions damaging environment in terms of higher air quality metrics, ozone layer deterioration, risks of explosions, damages to herbs & shrubs, or green built and parks.

Future outlook:

Industry digitization as well as systems development will be subject to tremendous elasticity cycles. Most significant trends would span over next 20 years in form of digital smarter outlook. Currently, digital economy is 2.5 times of global GDP growth. It might be expected to be exceeding US\$23 trillion (24% of global GDP) by 2025.

Another growing trend is addressing the demand for clean energy and IT sustainability. It would be made achievable by using low-carbon systems for markets such as data centers & electric vehicles.

One more glaring citation is that of Saudi Arabia' green initiative. It will be generating 50% of its energy from renewable sources by 2030. This planning milestone is predicted to :-

Most of avenues, Digital intelligence have created ample end user facilitation in form of enhanced information access.

Displace - 1 million barrels of liquid fuel per day.
Reduce CO₂ emissions by 175 Mtpa.

Bitcoin ATMs are easily using for procuring bitcoins and other cryptocurrencies by using cash. However, these are subject to growing potential for fraud.

SAP stores enable seamless shopping experiences thus creating great customer loyalties, repeat businesses, and flexible trade options. It also led to total e - commerce integration , and value chain links as well as automated or robotic articulations.

Methen emissions from human activities are causing 30 % of global warming. Technical advanced big industries as well as green initiatives have in built potential for dealing with this potential eventuality. Technological advancement is a way forward solutions for dealing with unhealthy emissions into environment.

High performance polymer solutions can produce smart packaging. It can keep food fresh , improve food safety , and prevent food waste.

Saudi Arabia also unveiled that it is joining international sports for climate action agreement to amplify sport Sector contributions to reduce emissions in the kingdom with the help of more digitation and topologies, as well as modern sport facilities and infrastructure.

Banks need to deliver customer concentric products, services and experiences by using 360-degree customer view enabled by streamlined and automated banking operations across the globe.

However, strategic planning and alliance are growing globally for crypto capital.

Current joint ventures are among Bitforex , Eastern Capital, Bitmain International etc. However, legislation and legitimacy of such capital had been fashioned in developed nations yet.

Keeping abreast with obsession going on for world wide digital competitive edges, Asian countries are continually adapting towards digital drives in form of international Collaborations.

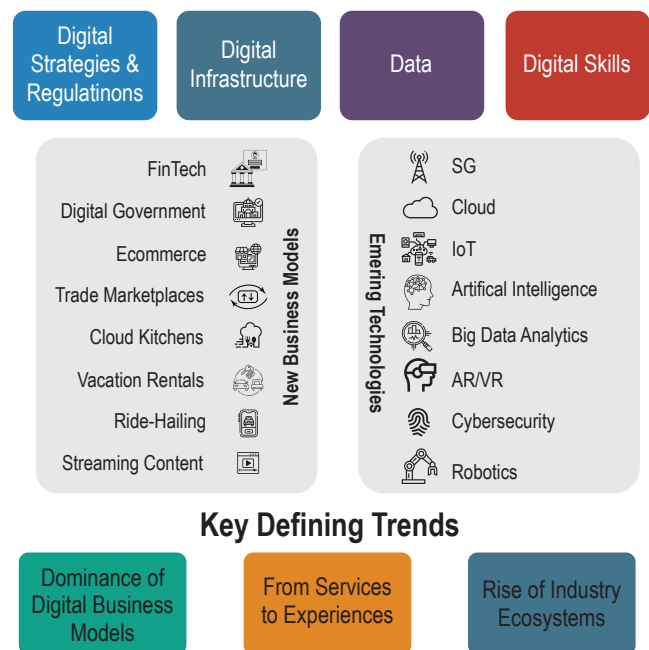
Impact of information on financial primary and secondary market is subject to instatenous suppling from resources to ultimate and intervening direct as well as indirect beneficiaries and financial hubs. A very upsurges on stocks had been very precisably reflected in pictorial form in true spirit.

Disclosure of information already with domain affiliated with stocks is a little impacts. The strategic information and international financials bargains among Nations would have catalytic influence on money markets moves.

Automation enhancement would certainly revolve further money markets and commodities markets into global exchange concepts.

Javelin's contributions towards e - commerce are also accelerating tremendously in form of SME based freelancing set ups or individuals who are contributing to world digital trade or otherwise graphics designs as well as online expertises and educational imparting. This may be termed as Economic contributions in supplement to planned abovesaid e Commerce plan for tomorrow trade up to dollars 9 BN.

Future economies would evolve around technological transformation and up grades. Main trends would be encompassing dominance of digitization, rise of industrial ecosystems coupled with experiences as well as key enablers ie data, digital infrastructure and regulations.



Technological marvellence has created possibilities of innovative ideas for nuclear, solar,hydal , wind energy thus shifted paradigm of traditional mechanical based energy and articulations. Modern digital themes parks, electric bullet mass transit systems, laser medical diagnosis and treatments, electricity generation and aviation industry advancements are key determinants for technological sophistications.

Qatar government had detailed its long term digital development efforts in form of Qatar government digital strategy 2021-26, smart cities, Qatar Fintech Hub and Qatar Fintech strategy.

Likewise UAE government had also charted out UAE digital Economy strategy and skills development programs. Saudi Arabia has also planned its projects encompassing 5G , Cloud and data & artificial intelligence. It would entail speed enhancement and relevant Regulatory authority establishment.

Future concerns regarding concentric usage of digital technologies would be also preoccupied in following endowments and ramifications:-

- Global warming.
- Retreat of glaciers.
- Live stock contributions to global warming.
- Higher side air quality indices.
- Food security and Food Preservation.

Automation acceleration would supplement processes involved in waste disposal, sustainable food quality and food nutrition value up grading. Critical success factors are encompassing upcycling of food waste, adaptive irrigation, vertical farming, biological and microbial solutions, alternative feed and proteins, bio fortification, healthier products, and natural ingredients which may be future solutions for better food security.

Live stocks are major source of green house gases (GHG) which may be contributing towards global warming as well as additive to smoky foggy air quality deterioration. Enzymes based solutions may serve purpose of better control over GHG impacts to be further supplementing food industry and Agri sector.

In developing world , there is major shift of farm technology needed to transform agriculture economies.

Different metering techniques are being applied for environment damage assessment by use of current fules as well as Industrial affluents.

AI Nafud forest desert land and Sea areas Conversions:-

Saudi Arabia would achieve Greenland fields and sea areas being protected to the extent of 30 % till 2030 under green initiative through deployment of fueling option to solar energy. Preservation of dessert to the extent of 38 million m2 would be expected.

Risk Paradigm in IT revaluation: To and From Technology:-

Risk Paradigm in digital sophistication and in terms ahead would be needed to be off setting to extent of relevant redrrasal. While in crypto capital gains, it might be subject to number of variables as well as international domains. Tasks would be subject to interacacies and stones Walls structures. Digital transformation at boards levels would be a of litle value for strategic directions and fragile exposures weighing as well as rescaling.

Networking among web domains play vital part in dessimination of data in raw forms or encrypted or digital and signals patterns. Gap anaylis between requisite time dimensions would lay out potential for acceleration needed.

Acceleration would be a great deal of time ahead. Main corner sides are articulations by globe for joint strageic plans and milestones generally and long term plans at countries levels. Exchange of technology as well as export of soft services along with web domains are prime considerations. Another way forward stipulation is meshing of local LANS with International bandwidths and related technological propotyping of newer ads- ons. Budgetary and joint R & D may be out of very vital needs for technological edges.

HD channels technology, bio diversity impacting radio emissions from Telecom installations are yet to be properly protected although related industries and sector have been shown tremendous technological explosions.

According to professional mentorship program, use of assets is very decisive for organizations floating around. Particularly, optimization in usage of automated systems or domains is reciprocated function of skilled humans. Acceleration of technology is tied with skills enrichment, experimental testings and final end users requirements.

Future determinants of digital transformation accessalarion may be gauged through following self-driven maximum counting on recurrent time intervals:-

In days ahead, artificial intelligence application's and domains will be of more help for environment protection methodologies, healthcare, judicial support systems and revamp, educational supplements and rapid mass transit in addition to e-commerce integration.

Glaring need for future is triggering of modern automation to revitalize Justice just to make it more spontaneous and impulsive.

Biological sciences and assets as well Agri farming harvesting modernization are also potential areas where developing economies have to trigger automation and advancement sizeably.

To conclude, all manifestations are function of human equilibrium and futuristic stances. Machines, mechanics and innovative ideas are all flourish in enabling culture and learning spaces.

Below is snapshot of brother country incumbent setting and visualizing his country's current state of technological marvellence and excellence.



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The tipping point is here. Is digital transformation a reality for us?

Azain Gilani, ACA

In this exponential age, more commonly known as the digital or information age, all sorts of disruptions are being enabled by digitization. The pace is rapid and linear, yet it needs to be accelerated. With the arrival of the 21st-century digital transformation has led the way and the new normal is where expectations of what is and isn't possible have been completely reset. Be it the smartphones, social media apps, online video streaming, self-driving cars, and robots, all played a vital part in creating a tech-savvy Gen Z.

With the sudden outbreak of the COVID-19 pandemic, 'Going Digital' was the only option for many businesses. This pushed organizations and governments out of their comfort zone to envision technological advancement. We have already seen two years' worth of digital transformation in only two months. Businesses had to reassess their operating model and processes and engage in discussion to understand evolving customer needs and new models of employee engagement.

At the same time, Fourth Industrial Revolution (also known as Industry 4.0) is becoming a reality and will be crucial for post-pandemic economic recovery in countries across the region and beyond. As such, a coordinated approach to develop and implement digital transformation initiatives across the public sector, complemented by private sector investment and innovation, is essential to maximize the potential of digital technologies.

With the sudden outbreak of the COVID-19 pandemic, 'Going Digital' was the only option for many businesses. This pushed organizations and governments out of their comfort zone to envision technological advancement.

The Fourth Industrial Revolution as such, a coordinated approach to develop and implement digital transformation initiatives across the public sector, complemented by private sector investment and innovation, is essential to maximize the potential of digital technologies.

Digital transformation (DX) is a cultural change more than a technological shift. It stretches from digital-ready culture to embed digital solutions in existing operating models and processes.

The world is transforming!

As IDC forecasts, global spending on digital transformation (DX) by organizations will reach \$2.8 trillion by 2025, more than double the amount allocated in 2020. This will lead to the compound annual growth rate of 16.4% over the five years as organizations increasingly focus on people, processes, innovative technologies, and digital solutions.

The global shipment of smartphones is expected to grow 5.4% and 3% for 2021 and 2022, respectively. This is true despite the global logistics and supply chain issues being faced by the world markets. With the launch of 5G technology, the internet connectivity and speed will see their new high, and by conservative forecast by 2022 half of the global economy will be based or influenced by digital.

Leading the disruption is the Asia/Pacific region, host to 60 percent of the global population. Information and Communication Technology (ICT) spending of the region will witness an increase of 9.3% in 2021 to reach \$1.3 trillion. This includes IT spending in addition to telecom services and new innovative technologies such as AI, robotics, cloud computing, and the Internet of Things (IoT).

Where do we stand !

Pakistan's journey to digital transformation is an arduous one. We have been sluggish in adopting new innovative technologies. With the more recent example of launching 3G and 4G spectrum in 2014 and 2016 respectively. By contrast, our neighbor India auctioned both in 2010. Most Pakistanis who currently have the internet have it because of mobile broadband internet connection which was only made possible after 3G and 4G spectrum auctions. Most Pakistanis who use internet through mobile broadband internet connection currently have the internet have it because of mobile broadband internet connection which was only made possible after 3G and 4G spectrum auctions.

The odds are changing tough, research by google and kantar has shown that internet penetration in Pakistan has been 54 percent in 2021, up from 22 percent in 2016 with more than 103 million internet subscribers. This sets the stage for technological improvements in all areas whether it be fintech, e-commerce, e-governance, or organizational transformation. Pakistan has seen the biggest rounds of seed money from worldwide venture capital funds. Pakistani startups have raised \$230 million+ in 2021 which is more than 5 years combined. These are the top venture capitals investing in Pakistan seeing the potential of digital transformation here. Plus there is a cyclical trend to it, when more venture capital invests in startups, the startups building product/services increases the value on being the internet and this results in the growth of internet usage.

Let's break it here, we have continuously emphasized digital transformation and its implications. Before going deeper into the digital trends we should spare some lines to understand the concept of digital transformation.

What is digital transformation?

Contrary to the prevalent belief, digital transformation (DX) is a cultural change more than a technological shift. It stretches from digital-ready culture to embed digital solutions in existing operating models and processes. It has to be understood in a way that DX is a process and a mindset that requires consistent improvement using innovative technologies such as machine learning, IoT, artificial intelligence, and data analytics.

To put it precisely, DX is a people issue and leading transformation starts with empathy. This is equally true for organizations and governments, looking to create more agile operating models.

Digital trends!

In Pakistan, digital trends are on the rise with many startups working in various domains to have a digital impact on the economy. The support from government institutions is also there to maneuver it in the right direction with the required policy approvals.

The more recent initiatives are in e-commerce, e-groceries, digital logistics marketplace and fintech where the competition is severe and hot pace. Many startups like Airlift, grocer app and food panda has ventured into e-groceries and e-commerce, with substantial interest from venture capitalist.

Then, we have fintech startups like TAG, Sada Pay, Abhi etc. bringing in digital reforms that conventional banks were too reluctant or willingly hesitant to adapt. Post-Ex, BridgeLinx, Trax etc. are few digital logistics startups looking to revolutionize the market.

Yet the government reforms for digitalization are also going ahead with ease of doing business and digital inclusion policy such as national financial inclusion strategy introduced by the central bank of Pakistan. The initiative of introducing the RAAST system to replace the inefficient 1Link (Pakistan's largest interbank network) and the delays caused by the IBFT transfer system.

As has been claimed, through RAAST transactions will be fast and take place in real-time, it will allow something called 'bulk payment', it will also make transferring funds easier by introducing 'aliases' that will act as unique bank account numbers. With RAAST will also come 'request to pay' services in which service providers can ask for payments directly.

Digital transactions account for only 0.2% of the total 100 billion (approx.) transactions today, whereas the competitor countries' share of digital transactions ranges from 1.5% to 7%. These low numbers can be primarily attributed to a lack of digital ecosystem and stimulus. During the Covid period, when the waiver on online transfer was announced the IBFT volume spiked by over 200% to 164.9 million transactions, and in terms of value, the spike was 100% with Rs. 4.89 trillion, whereas in the year 2019 there were only 51.2 million transactions with a value of Rs. 2.2 trillion.

Corporate spaces are evolving!

Traditional businesses have been shaky with the digital transformation, may be due to lack of awareness or the cost involved, or fear of the unknown. However, the trend is likely changing, or more realistically it may have become a survival game for some. The tipping point has to be near, customers' preferences have evolved, and speedy, reliable, and innovative products are need of the time. Gone are the days when international brands were reluctant to venture into Pakistan. With international competition, speed of innovation is important to stay relevant and compete.

Companies have started to bear the brunt of the lack of digital initiatives with many companies going out to businesses as customer preferences evolve. More recently, large enterprises have understood the need for Chief Digital Officers (CDO), to stay ahead of digital initiatives and accelerate the progress.

The adoption of cloud-based ERP systems, Optical Character Recognition, machine learning, real-time data analysis, and AI has made the supply chain lean and agile.

What is government thinking?

The governments have had a pivotal role in creating a digital economy and steer heading the pace. One-stop shops have been revolutionary for governments to provide better services and improve regulatory reforms for citizens and businesses. These reforms are done by integrating the regulatory requirements for businesses at one central point and reducing the process lead times and redundancies.

Pakistan has improved in its ranking of Ease of Doing Business from 148 in 2016 to 108 in 2020. The responsibility of governments is pivotal in creating the response that citizens demand. They have to develop the infrastructure, implement policies and be on the watch out for enhanced innovation.

Conclusion!

What has hindered the progress so far? The closest answer to it is the cost involved in digital technologies and the perceived benefits assessed by the businesses. Also the mindset has not been there, with individual business owners not considering it the right investment.

This may be true considering the state of economy and the revenues businesses draw. Digital transformation is a process and it has a cost and the businesses should be profitable to consider it a viable investment.

Pakistan has still a long way to go, as GSMA report on digital societies of Asia Pacific ranks Pakistan in the emerging category and with the lowest overall score of 39 in 2020 index on digital society scores. Bangladesh is the only peer country sharing the space with Pakistan in the emerging category, whereas all the other countries (total 11) have been placed in the transition or advanced category.

The report highlights the concept of the whole-of-government approach (WGA), which allows government to more efficiently address roadblocks and issues with a cross-ministry approach and collaboration with the industry. The advanced nations are leading the enablement of network technology whereas others are still in the process of adopting enabling policy frameworks that set the proper foundation to launch innovations.

Yes our journey towards digital transformation is long and will not any time sooner be close to advanced economies. But we do have a good Launchpad from here on as our startup base has increased and the government is also on the move and the businesses are accepting new trends. So the responsibility is shared and consistency is the key!



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ACCELERATING FOCUS ON DIGITAL TRANSFORMATION

Muhammad Faizan, ACA

Digitalization or digital transformation can be construed as a living thing which moves along with the changing circumstances and progress constantly. The principle for being successful and relevant is to move along with the times.

Digitalization or digital transformation can be construed as a living thing which moves along with the changing circumstances and progress constantly. The principle for being successful and relevant is to move along with the times. Digital transformation or we can say mystic transformation is like our dreams comes true. Life has never been imagined so contented before this digital age. Digitalization has radically changed perception of mankind with respect to work, shop, banking, travel, everything. This is something that has mandatorily being embedded in our daily routine and culture leaving us with no alternative, rather than to live with this digital age.

When we listen to the word digital transformation, the first thing that comes in to our mind is systemic change thus affecting the entire practices. Digitalization can simply be defined as shift from analogue technologies to a digital age that will not only bring innovation and creativity to our existing business processes, but will also make things easier. Some of the leading examples of digital technologies that evolved by the pace of time includes smart phones, 3D printers, artificial intelligence (robotics), Internet of Things (IoT) etc.

Digitalization started back in 1679 when Gottfried Wilhelm Leibniz introduced binary system first time ever. Since then using this binary system technique, different developments took place that has finally entered us in this digital era.

Digital evolution has affected nearly all the economies across the globe. Banking, medical, civil aviation, manufacturing concerns, hospitals all have digitalized their operations to their y. Book to e-book, VISA to eVISA, photos to Instagram, CNIC to biometric, maps to GPS, postal letters to emails, physical cash to e-wallet, physical shops to e-stores are some of the prime sights of the digital age that we are currently being part of.

We do not meet the people regularly but we are connected with each other through **digital communication** tools like WhatsApp, Facebook, imo etc. and not only communicate but we also share data with them. **Digital transportation** has already been automated to an extent where buses and trains are operating in the absence of drivers. Public transportation i.e. buses, trains and cars can be scheduled and seats can be reserved online through mobile applications. Careem and Uber are also one of the leading examples of transport digitalization that has made commuting easier and accessible. The options are being explored in near future to introduce driverless cars that can drive even better than humans. Likewise, parking of car these days is also being carried out digitally using mobile phone application through which parking number is allocated digitally on mobile at a particular permitted parking spot. **Smart phones** that have gain unbeatable competitive edge in the phase of technological development will soon be converted in stretchable screen as a pocket handy device.

Banks where people in older times think is a safe place to keep their cash and personal belongings. Digital transformation has completely changed perception of people through technical innovation. These developments have enabled the customers to transfer funds and execute different types of transactions across the globe with just one touch through their cellular phones 24x7 without physically visiting the bank's premises.

ATM/ debit cards that were construed to be noteworthy technology to withdraw funds from ATM Machines now seems to be losing their significance, since same have been replaced with just one touch (biometric). Nowadays, bank accounts can also be opened and operated through Bank's online application portal. The future of banking in the arena of

Digitalization can simply be defined as shift from analogue technologies to a digital age that will not only bring innovation and creativity to our existing business processes, but will also make things easier.

digitalization is to enable to perform entire banking activities digitally and reduce the number of bank's branches.

Edge computing that is gaining utmost popularity after cloud technology in the field of digital transformation which allows processing and analyzing the data at the same location where the source data is available. Edge computing functionality has radical impact on health industry. This technology monitors the patient activities and facilitates the doctors to get alerts in case if patient requires immediate attention. The core idea behind this technology is to shift from person focused to patient centric. By 2025, edge computing is expected to grow four time faster than the cloud and will generate more than 70 percent of the world's data, for which the world is heavily investing in software infrastructure being the future of data processing.

Big Data which is the future in itself will lead all the business decisions. The basic objective behind the Big data is scrutinizing customer centric data that is accessible on various forums in chaotic manner and logical arrangement of the same through application of analytical techniques in order to assist the organizations to take informed business decisions. This evaluation of customer trend is key to interpret and understand the existing and emerging needs of the customer. According to Statista, the global big data market is forecasted to reach \$103 billion by 2027.

The most trending digital transformation these days is crypto currency, a **digital currency** the records of which are kept in centralized database with secured encrypted controls. Bitcoin is the first ever released digital crypto currency that worth billions of dollars in crypto currency market these days. The legal status of this currency varies from country to country, as some countries have accepted it legally like Cuba and Russia whereas, certain countries have entirely banned which includes Egypt, Iraq, Nepal, Pakistan, UAE etc. As of now the existence and legality of this currency is quite dubious, but it would not be apposite to deny its applicability in foreseeable future. As per the Fintech expert survey, Bitcoin will surpass and replace existing currency issued by central bank by 2050.

Technology has taken dramatic edge in the field of advancement and innovation that one has never imagined before. **Artificial Illumination** is being used during night time as a substitute of sun light for the purpose of pollination and fruit infestation. **Tiny AI (Artificial Intelligence)** is now available that can process powerful and complicated artificial intelligence algorithms on mobile phones. The key player of Tiny AI technology includes Google, IBM, Amazon and Apple. **QR code** has successfully gained recognition where a user

can make online payment by scanning a code with their smart phone and can complete the payment transaction.

Moreover, China is also presently working on to launch **artificial moons** in the orbit that will be substituted with the street lights. Moreover, China is also in process to introduce **artificial sun** to imitate the method of atomic fusion. An **internet grounded by quantum physics** will soon be enabled that will make hacking impossible.

Digitalization has gripped the entire world in its exquisiteness. Countries that make immense capital investments in the arena of digitalization are ranked high in digital competitiveness. As per Statista 2021 dated October 05, 2021, US is being ranked high as most digitally aggressive country in the world. Thereafter, Hong Kong, Sweden, Denmark, Singapore, Switzerland, Netherland etc are labelled as frontrunners in the field of digital transformation.

Pakistan being a developing country is also ahead of this digitalization and working on a variety of projects to bring digitalization in the country which includes establishing digital ecosystem in Pakistan by Jazz with the moto to expand 4G users in rural and semi-urban areas, digital health care solution by Telenor & Sehat Kahani to connect patients and doctors through telecommunication services at a subsidized rate etc.

National Database and Registration Authority (NADRA) has also played a decisive role in the field of digitalization. NADRA on the request of State Bank of Pakistan has taken initiative to introduce contactless biometric verification system which permit the users to perform biometric using their cellular phones remotely and execute financial transactions. Secondly, NADRA has also launched Pak-ID Mobile App through which local as well as overseas Pakistani can upload relevant documentation & photographs and can perform biometric through their mobile phones. Third major initiative towards digitalization is inclusion of state-of-the-art chips in the National Identity Cards which consists of all the sensitive and confidential data of the citizen registered in NADRA's record.

China-Pakistan Economic Corridor (CPEC) is a game changer and a huge step in the age of digital economy for Pakistan. The impact of this digital economic transformation will provide alternative landing station at Gwadar Port that will address the problem of reliance of single landing station in Karachi to handle the entire internet traffic of the country. 5G technology would also be rolled out as a part of CPEC project in Pakistan which will be a great move towards advancement of digital economy.

However, there are still few segments that are at the back foot in this arena of digitalization which includes construction, oil and gas, mining that needs to play a decisive role in this ever ending war of digital transformation so as to remain competitive.

There are many instances where companies were almost about to shut down their business operations which includes **Nike, Hasbro, Buy, Targets, Home Depot's, Honeywell**. With the enforcement of adequate digitalization strategies which includes use of data analytics, opening online concept stores and through immense digital marketing, these companies have regained stronger customer base and successfully revived their business operations.

COVID-19, the pandemic for the purpose of digitalization has proven to be blessing. One has never imagined such a distressed life before which people have lived from the end of 2019 which have exposed to numerous unfamiliar vulnerabilities. When the entire world was confined to their homes under lock down situation, digitalization plays an effective role during that tenor. This was the time when people in reality started understanding the theory of digitalization which is beyond all of the blockers that hinder the implementation of digital strategies.

Work from home, remote access to core system through virtual private network and usage of Zoom for conducting virtual conference meetings are the foremost examples that has utterly changed the way of doing business. The organizations have taken a paradigm shift to paperless environment during this pandemic. Nevertheless, the education systems across the globe were digitally transformed where even students of pre-primary and primary schools became a part of this process of digitalization. Trainings have also been provided by the training organizations virtually through Zoom and Google meet.

Conversely, there are certain segments that have not yet acknowledged the supremacy of digital transformation. The impact of pandemic COVID-19 is compelling the organizations to re-think their existing business strategies and align the same with the prospective digital transformation through embracing rising technologies and become proficient enough to face such sort of systemic risks. It would be fairly true to say that COVID-19 pandemic has proved to be an influential accelerator in digital transformation.

Digital transformation is lesser issue but the real culprits are the people who are responsible to bring true transformation. The topmost hindrance to digitalization in corporate culture is *resistance from the leadership positions* who can actually visualize and bring the change. Secondly, the legacy system of the organization does not allow embracing technologic advancement as it may create overhaul in the way the organization operates. Thirdly, an organization that operates in silos and contends for their respective financial and human resources budgets can never espouse such digital transformational strategies. Fourthly, the built-in culture of the organization is quite cumbersome when it comes to risk acceptance. Organization tend to believe that through digitalization, risk of doing business will be increased which ultimately become a strong barrier from initiation. Additional common barrier that comes across comprise of lack of co-ordination of business units with IT Division and scarcity of skillful talent that understands the risks prone to such digital transformation.

Having such commendable benefits of digital transformation, there is an **ever increasing risk of cyber security** that has emerged preeminently which cannot be overlooked. Since majority of transactions through digital channels are being performed using cellular phones, specific confidential data is being entered in the mobile phones which is linked with emails (like Gmail) or social media (like Facebook). Even on the mobile applications, most of the people have linked their bank account numbers to execute hassle free transactions without the need to input account details repeatedly. Social media which can be construed as a hub of personal information where most of the users have entered their accurate personal information like primary verifications easily accessible to

everyone. Hackers generally tend to attack on such confidential data to steal the same to perform unauthorized transactions.

The rate of cyber crime has drastically increased these days particularly during COVID-19 when use of these digital technologies was at its peak. An analysis of cyber security statistics is as follows reported by different sources;

- 36 billion records were subject to data breaches in the first three quarters of 2020 (*Risk Based Security Research*)
- Usage of malware increased by 358% whereas, ransomware usage increased by 435% in 2020 (*Study by Deep Instinct*)
- Cyber crime will result in total loss of \$6 trillion by end of 2021 until it will reach \$10.5 trillion in 2025 (*Estimation by Cyber Security Venture*)

Moreover, as per the research made by Solutionz Security, the average cost of data breach is \$3.92 million. Average cost of ransomware attack on business is \$ 0.13 million whereas malware attack is \$ 2.6 million. Information leaks are the most dangerous and can cost \$3.86 million per incident. Financial sector is more prone to cyber attacks i.e. around 300 times more than the other sector is posed to such risk. The average cost of financial service data breach is \$5.85 million.

Digitalization or digital transformation has turn into an indispensable element of our routine lives. These transformations have been entrenched in our daily lives and one cannot even imagine existence and survival of mankind in the absence of such digitalization.

At the moment, robotics/ artificial intelligence has already been implemented in many of the sectors such as hospitals where medical robots are involved in surgeries and streamlining hospital logistics, manufacturing concerns to perform laborious and repetitive tasks.

Looking at the contemporary developments and trend being followed in the field of digitalization, gigantic investment in artificial intelligence in coming years will be made being the ultimate future of digitalization as this will reduce the reliance on human expertise. Moreover, cost currently being incurred by different business sectors on developing human knowledge base and to recompense them for their talent is far higher than the cost incurred on purchasing robotics that can operate 24*7 with full competence and accurateness.

However, mere investment in digitalization projects will not only bring efficiency and maximize the output, but simultaneously there is a need to understand the flip side of this mysterious game and make every possible effort to take measures to protect confidential and sensitive data from different malware attacks and data breaches that can ruin the beauty of digitalization. This will not only facilitate to maximize the output from these technological advancements, but will also assist to take our country, our economy and ofcourse the respective institutions at **next level**.



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Digital Transformation

Danial Taufique, ACA

In a 2020 survey, around USD 1.3 trillion has been spent on digital transformation worldwide growing by 10.4 percent year on year and major reason for this growth is because COVID 19 pandemic has created a need for owners and CEOs to transform their business digitally. During this pandemic many organization has introduced and promoted remote working as a norm. There are many organizations in United States where employees are asked to work from home permanently and concept of physical offices has been waived off. Policies and procedures are being designed in a way to make effective this remote working environment.

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In a 2020 survey, around USD 1.3 trillion has been spent on digital transformation worldwide growing by 10.4 percent year on year and major reason for this growth is because COVID 19 pandemic has created a need for owners and CEOs to transform their business digitally.

Business leaders have realized that digital transformation is important for their organization to grow and compete.

However this transformation is challenging and as per survey in 2019, 70% digital transformation goals do not reach their goals and major challenges encountered in this journey is issues of strategy, communication, culture and shortage of talent.

To execute effective digital transformation in an organization leadership must have a clear business strategy and steer commitment to carry it out. Following are prerequisite for successful transformation:

- Speed in decision making, during transformation and designing we may not have all the answers to all the question, one need to take a judgment call based on all the information available and all the requirements or future requirements.

However this transformation is challenging and as per survey in 2019, 70% digital transformation goals do not reach their goals and major challenges encountered in this journey is issues of strategy, communication, culture and shortage of talent.

- Digital transformation effects the overall organization, its impacts need to be communicated across the organization. Communication include internal communication i.e with employees and external communication i.e with customers, vendors etc. Communication during digital transformation need to be transparent, either it is bad news or good news.
- Team working and management is essential for successful execution and continuation of digital



transformation. Teams cannot work in silos, IT people must have knowledge of businesses and business must have knowledge of technology.

- Change management, there are many factors in organization which hamper change e.g job security, skill set gaps, fear of abandonment etc and management here needs to encourage that transformation will instead upgrade employees skills.
- Hiring right talent, without right people, processes and culture just mere investment in transformation will not give the desired results.

Overall the organization need to start thinking and accelerate the investment in digital transformation considering the need of the world. We can see how world is evolving and this concept of 4 working days will eventually come to 1 working day and all the operational work will be handled through Robotic Process Automation (RPA). In future the investments will be made in algorithms instead of real estate. Concept of having own cars will be eliminated and real time ride sharing and mass transportation will be promoted.

For all this we need to update ourselves and we need to find right answers and focus on anticipating customer needs. As Oracle CEO Safra Catz notes, "The hard thing about these transformations isn't the technology. It's the sociology."



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Digital Transformation is the Future

Muhammad Farooq, ACA

Digital transformation is a journey toward ubiquitous optimisation with objectives to achieve innovation, flexibility, and stakeholders' buy-in in the organizational decision-making for optimum outcomes. One of the most effective tools to scale up and accelerate growth is to digitalise the organisational processes. Latest technology offers a roadmap to differentiating organizations from their peers in fulfilling business objectives. Digitalisation allows them to respond to the increasing pace of change by creating applications more rapidly to automate business activities, optimize artificial intelligence (AI) and enable faster smarter decisions. It is also a cost-effective way of strengthening feedback loop for further improvisation and the value addition of the product.

In today's age where the world has witnessed disruption across different sectors due to COVID-19, the importance of tech-enabled processes has become manifold. Even before March 2020, many organisations were heading toward innovation through greater adoption of the technological solutions, a process which was revolutionized leading to the expansion in the digital footprint.

Digitalisation is basically a process of putting technology at the centre of business operations. Digital transformation, as a strategy, is not the destination but a way to achieve the organisational objectives by marring customers' expectations with tangible outcomes. This basically involves a technology framework to assess emerging and innovative solutions to the existing problems. Organisations should consider following phases when looking to build their digital DNA.

We all subscribe to a popular quote by renowned Greek philosopher Heraclitus "Change is the only constant in this world". What the technology has done is to accelerate the



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process of change. Where it has presented solutions to the existing problems and led to effective service deliver and increased customers' satisfaction, it has presented a set of dynamic problems of its own, that are innovative, unique, and disruptive.

These technological challenges are testing the old ways of decision-making and expectation management within the organizational framework, thus incentivising the arrival of a new set of industry leaders who have on their shoulders not just the responsibility of the organizations' day-to-day operations but are also required to develop long-term strategic outlook.

Digital transformation is a comprehensive approach to change the very manner in which business operations take place,

Digitalisation allows them to respond to the increasing pace of change by creating applications more rapidly to automate business activities, optimize artificial intelligence (AI) and enable faster smarter decisions.

including governing strategy, processes, and stakeholders' interface. It remains on the radar of the organisations but remained restricted only to changes of minor nature i.e., from the paper to email, and manual to electronic communication, etc. But the real digital transformation is to optimise the entire business processes with an eye at enhanced output.

The Digital Transformation of Finance

Digital transformation ranks at the top of boardroom agenda in multinationals. However, success belongs to those who perceive this as evolving journey towards agility instead destination. Finance, as a low hanging fruit for digital transformation, can only survive to control the decisions of the management if it delivers towards business partnering which is only possible with digitalisation. Now is more important than ever to begin to realise that finance role lies in business partnering instead back-office financial management. Finance is now at the crossroads of IT strategy and business intelligence.

Through digital transformation, finance can become the engine room for analytics in the business, providing key empirical evidence for the strategic decisions of the board. Finance can then engage stakeholders with more personalised analyses, helping them to be more engaged through these insights.

Go digital:

Once an organisation decides to embark on digital transformation it can start from various segments depending on industry and synergies. However, as a rule the areas to be first selected for digital transformation must be where finance leaders are spending most of time.

Real time access to financial information:

Periodic reporting is no more operations driver instead real time access to local decentralised data is mandatory for the operational decisions. Availability of decentralised secured data is the challenge which can be overcome only through digitalisation. Various financial digital solutions are available to challenge the conventional ERPs.

Most of tasks can be categorised as potential areas for efficiencies improvements, iteration is the driver of change. Robotic process automation in payables is the potential area to raise slogan as go digital, raising digital PR and PO why cannot be responded with digital invoice. Same is the case with digitally handling payment. This is simply a mindset one needs to change. This must not be misperceived to mega capex task, one does not need to invent the wheel again. Too many enabler tools are available with the commercial bank, fintech, and

micro-finance through mobile banking, a trivial customisation or interface app can achieve the desired outcome.

Self-service functionality:

Finance needs to create a self-service platform internally for the management, cross departments, and employees and externally with suppliers and customers to achieve efficiencies and data sanctity. Lengthy and complex compliance requirement creates unnecessary friction between the departments with delays in access to relevant information. Achieving self-service functionality finance team can invest their time toward data analysis where actually professional input is more crucial. This type of transformation transcends traditional roles like sales, marketing, and customer service, and is primarily concerned with how organizations think about, and engage with, customers. With the incorporation of new technology, organizations have the opportunity to re-examine how they carry out business.

Reporting & Analytics:

To the keen observer, digital transformation in finance is not just reserved to payments. Digital transformation has demonstrated its ability to transform operations and business models, reporting and analytics and even build new product lines all together. In today's world financial dashboard to non-finance persons are critical to support at tactical level. The ultimate objective of digital transformation is to equip stakeholders with facility to work complete remotely. Uber, Airbnb amazon are the live examples. It's easy to measure the past performance as a means for future returns, but the future is not set. By driving digital transformation, finance can stop looking back at history to measure and predict the future, and instead look forward to having its hand in writing the future of the organisation.

Challenges in digital transformation:

As usual human factor is crucial for companies to carry successful digital transformation. A constructive change management is necessary for transformation of the mindset first and transformation of the process later. Innovation isn't easy. Large organisations are well-oiled machines with the sole purpose of building products with greater efficiency. Disruption and innovation, two of the necessary ingredients in digital transformation can only happen if organisations are able to create an environment conducive to this type of behaviour.

The recipe for digital transformation lies in the mix of changes in business model with changes in the business culture. If finance as a function can introduce these two elements, it can ultimately drive this transformation. In the future, finance teams will play a much greater hand in digital transformation through cyber security, data governance as well as controlling the data flow. Organisations will find themselves investing more in security experts to prevent costly and dangerous data breaches, which are line-line for the organization in today's digital world.



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DIGITIZATION-THE APEX OF POST - MODERN ARENA

Safdar Ali, ACA

1. Introduction:

We all live in a post-modern age. Technology, researches, inventions and advancements are all almost at their peak with niche margins for improvements and refinements. All this is occurring due to digitization of each and every aspect of individual and collective lives on this globe. Digital transformations have its repercussion from individual to national and international levels. This revolution in ways of doing work has been made possible via advancement in computer technologies that involve both hardware and software. Computers make arithmetical and logical calculations and all this is now applied around the world.

Computers initially weighing in tons, snail slow in processing having meagre storages are now weighing in kilos and grams and are becoming more and becoming smarter and smarter than ever before. A computer now does not necessarily mean a desktop or a laptop. A computer is now a smart mobile phone in almost everyone's hand. A future computer may be over a wrist or a thumb weighing in milligram or even virtual and virtually controlled device with no physical existence at the point of control. Hence, the world has to see the magic of this digitization by means of computing technologies in the times to come.

In the modern age there are various phases from industrialization to the information phase. And the information age is now becoming ever fast by means of digitization.

Digitization has initially led to a whole new subject added in the curriculum of education institutions around the world generally named as Information Technology (IT). Now, there are different specialization and fields available under this very subject. The application mode of IT is of immense importance in almost all fields. Today, in order to have full advantage of information a whole new subject called data science has emerged. Now, businesses and organizations around the world wants to have experts for extracting information from even gigabytes or terabytes of data and demand for data scientists is increasing.

2. Importance:

2.1 Individual Level:

The first even digital means used were by Accountants who use to count large quantities of data by means of Abacus. This was to keep element of accuracy during calculation of quantities and values. Later on, it leads to invention of calculators which are based on computer program or say the simplest form of computer programming is a simple calculator. There was further advancement in calculators to enable them for larger and then scientific algorithmic and statistical calculations. Hence, more and more efficiency was added to the work of accounts, statisticians and scientists. There arose need for even more complex algorithmic calculations hence a

desktop computer was invented for individuals. There were however, many limitations attached to the initial desktop computers regarding processing speed, applications and storages. The 4MB Diskette tape as an external storage was very popular. Now, we have external storages in Tera Bytes (TBs) available in the market. Businesses also use to keep back up of their data on magnetic tapes.

The revolution in computer hardware technology as a result of chip lead to further revolutionizing the software digital industry. With introduction of Windows as an operating system by Microsoft (MS) lead further to user friendliness and ease of use. This was then followed by development of application software called MS Office where MS Excel replaces Lotus 1-2-3. Now, there is an ever-increasing useability due to further development and enhancement in MS Office by adopting an application user centric approach. Hence, individual computing, letter drafting, reporting, business communication, presentation and keeping of databases becomes easier and simpler. More and more businesses install desktop for accountants and various other professionals in office for use in office space. Nowadays, desktops are called work stations with utility for designing and engineering in the construction industry.

Individuals outside business or an office environment also starts using digital technology in the form of computers for their own purposes like saving personal data and performing personal tasks like drafting resumes or entertainment. Afterwards was the conglomeration of computing technology with communication technology in the form of internet requiring telephone connection. The world wide web (www) takes the lead and is now used all around the world. It was initially developed for information sharing among scientist located at distant places of the world. Now almost each and every individual is using it. Further advancement of conglomeration of communication technology with mobile technology with its advancement of ever high speed of internet has made the utility of digital technology to its maximum. With advancement in technology and also the COVID pandemic has led to increasing the use of digitization. Now, individual skills are in demand virtually and one with the required skill say in designing, computer programming or accounting can be sold at the click of buttons at home.

Individuals around the world are also getting used to more and more of social media platform which includes face book, twitter, Instagram, you tube and many more. Almost every individual has an account on at least any one of the social media platforms. Some social media platforms have become hit ideas and have grown up to the value and size that the digitally technology giants have taken them over due to their popularity like WhatsApp taken over by face book due to its popularity as face book messenger was losing its useability due to popularity and ease of access use with almost no or negligible cost of WhatsApp.

Gaming is one of another industry that has created business and are in individual use. With the advent of digitization starting from simple Dave game now there are countless games available for various tastes of individuals. Like need for speed series for those loving racing and now there is even a more popular game in the market called PUBG that is a conglomerate of gaming and hidden ability of social networking. So, a great deal of individual time in today's world

of majority of world population is consumed knowingly or unknowingly by digitization of social and entertainment life of human beings.

Challenges at Individual Level:

As is digitization important and inevitable at individual level so are the challenges inevitable at individual level. In the entertainment industry there are many more absurd and bizarre items available that will be ruining the generations to come. For example an adult check is just verified by the host website just by clicking the under / above 18 years hyperlink which is insufficient. The religious susceptibilities of almost all religions around the world requires a ban on most of the contents so aired. However, in today's world the state and religion in any nation are mostly distant from one another. In some countries there are and were censor boards for showbiz. Now, the digital world has also bypassed those censor boards. For instance, in Pakistan an application named Tik Tok has been even banned several times by various courts and administrative authorities for such undesirable contents giving the feeling of been at an undesirable place. The application developers due to their own businesses have hence, developed various different codes for different countries so that their business is on and the defect unwanted by the country is removed.

Another important element of human life is time. Nowadays, the social media, gaming and other entertainment platforms are consuming a lot of time which would have been used for creative, progressive, gaining and developmental activities. For instance, in Pakistan, there had been once a ban on one such time consuming and even lethal game that has taken a number of lives around the world i.e., PUBG. However, there are also savors of such contents defending and removing the ban.

There are also scams in this digital arena. The advent of crypto currencies and bitcoins has led to another episode of "Double Shah" in Pakistan and poor people have lost their valuable wealth in such gambling resembled activity.

Individuals were also spending more time for one own self and with family and friends. With increase in digitization time with people is becoming less and lesser. People nowadays does not know about next door neighbor but knows about one living at a far and distant place. Family was first spending more time with each other hence; they get to know better and more about each other. With digitization activity over the digital of each and every family member has increased and social get together and growing less and less. This factor has led to various psychological ailments throughout the human population and that is why the need for psychological sessions and psychology is increasing day by day and a new field of motivational speakers have evolved with the passage of time. They serve the purpose which the true family get togethers were serving and providing mental well-being to the human race around the world.

Hence, people need to be smart, vigilant, prudent and most importantly knowledgeable in order to take full advantage of digitization and be secured from its harmful effects. In old days humanity have seen illegal drug use playing havoc with human lives. With the advent of E-cigarettes E-Illegal drugs may be following suit which will become more disastrous for human lives than ever before. Hence, in today's time parents and especially mother in a Pakistani society needs to be fully

aware of and vigilant over children activity in the digitization era for their proper grooming up.

2.2 Business and Organizational Level:

Businesses and organizations have also been immensely affected by digitization. Starting from simple use of computers now they are the computers and its technologies now providing a complete solution for businesses or organization as a whole. ERP and SAP are examples of such complete solutions of organizations. The accounting and finance function since already involve use of simple computer (calculator) in business so they were the first to be affected by digitization. A computer also qualifies the basic definition of a computer i.e., having input, processor to perform algorithmic calculations, an output and memory to the extent of at least the current result displayed.

Since, finance was the most vulnerable section to digitization so the financial institutions around the world were the pioneer in changing to a commercial scale digitization. Most of the banking internal digital system are based on intranet due to the very specific and high-risk nature of digitization in this industry. Most of the procedures requiring mandatory checks in case of legislations developed around the world are now performed digitally. For instance, in the financial sector the Know Your Client (KYC) mandatory procedure is usually linked with the national citizen database registration authority that makes on line and real times verification of citizen during the process of opening an account or transacting a business with the financial institution. The introduction of Automatic Teller Machines (ATMs) in recent past eliminates the needs for standing in a line for a simple task of cashing currency notes from one's bank account. Now, Cash Deposit Machines are also introduced where 24/7 cash deposits can be made. However, there are limited machines offering such a facility. In the time to come we may see an instrument (cheque or bank draft) clearing device which will be a breakthrough. Digital transfers via fund transfers have also increased efficiency which previously requires a cumbersome process. As a result of business norms developed or regularization of digital transfers encouraged by governments, business are now relying on digital transfers for material transfer. For instance, in Pakistan the Federal Board of Revenue (FBR) will not allow tax allowable deduction where a business transaction is at or above Rs 250,000 (Two Lakh and Fifty Thousand Rupees) not transacted via digital means. Now, even loans are offered for Naya Pakistan Housing Scheme without a need to visit the bank. This is because of digitization and of regulation by the central bank giving target to commercial banks to extend such interest-based loans. Now, funds can be invested and withdrawn online in mutual funds. Various Policies and financial products and services can be bought and sold online. For instance, Stock exchange business of buying and selling of securities and commodities. Paper work is required where it is a legal demand or a necessity for such a documentation.

In some organizations, the important and embedded aspect of information technology know how is still not considered as an essential skill that is why a separate post of computer operator may be seen at such set ups with no computer knowledge possessed by the apex authority. At the advent of digitization, the revolutionist says that IT was to be thought as a basic skill at educational institutions around the world but what later developed was a completely different field and a specialized subject.

The goods and other services market are affected by digitization too. Now hotel, airline and train bookings can be made online digitally. Now, there is no need to visit the place physically for reservation of seats. Hence, business dynamics are changing and now businesses need more of IT and technical support function to handle customer booking online applications so that tickets are sold to genuine paying customers only. The Information digital technologies take care of the whole process i.e., receiving booking application, allowing customer to reserve a seat of his/ her choice, providing choice of time and date of booking, providing choice of travel rout destinations, receiving payment, generating ticket and nowadays even sending reminders over mobile of the reservation.

Products can now be bought and sold online. Anyone sitting at any place of the world can now order anything at any other place of the world. Amazon and Ali Baba are examples of such international platforms. In Pakistan there is Ali Express and Daraz for online product purchasing. Almost each branded product has now an online digital presence and is just away at the click of buttons from a customer. Hence, a lot of human life time is saved by such facility at door step. Other applications like Food Panda in Pakistan are of immense utility for bachelors studying or having a job or even working women who find no time to cook. Other services like Uber (Careem) which are car booking applications that involve partnership-based payments to car owners, captains (drivers) while providing door step commuting service to the general public.

Institutions who have embedded basic IT training and computer application in their courses are keeping pace with the world and are producing qualified students who possess relevant digital IT expertise. Like the Institute of Chartered Accountants of Pakistan (ICAP) having mandatory computer training course at the very basic level and including IT as a core subject in more advance studies of the Chartered Accountancy Certification. Students of the Institute also feels like becoming IT experts at the time of studying for the core IT paper as the course contents are all inclusive and up to date in this case. Courses and specializations who have failed to keep a pace with the world are becoming redundant in the ever changing and digital environment. In Pakistan the regular educational institutions at the introduction of Information Technology as a subject introduced up to date material. Once the course contents were developed, they were not amended as per new advancement in the digital world. A dynamic field that is technology based is changing every now and then and hence requires updates so as to be of value and use. Subjects that are divine and ideological like Islamic Studies and Pakistan Studies respectively requires no or negligible change because basics never change. But the dilemma in Pakistan is that subjects requiring changes are not changed and those that are divine or ideological are changed for achievement of hidden objects of alien states who are attempting to damage Pakistan digitally by cyberwarfare. Keeping digital subjects up to date by sincere and continuous efforts will make a great difference in the digital advancement of business and organizations that will also add towards economic growth due to embedded benefits of such advancement.

Even the very technical and professional services are now available online like those of accountant, designers and software engineers who are selling their services over Guru

(www.guru.com) or Upwork (www.upwork.com). This has also changed the very concept of employment and the relationship between employers and employees. Those selling and excelling in selling their services online have now plenty of work that they themselves are now becoming employers by managing, administering and reviewing work of workforce employed by them. The website is also allowing for teamwork. The online working platforms are themselves becoming corporations and have large revenues earned in the form of service charges.

Digital technologies have also developed whole new domains in businesses requiring specialist digital solutions like B2B (Business to Business) and B2C (business-to-consumer) solutions externally. The organization's internal digital needs are also of immense importance. This has led to a whole new domain of Enterprise Resource Planning (ERP) for large organizations. This has looked in not only the IT experts but the Accountants and Auditors are also effected by this IT domain and specialty in their career growth and profiles.

Challenges at Business / Organizational Level:

The first challenge arises to the finance sector. In most advance countries frauds have been reported due to eavesdropping on banks communication links and cutting cents to make millions and billions of currencies in the fraudulent attempts. Hence, in this area of digitization banks and financial institutions needs to be specially prepared for such an attempt. This risk is also increased where one can see acceptances of digital currencies as a medium of exchange by the blue chips internationally. A currency owned by no one is having extreme level of inherent risk. In Pakistan one of the provincial assemblies even attempted to legalize such currencies with the motion to do a good turn to the economy and income earning. Set ups have been formed under patronage of government for cryptocurrency promotion in Pakistan headed by the same individual who saved PUBG from being banned the Pakistani courts. Such type of a promotion and reliance in such currencies will make dreams of the aliens come true who can make Pakistan sit on its knees economically by switching off the plug of Pakistan cryptocurrency supply line. It will be even a worst situation as has been created by foreign debt in dollars where the debts increase by itself in billions of rupees just by Re 1 per dollar hike in the exchange price.

There is also a challenge of black web. There are monsters in the shape of human beings in this world who takes pleasure and are been entertained when the weakest in the human race are tortured to death. In Pakistan there has been many more incidents in which children are first abused and then killed brutally which in many cases are linked to the black undetected web. In Pakistan another dilemma is that the book from which all the scientific including digital knowledge is gained is not put at the top as the supreme and first legislative book to consult and there was no specific punishment for such a crime though it had been legislated now. So, digitization of today's world via the black web business has led to a threat in the heart of every parent who worry about their kids even when they are in the same street where the parent resides.

Every country has not so educated population with respect to digital technologies especially used in the financial sector.

The State Bank of Pakistan has taken initiative to education various age groups of citizens digitally for the finance sector. However, there are still scams been reported where the fraudster has looted the citizens via digitization of the finance sector. And this is not only limited to individual level of taking funds out of individual accounts by scam calls and short message service (SMS) attempting to acquire confidential personal data for fraudulent use. A scam has also been reported in the highly case of investors and a highly regulated forum like the stock market. Many retired professionals put their hard money earned in income earning schemes of the stock exchange business but there log in and password was administered and knowledgeable to the broker. Wait was made by fraudster so that the net investments reach a size of their desire. Once the level was reached all the invested funds were cashed. On investigation the fact was known that the investors were not financially vigilant and literate and have concealed log in and password which has led to the successful fraudulent attempt.

2.3 Government / National Level

In today's world digitization is of immense importance as it is information age for governments around the world. Countries who have introduced digitization into their processes & practices have excelled in their governance. To any nation information means a lot as it is information on the basis of which a nation takes governance decision. For instance, now we can hardly find any country which have not yet digitized the registration of its citizens. In Pakistan the National Database & Registration Authority (NADRA) was introduced in 1998 that make a centralized system of registration of Pakistani citizens. Hence, a citizen travelling anywhere in any nation or on international travel can be verified by national & passport identification numbers.

Digitization is now introduced in almost all departments of a country all around the world. Those countries who have excelled in digitization have a centralized system in which all data relating to an individual or a department or any of the government function can be accessed by the authority with classified access to the information. In Pakistan if land record is digitized throughout Pakistan, it will be a landmark. This will lead to elimination of huge paperwork and legal cases pending in courts for decades and consuming both government and citizens times and resources. Similarly, digitization of court record and attendances at courts like whether the date fixed for hearing will occur or not with reasons. Hence, a witness or the appellant or defendant precious time will be saves by such digitization. This will also reduce the frustration of the public against the government whose cases are lingering ion courts of law for generations. Hence, digitization of identity and other fields like land and court record etc. will lead to efficiency and effectiveness that will lead to advancement of the nation as a whole.

In Pakistan a perfect example of centralized digitized system is the Pakistan Citizen Portal where the citizens around Pakistan can lodge valid complaints with evidences to the authority responsible for it. Hence, the government also has a parameter for those outperforming in their services to the public which can be measured by complaints registered and resolved.

Pakistan has also taken initiative for boosting their exports, curbing the menace of unemployment and for balancing trade payment by means of digital training platform. One such platform formed and governed under the Ministry of IT and Telecom is Ignite which is a program where any Pakistani can get trained in freelancing and many other skills that are in international demand. All these skills are imparted free by the government to its public. The program Ignite has become so successful and are now hiring full time professionals for managing the project. Now, the people can have livelihood by working from home for clients around the world and be their own bosses. Even business providing online solutions have been set up as Corporations where employees work in an office place for the employers established in Pakistan who are providing online solutions to businesses around the world. A private limited company in the name of MTBC operating in Punjab and Azad Jammu & Kashmir established in the year 2015 is now employing a workforce of 2,200 people for provision of services in the United States of America (USA). Similarly, there are many other players alike.

Digitization is also occurring in defense technologies. Countries having more resources are investing more and more in digitization for defense purposes. The advance nations have developed cruise missiles and drones which they operate from their command-and-control centers. The one operating from the command-and-control center and taking out human lives around the world is like player of a video game. Digitization of fire power is the real power of a nation for defense purposes. So, too a nation with more digital advancement in firing power technologies will be having a technological edge over another nation. For, instance anti-missile defense system and in today's world an auto anti drone technology will be a breakthrough. Now, in the coming times the world has to see fire power in and from space to earth. The nations bullying out will no more need aircraft carriers to launch attacks against the so-called rouge states. They, if achieve such a power will have aerial supremacy and can defeat other nation in minutes with no defense for this advance warfare. Missile technology from earth to space has been successfully tested by the advance nations on redundant self-built satellites as targets. Those tests were successful. Hence, the antimissile defense system will be needed to be calibrated with or redesigned to detect such space missile threat for deterrence. Also, the fast and furious firepower of any air force will also depend on digitization technologies. From drones to Artificial Intelligence based fighter jets will move the basics of aerial superiority in modern warfare. Nowadays, low flight fighter jets idea is redundant which has made the anti-aircraft guns redundant and just pieces of scrapped iron for modern fighter jets which are now also becoming faster than supersonic. The world if exists, may see fighter jets approaching to speed of light in the next phase of modern era. All this will be made possible by means of advancement in digital technologies both in hardware and software terms by say developing a material which is not burnt in the air as a result of air friction and developing such an aircraft engine which can attain a speed approaching to speed of light.

Pakistan has successfully digitized its fire power in the form of most advance missile technology with wide fire range and

accuracy. JF-17 Thunder's patent rights are with Pakistan and a joint venture with China not only prove air supremacy in aerial defense but is also a source of income for Pakistan. The Pakistan Army are now producing their own Gun 3 (G-3) rifles. The Pakistan Airforce with successful JV of JF-17 Thunder are now further investing in digital technologies. The Chief of Army Staff (COA) establishment of National University of Technology (NUTEC) is a sign of that digitization and its edge in defense services and national security is of immense importance. Nations around the world has even established social media cells and have hired IT Gurus for propaganda warfare. Almost, all defense forces have social media presence in the Inter Services Public Relations (ISPR) like departments and wings etc. The armed forces in Pakistan are now digitizing its command-and-control system. Netsol Technologies Inc which is registered on NASDAQ has also submitted a bid in the digitization project that will cost US\$ 350 million. Hence, in today's world digitization is of immense importance and those having more digitization is having a superior edge over the other militaries.

Challenges at National / Government Level:

Nations are witnessing challenges. In this advance arena of human life. Digitization have changed the dynamics of politics. Most of the people are present on social media. Hence, a political party with strongest campaign on social media platforms are highly likely to be successful. Almost every political party has developed social media wings. The Nations are facing threat of being attacked over social media and spreading of disinformation and distrust over the sitting government. Some of these attacks are from inside the nation by rival and opposition political parties against the sitting government. Others are from alien nations working against the national interest of each other. Hence, nations now need to invest in social media with influencers to promote their stated agendas and also providing defense against alien attacks. Hence, a great deal of compulsory time and resources are consumed by such activities which are inevitable.

Alien nations have also formed fake accounts both from within and outside the country with accurately manipulated attempts so that the spread of a rumor creating a chaos is undetectable. Such nations have also planted via there philanthropic and their agents in target countries which spread material via social media that are direct attack on religious susceptibilities of that nation. For example, in Pakistan and around the world Muslims have immense love and praise for their prophet and the great Sahaba Razi Allahu Anhum Ajmaeen. Accounts has been set up and seems to be logged in from other country whereas the operator was himself or herself sitting in Pakistan. The material spread by such inhuman accounts are even not even worth to think about let alone saying those disgraceful things against the most sacred, divine, beautiful and praiseworthy personalities. Capture of account operator of "Bheensa" and Haa main Mulhid Ho" are such examples of unethical and inhuman attempts of devil mind sets behind such propagandas. Hence, the whole nation and whole ideological Muslims have concern over such acts and misuse of social media platforms by the hypocrites cause national and international unrest and generates uncontrollable incidents.

National security with respect to secrecy of classified information is another biggest challenge in this modern arena. For instance, if the armed forces go ahead to grant contract to Netsol for digitization of Pakistan military services will be an inherent and a very high-risk factor for national security. From incidents like those of Raymond Davis, the CIA operator and killer, and many others it can be easily interpreted that the firm having US stakes will prove detrimental to Pakistan in the long run. Hence, nations need to have their own research & development and their own developments and systems to cater for their such needs.

Downing of any of the country digital system will consume time and resources of the citizens. In Pakistan for instance an over load of users over the Federal Board of Revenue IT system (IRIS) at the end time of annual return filing exercise will make the website response time slowest. Hence, both the public needs education and time management for earlier return filing and the government website also needs to be upgraded to a point at such peak times to sustain such load.

3. Pros and Cons of Digitization:

Digitization has many more advantages as it has led the world reach the peak of the modern era. At the same time digitization has brought lot of disadvantages.

Pros of Digitization

Digitization is having many advantages like,

- a. Increased efficiency & effectiveness of financial transactions.
- b. Increased efficiency & effectiveness in commuting.
- c. Ease of information extraction, collection and dissemination.
- d. Ease of data storage.
- e. Production of simulation models before actual event.
- f. Ease of training in all fields.
- g. Remote access to goods and services.
- h. Reduction in international barriers like that of work/ business permits required for suppliers of goods and services.
- i. Ease of starting business via online portals.
- j. Effective command and control military operations.
- k. Reduction in workforce.
- l. Artificial Intelligence replacing humans and imitating human judgements.
- m. Centralization of all banks especially with the advent of cryptocurrencies and bitcoins.
- n. Online surgical operations and clinical investigations hence saving substantial time in physical examination and investigations.
- o. Efficiency in generation of income and working like time which is money.
- p. Ease of and effective and efficient branding of businesses, products and services.
- q. Reduction in size and weight of devices used of processing or storing and transmitting data like that of computer and communication technologies.
- r. Consistency in operations due to digital processes.
- s. Humans getting connected to and befriending with cross borders and cross cultural people around the world.

Cons of Digitization

Digitization has many disadvantages too like;

- a. Cyber security of electronic financial transactions.
- b. Unavailability of predefined data or downgraded infrastructure will increase rather decrease time spent in commuting.

- c. Eavesdropping on information in transit and access to classified information by hackers into digital systems and databanks.
- d. Corruption of data storage devices and loss of important data which repercussions may become many folds where no back arrangement is made in addition to primary storage device.
- e. Downgraded training outcomes where the trainees are not trained on real world scenario.
- f. Tough competition and possible closure of local businesses and increase in unemployment where the internationally or digitally available product is cheap.
- g. Likely imposition of ban on international service selling in a political move or by a communist regime say or likely imposition of government taxes on such services to the extent that they no longer become financially viable to the seller. From this it may be interpreted where an economy's exports are fully dependent on selling of online services in international market may lead to full deterioration of balance of payments at national economy level.
- h. Imposition of bans by a government over a job portal or likely imposition of fee / taxes on such skills imports/ exports.
- i. National Restrictions over online without national registration and licenses/ permission for relevant ministries/ departments/ authorities.
- j. Possible hacking of data and leakage of military secrets jeopardizing a country's defense.
- k. Increase in unemployment and demand for new skills as per digital technologies.
- l. Machines becoming masters of humans.
- m. Monopolization of banking industry and immediate collapse of all government central banks creating a national and international monetary chaos due to blunder of legalized trading in digital currencies with no backing.
- n. Disruption in surgical operation caused die to any technical reason like internet signals or power issues etc and possibility of leaving out important areas that can be investigated in physical clinical examination like by touch or smell.
- o. Possibility of scams and unreliability of standard goods and services in case of digital online business solutions.
- p. Branding is more relevant to business or a product or service that is available at hand, internationally available products with no local presence will not achieve the purpose of brand like brand loyalty.
- q. Ease of theft of high-end computer devices due to their very size and hacking of business accounts and data due to communication technologies.
- r. Consistent digital operations are vulnerable to fraud risk and corruption due to known pattern of digital operations.
- s. Humans befriending with others internationally may not be knowing even their next door neighbors and not giving sufficient time to family as compared to being online of social media networks.



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Cybersecurity for Small and Mid-Size Enterprise (SME)

Muhammad Asif, FCA

Cyber Security or Information Technology Security is the protection of electronic data, hardware, software, systems and network from theft or damage. For SME businesses, information technology are powerful factors to reach new markets and increasing productivity and efficiency. The continuously expanding reliance on computer systems, internet and wireless network standards such as Bluetooth and Wi-Fi, makes electronic data more vulnerable for exploitation.

Therefore, it is recommended that the organizations remain vigilant and take the time to ensure that they are engaged in cyber defense best practices, including increased monitoring of network logs, reminding employees to practice phishing awareness and ensuring that servers and critical systems are patched for all known security issues.

5 Key Cyber Security Tips for Small Business

1. Security principles awareness and password protection

Strong passwords and establish appropriate Internet use guidelines should be guided to employees. Provide training as how to handle and protect customer information and other company data. One of the most common ways for cyber threat actors to gain access to information systems is by guessing passwords. Therefore, require employees to use unique passwords and change passwords every three months. Consider implementing multi-factor authentication that requires additional information beyond a password to gain entry. You may introduce penalties in case of non-compliance with established security policies.

Organizations remain vigilant and take the time to ensure that they are engaged in cyber defense best practices, including increased monitoring of network logs, reminding employees to practice phishing awareness and ensuring that servers and critical systems are patched for all known security issues.

Malicious software is designed to infiltrate or damage a computer system. Your organization should protect itself against the threat posed by known malware. Therefore, latest security software, web browser, and operating system are the best defenses against viruses, malware, and other online threats.

2. Protect electronic information and infrastructure

Malicious software is designed to infiltrate or damage a computer system. Your organization should protect itself against the threat posed by known malware. Therefore, latest security software, web browser, and operating system are the best defenses against viruses, malware, and other online threats. If Mobile devices hold confidential information, install security apps to prevent data theft while the phone is on public networks. If employees work from home, ensure that their home systems are protected by a firewall. If you have a Wi-Fi network for your workplace, make sure it is secure, encrypted, and hidden.

3. Updates, upgrades and data back up

Though commonly underestimated, one of the best strategies you can use to improve your business's cybersecurity is to commit to regularly updating and upgrading the technological tools you use. Too many businesses leave their devices and software un-updated, rendering them vulnerable to attack. It's always a good idea to have multiple backups of your business's data. That way, if you're ever the victim of a ransomware attack, a natural disaster, or some other event that restricts your ability to access your data, you'll have a backup plan. Backup data automatically if possible, or at least weekly and store the copies either offsite or in the cloud.

4. Control data and infrastructure access

Prevent access or use of business computers by unauthorized individuals. Laptops can be particularly easy targets for theft or can be lost, so lock them up when unattended. Make sure a separate user account is created for each employee and require strong passwords.

Administrative privileges should only be given to trusted IT staff and key personnel. Do not provide any one employee with access to all data systems. Employees should only be given access to the specific data systems that they need for their jobs, and should not be able to install any software without permission.

5. Secure Portable Media

Portable media (e.g. portable hard drives, USB flash drives, memory cards) provide users with the flexibility to easily move data between devices or locations. But such benefit can quickly turn into a nightmare when portable media are lost, stolen or compromised by malware. You should encrypt information that is stored on portable media. While encryption will not help recover lost devices, it will prevent the exposure of sensitive information to unauthorized individuals.

Making the Investment

People usually think that the most prominent targets for hackers are government organizations and large businesses. Although those are highly lucrative targets, but they also have strict cybersecurity protocols.

But in reality, the hackers attack SME businesses due to their low defensive protocols. Hackers are constantly changing their tactics and learning new techniques to take small business owners off guard.

Cybersecurity is a proactive strategy; you have to make the investment before something happens to your business. Accordingly, the best time to get started is right now.



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Role of Finance/Audit Committee in ensuring the effectiveness and independence of audit department

Fahad Amjad Khan, FCA

Internal audit is ears and eyes of the board. They are the final line of defense of the company. They carry huge responsibilities. But it seems that somehow, they are not living up to their expectations. Their level of understanding the business and critical issues is not up to level where they can undertake their job in effective and efficient manner.

I had a chat with a CFO of a bank, and he complained about his audit department. He was frustrated that they do not give them strategic input which can help them in their business and most of the time, they do not know the critical issues in the bank. I asked him whether CAE (Chief Audit Executive) is part of your strategic committee where all issues are discussed and he said no. I asked him then how come he will know the issues of the bank, latest development in the sector and opinions of other senior management regarding issues and current business conditions.

I have heard following major issues with audit:

- They do not provide strategic input in business
- They do not understand the business and its issues.
- Their suggestions/inputs are not practical. They only give bookish knowledge.

Similarly, I had discussions with directors of different companies, where I highlighted the support from directors, inclusion of CAE in all committees. They seems to be hesitant as they feel that this may give CAE more exposure than required

This article answers the above issues and I have taken the solution from the guidelines of IIA. This will give required comfort to directors and management in helping the CAE in perform his tasks in effective and efficient manner.

Whenever CAE is hired, board usually considers his qualification and experience. The most important element i.e. capacity building is missed by them.

As per IIA Position paper (Internal Auditing's Role in corporate governance," five key questions stakeholder should be asking:

1. How deeply is internal audit involved in the organization's discussions on risk?
2. Is internal audit properly positioned and resourced to provide high-quality, professional assurance and advisory services?
3. Is the head of internal audit free to develop strong relationships with the board and/or audit committee chair?
4. Does the board/audit committee recognize and support the best conditions under which internal audit can thrive?
5. How can management and the board support efforts to make the internal audit activity agile and innovative

One of the best approach is to include the CAE in all the board and management committees as an observer. He should not participate in the decision making. He should contribute in the form of questions and insight, not conclusions or advocacy.

The role be clearly delineated in the internal audit charter and all proceedings should be reported to the audit committee.

And as per IIA Position paper(Internal Auditing's role in governing body/executive committees)," Internal audit can strengthen and support any number of standing or special committees of senior management and the governing body. However, before inviting internal audit in, it is critical that the organization consider how internal audit would operate within these committees, including clearly defining internal audit's role and setting proper precautions to protect continued independence and objectivity."

And ," Rapidly growing and evolving risk landscapes have made any number of committees almost mandatory for many organizations including:

- Risk Committee.
- Technical Committee.
- Executive Committee.
- Management Steering Committee.
- Performance Evaluation Committee."

And ," A well-resourced, independent, and reliable internal audit activity can pay significant dividends to any organization. When allowed to operate at the highest levels, it can be a trusted advisor to the governing body and executive management, and be critical to enhancing and protecting organizational value. In such circumstances, internal audit can play a valuable advisory role for governing body and executive committees".

And ," With proper precautions and due oversight from the audit committee, a CAE's participation on such committees can bring a dynamic of healthy skepticism; keen insights on fraud, ethics, and culture; and offer great value to senior management, the governing body, and the organization overall."

The situation deteriorates when, the management grading ignores CAE (Chief Audit Executive) despite of the fact the position falls in the top management hierarchy equal to the grade of C levels of any company while other Chiefs positions are not defined sometime by law still they are considered strong management factions, the same attitude towards the CAE is intentionally or unintentionally is ignored, because the understanding of the role is not apparent as it appears in the case of a specific position in a company. He is normally not included in the strategic Committee of the company. This means he does not have the up to date information about the critical issues of the company, new policies of the company being presented to Board for approval, monthly progress of the company being presented by each department.

As per IIA Position Paper (Relationships of Trust)," The audit committee should expect the leader of a mature audit activity to be engaged in executive management meetings in which strategy and operations are discussed by raising relevant questions and providing appropriate insights. In other words, internal audit should have a seat at the table."

And "The audit committee should embrace the concept that its role is critical to the overall success of the organization's

governance model. It must hold the CAE (Chief Audit Executive) to account and expect the same performance of the CAE as it would from the CEO."

In most of the cases, due to time constraint, the Audit Committee assigns their responsibilities for CAE review, remuneration to CEO. This jeopardize the integrity and independence of CAE.

As per IIA Position Paper (Relationships of Trust),"The CAE should reach out quarterly for a minimum 30-minute phone call with the audit committee chair to discuss relevant items such as staff turnover, upcoming complex audits requiring co-sourcing support, new or upcoming regulations affecting the profession, feedback from the chair on what they hear from management or within the committee, and emerging activities in the company that may impact the audit plan."

And, "Time demands on the audit committee also can create the temptation to turn over to management its responsibilities for CAE review, remunerations, firing, and hiring. This practice in effect abandons much of the audit committee's oversight of the CAE and could jeopardize the integrity, independence, objectivity, and effectiveness of the CAE role." And, "The audit committee also should demonstrate support for the internal audit staff. While there always will be a natural contention between internal audit and executive management, the audit committee should convey clearly that internal audit's role is critical to good governance. No member of the audit team should ever be penalized (in their career or otherwise) for asking the tough questions or approaching a sensitive topic in an audit."

It is very easy to for Audit Committee to evaluate the CAE. Just ask him the current critical matters, If his knowledge is as good as CFO, then it shows that he is properly briefed. If his knowledge is not as good as CFO, then it means that he is not part of strategic committee of the company and information is withheld from him. Further, the Audit Committee can see the level of input offered by CAE in the meetings.

Internal audit is the third line of defense of the company (The IIA's three lines model). It is important for the audit to understand the business since without understanding the complex issues facing the organization, they will not be able to perform their duties. Unrestricted access also means observing activities since it will help them in better understanding the processes. Further, they should not be involved in performing any of management works.

As per IIA Position paper (The IIA's three lines model)," Internal audit's independence from the responsibilities of management is critical to its objectivity, authority, and credibility. It is established through: accountability to the governing body; unfettered access to people, resources, and data needed to complete its work; and freedom from bias or interference in the planning and delivery of audit services".



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Proposed ISA for Audits of Financial Statements of Less Complex Entities It's Time for Your Feedback!

Beverly Bahlmann & Christopher Arnold

On July 23, the IAASB issued an exposure draft for public comment on its Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities. This landmark, proposed separate standard, marks a significant juncture for the global accountancy profession.

Background

In Exploring the Future Options for Audits of Less Complex Entities, we covered the IAASB's 2019 Discussion Paper, Audits of Less Complex Entities: Exploring Options to Address the Challenges in Applying the ISAs, which sought input on the challenges of auditing less complex entities (LCEs) and explored potential possible actions. The IAASB received ninety-three written responses to the Paper and published a Feedback Statement. The more substantial overarching themes included:

- There is an urgent need to have an international solution to address issues related to audits of LCEs, as jurisdictions increasingly develop their own standards and commence other initiatives in this area, which may have long-term implications on the adoption and use of the IAASB's international standards.
- The IAASB should prioritize its efforts on developing a

solution to address the challenges and issues related to these audits.

- The solution is not only one action, and likely involved a combination of the actions.

The responses to the Paper also highlighted that many of the issues and challenges being experienced are not unique to LCEs and can also apply more broadly to other audits. In particular, issues related to complexity, understandability, scalability and proportionality for all audits was highlighted.

Therefore, in balancing the needs of all its stakeholders, as well as the time needed to develop changes to address the issues and challenges within the broader suite of International Standards on Auditing (ISAs), in June 2020 the IAASB agreed to two workstreams:

- (a) An ISA-focused workstream to address complexity, understandability, scalability and proportionality (CUSP) issues in relation to the ISAs more broadly in order to address challenges that have been identified in applying the ISAs, for audits of all types of entities, including audits of LCEs; and
- (b) A separate standard workstream exploring developing a separate standard to address the challenges in applying the ISAs in an audit of an LCE.

In Exploring the Future Options for Audits of Less Complex Entities, we covered the IAASB's 2019 Discussion Paper, Audits of Less Complex Entities: Exploring Options to Address the Challenges in Applying the ISAs, which sought input on the challenges of auditing less complex entities LCEs and explored potential possible actions.

Developing a Separate Standard

From July 2020, the IAASB focused efforts on developing a separate standard on an accelerated timeline. In December 2020, the Project Proposal for the workstream was approved and in June 2021 the Exposure Draft (ED) of a Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities was approved and published for public comment on July 23.

The intended outcome from using the separate standard is a high-quality audit that would enhance the credibility of the financial statements for the users thereof. The separate standard is designed for an audit of the financial statements of an LCE that:

- Is proportionate to the nature and circumstances that would be typical of an audit of an LCE.

- Can be used effectively and efficiently to obtain sufficient appropriate audit evidence to support a reasonable assurance audit opinion.
- Utilizes a risk-based approach to an audit, with requirements that are principles based, so that the proposed standard can be applied to less complex entities with a wide range of circumstances and across sectors or industries.

Accordingly, many of the basic concepts used in the ISAs to support a risk-based approach have also been incorporated in the separate standard, including:

- Using objectives;
- Using the core ISA procedures and concepts (such as professional skepticism and professional judgment) as a base for establishing the work effort of the auditor when performing an audit of an LCE;
- Needing to obtain sufficient appropriate audit evidence to support the audit opinion;
- Using materiality to focus the auditor's efforts and to evaluate misstatements; and
- Using the audit risk model, i.e., applying the concepts of inherent risk, control risk and detection risk.

As such, the separate standard would have the same overall objectives of the auditor and inherent limitations as an ISA audit, which are explained within the Preface to the proposed standard. The content (i.e., the requirements and related Essential Explanatory Material) have been grouped into nine "Parts" that follow the flow of an audit engagement (rather than by subject matter or topic like the ISAs).

The table below sets out a broad description of the content of each Part.

Part 1: Fundamental Concepts, General Principles and Overarching Requirements	Sets out the fundamental concepts, general principles and overarching principles to be applied throughout the audit, including: <ul style="list-style-type: none"> • Relevant ethical requirements and firm-level quality management. • The overall objectives of the auditor. • Use of professional judgment and the exercise of professional skepticism. • Overarching requirements to be applied throughout the audit with regard to fraud, law or regulation and related parties. • General requirements for communications with those charged with governance and management. Specific communication requirements, where applicable, have been set out in each relevant Part.
Part 2: Audit Evidence and Documentation	Sets out the general requirements for obtaining sufficient appropriate audit evidence and general documentation requirements.
Part 3: Engagement Quality Management	Sets out the auditor's and engagement partner's obligations and responsibilities for quality management in an audit of an LCE. The requirements in this Part are based on ISA 220 (Revised).
Part 4: Acceptance or Continuance of an Audit Engagement and Initial Audit Engagements	Sets out the auditor's obligations for agreeing the terms of engagement, including establishing that the preconditions for an audit are present, and determining that the use of the proposed standard is appropriate. This Part also addresses procedures for opening balances in initial audit engagements.
Part 5: Planning	Sets out responsibilities for planning the audit, including the engagement team discussion, and the concept of materiality when planning and performing the audit.
Part 6: Risk Identification and Assessment	Sets out requirements for understanding the entity and its environment, the applicable financial reporting framework and the entity's internal control system, identifying risks of material misstatement and assessing inherent risk and control risk. The requirements in this Part are based on ISA 315 (Revised 2019).
Part 7: Responding to Assessed Risks of Material Misstatement	Sets out requirements for the design and implementation of responses to assessed risks of material misstatement at the financial statement and assertion levels, including substantive procedures and tests of controls. This Part also sets out requirements for specific procedures on various topics within an audit.

Part 8: Concluding	Sets out requirements for the evaluation of misstatements, concluding activities and evaluations (including going concern, subsequent events and analytical procedures), and obtaining written representations. This Part also covers the engagement partner's conclusions relating to quality management.
Part 9: Forming an Opinion and Reporting	Sets out the requirements for forming an opinion (including the types of audit opinions), the content of the auditor's report, other information and comparative information. In addition to the content in this Part, the IAASB has developed Supplementary Guidance – Reporting to provide further guidance and examples on modifications to the auditor's report.
Appendix 1: Glossary of Terms	Describes the meanings attributed to certain terms for the purpose of the proposed standard.
Appendix 2: Flowchart for Identifying and Assessing the Risk of Material Misstatement	Graphical representation of the process to identify and assess the risks of material misstatement, described in Part 6 of the proposed standard. This flowchart illustrates the iterative nature of the process.
Appendix 3: Fraud Risk Factors	Examples of fraud risk factors that may be relevant in an audit of an LCE.
Appendix 4: Assertions	Describes the categories of assertions to be considered in an audit of an LCE. The assertions are the same as presented in the ISAs.
Appendix 5: Illustrative Engagement Letter	An illustrative engagement letter that may be used to document the terms of engagement when using the proposed standard.
Appendix 6: Illustrative Representation Letter	An illustrative representation letter that may be used when obtaining written representations from management when using the proposed standard.

The IAASB's Explanatory Memorandum explains further the significant decisions made by the IAASB in developing the proposed standard.

Authority

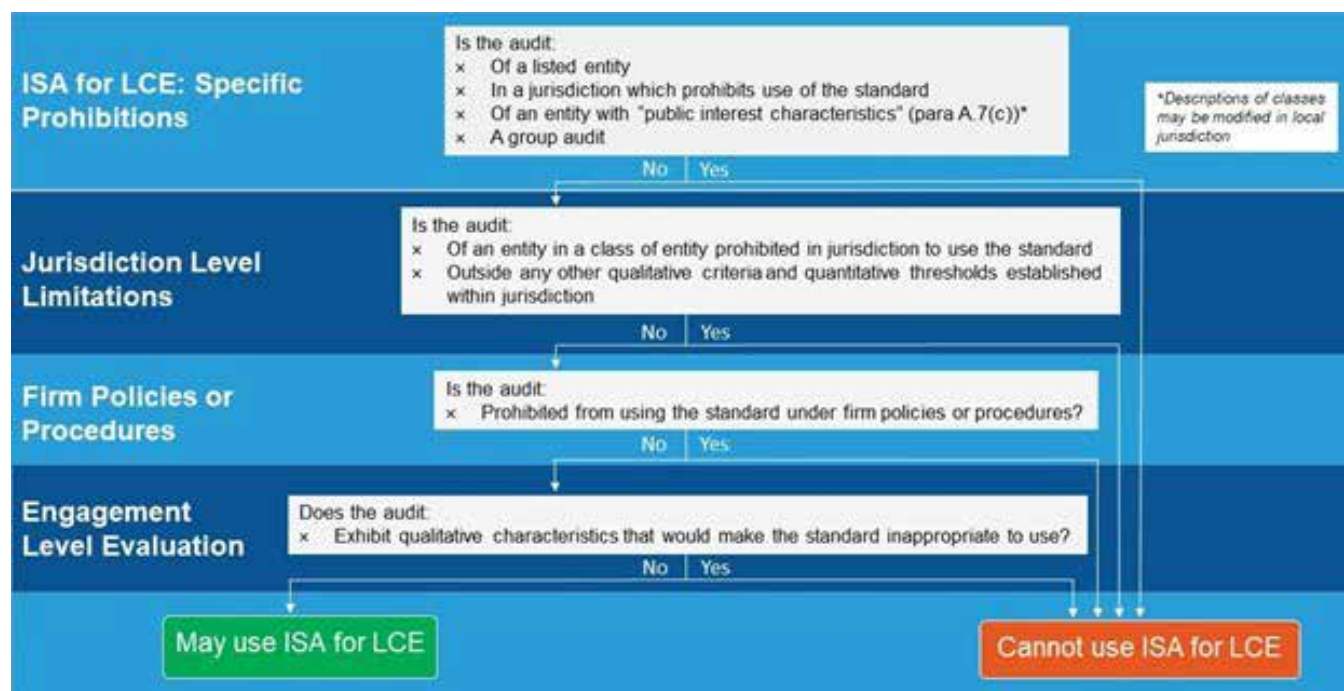
The IAASB extensively deliberated the approach to the scope and applicability of the separate standard, including for which types of audits the proposed standard is intended to be used for, and how this would be best described and presented.

Part A sets out the authority (or scope) of the separate standard by describing the specific prohibitions and

qualitative characteristics (together making up the limitations of use of the proposed standard) that will make the standard inappropriate for use in an audit of the financial statements of an LCE. Limitations are designated into two categories:

- Specific classes of entities for which the use of the proposed standard is prohibited; and
- Qualitative characteristics that if exhibited by an entity would preclude the use of the proposed standard for the audit of the financial statements of that entity.

The following diagram explains the limitations (paragraphs A.5. – A.9):



The IAASB extensively deliberated the approach to the scope and applicability of the separate standard, including for which types of audits the proposed standard is intended to be used for; and how this would be best described and presented.

To further support the application of the Authority by legislative or regulatory authorities or relevant local bodies with standard-setting authority (such as regulators or oversight bodies, national standard setters, professional accountancy organizations or others as appropriate), firms and auditors, the IAASB has developed Supplementary Guidance for the Authority of the [Draft] Standard (the Authority Supplemental Guide). This supporting material sets out further considerations when determining or evaluating use of the proposed standard.

Feedback on the Separate Standard

The IAASB welcomes input on all matters addressed in the ED. In particular, it would like to hear from stakeholder that would be directly affected by the standard—e.g., users of financial statements of LCEs, owners and management of LCEs, legislative or regulatory authorities or relevant local bodies with standard-setting authority, and auditors that serve LCEs—in relation to the direction of the project and the structure and content of the proposed standard, as well as specific key issues.

Respondents are asked to comment on the clarity, understandability and practicality of application of the separate standard and invited to address only questions relevant to them, or all questions. The questions cover:

- Overarching Positioning—including views on the standalone nature of the standard, proposed title and overarching positioning of the separate standard.
- Authority of the Standard—including views on Authority (or scope), whether it is implementable, if the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority is clear and appropriate and if any changes need to be made to the proposed limitations relating to its use.
- Key Principles Used in Developing the Separate Standard and Overall Design and Structure—including views on the key development principles and the approach to the requirements, objectives and Essential Explanatory Material.
- Content—including views on the content of each Part and where the standard could be improved.
- Group Audits—including views about the impact of currently

excluding group audits from the scope and whether group audits should be included.

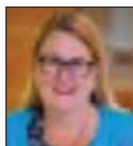
- Other Matters—including views on the proposed approach to the future updates and maintenance and what support and guidance would be useful when implementing the proposed standard.

Your feedback in response to the questions will be greatly appreciated. Please note that an optional response template is available to facilitate your input, should you wish to use it. We look forward to hearing from you!

To further support the application of the Authority by legislative or regulatory authorities or relevant local bodies with standard setting authority such as regulators or oversight bodies, national standard setters, professional accountancy organizations or others as appropriate, firms and auditors, the IAASB has developed Supplementary Guidance for the Authority of the Draft Standard the Authority Supplemental Guide.

Issues and Insights

- Supporting International Standards
- Contributing to the Global Economy
- Building Trust & Ethics
- Developing the Accountancy Profession
- Preparing Future-Ready Professionals



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Christopher Arnold is currently working as Head of SME/SMP and Research at IFAC. He was previously an Audit Manager for Deloitte and qualified as an accountant in a mid-tier accountancy practice in London (now called PKF-Littlejohn). Christopher started his career as a Small Business Policy Adviser at the Association of Chartered Certified Accountants (ACCA).

Growing the Economy by Applying the Modern Monetary Theory and Treating Universal Basic Income as a Fundamental Right

Nasim Beg, FCA



The State is the Issuer of fiat currency while bank credit creates money as well:

The key theme is that the state is the issuer of fiat currency and that it does not need to first collect taxes or borrow to be able to spend. If it issues more than it recovers back in taxes, the difference is added to money supply (or reduce money supply if it recovers more). Money supply is also added to by banks issuing loans or credit instruments owing to the fractional reserve arrangements. Similarly, contraction in money supply takes place by banks reducing their loan book. The state, acting through the central bank, also creates or removes money as a result of foreign exchange flows.

In order to regulate the quantum of money in the system, it can be a choice between the state's action of issuing currency or recovering some of the money in the system through taxation; or by central bank action through the tools available to it; or a combination of the two.

Most economies tend to combine the two, resulting in divided responsibility for the outcome. This of course leaves the

electorate unclear as to who really is responsible for that outcome and their well-being.

Mary Mellor argues that the state should be the exclusive issuer of money and that money created by banks through creation of debt should end. She does though, prescribe this through a responsible democratic mechanism.

This would also completely change the way we look at taxation. Taxes would not be collected by the state to make ends meet, but as a tool to withdraw excess money in the system. Taxation can and should also be used on reducing inequality, as well as its use as a "sin tax". The concept is now generally labelled as

Modern Monetary Theory (MMT)

Through the MMT approach, the government can ensure that the economic activity grows significantly, while allowing market forces to function. The government intervention would be restricted to a key measure, but without resorting to a command

economy like interference or being obsessed with tax collection as a revenue measure.

Basic rights of our citizens

While the Universal Declaration of Human Rights (UDHR) adopted by the UNO over seventy years ago, provides certain basic rights, irrespective of an individual “earning” these through competitive struggle, unlike what is envisioned by the predominant dog-eat-dog view.

The UDHR envisions:

1. Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.
2. Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection.

As with many third world countries, Pakistan suffers a deep-rooted class divide. Piketty has demonstrated that, while inequality has reduced owing to property ownership in the developed societies post the Second World War, inequality will normally grow over time owing to the historic/patrimonial advantage a few have in each society.

While economists may produce some mathematical indicators to suggest that inequality has decreased in Pakistan, but going around the countryside, as well as inner cities, one cannot but disagree with the indicators. And even if some indicators show an improvement, the current state of class divide is just not acceptable in this day and age.

Why is our economy stunted? It is this class divide that, to my mind, that is the root cause of our economy remaining stunted, i.e., low level of spending by the bulk of the population results in the stunted economy.

Tens of millions of children suffer stunted growth owing to malnutrition and tens of millions are out of school, trying to supplement family incomes. We cannot wait for the trickle down to reach these children, who are the future of our society. More so on account of the large numbers being added because of our population growth rate. We rank amongst the lowest on most measures of social development. Pakistan’s ranking on Human Development Index (HDI) fell two notches and stood at 154th position out of total 189 countries, in accordance with the 2020 report.

The neoclassical economics and libertarian schools of thought pervade: A large group of economists unfortunately still see individual self-interest instead of group-interest, as the driver of the economy. This predominant group have a strong opposition to the government/state intervening towards any attempt to fulfil the UDHR obligations. They believe that the market will ultimately fix the imbalance.

In order to keep the government under check, such economists insist that the state must live within its means, i.e., balance the budget, as is applicable to households.

Everyone has the right to a standard of living adequate for the health and well being of himself and of his family including food clothing housing and medical care and necessary social services

Thus, our government’s focus is on the one hand, to spend less, and on the other to increase tax collection from the citizens, which in turn is considered abhorrent and needs to be minimal.

While I would not argue against reducing wasteful expenditure of the government, however, when the pressure is faced, it ends up reducing expenditure on social as well as infrastructure development.

These economists insist that should the government wish to spend beyond what it collects in taxes, it may borrow, to the extent it can from banks or the wealthy. However, it should not run a deficit, or as the worst case keep it very low.

The Modern Monetary Theory (MMT) challenges this approach. As stated earlier, the state is the issuer of fiat currency and need not first raise taxes or borrow to spend. It is not a household with limited resources but being the issuer of fiat currency, it must use this ability to fulfil its obligations to the citizens

Historical perspective of the use of power for perpetuation of an inequitable system: Owing to the neoclassical thought, the poorer segment of society will remain entrapped where they are, with a few individuals being able to break out and have some upward mobility.

The history behind a few members of society owning majority of wealth, which in turn perpetuates their dominance is conveniently ignored.

The historical system of unfair distribution of resources is essentially based on the ability of some members of society to justify that they are more equal than the rest, primarily through employment of force/power in some form.

Whether it was a tribal leader combining brain and brawn to establish the entitlement of being more equal, or on a wider scale a sovereign; or nations through conquest and colonization over others; and in the more recent times, through a combination of the so-called free market system, enforced through might or creation of some form of artificial entitlement through might.

The common narrative that is propagated to validate this irrationality is that ‘each gets or should get according to his or her ability’. If you want more, then improve your skills and deserve more. The more skilled are entitled to what they get, they deserve it.

Sounds perfectly logical and fair, but is it? Money flow to the bottom of the pyramid is dependent on the use of power or force and not simply hard work and merit. Take for example a bonded labourer or many tillers existing in serfdom, no amount of hard work, skill or diligence will help them access better money flows.

Tens of millions of children suffer stunted growth owing to malnutrition and tens of millions are out of school, trying to supplement family incomes.

Economic management is nothing but managing and controlling money flows: How the money flow is managed can help grow the economy or keep it stagnant and under certain circumstances even end up in an implosion or revolts and chaos.

If there is a system of flow of money, which ensures a reasonably fair amount of spending power for the bottom of the pyramid through state intervention; and the market forces are then left to work on demand and supply, rather than a communist type of command economy, there is a strong likelihood of the economy growing to significantly better levels, albeit not overnight, but very much within the foreseeable future. On the other hand, the concept of 'trickle-down effect' economics are a recipe for status quo and an ultimate implosion.

An urgent need to change the system of money flows in Pakistan to avoid slipping into an implosion

Unlike till a few centuries ago, when the internal affairs of a society could evolve in isolation, any form of revolutionary chaos in any society today, will be impacted by external forces that come into play.

There are examples like Somalia or Afghanistan which were ignored by the first world till such time the chaos allowed the vacuum to be filled by forces unpleasant for the first world; or there is the other extreme of not ignoring but reacting with economic sanctions on Iran.

Then there is the creation of chaos and civil war in the Middle East, triggered by the so-called Arab Spring. Whatever the thinking behind the support of the first world for the Arab Spring, the price was perhaps not fully comprehended; a revolution can well be like an explosion of immeasurable intensity, the outcome of which cannot be fully controlled or forecast, irrespective of how sophisticated the think-tanks might be behind such triggers.

In Pakistan, we have, in the recent years, seen an increasing sense of empowerment amongst some citizens reacting angrily against the inequality. This has manifested itself through street power, where those trying to enforce the writ of the state fail, as it is not likely that law enforcers will shoot at those shouting slogans in favour of our Prophet PBUH.

This sense of empowerment is likely to continue feeding on each round of success and become stronger. The consequences of such forces ultimately taking over are also too frightening for the international community, especially our neighbours. If there were ever any threat of Pakistan sliding into chaos because of inaction, the first world countries are not likely to stand by and let it happen for the obvious threat to themselves and they would intervene directly or through proxies, whether internal or external or both. Thus, it is difficult to assess as to what the final outcome might be.

Can there be a reset? Societies, which have broken out of the poverty trap, have in most cases had one or more factors causing a reset in the inequality. These could be events like revolts or revolutions, wars or other calamities; something like the plague which reduced the workforce significantly, giving labour bargaining power. In absence of such events, it is most unlikely that those in power will willingly cede power.

In most societies, it has been the reset that makes the average person a consumer of not only the bare essentials but beyond. Many would quote the example of China pulling 700 million people out of poverty in a short time span. They would suggest that it is entirely as a result of Deng's move towards the market economy. They normally ignore the fact that there was a reset and levelling of society and experimentation, which created the base.

While a better level of a basic living standard for all citizens, is what most political parties promise, such promises have the dilemma of falling flat owing to our import dependence; low value addition and low investment in social capital that leaves us with inadequate exports to balance out the import bill.

Any political leadership that is committed to pulling Pakistan out of the poverty trap will face a major challenge. Firstly, the traditional economists assert that the government does not collect enough taxes, thus it has little or no capacity to fix the problem. However, they reluctantly agree to a range of indirect subsidies and direct payments to the poorest, emanating out of various departments of the government, which have little or no coordination amongst themselves and end up distorting markets, as well as in promoting abuse such as, rent seeking, smuggling etc., which exacerbate the problem.

The direct payments to the weakest members of society are seen as a favour being doled out by taxpayers and looked down upon. There is a fair amount of reported abuse in the distribution as well. Add to that our import dependence and inadequate exports.

Are we in a chicken and egg situation? The government does not have enough revenues and is fixated on collecting more taxes, while those with means mostly prefer investing in short payback and low value-added industries. The low value addition does not generate enough jobs, which means low purchasing power of the masses, i.e., not enough demand for the entrepreneur to invest in serious manufacturing, thus the vicious cycle of lack of purchasing power because of the lack of jobs. Thus, most prefer investing in low value-added industries (short payback periods) and in hoarding non-productive real-estate, which rewards them through inflation, as well as the demand for it through the population explosion. There are distinct tax advantages in hoarding real-estate, as there is little interaction with government functionaries, who will otherwise make life difficult if one runs an industrial venture. This leaves us highly import dependent.

Looking at our history of the last 50 years (post East Pakistan), there are only 6 years when we were able to pay for our imports through a combination of exports and remittances. In other words, we borrowed foreign exchange to balance our books for 44 out of the 50 years.

Most of this period, our rent seeking industrialists have managed to convince successive governments in power, to not only allow import of machinery on easy credit, but to also provide subsidies and rebates, with the assurances that the support provided to them would more than pay for itself in export earnings. The fifty-year history provides enough evidence that it has not worked out; we have had to borrow approximately USD 60 billion over this period to balance the trade gap, while the interest payments are in addition, which have added up to our overall foreign debt.

How do we fix this chicken and egg problem? The world has witnessed that command economic systems do not work. There is a strong argument in favour of leaving it to the market to give signals to the potential suppliers. However, if the demand side of the market is weak, owing to poverty, the supplier will get away by supplying poor quality and prefer not to invest in serious manufacturing. If on the other hand, you have consumers with money in their pockets, they will be discerning, as well as have a higher propensity to consume. China introduced a basic level of consumption through a command economy, but it saw a fillip in its economic growth by moving towards a market driven system.

It is this domestic demand for both quantity and quality that can put us on a strong footing for exports as well. While there are a few instances like Bangladesh, where their domestic consumer's quality of consumption seems to be totally divorced from its export items, this does not appear to be the norm for developed economies and may not be sustainable in the long run.

So how do we put money in the pockets of consumers, who can then drive the market, as well as emerge empowered enough to have a say in the evolution of governance structures?

Thus far we have focused on trying to collect more taxes and then had the administration try and direct the productivity to grow in its areas of considered choice. Thus, we have used a combination of command economy measures, coupled with an array of subsidies and at times unaccounted for support.

The tax breaks that are given are not even recorded in the budget as costs, i.e., you do not treat a tax break as a subsidy in the budget, thus it doesn't show up. As an example, out of many, taxation of capital gains is exempt or taxed at a lower than the standard rate of income tax; it will not show up anywhere as a subsidy. Another example is of a higher interest rate of two percentage points per annum, on up to Rs 50 lacs invested in Behbud Saving Certificates, it gives the investor with 50 lacs over Rs. 8,000 a month, but is not recorded as a subsidy, while a BISP recipient, who has no ability to save, gets a mere Rs 2,000 a month, which is recorded in our Budget as a subsidy pay-out. Add to that, the cross subsidies for use of energy, paid by industrial and commercial consumers, leaving them uncompetitive. These do not show up in the state's budget as subsidies, nor as taxes on the commercial and industrial consumers.

The answer lies in taking away the command structure and leaving it to the market, but very importantly, take away the administration's obsession with collecting taxes in the first place, and then its ability to exercise its wisdom in favouring, what it considers, the "deserving" class of persons or industry sectors.

This is where MMT comes in, i.e., as stated earlier, the Modern Monetary Theory recognizes the fact that money is created by

the state as an issuer of fiat currency and that it does not need to first collect taxes or borrow the same from the market.

Traditional economists are fearful that the government in power, may end up issuing more currency than it collects in taxes, which will add to the money supply and in turn cause inflation. They are of the view that elected governments are prone to populist pressures, and that non-elected technicians running a central bank would manage inflation better by exercising control over the quantum of money banks create through lending, as well as managing the exchange rate.

However, the problem with the non-elected technicians, who can remain oblivious to the pressures on elected members of government, is that the technicians are typically trained at foreign universities and are familiar with evolution of the economic schools of thought, based on the circumstances in those developed countries. Also, importantly, they are normally well paid and can seldom relate to the plight of the average citizen, especially the daily wagers and the under-employed. They will typically tighten money supply to curtail inflation by trying to reduce consumption. This may sound perfectly reasonable to them, but the fact remains that the majority of our people have consumption levels well below what would be considered the bare minimum. Thus, when they are forced to tighten their belts, it translates to further malnutrition.

If we take the last few months, the technicians at the central bank had been under pressure not to increase interest rates, which would typically happen when inflation starts going up. However, in order to curtail import dependent consumption, they allowed market to set the exchange rate, which again appears to be the logical text-book thing to do. Given our strong import dependence on much of what drives prices of basics in Pakistan, the sudden drop in the exchange rate has had a terrible impact on the average citizen. This in turn has the elected government scrambling to deal with the situation. And then, out of desperation, the technicians have finally increased the interest rates significantly. As of the time of writing of this article, the market is expecting further increases in the interest rates.

UBI the quiet and creeping revolution: The solution would lie in a quiet, creeping revolution through Universal Basic Income (UBI), but before addressing, whether UBI can usher in a quiet revolution, without creating any chaos, it would be important to have a quick revisit of how money is created in the economy.

Creation and Flow of Money

Where does money come from? A combination of the state actions and commercial (private) banks create it. The State prints or mints it (now a substantive portion electronically), but it also removes some of it from the economy by the amount it takes back in form of taxes, while the banks (electronically as well) also create money by issuing a loan or credit instrument in a customer's name.

Money creation and inflation

The reason the economists give for being against the government running a budget deficit, is the too much money created by the government is inflationary. However, the government is not the sole creator of money, it is created by banks as well.

The best balance comes if the additional money is created in line with the growth in production/supply of goods and services (scarcity is not created).

It does not matter if this money is created by the government or the banks, as long as the growth in the amount of money in circulation is in line with the growth in production and supply of goods and services, it will not be inflationary.

The markets and the banks are made out to be the gods.

The economists from the conventional school of thought, insist that the 'market' must determine everything, and that it is the market that brings the best equilibrium between demand and supply. They assume that banks are the gods that will create just the right amount of money through better discipline, rather than a government printing more than it takes back in taxes.

According to them, if the government needs to spend more than it collects in taxes, it should not simply print it, but the government should borrow from banks, which function under the strict discipline of the Central Bank, which in turn regulates the amount of money that the banks can create through lending and keep prices stable.

However, in real life, it does not quite play out this way even in the developed economies, which we are continuously pressured into copying, despite the fact that we are perhaps a century or two removed from their type of evolution of societal and economic structures. Every now and then banks worldwide create a problem through excessive credit (lending), which causes excessive consumption, run up in prices of real estate etc., followed by bubble bursts and the State is forced to bail them out by printing money, which it does not have as tax collection goes down owing to the economic collapse caused by the bubble burst.

The collapse takes place because excess capacity of goods and services was created while the bubble was building up, but post the burst, the demand collapses, thus, is no longer required, in turn the jobs that were created become redundant and people get laid off, which means further reduction in demand for goods and services – a vicious cycle.

However, when the banks create problems driven by greed, it is considered legitimate or rather, a necessity for the State to step in and print money to bail out the banks. The taxpayers must pay this cost, as the consequences of the banking system failing are just unthinkable.

Thus, at that point, it is justified as the price society must pay through real as well as invisible taxes, not counting the misery caused by the loss of jobs etc. because of the economic downturn triggered by the bubble burst.

There is one more aspect, if we were to go by the conventional economists' narrative and the only money that is created is through the market (banks). The point to note is, that when banks create money and that becomes the only money in circulation, the economy will function based on the quantum of that money in circulation, if the amount in circulation is reduced, it will start stifling the economy; however, the banks have no choice but to take back more money than they create, as they charge interest.

This means that the banks need to keep lending more to keep the system going, i.e., the world is in a vicious debt cycle, which it cannot break out of. This is also the driver of excessive consumption, i.e., global warming, and climate change.

This also means that if the government borrows from the market, it needs to return it with interest, i.e., an additional burden on the future taxpayer, in other words, our children will pay, while the banks get even richer. And we will leave our children a denuded planet to boot.

During the current pandemic, the government created some money (by printing it) and put cash into the pockets of those who were in dire need; the commercial banks, at the behest of the State Bank, lent easy money (low interest at the taxpayers' cost) to businesses; in a nutshell, even under the pandemic circumstances, the banks made money.

Are we stuck with inflation hurting the poorer members of society, irrespective of whether it is banking system or the government or both to blame?

As stated under an earlier paragraph with the caption, **Historical perspective of the use of power for perpetuation of an inequitable system**, Poverty and extreme inequality are not a natural state but are caused and maintained through use of power/force exercised through a combination of brain and brawn.

Traditional economists trying to address the inequality, the class divide and poverty in Pakistan, believe that they can create political structures and laws that would help those who are entrapped in the deep-rooted poverty and class divide, break out of it through improving their competence and hard work. Once they become more productive members of society, they will help the entire society improve.

As a part of the well-meaning but misguided advice given to the politicians, we have legislated, what might work in a different environment, a minimum wage, but it cannot be enforced when there are not enough jobs to go around, especially when we also have child labour available freely, and to top that, unrewarded labour provided by women engaged in agricultural activity or simply as homemakers. What has happened is that many businesses contract out work to avoid the minimum wage, as well as contributions to social and retirement benefits. A more glaring example is of, what is technically illegal, child labour, which means that 20 to 30 million children are out of school, missing out on mandatory free education they are entitled to under the Constitution, as they are trying to supplement the family incomes. While child labour, as well as their being out of school might be illegal, who is to enforce it?

As it is, we have weak law enforcement and can in any case, the weakest members of society, seek redressal?

Every now and then, our economic managers, whether under IMF guidance or otherwise, want to reduce (or using their term 'contract') consumption by the public, under the rubric of austerity, i.e., we must tighten our belts. This results in tightening of belts of the already undernourished masses; we need to increase their consumption, not constrain it.

Apart from the minimum wage law, we are amongst the few third world countries that have implemented some form of social safety net in the form of BISP/EHSAAS. However, the identification of the target families and getting money across to them has significant challenges, as well as some abuse. Additionally, the amounts paid out are abysmally low.

Measures such as above, are worked out by a bureaucracy that was set up to rule India. The entire governance structure

emanates from there, including our much-amended constitution's basic structure derived from the 1935 Government of India Act passed by the British Parliament.

Empowered citizens must participate in determining the governance structures: Governance arrangements should ideally evolve through the interaction of an empowered people in a society; anything handed down is likely to have flaws and these systems should favour those handing it down.

Amongst the elites who control the country, many are rent seekers, while some would be best described as carpetbaggers. They will continue with the current arrangements, which allows them investing in low, and even no value addition activities, which in return means that adequate number of jobs will not be created.

Many elites simply create wealth for themselves by acquiring real estate, often below market, and sitting on it. This low value addition of our economic and industrial activity leads to import dependence for consumption of not only luxury goods, but basics, including that of food items.

This means that our consumption supports job creation and prosperity elsewhere.

The Solution lies in Universal Basic Income (UBI)

UBI is a regular payment direct into all citizens' bank accounts by the State. But unlike Benazir Income Support Programme (BISP) and EHSAAS, it is for everyone, and we would not need to identify those in need. There are several criticisms of UBI, which I am listing, but will address these later, as I go into its features and likely impact:

- o As it is, the government is struggling to collect enough taxes, it just cannot afford the burden of income for everyone.
- o In any event, it does not make sense to pay even those who are well off.
- o It will add to the governments already high deficit, which has a strong correlation with the current account deficit.
- o In other words, we will face an even bigger foreign exchange crisis.
- o In the meanwhile, inflation will skyrocket.
- o As it is, we have scores of subsidies.
- o It will make people lazy and take away the desire to work, which will result in low self-esteem and no real challenges in life.
- o Charities are best left to the citizens, not be dished out by governments.

As stated earlier, I will address all these points, but first the proposed structure of UBI.

- o It will not be funded by taxpayers.
- o It is not a charity or support meant for the downtrodden, but every citizen's right.
- o It will be structured to cover the minimum units of basics, such as nutrients, housing, clothing, energy, transportation, education, medical requirements etc., and, in this day and age, a minimum access to the internet as well. This is not an exhaustive list, but an indication of what needs to be covered. It will also require regular upgrading, so as to remain in line with developments in technology and evolution of consumer goods.
- o The basic basket of essentials will need to be priced at current market and be kept inflation adjusted, every month if necessary.
- o Given that the UBI can only be transferred to adults, it would

need to be worked out for an average sized Pakistani family. Whatever that amount, half of that would go to each adult citizen. Thus, between a typical husband and wife, the family would be covered.

- o On introduction of the UBI, all subsidies, direct, as well as hidden, must be removed altogether. This would include cross subsidies in energy prices, discounted prices through utility stores, tax breaks allowed on pensions etc, additional interest paid on Behbud accounts, as well as all existing BISP and EHSAAS disbursements etc.
- o In absence of a well-researched calculation, as an immediate estimate, one could start with the minimum wage of say Rs. 25,000. This would translate to Rs. 12,500 per month to every adult.
- o Also, very importantly, all indirect taxes, other than sin tax must be eliminated.

Implementation of UBI

- a. The above works out to 7.5 trillion rupees per year, assuming 50 million recipients. This would be reduced to the extent of the savings on removal of all subsidies etc.
- b. Nevertheless, this clearly sounds daunting and this amount of money if pumped into consumer pockets suddenly, will not see a matching supply of goods and services overnight. Especially if the indirect taxes are eliminated as well.
- c. While this would require proper research but given that these would be basic level of consumer needs, one should expect domestically sourced supply to start building up over a period of three to five years. Thus, the UBI and the associated arrangements will need to be rolled out gradually and built up to the target inflation adjusted amount. In particular, weaning the economy away from bank debt created money by gradually eliminating the fractional reserves system, it may take longer.
- d. While most economists will speak out against the inflationary impact one should expect, there are two factors to be kept in mind, firstly the bottom of the pyramid will not feel the pinch of inflation as the initial pay-out will be significantly more than the current BISP, and secondly, it will increase to the target amount over the next three to five years, duly inflation adjusted as well.
- e. However, given our import dependence, we would see a major pressure on the Current Account. The best way to deal with it is not to borrow foreign currency to meet consumption needs and allow the rupee to find a level without the tampering with the true market by not propping it up through borrowed dollars.
- f. This will have a further inflationary impact, where the bottom of the pyramid will once again be, as stated earlier, inflation protected, but everyone above that level will feel the pinch, especially the middle-income families who are used to certain standards of living. However, if the taxation system is overhauled and the government does not try to raise taxes to make ends meet, the middle-income families need not be taxed on their incomes, and, more importantly, the high incidence of indirect taxes would be abolished, providing considerable relief.
- g. At the same time, as the economy is weaned away from creation of money through the banking system, which will help balance out the growth in money supply and the consequential inflation.
- h. Nevertheless, while the inflationary impact on peoples' purchasing power will be mitigated as elaborated above, there will be a likely increase in wealth inequality, as the

property owners will see values of their assets go up. This is best addressed through some level of taxation on assets.

- i. Addressing one of the criticisms, i.e., why pay it to the already well off, is the solution of dealing with the inability to identify the genuine ones in need. Rather than identify millions of poor citizens who ought to be entitled to it, pay everyone, and then find the far fewer, well-off ones and tax them with a minimum of this amount. All payments of UBI would be connected to the CNIC, thus captured by the tax department records.
- j. The taxation structure will need a complete overhaul as well, not in terms of generating revenues, but in collecting it as money supply management, through a structure being suggested by Huzaima and Ikram, i.e., a broad-based low-rate tax, with an element of a minimum tax on a combination of income and wealth. While their proposal is based on the traditional approach of collecting revenues and includes an element of indirect taxes, my proposal seeks elimination of all indirect taxes, other than sin tax. Again, to my mind, taxation should be used, not as a revenue collection measure, but to some extent as a redistribution of wealth measure as well.
- k. I might add that under the MMT, direct taxation by the state is an essential part of generating economic activity, as the citizens need to indulge in economic activity to afford paying the taxes imposed on them. Indirect taxes do not achieve this.
- l. This naturally requires the rewriting of our Constitution, including the provincial distribution of the federal revenues. Businesses would also need to revisit their financing, if banks are prevented from creating money, while taxation will cease to be the main revenue for provincial distribution, new structures would need to be agreed for financing provincial budgets, as the provinces will continue to remain like household budgets. Lending by banks will represent the savings deposited with them without resorting to the traditional fractional reserve banking.

UBI would trigger a virtuous economic cycle

- Assuming Pakistan were to introduce UBI, which would mean that the people at the bottom of the pyramid would consume a lot more. This in turn will generate economic activity.
- Even the poorest districts, where it is challenging to deliver economic benefits through the provincial and local government functionaries, the CNIC based delivery of UBI to every adult, would result in those adults spending money in their locality, prompting springing up of small businesses providing consumer goods, as well of services such as basic level health care, education, etc., etc., triggering a virtuous cycle. The face of the poor districts would start transforming.
- It is not merely consumption of goods but, very importantly of services, such as health care, sanitation, education etc to name a few. Imagine the multiplier impact of this.
- Also importantly, this quiet revolution would empower women receiving an independent meaningful money transfer. They currently remain unpaid for the effort they put as homebuilders and in the countryside as farm labourers. Equally importantly, minorities, who in many cases are confined to underpaid jobs that others are not willing to do, will have the freedom to work for a wage and

at a job acceptable to them out of choice, rather than through force of circumstances.

The Exchange Shortage and Exchange Rate Problem

- While the increased consumption of the bottom of the pyramid, will trigger economic activity, it will put a stress on our foreign exchange reserves, as a lot of our economic activity is currently import dependent. We import many raw materials, including steel, plastics, and chemicals. In addition, we import energy (Oil/LNG, Coal), edible oils, pulses etc., and at times wheat, cotton sugar etc. This in turn will put a pressure on the Pakistan Rupee and we may suffer significant devaluation, which in turn will be inflationary. Is that a problem? Perhaps it is the solution, as I will try and elaborate.
- o Yes, we will have a pressure on our exchange reserves, the issue is what do we prioritize? In favour on the bottom of the pyramid for basics, or the elites who will have to pay more for their import-based consumption?
- o Let us assume that we stop borrowing in foreign exchange to pay for our consumption and this higher consumption by the poor results in a significant devaluation of the Pakistan Rupee and that in turn, works its way into price inflation of the items the poor buy.
- o However, UBI by design will be inflation linked, which means that the amount payable as UBI will go up to cover the minimum units of consumption worked out while designing it (and the frequent updating that will follow).
- o The entire burden of the devaluation triggered inflation, will fall on consumers of those items that are not covered by the UBI basket. This could be cars, imported non-essential food items, fancy apparel etc, not to mention the imported flowers etc that don many an elite wedding.
- o The inflated price of all the items, will make it more attractive for domestic production of those items, while it would be less attractive for anyone to continue using imported goods.
- o The well-head price for petroleum exploration will be higher in rupee term, which can result in more exploration. In the meanwhile, renewable energy, with a one-time import cost of equipment, will become more attractive.
- o If we take an example of cars and the impact, they will become more expensive to buy, as well as to operate based on the imported fuel.
- o For those who are not aware, the so-called locally produced cars have an extremely high degree of imported content, some directly in the form of key components, and the rest in form of raw materials, as well as energy, which go into the locally produced components.
- o This is likely to make travelling by public transport more viable than by individualized cars; public transport is covered in the UBI design. Assuming that more and more of peripheral elites, most of us included, but importantly, officials in government services and some politicians, are forced to start using public transport, we can be certain that its quality will start improving.
- o The impact on the environment, will be the additional benefit.
- o As that works its way into the economy, our import burden on cars as well as petrol and spares will reduce.
- o It is only once the economy becomes more equitable, as well as our capacity to export improves, that cars would become more affordable.
- On the other hand, the other impact of leaving the exchange

rate completely to the market, without borrowing dollars to support domestic consumption, would make domestic manufacturing more attractive relative to imports. The market would force the society to move towards domestic sourcing for its consumption. It would be supportive for exports as well.

- This would also mean more for the farmer, as well as many more jobs.
- Increased exports and reduced imports will remove our need to go begging for dollars. While I strongly suggest that the government does not try and pick out business and industry sectors that it believes need to be supported through subsidies etc., it is important that it allocates funds towards carrying out and publishing research on what appears to be the areas which investors should be looking at. This type of research was carried out by our development finance institutions. Additionally, in order to finance growth of SMEs, some proactive measures would be required.
- One of the criticisms was that UBI will add to the governments already high deficit, which has a strong correlation with the current account deficit (foreign exchange account).
- This correlation is used as a red herring, are we to penalize the minimum acceptable consumption by the poor, to continue allowing the better off members of society satisfy their demand for imported goods?
- The best battle against the excess of imports against exports, is not to borrow from others and pay for the excess imports, but to allow the exchange rate to fall, till the imports of non-essential items dies out or is balanced through higher exports.
- In the meanwhile, the inflation caused by this policy will have all citizen covered by UBI, to the extent of the consumption basket referred to in its development. Anyone wishing to consume imported items outside this protection will be a loser, but the impact reduced by eliminating direct taxes, till such time the benefits of the domestic manufacturing and higher exports set in as the balancing forces.
- The other strong criticism is that as it is, the government is struggling to collect enough taxes, it just cannot afford the burden of income for everyone. By printing more money that the government takes back in taxes, the bogey of inflation (tax on the poorest of the poor), comes into play. Well, the poor will be protected by the inflation adjusted UBI.
- Other criticisms and comments are that it will make people lazy and take away the desire to work, which will result in low self-esteem and no real challenges in life. Also, that charities are best left to the citizens, not be dished out by governments.

I am summarizing below some examples of pilot projects of UBI. These examples indicate that this fear of the downtrodden becoming lazy etc., is not held out by the results of the pilots.

A few examples of UBI

- Stockton, California in USA, started UBI of 500 dollars per month as a pilot programme. I am quoting from the findings of this pilot; "We found that, number one, people did not stop working. In fact, we found that those who received the guaranteed income were more likely to find full-time employment and were less likely to be unemployed than they were before the guaranteed income. Folks spend money the way you and I spend money, because the folks in

the program are people, like you and I. So they spent their money on necessities, on their car, on childcare, on bills, on housing, on food. The largest expenditure every month before the pandemic, and during, was always food and less than two percent of money was spent on drugs and alcohol."

- Dauphin, Canada carried out an experiment of Basic Income back in the 1970s. The results indicated no loss of willingness to work, increased school enrolments and improved health.
- Finland introduced basic income for a small segment of unemployed persons as an experiment in 2017. The initial results indicate a more positive attitude towards finding work, as well as improved health and societal trust.
- While what is currently happening in the US, with the support cheques sent to all citizens, employers are having to make it more attractive for people to work for them. This has given back people better rights in an increasingly gig economy, where labour unions are no longer relevant.
- Another example is from China, going back a good thirty years, when they were transitioning into a market driven economy; the factory workers were traditionally paid a wage in line with the level of the job; they then introduced additional pay for producing above the base level, it triggered a sea change in work habits, clearly indicating that people were not willing to simply rely on the basic income, but wanted more.

In any event, our rentier economy, under an elitist control, does not produce adequate economic opportunities for the bottom of the pyramid, at the same time we have 30 million children out of school, engaged in child labour being paid a pittance, women remain unpaid for farm work, there are 30 to 40 million children with signs of stunted growth resulting from malnutrition. The elites will always argue against any measures that will make the country more equitable.

To summarize

- **Money in peoples' pockets or purses, as a fundamental right, should create a virtuous cycle of economic development, promoting domestic manufacturing, as well as enhanced agricultural activity and widespread services.**
- **And it would be the empowered citizens who will demand better governance arrangements.**
- **Once every adult receives UBI, apart from the economic activity at the lowest level, it will transform the effort to empower all those currently suffering discrimination, including women and minorities.**
- **To sum it up, higher consumption by the majority of the population will result in higher economic activity for the country based on domestic sourcing (more jobs and reduced rent seeking) forced by the market driven exchange rate, which would also place us in a better position to export. Thus, a sustainable structure, rather than having to run to the IMF ever so often and at the same time, a more empowered and better off population overall.**



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Islamic House Financing through Diminishing Musharakah: A Cheaper Solution

Muhammad Asghar Shahzad,

Shelter is one of the basic necessity along with food and clothing which any human endeavors for. The assiduous efforts to acquire basic necessities is made part of human nature (Shahzad & Farooq, 2014). Quran and Hadith emphasizes on the importance of housing; “And Allah has made for you from your homes a place of rest and made for you from the hides of the animals tents which you find light on your day of travel and your day of encampment; and from their wool, fur and hair is furnishing and enjoyment for a time” (Al Quran An-Nahl: 80) The Holy Prophet Muhammad (PBUH.) said; “The happiness of son of Adam is determined by three things: a pious wife, a good house and a good vehicle, and the misery of son of Adam is determined by three things: an impious wife, a bad House, and bad vehicle.” (Musnad Ahmad: 1368).



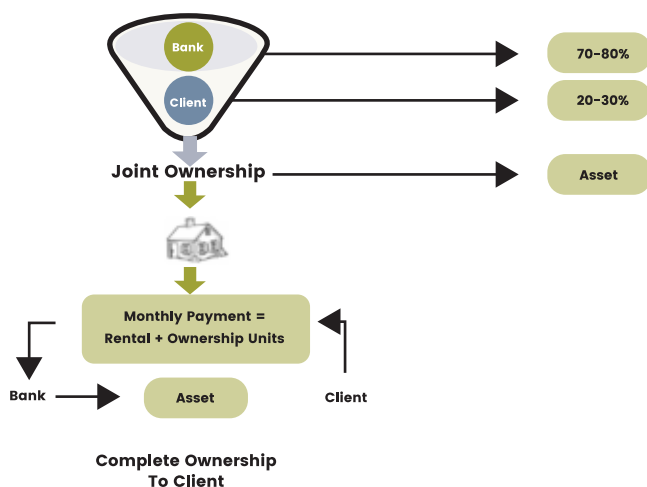
Irrespective of housing being one of the basic necessity, the high expenses to acquire it usually costs people all of their reserves and life savings. But not all people have sufficient resources to get a house and therefore, they often approach the financial institutions in order to fulfil their financial needs. The financial institutions offer house financing facility for buying, construction, renovation or balance transfer (Muhammad Asghar Shahzad, 2012; Shahzad, 2015; Shahzad & Farooq, 2014; Shahzad, Saeed, & Ehsan, 2019).

Conventional banks provide financing for building a house based on interest (Riba), which is strictly prohibited in Islam. According to the Quran, dealing with interest is equivalent to waging war against Allah (SWT) and His Prophet (PBUH) (Council of Islamic Ideology, 2003; Khan, 2000; Shahzad & Hameed, 2018). In order to provide alternative solution of house financing, contemporary Sharī'ah scholars have introduced Sharī'ah compliant methods of house financing.

There are different modes of Islamic house financing being used in Muslim and non-Muslim countries, i.e., Murabahah Lil-Amiri bi-al-Shira, Istisna', Ijara, and Diminishing Musharakah (Al-Shalhoob, 2008). However, the Diminishing Musharakah is more acceptable to Sharī'ah scholars as compared to other modes for house financing. (Shirazi, Syed Ali, & Zafar, 2014)

Diminishing Musharakah (Musharakah Mutanaqisa) is a combination of three contracts: Sharikah (Partnership), Ijara (Lease), and Bay (Sale) (AAOIFI, 2017; Muhammad Taqi Usmani, 1998). In this contract, the Islamic Financial Institution (IFI) and the customer participate in a joint ownership (Sharikah tul milk) of a property i.e. house. (Shirazi et al., 2014) The share of the house is divided into several units, and the customer purchases shares owned by financier (IFI) one by one periodically (Shahzad, 2015; Shahzad & Farooq, 2014). The customer purchases units of IFI until the customer become the sole owner of the property. In the meantime, the customer also pays the rent to IFI equivalent to the share owned by IFI in return of residing in the jointly owned house. The amount of rent decreases as the customer purchases units of house owned by IFI until the amount of rent becomes zero. This mode of financing is generally used by the IFIs of Pakistan for House financing.

Process Flow of Diminishing Musharakah for Islamic House Financing



Conventional banks provide financing for building a house based on interest (Riba), which is strictly prohibited in Islam.

On the other hand, in interest (Riba) based house financing, market rate of interest is charged on the principal amount throughout the tenure of the financing. It can be said that in conventional house financing the amount of loan and market interest rate is charged. In the below section, a comparison is presented about the detailed plan of house financing through IFIs and interest (Riba) based financing for the purpose of elaborating the cheaper mode of house financing, irrespective of its Sharī'ah legitimacy.

Suppose, a customer approaches an IFI for house financing through diminishing musharakah and cost of the house is Rs. 1 million. Customer contributes Rs. 250, 000 and rest by the IFI. The duration of the contract is set 20 years and therefore, total number of units are 240. The total monthly instalment includes monthly rent and sale price of each unit. Therefore, on every passing month, the total monthly instalment will decline due to more units are owned by customer. The total amount paid by customers at the end of 20 years is Rs. 1,539,124, details of which are mentioned in table 01. The contract is based on musharakah and therefore, in case of complete or partial damage to the house due to natural calamity or without negligence of both parties, is borne by both parties on the basis of their ownership.

House Financing through Diminishing Musharakah

Cost Price	Rs. 1,000,000	Total Units	240
Customer share	Rs. 250,000	Unit Sale Price	Rs. 3,125
Bank share	Rs. 750,000	Monthly rent per unit	Rs. 27
Profit rate	10.18%	Total starting rent	Rs. 6,363
Tenure in years	20	Starting month rent	Rs. 9,488
Segment	Salaried		

Payment Schedule

Months	Rent (PKR)	Unit Price (PKR)	Takaful Contribution (PKR)	Monthly Payment (PKR)	Balance unit value (PKR)	Balance units)
0					750,000	240
1	6,363	3,125	186	9,674	746,875	239
2	6,336	3,125	185	9,646	743,750	238
3	6,309	3,125	185	9,619	740,625	237
4	6,283	3,125	184	9,592	737,500	236
5	6,256	3,125	183	9,565	734,375	235
6	6,230	3,125	182	9,537	731,250	234
7	6,203	3,125	182	9,510	728,125	233
8	6,177	3,125	181	9,483	725,000	232
9	6,150	3,125	180	9,455	721,875	231
10	6,124	3,125	179	9,428	718,750	230
11	6,097	3,125	178	9,401	715,625	229
12	6,071	3,125	178	9,374	712,500	228
240	27	3,125	1	3,125	0	0
Total	766,681	750,000	22,443	1,539,124		

Table 01: House Financing through Diminishing Musharakah (Source: Meezan Bank)

Whereas, in case of interest based financing amounting Rs. 750,000 from conventional bank, the total monthly instalment of each month includes, interest payment and principal amount. The total monthly instalment each month throughout the period of 20 years is same, as mentioned in table 02 and the total amount paid in whole time period by the customer is Rs. 1,820,272. In addition to the high cost paid by the customer, he/she bears all the loss in case of partial or complete destruction of the property. There will be no compensation at all in payment of monthly instalments because the financing is in the form of interest based loan. This means that, customer not only loses house, or bears cost of repairment in case of partial destruction but also keeps on paying the monthly instalment irrespective of the situation of financed house.

House Financing through Interest (Riba) Based Mode of Financing from Conventional Bank

Cost Price	Rs. 1,000,000	Tenure in years	20
Customer share	Rs. 250,000	Segment	Salaried
Bank share	Rs. 750,000		

Payment Schedule

Months	Principal amount (outstanding) (PKR)	Interest (Riba) payment (PKR)	Principal amount paid (PKR)	Instalment paid (PKR)
1	750,000	6,669	905	7,599
2	749,095	6,661	913	7,599
3	748,182	6,653	921	7,599
4	747,261	6,644	929	7,599
5	746,332	6,636	938	7,599
6	745,394	6,628	946	7,598
7	744,448	6,619	954	7,598
8	743,494	6,611	963	7,598
9	742,531	6,602	971	7,598
10	741,560	6,594	980	7,598
11	740,580	6,585	989	7,598
12	739,591	6,576	997	7,598
240	0			7,570
Total				1,820,272

Table 02: House Financing through Interest (Riba) Based Mode of Financing from Conventional Bank (Source: Bank Alfalah House financing)

It can be concluded that, house financing through Islamic mode of financing i.e., diminishing musharakah from IFI is providing customers with Shari'ah compliant financing. The diminishing musharakah solution is not only Shari'ah compliant but also a cheaper solution when compared with conventional mode of house financing. In addition to this, in case of loss to the property, cost is borne by both the parties according to their share of ownership in the house. On the other hand, conventional banks provide interest based loans for house financing and costs way more to customer than Islamic mode. Adding in the misery of high cost is when due to natural calamity, house is damaged or demolished completely but monthly instalments continue irrespective of customer taking benefit from the house or house is completely damaged. It is due to the arrangements of the

financing which is simply an interest based loan by the financial institution to customer. Therefore, the cost of opting the interest based house financing is way more than Islamic mode of financing.

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Electronic Bank Guarantee (EBG)

An Innovative payment technology enabling paperless operation

Nida Fatima Hashmi, ACA

Engro Fertilizers Limited (Engro Fertilizers / the Company) is committed to transform the agri landscape of Pakistan. In this endeavor, the Company has always led the path to provide innovative customer service and product offerings to our valued farmers in the country. Leveraging technology has been at the core of our strategy to enable operational excellence and efficiency. The advent of COVID-19 catapulted our efforts in the digitization journey as we launched Electronic Bank Guarantee (E-BG) with an aim to eliminate the need for physical interaction and the hassle of arranging documentary prerequisites such as legal stamp papers especially in far flung rural areas of Pakistan. At the same time, it led to significant time and cost savings for our employees and customers.

~880 hours / year for the Company alone that were previously exhausted in manual collection, verification, and reconciliation efforts. With national roll out the impact of this much needed intervention would have a multiplier effect. This has also had massive improvement in the work wok life balance and overall employee experience in our company. This is depicted by the fact that in the employee engagement survey for 2021, statements on “execute with excellence” and “acts entrepreneurial” witnessed significant improvement of over 15%.

Last year, the Engro group implemented 1SAP, that serves as a single source of truth for data. Under the E-BG initiative, the Company was able to leverage 1SAP whereby SWIFT

We launched Electronic Bank Guarantee (E-BG) with an aim to eliminate the need for physical interaction and the hassle of arranging documentary prerequisites such as legal stamp papers especially in far flung rural areas of Pakistan.

E-BG is transmitted though SWIFT's inter-bank electronic networks. As the existing infrastructure of banks support SWIFT based communications, there are no incremental costs to the banks.

Bank Guarantee (BG) is a widely used credit enabling tool in Pakistan across various industries. In the fertilizer industry, the value chain comprises of small to medium-sized entities i.e. dealers, where inherently the credit risk is high and hence credit sales are typically secured with a BG. Previously, fertilizer dealers would visit the bank branch to get a legal-paper-based BG, with documents submitted physically to warehouses of the fertilizer manufacturers across the country. Subsequently, BGs would then be sent to the head-office to verify the genuineness of the documents and/or issue call notices against the BG as required. The entire process was taxing in terms of safekeeping of original paper-based documents and severely time consuming.

Engro Fertilizers took the lead and partnered with MCB Bank Ltd. to develop an innovative, scalable and secure E-BG product. The implementation process involved engaging a reputed lawyer and collaborating with the central bank to obtain clearances. E-BG is transmitted though SWIFT's inter-bank electronic networks. As the existing infrastructure of banks support SWIFT based communications, there are no incremental costs to the banks. Post pilot launch, the Company pitched the product to all other banks and convinced them to issue only SWIFT based BGs, instead of traditional physical BGs. The revamped process has saved

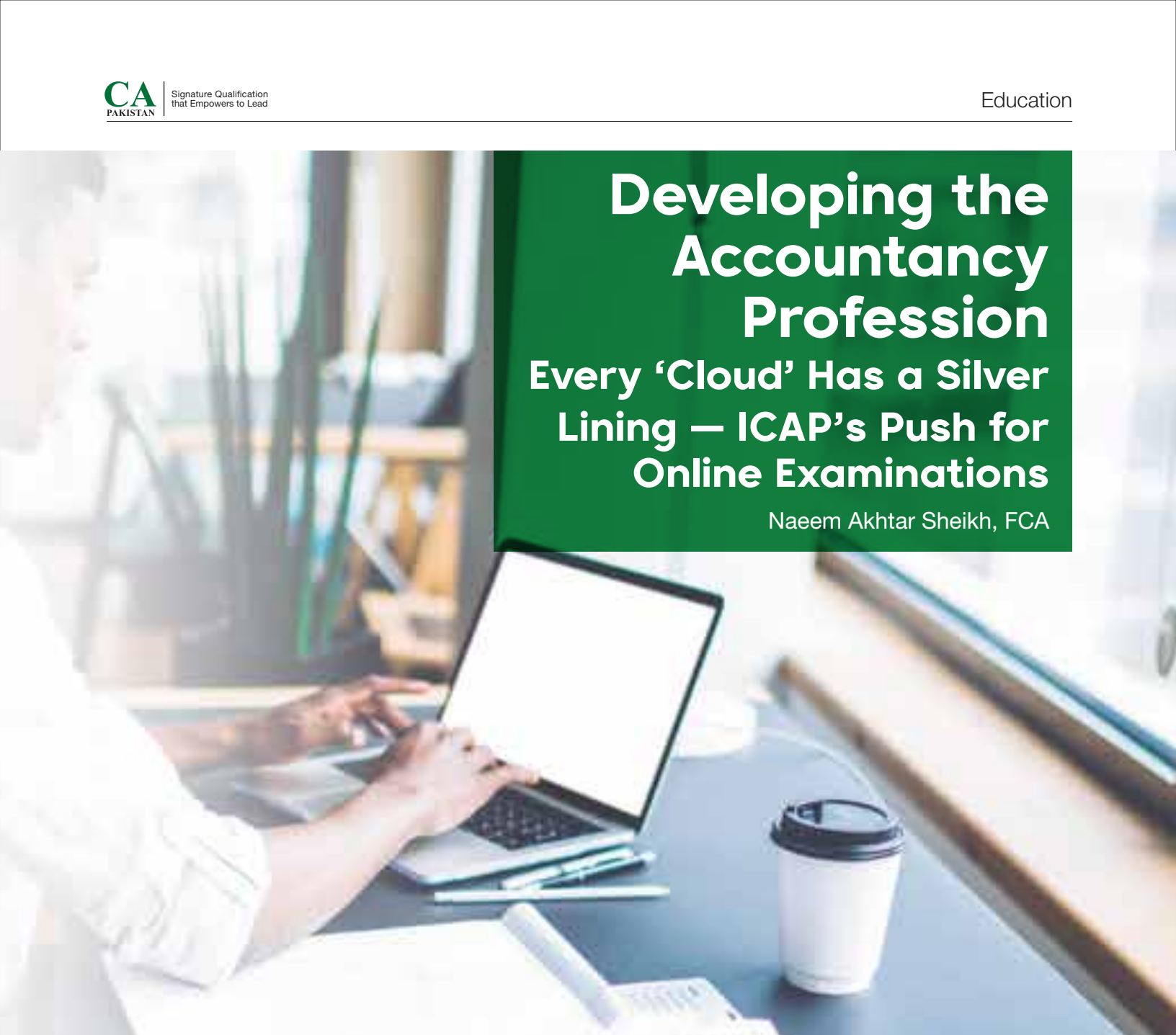
messages from banks are directly integrated with 1SAP. This has therefore eliminated the risk of counterfeit bank guarantees and improving the overall control environment.

The vehement success of the product is evidenced by the fast paced adoption by banks. Within six months, E-BG penetration for Engro Fertilizers sky-rocketed from 0 to 93% of the share of total BGs based business. The innovative tool has helped Engro Fertilizers Limited to enable paperless operations, improve work-life-balance of employees, accentuate the productivity and efficiency of workforce and cost and time savings for our customers, thereby holistically creating value for its stakeholders.

This initiative also won two awards in the categories of “Best Payment Technology” and “Best Banking Tech of the Year” by the Pakistan Digital Awards. Furthermore, it has also been shortlisted in the Business Transformation & Operational Excellence World Summit & Industry Awards (BTOES) in the category of “Best achievement in operation excellence to deliver digital transformation.”



The writer is serving Engro Fertilizers Ltd as GM Finance and Planning and is always striving to set a new benchmark to business planning, performance and growth.



Developing the Accountancy Profession

Every 'Cloud' Has a Silver Lining — ICAP's Push for Online Examinations

Naeem Akhtar Sheikh, FCA

Every cloud has a silver lining—or perhaps we should say every 'cloud transformation' has a silver lining. The advent of COVID-19, which has cast a dark shadow around the world for last two years, actually acted as a catalyst and accelerated ICAP's journey towards online testing and remote proctoring. What had been a lofty goal of the ICAP Council for at least a decade was suddenly ushered in with great urgency.

As the COVID-19 pandemic unfolded in early 2020, the Government of Pakistan shut down the entire country in March 2020 and consequently the Institute of Chartered Accountants of Pakistan (ICAP) had to cancel its examination set for the later part of March. As the time went on, ICAP also had to cancel the June 2020 exams. These were exceptional events in the history of ICAP— an exam cancellation had never happened before and was hard to process. The

situation, understandably, raised concerns and confusion among our large community of students across Pakistan.

The Needs

ICAP management needed to act swiftly to assess the situation. We needed an extraordinary response to address multiple priorities and an out of box solution at a very rapid speed. Firstly, minimizing student disruption and enabling them to continue with their professional development was essential. The second challenge was to move towards a real time online e-assessment system – with an aim to better assess the skills needed in the modern accountancy workplace and to support students in achieving their qualifications. Third, it was crucial that students were tested on their knowledge and not their proficiency with technology; that they were comfortable with the process; and that they felt

The advent of COVID-19, which has cast a dark shadow around the world for last two years, actually acted as a catalyst and accelerated ICAP's journey towards online testing and remote proctoring.

supported by ICAP—all within a very short timeframe. The ICAP Exam Team wanted to resume examinations by the end of 2020 to avoid further delays for students.

Finding the Right Partner

Locating a partner to digitalize the online examination process was the first task. ICAP Exam Team knew there were only a few weeks to source, implement, test and execute online examinations. One of the biggest challenges was the cost. Most of the remote proctoring solutions were very expensive and beyond the budget estimates. After a due diligence process, ICAP chose RM as its partner for this transformation — there were mutual benefits in this partnership. RM was seeking to expand into the South Asian market and ICAP was able to negotiate a reasonable deal with them. RM was also new to e-testing business and therefore, it combined its services offered to ICAP in collaboration with Proctor Exams, UK. This significantly helped the implementation to move forward.

It was truly an international and collaborative approach from both ICAP and RM, in understanding the potential of online testing and e-proctoring, and moving a risk-averse organization onto a new, robust platform and SaaS (Software as a Service) solution. The result was amazing: within a period of six months, ICAP transitioned from a historical legacy of an offline multiple-choice e-testing platform to the RM Assessment Master, a cloud-based e-testing solution that included the option of remote proctoring.

RM's Assessment Master provides live proctoring, which involves real-time human monitoring of sessions via the student's webcam and mobile phone. ICAP did face some challenges of higher incidence of unfair means due to remote proctoring, but was able to reduce this to an acceptable level with more vigilance and better technology innovation. The RM Assessment Master offers a complete end-to-end solution for ICAP. The system also has the ability to deal with unexpected technical difficulties which may arise during an exam session, such as temporary loss of power or internet connectivity that may affect either the student or human proctor. This allowed ICAP to offer students the flexibility to complete high-stakes examinations either at home or in a test center.

Top Marks

The ICAP Exam Team worked closely with stakeholders, communicating regularly with them and in turn, ensuring students were made aware of changes and ICAP's continual assessment of the situation. To ensure that students would be familiar with the new format, practice tests were created by ICAP in RM Assessment Master accessible via the ICAP

website. All this was supported by RM remotely from the RM experts based both in the United Kingdom and Australia, and hosting in a secure cloud environment in Germany.

ICAP has received positive feedback from students who have taken the exam thus far:

"I am very satisfied with the Online AFC exams conducted by ICAP. They provided excellent service to us through this new system. My exams were attempted smoothly and successfully." The end result is also a win for ICAP, as we can now offer exams not only all across Pakistan but globally as well. Previously international students were restricted to three other centers around the world- two in the Kingdom of Saudi Arabia and one in the United Arab Emirates. Online testing has opened new opportunities for ICAP to extend its reach worldwide and now its students residing anywhere in the world can take exams remotely.

Furthermore, ICAP has advanced its e-marking system and it is now fully integrated with the e-assessment and the results are directly uploaded on the web. This has led to increased efficiency of the entire process, reduced errors, and saving precious time and money. The success of this initiative is contributed to the full ownership and support by the governance body alongside a dedicated commitment from the President and Board and, most importantly, the timely decision of creating a complete, holistic and integrated solution with the right partners in the market.

More from the PAO Development & Advisory Group on Digitalization

There are huge opportunities for PAOs to advance their own organization's success and our global professional community. Our journeys are unique, yet our experiences not uncommon. IFAC's PAO Digital Readiness Assessment Tool is providing a platform for future synergies and transparency among PAOs as they start exploring technology solutions, new certifications, and training. Patience and tenacity are necessary, but digitalization will unlock new power for PAOs. The IFAC PAO Development & Advisory Group encourages all IFAC members to leverage and complete the free Tool and is available to connect with PAOs on this topic!

Explore IFAC's regularly updated PAO Digital Transformation Series webpage , which houses helpful resources, articles and videos on Digital Transformation.



Naeem Akhtar Sheikh, FCA, is a practicing Chartered Accountant and a Senior Partner in UHY Hassan Naeem & CO. Chartered Accountants and a current member of IFAC Professional Accountancy Organization (PAO) Development & Advisory Group. He was also a member of the 2012 joint committee proposing the way forward for the Pakistan Audit Oversight Board. Mr. Sheikh specializes in taxation and carries with him more than two decades of experience. He has been a member of Pakistan's Task Force on restructuring the Federal Board of Revenue of Pakistan. From 2014-2015, Mr. Sheikh was President of ICAP and in 2016 was the President of the South Asian Federation of Accountants. In addition, he headed many ICAP committees, including Investigation, Education, and Taxation. He is also the current Chairman of the ICAP Professional Standard and Technical Advisory Committee



Delivering an agile finance at Engro Fertilizers through Digital Transformation

Imran Ahmed, FCA

At Engro we pursue excellence in whatever we do. Being the flagship enterprise of Pakistan's premier diversified conglomerate, Engro Fertilizers has always believed that success is not just about financial returns. We have been a purpose driven organization and since inception it has been our endeavor to play our part in elevating corporate practices in Pakistan.

In pursuit of excellence, we embarked upon the digitization journey at Engro that has started to deliver results as we are now benefiting from improved availability of quality information, efficient business processes and better control environment across the Group.

Guided by the Board's vision and persistent efforts of our team, we have been able to make a swift transition towards world class digital processes and platforms. By embracing digitization, we have improved business efficiency and customer service.

A journey of thousand miles begins with a step. For us that step was the choice of

the ERP solution as the Group decided to move to the best in class ERP solution, SAP. That was critical recognizing the need to move to an integrated ERP system where consolidated, quick, and accurate information is available meeting a standard definition on click of a button.

Also, at the heart of Engro's vision lies putting people first. Globally, technology has improved lives for the better; thus, when the opportunity knocked at our door, we did not think twice and set out on a mission to eliminate redundant and manual tasks so that our employees could find more time to focus on value adding activities.

How can we forget COVID-19 as it acted as a catalyst to our digital transformation, that was not only needed, more than ever, to ensure business continuity but also to bring competitive advantage in the shifting paradigm.

Game changer was clearly the move to an upgraded SAP. It opened the avenues to achieve digital transformation that could have never even been envisaged

We embarked upon the digitization journey at Engro that has started to deliver results as we are now benefiting from improved availability of quality information, efficient business processes and better control environment across the Group.

without it. I would not spend time to share the benefits of a move to an ERP solution but would rather explain as to what we ended up delivering at the back of it.

First and foremost, and something that would bring pride to any finance professional, we managed to bring our closing down from 14 days to a single day. To provide some context, here we are talking about a complex process industry with multiple activities involved pre and post closing. Imagine what it means for the business leaders who now have access to the business performance results next day of the month-end.

Visualize the kind of impact it has on the employees who now have so much time freed up to carry out the value added analysis rather than firming up the past month number.

We are a strong proponent of Entrepreneurship. Digitization has enabled availability of timely and robust information to facilitate improved business decision making. Starting with sales, to allow our teams an in-depth visibility into the profitability, we launched the "Business Performance dashboard", a tool that allows users from sales team to review and analyze company profitability drilled down to an individual customer level. This aids efficient decision making as our teams are now equipped with the right set of tools to analyze and then decide which products and customers are to be focused upon.

At Engro Fertilizers, being competitive and adaptive is at the core of our aspiration to remain the benchmark name in Pakistan's Corporate universe. Hence, cost is one of our key focus areas. To aid this focus, we employed technology to design and implement "Horizon" – a fixed cost analysis dashboard that allows us real time status of our spent vs our budgets all the while enabling drill down capabilities into areas of interest. What delights me is the fact that it has enabled a strong cost culture across the organization as business is no longer reliant on finance to provide information every time they need it. Results speak as we have been able to deliver on record cost saving targets in the recent years.

An agile finance function is at the core of any sustainable high performing organization. Therefore, it is our aim to be the forerunners in ensuring an adequate and foolproof control environment in place while business continues to grow. Here, Finance not only plays a key role in designing the control environment and procedures but

is now moving to a "Self Assurance" model to ensure improved checks and balances as well as timely stewardship of implementation of the controls across the organization. The most important thing to highlight is that in this new paradigm we first worked with our SAP implementation

An agile finance function is at the core of any sustainable high performing organization. Therefore, it is our aim to be the forerunners in ensuring an adequate and foolproof control environment in place while business continues to grow.

team and now with our IT team to automate as many controls as possible. We are also automating compliance activities to ensure that periodic controls are exercised, and any misses are timely highlighted to avoid potential losses. We have experienced that manual controls are prone to inconsistency whereas system based controls are reliable operate in a consistent manner every time.

Internal Audit is a critical value adding function for any organization that acts as the second and in many cases last line of defense to ensure robustness of any control environment. Realizing the evolving needs, improved focus has been brought on the IT audits as specialized system audits are now being carried out to ensure that our enhanced reliance on systems is well backed with robust controls.

With the foundation laid, as part of Engro Group wide initiative, we are now embarking upon the natural next step i.e. Centralization of finance and other activities. The analysis shows that 80% of our time is spent around transactional work with 20% left for value preservation and creation. Our goal is to turn the pyramid upside down to enable more time for value creation. Centralization would enable specialization that would

lead to operational excellence. At the very same time, centralization would help creating roles that would allow our employees to diversify their experiences with deeper understanding of various finance activities and processes.

Uptil now my focus had been very internal. Let me now share that we feel pride in fostering collaboration and working with our external business partners to promote inclusive development and growth. Post COVID recognizing the need for paperless processes, we took the lead and partnered with MCB, a local Bank, to develop an innovative, scalable and secured Electronic Bank Guarantees product in Pakistan. Under the solution, that is now implemented across the board, digital paper less bank guarantees are now being transmitted through SWIFT's inter-bank electronic networks from one bank to another thereby eradicating the need for a cumbersome paper based process prevalent in the banking industry.

In the recent Employee Engagement Results, our employees have provided very positive feedback, as our engagement scores have demonstrated significant improvement, especially in the category of "Executes with Excellence".

Our customers are also highly satisfied in terms of experience as our leadership and intervention in the digital space has allowed them to save their value time and efforts thereby driving efficiencies in their business processes.

Our efforts have been recognized as we received three awards on the platform of Pakistan Digital Awards earlier this year. We have also been nominated for International BTOES awards for which the results are expected in December.

It's a continuous journey which surely does not end here. We have number of digitization initiatives in the pipeline through which we would continue to deliver excellence in the days and years to come.



The author has over 20 years of experience in leadership and managerial roles in Finance and other disciplines, including multiple CFO roles and is currently serving Engro Fertilizers, Pakistan.

Engro Humsafar App – an industry first to enable digitization of order to cash cycle

Mirza Arsalan Baig, FCA

This is a B2B digital platform for fertilizer dealers, offering a differentiated customer experience that enables dealers to transact with EFERT round the clock.

The digitization of payments was also required to leverage on the ease of online payment channels. This required digitizing the manual processes and collaborating with banks and partners to provide an online “ecosystem of innovative payment solutions”.

With customer centricity and leveraging technology being the key drivers, EFERT has led Pakistan’s digital transformation of the agricultural value-chain through a mobile and web enabled application, Engro Humsafar. This is a B2B digital platform for fertilizer dealers, offering a differentiated customer experience that enables dealers to transact with EFERT round the clock. An industry first, this app has now delivered over PKR 100 billion in sales in a mere 14 months since launch enabling a faster sales-turnover and making Engro Humsafar the largest e-sales application in Pakistan.

Engro Humsafar app offers an “ecosystem of innovative payment solutions” that provides EFERT dealers a differentiated customer experience to place orders as well as make online payments from anywhere, anytime at a click of a button through a secured payment gateway.

Traditional Order-to-Cash Process

The traditional process is long and tedious: the dealer visits the bank to first get the payment processed. The payment instrument is then forwarded to EFERT’s warehouse located 10 to 40 km from the dealer’s location. The warehouse receives the payment instrument and records the entry in EFERT’s SAP database. Once approval is received in SAP, it authorizes the warehouse to proceed with placing the dealer’s order. The dealer visits again to place the order. This entire process takes at least 2 to 3 days.

Selling fertilizers for dealers is typically a low margin business driven by high turnover of sales. Thus, any step aimed at faster execution of order to cash cycle for the dealers through improved customer experience, was likely going to be a huge success.

Engro Humsafar App – EFERT Flexing it’s Wings with Innovation in the Digital Landscape

EFERT was the first to identify that the next leap in transformation would be from simplification of the order to cash cycle. While order placement was simplified through the app, the digitization of payments was also required to leverage on the ease of online payment channels. This required digitizing the manual processes and collaborating with banks and partners to provide an online “ecosystem of innovative payment solutions”.

In September 2020 the Engro Humsafar app was launched nationwide. Dealers were informed and trained through internal channels of communication and got an overwhelming response as a large population quickly moved on to the new Engro Humsafar app as well, with help from our on-ground field-force. This also required significant collaboration with all major banks, to ensure adequate dealer wise transaction limits were available for online payments.

Game Changing Results

Within 14 months of launch, Engro Humsafar app usage witnessed a tremendous increase with penetration across our dealer network in Pakistan. With the lion’s share of the orders placed through the app, the business recorded more than PKR 100 billion in revenue by October 2021. Out of this, payments for a sizable portion of orders generated on the app have been enabled through online payments leading to significant value generation for the company.



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“Navigating Workers Participation in Companies’ Profit”

Jamal Abdul Nasir, FCA, CFC, MScFE

Islam has stressed much on the workers’ rights. “Give the employee his/her wages before the sweat is dry on him.” (Majah). Similarly, another hadith narrates “The rich, despite their riches, cannot delay payment to the worker, for it is a crime.” (Bukhari). Similarly, Socialism in its various forms draws its political legitimacy from workers’ politics. It represents workers aspirations and their struggle against monopolization of wealth or in other words, capitalism. In modern nation states, where participatory democracy prevailed, almost every country’s legal and constitutional mechanism including that of Pakistan has elaborated workers’ rights and their right to wages.

One of such legislations is The Companies Profit (Workers Participation) Act, 1968 (the Act) which was enacted to achieve uniformity by providing for participation of workers in the profit of companies. The objectives of the law are to ensure welfare of workers and increase workers’ sense of ownership in a Company.

Until the 18th amendments, the Act was applicable across the country. However, the affairs of labor was devolved to provinces under the 18th amendment of the constitution; hence, the power of legislation relating to workers profit participation vested with the provinces. Accordingly, Sindh enacted Sindh Companies’ Profits (Workers’ Participation) Act, 2015; Punjab enforced Companies Profits (Workers’ Participation) Act, 1968 (Amendment) Ordinance 2020. The other two provinces, Khyber Pakhtunkhwa and Balochistan, have not legislated on this subject and continue to follow Companies’ Profit (Workers’ Participation) Act, 1968.

The Act was amended through various legislations but notably by money bills, Finance Act 2006 and Finance Act 2007. The Finance Act 2006 amended the definition of “workers” and borrowed it from Industrial Relations Ordinance 2002 with limitation of a minimum period of six months in employment. The duo Acts also amended the thresholds of three categories of workers harmonizing them with the current

average monthly wages drawn by workers. The categories of workers are as follow after amendments.

After amendment through Finance Act 2006 Worker Drawing Average Monthly Wages in Rupees		
Category	From	To
1	-	5,000
2	5,001	7,500
3	7,501	10,000

After amendment through Finance Act 2007 Worker Drawing Average Monthly Wages in Rupees		
Category	From	To
1	-	7,500
2	7,500	15,000
3	15,001	No upper Limit defined

The Finance Act 2006 also amended the scope of the scheme set out in the Act by setting the limit of paid up capital and the value of fixed assets of a company at 5 million and 20 million respectively which are minimum thresholds, if satisfied, make a company binding for the scheme.

Afterward, these amendments made through money bills, Finance Act 2006 and Finance Act 2007 (hereinafter referred separately or jointly as "the amendments"), were challenged in various courts. Eventually on November 10, 2016, the Honorable Supreme Court of Pakistan declared the amendments unlawful and ultra vires the Constitution. As result of this judgment of the Supreme Court of Pakistan, the Act was put back to the state as perdured prior to the Finance Act 2006 (hereinafter referred to as the "reinstated act") which prompted various issues in the implementation of the Act.

WPPF ACT Before Amendment through Finance Act 2006 Worker Drawing Average Monthly Wages in Rupees		
Category	From	To
1	-	2,500
2	2,501	3,200
3	3,201	5,000

As result of striking down the amendments by the Honorable Supreme Court, the scheme set out in the reinstated act is applicable to all companies engaged in industrial undertakings which has (i) fifty or more number of workers or (ii) 20 lakhs or more paid up capital or (iii) value of fixed assets equal to Rs. 40 lakh or more; thus the scope is more extensive covering much smaller companies on the basis of last two conditions.

The reinstated Act defines a worker as follow;

"Worker" in relation to a company means an employee of the company whose average monthly emoluments computed in the manner set forth in the scheme do not exceed five thousand rupee per month and who has been in the employment of the company for a period of not less than six month.

The reinstated Act, accordingly, gives the categories of workers commensurate with the definition of a worker as follow

At present, where existent minimum wage rate is 20,000 and average monthly wages is 18,754 as per Labour Force Survey 2017-2018 (Statistical Bureau of Pakistan), no worker becomes eligible to the benefits of the scheme and participation in the fund established under the Act.

Hence, considering the definition of a worker and categories of workers as per reinstated Act, a worker drawing average monthly wages more than 5,000 is not eligible for the scheme in accordance with the reinstated act. At present, where existent minimum wage rate is 20,000 and average monthly wages is 18,754 as per Labour Force Survey 2017-2018 (Statistical Bureau of Pakistan), no worker becomes eligible to the benefits of the scheme and participation in the fund established under the Act. Resultantly, the entire contribution of WPPF equivalent to 5% of profit of a company accrues to the benefit of the fund established under Worker' Welfare Fund Ordinance, 1971 and due to be transferred to the aforementioned fund under sub-paragraph (d) of paragraph 4 of the scheme. Contrary to the judgment of the Supreme Court of Pakistan, the Ministry of Overseas Pakistanis & Human Resource Development has held that only amendments made through Finance Act 2007 have been declared unlawful and advised Workers' Welfare Fund on December 16, 2018 through letter no. WWF/legal/HR(36)/2012 to implement the Act in accordance with the categories of workers as amended through Finance Act 2006. Even if the categories' thresholds defined in the Finance Act 2006 are followed as required by the ministry, no worker becomes eligible for the benefit of the scheme as the upper limit of Rs. 10,000 in that category is far below than current minimum wage rate and average minimum wage rate of Rs. 18,754.

By reason of annulment of the amendments and lack of subsequent legislation, major profit contribution by the Companies under the Act goes to the fund established under Worker' Welfare Fund Ordinance, 1971, thus depriving low-paid workers of sharing in profits of the Companies. Hence, workers' right to equality, social security and welfare is seriously hampered in the wake of outmoded Companies' Profit (Workers' Participation) Act, 1968.

Therefore, there is a pressing need of passing proper and valid legislation on this subject by federal and provincial lawmakers following its implementation in letter and spirit to give due benefits to workers and remove complications in the implementation of the Act.



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Public Procurement Specialist, An Emerging Field For Chartered Accountants

Madiha Naz, FCMA

Developments in Public Sector Finance and Administration of Pakistan

We have seen many developments in public sector finance and administration of Pakistan since last two decades. PIFRA (1996—2014) was implemented in three phases as a result of this project, numerous developments ranging from separation of Pakistan Audit Department into Auditor General of Pakistan and Controller General of accounts, implementation of Financial Accounting and Budgeting System to developments of new standards for auditing have been made. Public sector

finance and administration is now following international practices and one such practice is development of procurement rules.

(B) Public Procurement Laws in Pakistan

Governments across the globe are spending a significant portion of their budgets on procurement. Public procurement spending is estimated to account for 15 percent of the world's GDP. In this context, after the year 2000, Government of Pakistan (GOP) established Public Procurement Regulatory

Governments across the globe are spending a significant portion of their budgets on procurement. Public procurement spending is estimated to account for 15 percent of the world's GDP. In this context, after the year 2000,

Authority (PPRA) through promulgation of Ordinance No. XXII of 2002 on 15 May 2002; Public Procurement Rules (PPR) in 2004; Public Procurement Regulations in 2008; and Public Procurement Regulations for Procurement of Consultancy Services in 2010. The Rules and Regulations, largely based on international best practices, are applicable to the procurement of goods, works and services by the federal government, state-owned enterprises and semi-autonomous organizations.

Following the federal regime, all provinces i.e. Balochistan, Sindh, Punjab and Khyber Pakhtunkhwa, and regions with special status - Gilgit Baltistan and Azad Jammu Kashmir (AJK), have also established their respective procurement authorities though, with slight variations but majorly all in line with the federal PPRA rules.

(C) Scope of Public Procurement Specialist

Multiple sources indicate that Pakistan can save at least \$18 billion annually by optimising its public procurement. This amply highlights that the supply chain has become a highly specialised field and requires corresponding level of professional capacity for its management in addition to a robust governance structure. Capacity deficiency results in indecisiveness or ill-informed decisions.

A study of the government of Pakistan, World Bank, European Commission, Asian Development Bank (ADB) and UK Department of International Development (DFID) summarises the situation as follows: "Throughout the government, there is a dearth of skills in procurement and contract administration ranging from the development of policy to the management of function."

In short, there is a dire need of public procurement specialist in the entire chain of procurement.

(D) Chartered Accountant as Public Procurement Specialist

Mostly the jobs for public procurement specialist demand MBA's, Engineer's, LLB's and professional accountants. As Chartered Accountants have also studied management, law, engineering related subjects in their course so they are the best choice for public procurement specialists. It is the need of the hour that they should polish their skills in learning and adopting procurement laws and rules, come forward, perform and take part in decision making. and assist government in developing a cadre of procurement professionals to handle procurement and contract administration functions for

improving procurement efficiency and ensuring value for money. They should also work with the policy makers for capacity building of existing procurement practitioners; and strengthening of the National Institute of Procurement.

(E) Conclusions

The, effective public procurement systems can help governments see better value for money, reduce pressure on public budgets, and leave agencies better prepared to invite private investments. Public funds are scarce and governments must invest with intention. Improving public procurement systems contributes to a vibrant private sector, helps governments get the most out of their investments, and supports growth. A developing country like Pakistan annually spends around 20 percent of GDP through this medium. This includes approximately 90 percent budget of public sector enterprises (PSEs). Therefore, it necessitates, without any doubt, that the associated governance structure should be fool proof and user-friendly.

Multiple sources indicate that Pakistan can save at least \$18 billion annually by optimising its public procurement. This amply highlights that the supply chain has become a highly specialised field and requires corresponding level of professional capacity for its management in addition to a robust governance structure.

Chartered Accountants are making meaningful contribution to all sub-sectors of economy and their services are highly acknowledged. They are able to face diverse challenges. Their extraordinary accounting background, strong technical skills, effective decision making skills, expertise in SAP, acknowledgement of latest economic happenings, curiosity for learning, understanding of procurement rules and regulations, vigilance of the advancement in world's public procurement process, drive for robust governance structure in public procurement have made them an unmatched asset for the public procurement regime.

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Accounting for Element of Income under the NBFC Regulations – Some Suggestions

Muhammad Rashid Zafer, FCA



Introduction

The NBFC Regulations, 2008 defines and provides a mechanism for the accounting of Element of Income (Element) in the open ended funds. The aim of this article is to suggest some changes in the existing mechanism so that the very objective for which Element accounting is used in the open ended funds is achieved. But before proceeding further, a brief on what is Element and why it is recorded?

What is Element?

An open ended fund (Fund) allows investors i.e. unit holders to continuously enter and exit into and out of the Fund at the net asset value per unit more commonly referred to as NAV. NAV of a Fund represents the current value of one unit in the Fund. So if the NAV of a Fund is Rs. 100 at the beginning of

the period and its current NAV on any particular date is Rs. 110 it means that the Fund has earned Rs. 10 per unit as income since the beginning of the period. This Rs. 10 per unit is termed as Element in the parlance of mutual fund industry.

Why Element is Recorded?

The continuous entry and exit of the unit holders into and out of the Fund necessitates that the existing unit holders should not have any impact on the amount available for distribution to them. Element accounting is a mechanism which serves this purpose.

The NBFC Regulations defines Element as:

“Element of income represents the difference between net assets value on the issuance or redemption date, as the case

may be, of units and the Net Asset Value (NAV) at the beginning of the relevant accounting period.

Explanation: Element of income is a transaction of capital nature and the receipt and payment of element of income is taken to unit holders' fund; however, to maintain same ex-dividend net asset value of all units outstanding on accounting date, net element of income contributed on issue of units lying in unit holders fund is refunded on units in the same proportion as dividend bears to accounting income available for distribution."

To elaborate, suppose Mr. A invested Rs. 10,000 in a Fund (i.e. 100 units @ NAV of Rs. 100) at the start of the Fund. On the last day of the financial period the net assets and NAV of the Fund stood at Rs. 11,000 and Rs. 110 respectively, which means that the Fund has earned Rs. 1,000 as income. If no other unit holder enters this Fund, Rs. 1,000 is available for distribution to Mr. A and if dividend is declared Mr. A will receive Rs. 1,000 as dividend which translates into Rs. 10 per unit.

Now suppose that on the last day of the financial period another unit holder Mr. B invested Rs. 11,000 (i.e. 100 units @ NAV of Rs. 110) in the Fund. If the mechanism of Element accounting is not employed the amount available for distribution will be Rs. 5 per unit (i.e. Rs. 1,000 income / 200 units) because 100 new units purchased by Mr. B will also participate in the income of the Fund.

From the above we can see that the entry of Mr. B in the Fund at one hand resulted in dilution in the amount available for distribution to Mr. A and on the other hand if dividend is declared, Mr. B will also receive Rs. 5 per unit as dividend. If we analyze Mr. B has not earned anything from the Fund because he entered the Fund at the NAV of Rs. 110 and the closing NAV is also Rs. 110. So effectively, if dividend is paid he will receive back a part of the capital, he invested in the Fund in the form of dividend.

In order to solve this problem the mechanism of Element accounting is employed which in its simplest form is as follows:

When Mr. B invested Rs. 11,000 (i.e. 100 units @ NAV of Rs. 110) this transaction is accounted for by recording Rs. 10,000 in the capital and Rs. 1,000 (i.e. Rs. 10 * 100 units) in the Element account respectively. If the Fund decides to distribute 100% of the income for the period then, as required under the NBFC Regulations, 100% of the Element for the period should also be distributed. It means Rs. 2,000 (i.e. Rs. 1,000 profit + Rs. 1,000 Element) will be distributed which translates into Rs. 10 per Unit (i.e. Rs. 2,000 / 200 units).

In this way, Mr. A will receive Rs. 1,000 as dividend (i.e. 100 units * Rs. 10) as he would have received, if Mr. B has not entered in the Fund. Mr. B on the other hand will also receive Rs. 1,000 (i.e. 100 units * Rs. 10) but this payment will not be treated as dividend rather it would be treated as the refund of Element or in other words refund of capital that he contributed

at the time of investment and which the Fund has recorded in the Element account.

Problem with the Current Requirement of NBFC Regulations, 2008

The calculation and recording of Element on the basis of difference between NAV on the transaction date and the NAV at the beginning of the relevant accounting period will work perfectly well as long as dividend is paid out of the income of the current period or in other words upto or below the income of the current period. The moment dividend is paid out of the retained earnings, it will not only result in dilution in the amount available for distribution to the existing unit holders but will also result in payment of dividend to the unit holders who, otherwise, would not be entitled to dividend.

The reason for this is quite simple because when we calculate Element as a difference between the transaction NAV and opening NAV we are accounting for only the income of the current period in Element. Therefore, in case where Fund distributes dividend out of the retained earnings, the amount of dividend and refund of Element will be distorted.

It is therefore imperative that Element should be calculated and recorded on the basis of difference between the transaction NAV and par value of the units so that total income of the Fund (i.e. income for the period plus retained earnings) is recorded and accounted for in the Element account at the time of issuance or redemption of units.

Following illustration spanning over two financial periods will elaborate the problem in the current requirement for calculation and recording of Element. In this illustration Element will be calculated and recorded on the basis as outlined in the NBFC Regulations and also on the basis of difference between transaction NAV and par value (Suggested Treatment) so that the problem in the existing mechanism of Element accounting as outlined in the NBFC Regulations, can be highlighted.

Period 1

A Fund started its operation in Period 1 and two persons purchased units in this Fund. Mr. A purchased 100 unit @ NAV of Rs. 100 and Mr. B also purchased 100 units @ NAV of Rs. 110. Income for the period is Rs. 1,000. The Fund distributed 90% of the income as required under NBFC Regulations. NAV before distribution was Rs. 110. In Period 1 by default Element is calculated as a difference between the transaction NAV and par value because there is no opening NAV. Par value of units is Rs. 100.

Transaction Summary - Period 1

Table I

Particulars	Units	NAV	Total	Element / Unit	Total Element
		----- Rs. -----			
Mr. A	100	100	10,000	-	-
Mr. B	100	110	11,000	10	1,000
Total	200	-	21,000	-	1,000

Balance Sheet - Period 1

Table II

Particulars	Before Distribution	After Distribution
	Rs.	
Net Assets	22,000*	20,200^
Unit Holders' Fund	22,000	20,200
No. of Units	200	200
NAV	110.00	101.00

* Rs. 21,000 (amount received from unit holders) + Rs. 1,000 (income for the period)

^ Rs. 22,000 - Rs. 1,800 distribution for the period

Unit Holders' Fund - Period 1

Table III

Particulars	Before Distribution	After Distribution
	Rs.	
Opening Capital	-	-
Issuance of Units	20,000	20,000
Closing Capital	20,000	20,000
Opening Element	-	-
Element for the Period	1,000	1,000
Refund of Element	-	(900)
Closing Element	1,000	100
Opening Retained Earnings	-	-
Income for the Period	1,000	1,000
Dividend	-	(900)
Closing Retained Earnings	1,000	100
Total	22,000	20,200

Income Distribution - Period 1

Table IV

Particulars	Amount Rs.
Opening Retained Earnings	-
Income for the Period	1,000
Income Available for Distribution	1,000
Distribution @ 90%	900
No. of Units	200
Per Unit Distribution - a	4.50
Total Distribution out of Income	900

Income Distribution - Period 1

Table V

Particulars	Amount Rs.
Opening Element	-
Element for the Period	1,000
Element Available for Distribution	1,000
Distribution @ 90%	900
No. of Units	200
Per Unit Distribution - b	4.50
Total Distribution out of Element	900
Total Per Unit Distribution for the Period a + b	Rs. 9.00

Share of Dividend and Refund of Element - Period 1

Table VI

Particulars	Units	Per Unit Distribution	Total Payments	Element Refund	Dividend
	Rs.				
Mr. A	100	100	10,000	-	-
Mr. B	100	110	11,000	10	1,000
Total	200	-	21,000	-	1,000

From the above illustration it is clear that Mr. A invested in the Fund on day one therefore he is entitled to total income of the Fund. Since the Fund has distributed 90% of the income therefore he has rightly received Rs. 900 i.e. 90% of the income as dividend.

Mr. B on the other hand has invested on the last day of the financial period @ NAV which is also the closing NAV therefore he is not entitled to dividend and hence has rightly received Rs. 900 i.e. 90% of the Element contributed, as refund of Element.

Period 2

In period 2 another person Mr. C purchased 100 units @ NAV of Rs. 110. The NAV at the close of the financial period is Rs. 110. Income for the period is Rs. 1,800. In Period 2 Element will be calculated as a difference between the transaction NAV and opening NAV and also on the basis of difference between the transaction NAV and par value (Suggested Treatment), side by side so that comparison of the results can be made easily.

Transaction Summary - Period 2

Table VII

Particulars	Units	NAV	Total	Under NBFC Regulations (Transaction NAV minus Opening NAV)		Suggested Treatment (Transactions NAV minus Par Value)	
				Element / Unit	Total Element	Element / Unit	Total Element
				Rs.			
Period 1							
Mr. A	100	100	10,000	-	-	-	-
Mr. B	100	110	11,000	-	100^	-	100^
	200	-	21,000	-	100	-	100
Period 2							
Mr. C	100	110	11,000	9*	900	10**	1,000
Total	300	-	32,000	-	1,000	-	1,100

^ Remaining Element of Mr. B after distribution of period 1 (i.e. Rs. 1,000 - Rs. 900)

* Element calculated by taking the difference between the transaction NAV and the opening NAV (i.e. Rs.110 - Rs.101)

** Element calculated by taking the difference between the transaction NAV and par value (i.e. Rs.110 - Rs.100)

Balance Sheet - Period 2

Table VIII

		Under NBFC Regulations (Transaction NAV minus Opening NAV)		Suggested Treatment (Transactions NAV minus Par Value)	
		Scenario 1	Scenario 2	Scenario 1	Scenario 2
Particulars	Before Distribution	After Distribution	After Distribution	After Distribution	After Distribution
		100% Distribution of Current Period Income	100% Distribution of Current Period Income + Retained Earnings	100% Distribution of Current Period Income	100% Distribution of Current Period Income + Retained Earnings
	-----Rs.-----				
Net Assets	33,000*	30,300^	30,100^^	30,300^	30,000^^^
Unit Holders' Fund	33,000	30,300	30,100	30,300	30,000
No. of Units	300	300	300	300	300
NAV	110.00	101.00	100.33	101.00	100.00

* Rs. 20,200 (opening net assets) + Rs. 11,000 (amount received from Mr. C) + Rs. 1,800 (income for the period)

^ Rs. 33,000 - Rs. 2,700 (distribution for the period)

^^ Rs. 33,000 - Rs. 2,900 (distribution for the period)

^^^ Rs. 33,000 - Rs. 3,000 (distribution for the period)

Unit Holders' Fund - Period 2

Table IX

		Under NBFC Regulations (Transaction NAV minus Opening NAV)		Suggested Treatment (Transactions NAV minus Par Value)	
		Scenario 1	Scenario 2	Scenario 1	Scenario 2
Particulars	Before Distribution	After Distribution 100% Distribution of Current Period Income	After Distribution 100% Distribution of Current Period Income + Retained Earnings	After Distribution 100% Distribution of Current Period Income	After Distribution 100% Distribution of Current Period Income + Retained Earnings
	-----Rs.-----				
Opening Capital	20,000	20,000	20,000	20,000	20,000
Issuance of Units	10,100*	10,100*	10,100*	10,000^	10,000^
Closing Capital	30,100	30,100	30,100	30,000	30,000
Opening Element	100	100	100	100	100
Element Prior Period	-	-	-	100^^	100^^
Element for the Period	900	900	900	900^^	900^^
Refund of Element	-	(900)	(1,000)	(900)	(1,100)
Closing Element	1,000	100	-	200	-
Opening Retained Earnings	100	100	100	100	100
Income for the Period	1,800	1,800	1,800	1,800	1,800
Dividend	-	(1,800)	(1,900)	(1,800)	(1,900)
Closing Retained Earnings	1,900	100	-	100	-
Total	33,000	30,300	30,100	30,300	30,000

* Amount received from Mr. C Rs. 11,000 - amount recorded in Element Rs. 900

^ Amount received from Mr. C Rs. 11,000 - amount recorded in Element Rs. 1,000

^^For ease of working total element per unit of Rs. 10 calculated on the basis of difference between transaction NAV (Rs. 110) and par value (Rs. 100) is bifurcated into Element for the period and Element for prior period. Element for the period is computed by taking the difference between the transaction NAV and the opening NAV (i.e. Rs. 110 - Rs. 101) and Element for prior period is computed by taking the difference between opening NAV and the par value (i.e. Rs. 101 - Rs. 100).

The reason for this bifurcation is that when dividend is paid out of income of the current period the 'Element for the period' should be used for distribution in the same proportion as dividend bears to income for the period. In case where dividend is also paid out from the retained earnings the 'Element for prior period' plus opening Element, if any, should be used for distribution in the same proportion as 'dividend out of retained earnings' bears to retained earnings.

Income Distribution - Period 2

Table X

Particulars	Under NBFC Regulations (Transaction NAV minus Opening NAV)		Suggested Treatment (Transactions NAV minus Par Value)	
	Scenario 1	Scenario 2	Scenario 1	Scenario 2
	100% Distribution of Current Period Income	100% Distribution of Current Period Income + Retained Earnings	100% Distribution of Current Period Income	100% Distribution of Current Period Income + Retained Earnings
-----Rs.-----				
Opening Retained Earnings	100	100	100	100
Income for the Period	1,800	1,800	1,800	1,800
Income Available for Distribution	1,900	1,900	1,900	1,900
Dividend Distribution	1,800	1,900	1,800	1,900
No. of Units	300	300	300	300
Per Unit Distribution	6.00	6.33	6.00	6.33
Distribution out of Income	1,800	1,900	1,800	1,900

Element Distribution - Period 2

Table XI

Particulars	Under NBFC Regulations (Transaction NAV minus Opening NAV)		Suggested Treatment (Transactions NAV minus Par Value)	
	Scenario 1	Scenario 2	Scenario 1	Scenario 2
	100% Distribution of Current Period Income	100% Distribution of Current Period Income + Retained Earnings	100% Distribution of Current Period Income	100% Distribution of Current Period Income + Retained Earnings
-----Rs.-----				
Opening Element	100	100	100	100
Element Prior Period	-	-	100	100
Element for the Period	900	900	900	900
Element Available for Distribution	1,000	1,000	1,100	1,100
Distribution	900*	1,000^	900*	1,100^
No. of Units	300	300	300	300
Per Unit Distribution	3.00	3.33	3.00	3.67
Distribution out of Element	900	1,000	900	1,100

* Since 100% income of the current period is distributed therefore 100% Element for the current period is also distributed

^ Since 100% income of current period and retained earnings is distributed therefore 100% opening Element, Element prior period and Element for the period is also distributed

Total per Unit Distribution - Period 2

Table XII

Particulars	Under NBFC Regulations (Transaction NAV minus Opening NAV)		Suggested Treatment (Transactions NAV minus Par Value)	
	Scenario 1	Scenario 2	Scenario 1	Scenario 2
	100% Distribution of Current Period Income	100% Distribution of Current Period Income + Retained Earnings	100% Distribution of Current Period Income	100% Distribution of Current Period Income + Retained Earnings
	-----Rs.-----			
Per Unit Distribution - Income	6.00	6.33	6.00	6.33
Per Unit Distribution - Element	3.00	3.33	3.00	3.67
Total Per Unit Distribution	9.00	9.667	9.00	10.00
Number of Units	300	300	300	300
Total Distribution for the Period	2,700	2,900	2,700	3,000

Share of Dividend and Refund of Element - Period 2 - Scenario 1

The following table provides a comparison of dividend paid and Element refunded under the mechanism provided for in the NBFC Regulations and under the Suggested Treatment in Scenario 1 where dividend is paid out of income of the current period only.

Table XIII

Particulars	Under NBFC Regulations (Transaction NAV minus Opening NAV)			Under NBFC Regulations (Transaction NAV minus Par Value)		
	Scenario 1			Scenario 1		
	100% Distribution of Current Period Income	100% Distribution of Current Period Income	100% Distribution of Current Period Income	100% Distribution of Current Period Income	100% Distribution of Current Period Income	100% Distribution of Current Period Income
	Total Payments	Element Refund	Dividend	Total Payments	Element Refund	Dividend
	-----Rs.-----					
Mr. A	900*	-	900	900*	-	900
Mr. B	900*	-	900	900*	-	900
Mr. C	900*	900	-	900*	900	-
Total	2,700	900	1,800	2,700	900	1,800

* 300 units @ Rs. 9 per unit

As discussed earlier the current mechanism of Element accounting as outlined in the NBFC Regulations will work perfectly well when the dividend is paid out of the income of the current period. We can therefore see in the above table that there is no difference in the amount of distribution and its bifurcation between dividend paid and Element refunded whether we record Element as a difference between transaction NAV and opening NAV or transaction NAV and par value.

The problem however, will arise when the Fund distributes over and above the income of the current period or in other words dividend is also distributed out of retained earnings and the same is elaborated in the following table.

Share of Dividend and Refund of Element - Period 2 - Scenario 2

The following table provides a comparison of dividend paid and Element refunded under the mechanism provided for in the NBFC Regulations and under the Suggested Treatment in Scenario 2 where dividend is paid out of income of the current period plus retained earnings.

Table XIV

				Under NBFC Regulations (Transaction NAV minus Opening NAV)	Suggested Treatment (Transactions NAV minus Par Value)	
Particulars	Total Payments	Element Refund	Dividend	Total Payments	Element Refund	Dividend
	-----Rs.-----					
Mr. A	966.67*	-	966.67	1,000^	-	1,000
Mr. B	966.67*	100	866.67	1,000^	100	900
Mr. C	966.67*	900	66.67	1,000^	1,000	-
Total	2,900	1,000	1,900	3,000	1,100	1,900

* 300 units @ Rs. 9.667 per unit

^ 300 units @ Rs. 10 per unit

If we analyze the distributions made in Scenario 2 under the treatment as prescribed in the NBFC Regulations following issues are apparent:

- Cost of investment of Mr. A was Rs. 10,000 (i.e. Rs. 100* 100 unit). Value of his investment at the end of Period 2 before distribution is Rs. 11,000 (i.e. Rs. 110 * 100 units). It means that at the end of Period 2 he has earned Rs. 1,000. If all the income of the Fund including retained earnings is distributed, he should get Rs. 1,000 (i.e. Rs. 10 * 100 units) as dividend. The table above however shows that under the treatment as prescribed in the NBFC Regulations Mr. A has received only Rs. 967 as dividend - a dilution of Rs. 33.
- Cost of investment of Mr. B was Rs. 11,000 (i.e. Rs. 110 * 100 units). Mr. B has received back Rs. 900 as refund of Element in Period 1. Therefore the revised cost of Mr. B is Rs. 10,100. Value of his investment at the end of Period 2 before distribution is Rs. 11,000 (i.e. Rs. 110 * 100 units). It means that at the end of Period 2 he has earned Rs. 900. If all the income of the Fund including retained earnings is distributed he should get Rs. 900 as dividend. The table above however shows that under the treatment as prescribed in the NBFC Regulations Mr. A has received Rs. 867 as dividend - a dilution of Rs. 33.
- The cost of investment of Mr. C was Rs. 11,000 (i.e. Rs. 110 * 100 units). The value of his investment at the end of Period 2 before distribution is Rs. 11,000 (i.e. Rs. 110 * 100 units). It means that at the end of Period 2 he has not

earned anything from the Fund, therefore he should not receive any dividend. The table above however shows that under the treatment as prescribed in the NBFC Regulations Mr. C has received Rs. 67 as dividend.

Following table presents the summary of the above discussion:

	Under NBFC Regulations (Transaction NAV minus Opening NAV)			Under NBFC Regulations (Transaction NAV minus Par Value)		
	Scenario 1			Scenario 1		
	100% Distribution of Current Period Income			100% Distribution of Current Period Income		
-----Rs.-----						
Value of Investment Period 2*	11,000	11,000	11,000	11,000	11,000	11,000
Cost of Investment	10,000	11,000	11,000	10,000	11,000	11,000
Refund of Element Period 1	-	(900)	-	-	(900)	-
Revised Cost	(10,000)	(10,100)	(11,000)	(10,000)	(10,100)	(11,000)
Total Gain from Fund Period 2	1,000	900	-	1,000	900	-
Dividend Received	(967)	(867)	(67)	1,000	900	-
Short / (Excess)	33	33	(67)	-	-	-

* Before distribution

As evident from Table XV, all the issues highlighted above will be resolved if the Suggested Treatment for the accounting of Element is employed. Mr. A will receive Rs. 1,000 as dividend, Mr. B will receive Rs. 900 as dividend and Mr. C will not receive any dividend.

Further if we look at the Balance Sheet - Period 2 (Table VIII) above we will notice that in Scenario 2 under the treatment as prescribed in the NBFC Regulations, the NAV of the Fund is Rs. 100.33 after distribution of all the income of the Fund i.e. income for the period and retained earnings. This should not be the case because when the Fund has distributed all the income to the unit holders the NAV should return back to its par value.

Issues in Case of Redemption of Units

Similar issues will also arise in case of redemption of units, if Element is calculated on the basis of difference between the transaction NAV and opening NAV. A detailed elaboration of the issues requires another article, but briefly speaking when a unit holder redeems his unit from the Fund he takes all the income of the Fund till the date of redemption including retained earnings. If that portion of retained earnings which has been paid to the unit holder is not recorded in the Element account it will result in distribution of retained earnings which has already been paid out at the time of redemption, whenever distribution is made out of retained earnings.

Distortion in the Taxation of Investors

Suppose Mr. A decided to close his investment in the Fund at the end of Period 2 after distribution, and redeems his units from the Fund. He will receive Rs. 10,033 (i.e. 100 units @ NAV of Rs. 100.33) resulting in capital gain of Rs. 33, whereas

in case of Suggested Treatment he will get Rs. 10,000 (i.e. 100 units @ NAV of Rs. 100) resulting in NIL capital gains. Mr. A has received Rs. 967 as dividend under the treatment as prescribed in the NBFC Regulations, whereas he has received Rs. 1,000 as dividend under the Suggested Treatment.

Following table summarizes the taxation on the earnings of Mr. A from the Fund in Period 2:

Table XV

Particulars	Under NBFC Regulations (Transaction NAV minus Opening NAV)			Suggested Treatment (Transaction NAV minus Par Value)		
	Mr. A as Individual Investor (Dividend @ 15%, CGT @ 10%)	Mr. A as Corporate Investor (Dividend @ 15%, CGT @ 10% for Stock Funds)	Mr. A as Corporate Investor (Dividend @ 15%, CGT @ 25% for other than Stock Funds)	Mr. A as Individual Investor (Dividend @ 15%, CGT @ 10%)	Mr. A as Corporate Investor (Dividend @ 15%, CGT @ 10% for Stock Funds)	Mr. A as Corporate Investor (Dividend @ 15%, CGT @ 25% for other than Stock Funds)
	-----Rs.-----					
Dividend	145.05*	145.05*	145.05*	150^	150^	150^
CGT	3.30**	3.30**	8.25**	-^^	-^^	-^^
Tax Paid	148.3	148.3	153.25	150	150	150
Actual Tax	150	150	150	150	150	150
Short/ (Excess)	1.7	1.7	(3.25)	-	-	-

Conclusion and Recommendation

To sum up, the basic premise for the recording of Element in open ended funds is to prevent the dilution in amount available for distribution and to prevent the distribution of income already paid out at the time of redemption. To achieve this objective total income of the Fund (i.e. income of current period + retained earnings) should be recorded in the Element account at the time of issuance or redemption of units. If only a part of income is recorded in the Element account, which will be the case if Element is calculated on the basis of difference between the transaction NAV and the opening NAV, it is obvious that it will not only result in dilution in the amount of available for distribution but will also result in distribution of income which has already been paid out at the time of redemption.

It is therefore suggested that the Securities and Exchange Commission of Pakistan should review the existing mechanism for the calculation and recording of Element as outlined in the NBFC Regulations and if deem appropriate suitable amendments should be made in the NBFC Regulations, 2008 to rationalize the accounting for Element in the mutual fund industry.



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International Public Sector Accounting Standards (IPSASs)

Madiha Naz, FCMA

The International Public Sector Accounting Standards Board (IPSASB) – formerly the Public Sector Committee – of the International Federation of Accountants focuses on the accounting, auditing, and financial reporting needs of national, regional, and local governments, related governmental agencies, and the constituencies they serve. It addresses these needs by issuing and promoting benchmark guidance, conducting educational and research programs, and facilitating the exchange of information among accountants and those that work in the public sector or rely on its work.

International Public Sector Accounting Standards Board Activities

The IPSASB's current activities are focussed on the development of International Public Sector Accounting

The International Public Sector Accounting Standards Board (IPSASB) – formerly the Public Sector Committee – of the International Federation of Accountants focuses on the accounting, auditing, and financial reporting needs of national, regional, and local governments, related governmental agencies, and the constituencies they serve.

IPSAS 1, Presentation of Financial Statements, sets out the overall considerations for the presentation of financial statements, guidance for the structure of those statements and minimum requirements for their content under the accrual basis of accounting.

Standards (IPSASs) for financial reporting by governments and other public sector entities (the Standards Project).

The IPSASB's Standards Project was established in late 1996. The objectives of the initial stage of the project were to develop by the end of November 2001:

- a background paper identifying current practices and issues in public sector financial reporting;
- a core set of IPSAS based (to the extent appropriate) on the International Accounting Standards in place as at August 1997;
- an IPSAS on the cash basis of accounting; and
- guidance on the transition from the cash to the accrual basis of accounting.

Standards Issued to Date Based on IFRSs

To date, the IPSASB has issued the following final IPSASs

Accrual Basis Standards

- **IPSAS 1, Presentation of Financial Statements**, sets out the overall considerations for the presentation of financial statements, guidance for the structure of those statements and minimum requirements for their content under the accrual basis of accounting.
- **IPSAS 2, Cash Flow Statements**, requires the provision of information about the changes in cash and cash equivalents during the period from operating, investing and financing activities.
- **IPSAS 3, Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies**, specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors, defines extraordinary items and requires the separate disclosure of certain items in the financial statements.
- **IPSAS 4, The Effects of Changes in Foreign Exchange Rates**, deals with accounting for foreign currency transactions and foreign operations. IPSAS 4 sets out the requirements for determining which exchange rate to use for the recognition of certain transactions and balances and how to recognize in the financial statements the financial effect of changes in exchange rates.

- **IPSAS 5, Borrowing Costs**, prescribes the accounting treatment for borrowing costs and requires either the immediate expensing of borrowing costs or, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.
- **IPSAS 6, Consolidated Financial Statements and Accounting for Controlled Entities**, requires all controlling entities to prepare consolidated financial statements which consolidate all controlled entities on a line by line basis. The Standard also contains a detailed discussion of the concept of control as it applies in the public sector and guidance on determining whether control exists for financial reporting purposes.
- **IPSAS 7, Accounting for Investments in Associates**, requires all investments in associate to be accounted for in the consolidated financial statements using the equity method of accounting, except when the investment is acquired and held exclusively with a view to its disposal in the near future in which case the cost method is required.
- **IPSAS 8, Financial Reporting of Interests in Joint Ventures**, requires proportionate consolidation to be adopted as the benchmark treatment for accounting for such joint ventures entered into by public sector entities. However, IPSAS 8 also permits - as an allowed alternative - joint ventures to be accounted for using the equity method of accounting.
- **IPSAS 9, Revenue from Exchange Transactions**, establishes requirements for the accounting treatment of revenue from exchange transactions. Non-exchange revenue, such as taxation, is not addressed in this standard. Non-exchange revenue is to be dealt with as a separate project.
- **IPSAS 10, Financial Reporting in Hyperinflationary Economies**, describes characteristics of an economy that indicate whether it is experiencing a period of hyperinflation and provides guidance on restating the financial statements in a hyperinflationary environment to ensure useful information is provided.
- **IPSAS 11, Construction Contracts**, deals with both commercial and non-commercial contracts and provides guidance on the allocation of contract costs and, where applicable, contract revenue to the reporting periods in which construction work is performed.
- **IPSAS 12, Inventories**, establishes the accounting treatment of inventories held by public sector entities and deals with inventories held for sale in an exchange transaction and certain inventories held for distribution at no or nominal charge. The IPSAS excludes from its scope work-in progress of services to be provided at no or nominal charge from recipients because they are not dealt with by IAS 2 Inventories and because they involve public sector specific issues which require further consideration.
- **IPSAS 13, Leases**. This IPSAS is based on IAS 17 Leases. The IPSAS establishes requirements for financial reporting of leases and sale and leaseback transactions by public sector entities, whether as lessee or lessor. The PSC decided that because the IPSAS on Leases and the

IPSAS 13, Leases. This IPSAS is based on IAS 17 Leases. The IPSAS establishes requirements for financial reporting of leases and sale and leaseback transactions by public sector entities, whether as lessee or lessor. The PSC decided that because the IPSAS on Leases and the proposed IPSAS on Property, Plant and Equipment are closely related, it was preferable that the two IPSASs be released at the same time.

proposed IPSAS on Property, Plant and Equipment are closely related, it was preferable that the two IPSASs be released at the same time. Accordingly, the release of this IPSAS has been deferred to later in 2001. (See the section on Work in Progress below for a report on progress on the IPSAS on Property, Plant and Equipment.)

- **IPSAS 14, Events After the Reporting Date.** The IPSAS is based on IAS 10, Events After the Balance Sheet Date (revised 1999) but has been amended where necessary to reflect the public sector operating environment. The Standard establishes criteria for deciding whether the financial statements should be adjusted for an event occurring after the reporting date. It distinguishes between adjustable events (those that provide evidence of conditions that existed at the reporting date) and non-adjustable events (those that are indicative of conditions that arose after the reporting date).
- **IPSAS 15, Financial Instruments: Disclosure and Presentation.** The IPSAS is based on IAS 32, Financial Instruments: Disclosure and Presentation (Revised 1998). The Standard includes requirements for disclosures about both on-balance sheet and off-balance sheet (statement of financial position) instruments, and the classification of financial instruments as financial assets, liabilities or equity. Some respondents noted that the IPSAS would have only limited application for public sector entities which did not hold financial assets, liabilities or equity. The PSC has included as an appendix to the IPSAS a guide to assist entities in identifying the requirements of the Standard that will apply to them.
- **IPSAS 16, Investment Property.** IPSAS 16 Investment Property is based on IAS 40, Investment Property (issued 2000) and provides guidance on identifying investment properties in the public sector. The Standard:
 - o requires that investment property initially be recognised at cost and explains that where an asset is acquired at no or

nominal cost, its cost is its fair value as at the date it is first recognized in the financial statements;

- o requires that subsequent to initial recognition investment property be measured consistent with either the fair value model or the cost model; and
- o includes transitional provisions for the initial adoption of the IPSAS.
- **IPSAS 17, Property, Plant and Equipment.** IPSAS 17 Property, Plant and Equipment, establishes the accounting treatment for property, plant and equipment, including the basis and timing of their initial recognition, and the determination of their ongoing carrying amounts and related depreciation. It does not require or prohibit the recognition of heritage assets.
- **IPSAS 18, Segment Reporting.** Establishes principles for reporting financial information about distinguishable activities of a government or other public sector entity appropriate for evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.
- **IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.** This Standard defines provisions, contingent liabilities and contingent assets; and identifies the circumstances in which provisions should be recognized, how they should be measured and the disclosures that should be made about them. The Standard also requires that certain information be disclosed about contingent liabilities and contingent assets in the notes to the financial statements to enable users to understand their nature, timing, and amount.
- **IPSAS 20, Related Party Disclosures.** IPSAS 20 requires the disclosure of the existence of related party relationships where control exists and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity. The principal issues in disclosing information about related parties are identifying which parties control or significantly influence the reporting entity and determining what information should be disclosed about transactions with those parties.
- **IPSAS 21, Impairment of Non-Cash-Generating Assets** IPSAS 20 prescribes the procedures that an entity applies to determine whether a non-cash-generating asset is impaired and to ensure that impairment losses are recognized. The standard also specifies when an entity would reverse an impairment loss and prescribes disclosures.
- **IPSAS 22, Disclosure of Financial Information about the General Government Sector** IPSAS 22 establishes requirements for governments that choose to disclose information about the general government sector and that prepare their financial statements under the accrual basis of accounting.
- **IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers).** IPSAS 23 addresses:

- o Recognition and measurement of revenue from taxes
- o Recognition of revenue from transfers, which include grants from other governments and international organizations, gifts and donations
- o How conditions and restrictions on the use of transferred resources are to be reflected in the financial statements
- **IPSAS 24, Presentation of Budget Information in Financial Statements.** IPSAS 24 applies to entities that adopt the accrual basis of financial reporting. It identifies disclosures to be made by governments and other public sector entities that make their approved budgets publicly available. Also, it requires public sector entities to include a comparison of budget and actual amounts in the financial reports and an explanation of any material differences between budget and actual amounts.
- **IPSAS 25 Employee Benefits.** IPSAS 25 sets out the reporting requirements for the four categories of employee benefits dealt with in the IASB's IAS 19 Employee Benefits. These are short-term employee benefits, such as wages and social security contributions; post-employment benefits, including pensions and other retirement benefits; other long-term employee benefits; and termination benefits. The new IPSAS also deals with specific issues for the public sector, including the discount rate related to post-employment benefits, treatment of post-employment benefits provided through composite social security programs, and long-term disability benefits. IPSAS 25 is effective for reporting periods beginning on or after 1 January 2011.
- **IPSAS 26 Impairment of Cash-Generating Assets.** Some public sector entities (other than government business enterprises, which would already be using full IFRSs) may operate assets with the main purpose of generating a commercial return (rather than providing a public service). IPSAS 26, which is based on IAS 36 Impairment of Assets, applies to such assets. It sets out the procedures for a public sector entity to determine whether a cash-generating asset has lost future economic benefit or service potential and to ensure that impairment losses are recognised in its financial reports. Non cash-generating assets, those used primarily for service delivery, are addressed separately in IPSAS 21 Impairment of Non-Cash-Generating Assets. IPSAS 26 is effective for reporting periods beginning on or after 1 April 2009.
- **IPSAS 27 Agriculture.** IPSAS 27 prescribes the accounting treatment and disclosures related to agricultural activity, a matter not covered in other standards. Agricultural activity is the management by an entity of the biological transformation of living animals or plants (biological assets) for sale, or for distribution at no charge or for a nominal charge or for conversion into agricultural produce or into additional biological assets. IPSAS 27 is primarily drawn from the IASB's IAS 41 Agriculture, with limited changes dealing with public sector-specific issues. For example, IPSAS 27 addresses biological assets held for transfer or distribution at no charge or for a nominal charge to other public sector bodies or to not-for-profit organizations.

IPSAS 27 also includes disclosure requirements that are aimed at enhancing consistency with the statistical basis of accounting that governs the Government Finance Statistics Manual. IPSAS 27 is effective for annual financial statements covering periods beginning on or after 1 April 2011, with earlier application encouraged.

- **IPSAS 28 Financial Instruments: Presentation.** IPSAS 28 draws primarily on IAS 32 and establishes principles for presenting financial instruments as liabilities or equity, and for offsetting financial assets and financial liabilities.
- **IPSAS 29 Financial Instruments: Recognition and Measurement.** IPSAS 29 draws primarily on IAS 39, establishing principles for recognising and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items.
- **IPSAS 30 Financial Instruments: Disclosures.** IPSAS 30 draws on IFRS 7 and requires disclosures for the types of loans described in IPSAS 29. It enables users to evaluate: the significance of the financial instruments in the entity's financial position and performance; the nature and extent of risks arising from financial instruments to which the entity is exposed; and how those risks are managed.
- **IPSAS 31 Intangible Assets.** IPSAS 31 covers the accounting for and disclosure of intangible assets. It is primarily drawn from IAS 38 Intangible Assets. It also contains extracts from the SIC 32 Intangible Assets-Web Site Costs, adding application guidance and illustrations that have not yet been incorporated into the IAS. At this point, IPSAS 31 does not deal with uniquely public sector issues, such as powers and rights conferred by legislation, a constitution, or by equivalent means; the IPSASB will reconsider the applicability of the standard to these powers and rights in the context of its conceptual framework project, which is currently in progress.

Guidelines

- No. 1. Withdrawn
- No. 2 Applicability of International Standards on Auditing to the Audits of Financial Statements of Government Business Enterprises.

Cash Basis Standards

- **Financial Reporting Under the Cash Basis of Accounting.** (Unnumbered, January 2003). It establishes requirements for the preparation and presentation of a statement of cash receipts and payments and supporting accounting policy notes. It also includes encouraged disclosures that enhance the cash basis report.



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Open End Funds - Dividend or Capital Gain?

Muhammad Rashid Zafer, FCA



Background

Open end funds deduct withholding tax at the time of payment of dividend to the unit holders, similarly capital gains tax is also deducted at the applicable tax rates at the time of payment of redemption proceeds. **The question of utmost importance however is that does capital gains actually arise in case of open end funds on redemption of units?**

Suppose a unit holder invests Rs. 10,500 (i.e. 100 units @ NAV* of Rs. 105) in an open end fund and on redemption he receives Rs. 11,000 (i.e. 100 units @ NAV of Rs. 110). Now this Rs. 500 which he receives in excess of his cost of investment is 'dividend' or 'capital gain'? Currently, this

amount is being treated and taxed as capital gains from the perspective of unit holders in the mutual fund industry.

The rest of the article summarizes the understanding of the writer on this matter, for further consideration of mutual fund industry and tax fraternity in Pakistan.

* net asset value per unit

Definition of Dividend

We start our discussion with the review of the definition of dividend as provided in Section 2(19) of the Income Tax Ordinance, 2001 (ITO 2001). The definition is quite long so

we will discuss only that part of the definition which is relevant for our discussion.

The ITO 2001 defines dividend as:

“dividend includes -

- (a) any distribution by a **company** of **accumulated profits** to its **shareholders**, whether capitalised or not, if such distribution entails the **release** by the company to its shareholders of all or any part of the **assets** including **money** of the company;” (Emphasis supplied)

Section 80(2)(b) of the ITO 2001 provides definition of the Company and interalia states that:

“company means a trust, an entity or a body of persons established or constituted by or under any law for the time being in force.....” (Emphasis supplied)

Section 80(2)(d)&(e) of the ITO 2001, defines trust and unit trust as:

“trust means an obligation annexed to the ownership of property and arising out of the confidence reposed in and accepted by the owner, or declared and accepted by the owner for the benefit of another, or of another and the owner, and **includes a unit trust.**” (Emphasis supplied)

“unit trust means any trust under which **beneficial interests are divided into units** such that the entitlements of the beneficiaries to income or capital are determined by the number of units held.” (Emphasis supplied)

Section 2(59) of the ITO 2001, defines shareholders as:

“shareholder in relation to a company, includes a modaraba certificate holder, **a unit holder of a unit trust** and a beneficiary of a trust.” (Emphasis supplied)

From collective reading of the above definitions, as provided in the ITO 2001, it is clear that in the definition of ‘dividend’ company includes open end funds and shareholders include unit holders of open end funds.

Now, if we analyze the definition of dividend, it describes any **distribution of accumulated profits** by a company to its shareholders which results in release of assets of the company including **money** as dividend. That is exactly what happens when an open end fund pays redemption proceeds to the unit holders. Most of the readers of this article will be aware that units are redeemed at the

applicable net assets value per unit or NAV. The NAV of an open end fund includes the profit of the fund as of the date of redemption. So effectively when an open end fund redeems units of a unit holder, it pays to the unit holder his capital along with the proportionate profit for the period of his investment in the fund. **This proportionate profit paid to the unit holder at the time of redemption is, what is termed as dividend in the ITO 2001.**

From the above discussion it is clear that profit paid at the time of redemption meets the definition of dividend as provided in the ITO 2001. Now we will take a look on how this payment is treated and accounted for in the financial statements of open end funds.

Treatment of Profit Paid at the time of Redemption in the Financial Statements of Open End Funds

Following are the extracts from the financial statements of an open end fund for the year ended June 30, 2021. One can also find similar disclosures in the financial statements of other open end funds operating in Pakistan:

- i. “Distributions to the unit holders are recognized upon declaration and approval by the Board of Directors of the Management Company. **Based on Mutual Funds Association of Pakistan's (MUFAP) guidelines duly consented by the SECP, distribution for the year also includes portion of income already paid on units redeemed during the year.** Distributions declared subsequent to the year end reporting date are considered as non-adjusting events and are recognized in the financial statements of the year in which such distributions are declared and approved by the Board of Directors of the Management Company.” (Emphasis supplied)
- ii. **“The income of the Fund is exempt from income tax under clause (99) of Part I of the Second Schedule to the Income Tax Ordinance, 2001 subject to the condition that not less than 90% of the accounting income for the year as reduced by capital gains, whether realised or unrealised, is distributed amongst the unit holders as cash dividend.** Furthermore, as per Regulation 63 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, the Fund is required to distribute not less than 90% of its accounting income for the year derived from sources other than capital gains as reduced by such expenses as are chargeable thereon to the unit holders. **Since the management has distributed the required minimum percentage of**

income earned by the Fund for the year ended June 30, 2021 to the unit holders in the manner as explained above, no provision for taxation has been made in these financial statements during the year.” (Emphasis supplied)

iii. Extracts from Income Statement - Table I

Particulars	Rs. in '000
Net income for the year before taxation	2,234,643
Taxation	-
Net income for the year after taxation	2,234,643
Allocation of net income for the year	
Net income for the year after taxation	2,234,643
Income already paid on units redeemed	(1,400,156)
	834,487
Accounting income available for distribution	
Relating to capital gains	134,797
Excluding capital gains	699,690
	834,487

iv. Extracts from Unit Holders' Fund - Table II

Particulars	Rs. in '000
Undistributed income B/F	234,941
Income for the year	2,234,643
Income already paid on units redeemed	(1,400,156)
Distribution for the year	(828,248)
Undistributed Income C/F	241,180

We can see from Table I that net income of the fund before taxation is Rs. 2,234,643. If we exclude capital gains from this we get Rs. 2,099,846 (i.e. Rs. 2,234,643 – Rs. 134,797). Clause 99 of Part I of the Second Schedule to the ITO 2001 requires that in order to claim exemption from tax the fund should distribute at least 90% of the income excluding capital gains which comes to Rs. 1,889,861 (Rs. 2,099,846 * 90%). From Table I above we can see that no provision for tax has been made in the financial statements as also mentioned in point number (ii) above, because the required amount for the purpose of claiming tax exemption has been distributed to the unit holders. From Table II we can see that the fund has distributed Rs. 2,228,404 (i.e. Rs. 1,400,156 + Rs. 828,248) to the unit holders in order to fulfill the requirement for claiming tax exemption which also include Rs. 1,400,156 (i.e. profit paid at the time of redemption) as mentioned in point number (i) above.

From the above discussion it is clear that the profit paid at the time of redemption proceeds to the unit holders is treated as distribution i.e. dividend not only for financial reporting purposes but also for tax purposes in the financial statements of open end funds.

Tax on Dividend Under ITO 2001

Section 5 of the ITO 2001, which is the charging section for dividend, states that:

“**Tax on dividends** — (1) Subject to this Ordinance, a **tax shall be imposed**, at the rate specified in Division III of Part I of the First Schedule, **on every person who receives a dividend from a company** or treated as dividend under clause (19) of section 2.

(2) The tax imposed under sub-section (1) on a person who receives a dividend shall be computed by applying the relevant rate of tax to the gross amount of the dividend.” (Emphasis supplied)

Further Section 150 of the ITO 2001, which deals with the withholding of tax on dividend, states that:

“**Dividends** — **Every person paying a dividend shall deduct tax from the gross amount of the dividend paid** or collect tax from the amount of dividend in specie at the rate specified in Division I of Part III of the First Schedule.” (Emphasis supplied)

The rate of tax currently applicable on dividends paid by the mutual funds is 15%.

From the above sections of ITO 2001, it is clear that dividend received by a person from open end fund is chargeable to tax at the rate of 15% on the gross amount of dividend received and open end funds as required under Section 150 of the ITO 2001, should deduct the required amount at the time of payment of redemption proceeds.

We have established in the above paragraphs that profit paid at the time of redemption is dividend as defined in the ITO 2001. We have also seen that in the financial statements of open end funds the same is also accounted for and treated as dividend paid to the unit holders, which naturally follows that tax should also be deducted at the rate applicable on dividend.

Capital Gains Tax under ITO 2001

Section 37A of the ITO 2001 states that:

“**Capital gain on disposal of securities** — (1) The capital gain arising on or after the first day of July 2010, from disposal of securities, other than a gain that is exempt from tax under this Ordinance, shall be chargeable to tax at the rates specified in Division VII of Part I of the First Schedule:

Provided that this section shall not apply to a banking company and an insurance company.

(1A) The gain arising on the disposal of a security by a person shall be computed in accordance with the following formula, namely: —

A – B Where —

- (i) 'A' is the consideration received by the person on disposal of the security; and
 - (ii) 'B' is the cost of acquisition of the security.....
- (3) For the purposes of this section "security" means share of a public company, voucher of Pakistan Telecommunication Corporation, Modaraba Certificate, an instrument of redeemable capital, debt Securities, unit of exchange traded fund and derivative products....."

Section 75 of the ITO 2001, provides that an asset is disposed when it is sold, exchanged, transferred, distributed, cancelled, redeemed, relinquished, destroyed, lost, expired or surrendered.

A plain reading of the above mentioned sections of ITO 2001 justifies the current practice of withholding capital gains tax at the time of redemption of units as prevalent in the mutual fund industry, but a closer look will reveal that this might not be the case. In the following paragraph we will see how?

When a unit holder redeems from an open end fund he receives the cost of investment (i.e. capital invested) plus a proportionate share of profit for the period of his investment. As we have seen in the above paragraphs that profit paid to the unit holders at the time of redemption is dividend as defined in the ITO 2001, therefore capital gains will never arise in case of redemption of units from an open end fund. To elaborate, suppose Mr. A purchased 100 units @ Rs. 105 per unit and redeemed these units @ Rs. 110 per unit. Following table summarizes the result of this transaction.

Particulars	Current Treatment	Proposed Treatment
	Rs.	Rs.
Cost of acquisition of securities (100 units @ Rs. 105) – a	10,500	10,500
Consideration received on disposal of securities – b	11,000	10,500
Dividend received – c	-	500
Total consideration received (100 units @ Rs. 110) b + c	11,000	11,000
Capital gain on disposal of securities b – a	500	-
Tax on capital gain		
- In case of individual investor @ 10%	50	-
- In case of corporate investor – stock fund @ 10%	50	-
- In case of corporate investor – other than stock fund @ 25%	125	-
Tax on dividend @ 15%	-	75

Note: As evident from above capital gains will not arise in case of redemption of units, however it may arise in case of transfer of units from one unit holder to another unit holder in which case the same should be dealt by the unit holders in accordance with the provision of Section 37A of the ITO 2001.

Section 37A - Some Comments

Apparently, it seems that Section 37A has been drafted by keeping in mind the transactions executed in the secondary

market and has totally ignored the transactions being executed in the primary market or in other words transactions executed between the issuer of the security and the purchaser of the security. This has resulted in some confusion in the application of this section and could possibly be the reason for the prevalent practice of computing and taxing capital gains on the redemption of open end units. For the sake of argument, if we accept the current practice of computing capital gains under Section 37A on redemption of units as correct, we might see some strange results if we apply this section in the same manner as it is applied currently by the mutual fund industry.

To elaborate, suppose a company purchase T-Bills amounting to Rs. 90,000 from the primary market through auction of State Bank of Pakistan. The company holds these T-Bills till maturity and receives Rs. 100,000 on maturity. If we apply the provisions of Section 37A on this transaction in the manner as it is applied in the mutual fund industry on redemption of units, capital gain amounting to Rs. 10,000 will arise i.e. the difference between consideration received on disposal of security and cost of acquisition of security. On the contrary, we as a matter of fact know that this Rs. 10,000 is accounted for as profit on debt not only for accounting purposes but for tax purposes also which is also evident from the fact that withholding tax on this Rs. 10,000 is deducted under Section 151 (profit on debt) of the ITO 2001 and no one treat the combined result of this transaction as capital gain. Yes when this company sale these T-Bills in the secondary market capital gain could arise which should be dealt with in accordance with the provisions of Section 37A.

Conclusion

We have seen that profit paid by open end funds at the time of redemption of units to the unit holders is not only treated as dividend for financial reporting purposes but also for tax purposes in order to claim exemption from income tax under Clause 99 of Part I of the Second Schedule to the ITO 2001. Despite being treated and accounted for as dividend, tax is deducted from the payments at the rates applicable for capital gains as provided under Section 37A of the ITO 2001. It is therefore, recommended that the Mutual Fund Association of Pakistan should review the current practice of withholding of capital gains tax at the time of redemption of units and if deem appropriate take steps to bring it in line with the provisions of ITO 2001. It will not only result in correct deduction of tax from the unit holders at the time of redemption, but will also bring efficiency in the operations of open end funds in Pakistan.



Muhammad Rashid Zafer is a Chartered Accountant, currently working as Chief Financial Officer in a FMCG company.

DELIVERING EXCELLENCE THROUGH DIGITIZATION: 24 HOURS CLOSING & REPORTING

Maha Naeem Khan, ACA

Financial statements are critical for the management in understanding the financial performance of the organization and enabling timely decision making.

Financial statements are critical for the management in understanding the financial performance of the organization and enabling timely decision making. The monthly closing process brings together all aspects of financial management to ensure timely and accurate recording and reporting of financial health and performance.

Engro Fertilizers (EFERT) initiated the implementation of SAP S4/HANA (OneSAP) during 2018 with its Go-Live in October 2019. This implementation was part of Engro-wide initiative to upgrade and replace its legacy ERP landscape with an integrated solution that has enhanced system-based controls, increased productivity and efficiency, better employee and

customer experience, improved work-life balance, and freed up time for strategic tasks.

Pre-One SAP implementation, monthly results used to be finalized by up to Day 14. The closing processes were tedious due to excessive operational tasks and manual processes; thus, inhibiting timely closing. By the time the finance team finished monthly closing, a significant part of the month was already past, and this used to pose a limitation in the ability of finance professionals to participate in forward looking and strategic analysis.

In pursuit of excellence, we embarked upon the journey to deliver the best-in-class closing and reporting within 24 hours post month end.

With more than 200 hours of savings, our teams are now able to focus on planning, cost-saving initiatives, quick decision making, strategy formulation which allows them to stay on top of their targets and ensure the preservation of shareholder value.

Considering the large-scale operations of EFERT and the number of interfaces / stakeholders involved in monthly closings, achieving 24 hours closing was an uphill task. To provide some context, we are talking about a complex process industry with multiple activities involved pre- and post-closing. But the team knew that excellence is a continuous process led by curiosity and a positive attitude; thus, they were ready to put in relentless efforts to achieve this colossal feat.

Numerous activities were automated with the implementation of various modules; thus, resulting in less manual work and real-time access to information. However, it was not enough to deliver a best-in-class closing. So, the finance team held sessions with all departments across the company to understand their closing activities and the challenges they faced during monthly closings. These included multiple plant visits, and the team reached an agreement on responsibilities, closing checklists, and stringent deadlines for the timely completion of closing activities.

With each passing month, the finance team steered the progress and extended support in onboarding the stakeholders and troubleshooting the unexpected user input / system related challenges. The corrective actions were agreed upon with relevant interfaces and communicated to avoid such instances in future closings. As a best practice and to avoid recurrence, these were also documented.

The team's consistent and dedicated efforts translated this vision into reality and reported the financial results of April 2020 within the first working day with a commendable 98% accuracy. This was a critical milestone especially considering the COVID-19 pandemic. It could not have been possible without the enterprise-wide collaboration where every relevant function of the company efficiently and adroitly played its part to ensure timely and accurate completion of their closing activities.

Following the achievement of this milestone, we set out on another journey where the focus was to achieve 100% accuracy on Day 1. This meant addressing the two significant challenges which at that moment seemed a near-to-impossible task, that is, the inventory closing process time, errors and variances, and real-time receipt and verification of gas billings.

The next few months meant close collaboration with our Information Technology team for a detailed study of the inventory closing process, multiple simulations, and

enhanced controls implementation to significantly optimize the entire process resulting in cutting down the time by three to five hours. The second challenge involved timely receipt / verification of gas billings. After discussions with the plant team and gas suppliers, the team delivered approximately four hours of savings in the plant closing process.

Finally came the time where it all had to click. The finance team achieved the milestone of 24 hours monthly closing with 100% accuracy.

Now, at EFert, the business leaders have access to accurate business performance results the day following the month-end – envision how impactful it is to have this information available. Imagine the kind of impact it has on Finance employees who now have so much time freed up to carry out the value-added analysis rather than firming up the past month's number.

With more than 200 hours of savings, our teams are now able to focus on planning, cost-saving initiatives, quick decision making, strategy formulation which allows them to stay on top of their targets and ensure the preservation of shareholder value.

Upon the achievement of this critical milestone, we have also witnessed improvement in our employee engagement survey results as compared to last year, with positive feedback over healthy work-life balance, process improvements resulting in the elimination of redundant and manual tasks and increased time to focus on value-added projects, thus creating value for the organization.

The Pakistan Digital Awards recognized our efforts to leverage One SAP to realize multidimensional benefits through 24 hours monthly closing through multiple awards, including one for 24 hours monthly closing in the Most Innovative Fintech Data Solution Provider. The award is only a testament that we are committed to delivering operational excellence, efficient financial reporting, and effective decision making.



The writer is an extremely motivated and positive individual, who is always looking out for learning opportunities and growth.



Leveraging excellence through BI tools –Enabling cost culture through Cost Dashboard

Nida Fatima Hashmi, ACA

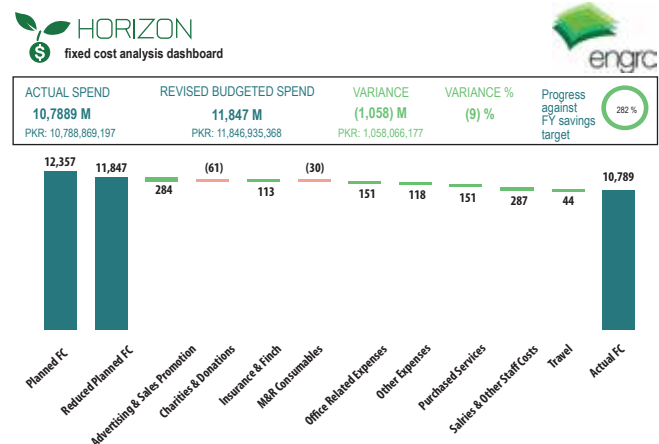
Enabling a strong cost culture at the back of improved transparency and timely availability of cost information was the key driver to launch “Project Horizon” – a fixed cost analysis dashboard.

Historically, each division in Engro Fertilizers had various ways of keeping a check on their fixed costs, be it customized reports or monthly stewardship sessions. However, the inconsistency in stewardship methods did not enable a standard methodology to track and trace fixed costs. Finance teams had to invest considerable hours to consolidate and actualize company-wide fixed cost to enable measures to manage those costs. By design, this inherently led to low visibility of departmental cost performance and therefore managers were many a times not empowered to manage costs in a timely fashion.

Everything changed in 2019 when the Wave 1 entities in Engro went live on OneSAP. This technological leap enabled all Engro subsidiaries to share the same best in class ERP foundation.

Leveraging this advancement, a project christened “Horizon” was started which aimed at consolidating the operating spend of the entire Engro Group and providing one click visibility over each type of costs.

Retrofitted with SAP, Horizon | Fixed Cost Analysis Dashboard provides quicker, easier & accurate exploration of fixed costs in the hands of our Cost Champions. With near real time data updates and self-service analytical capabilities, cost champions can instantaneously generate fixed cost reports with a single click and drill-down capabilities. All this makes monitoring, controlling & tracking of departmental fixed cost convenient and highly user friendly.



Some prominent features include:

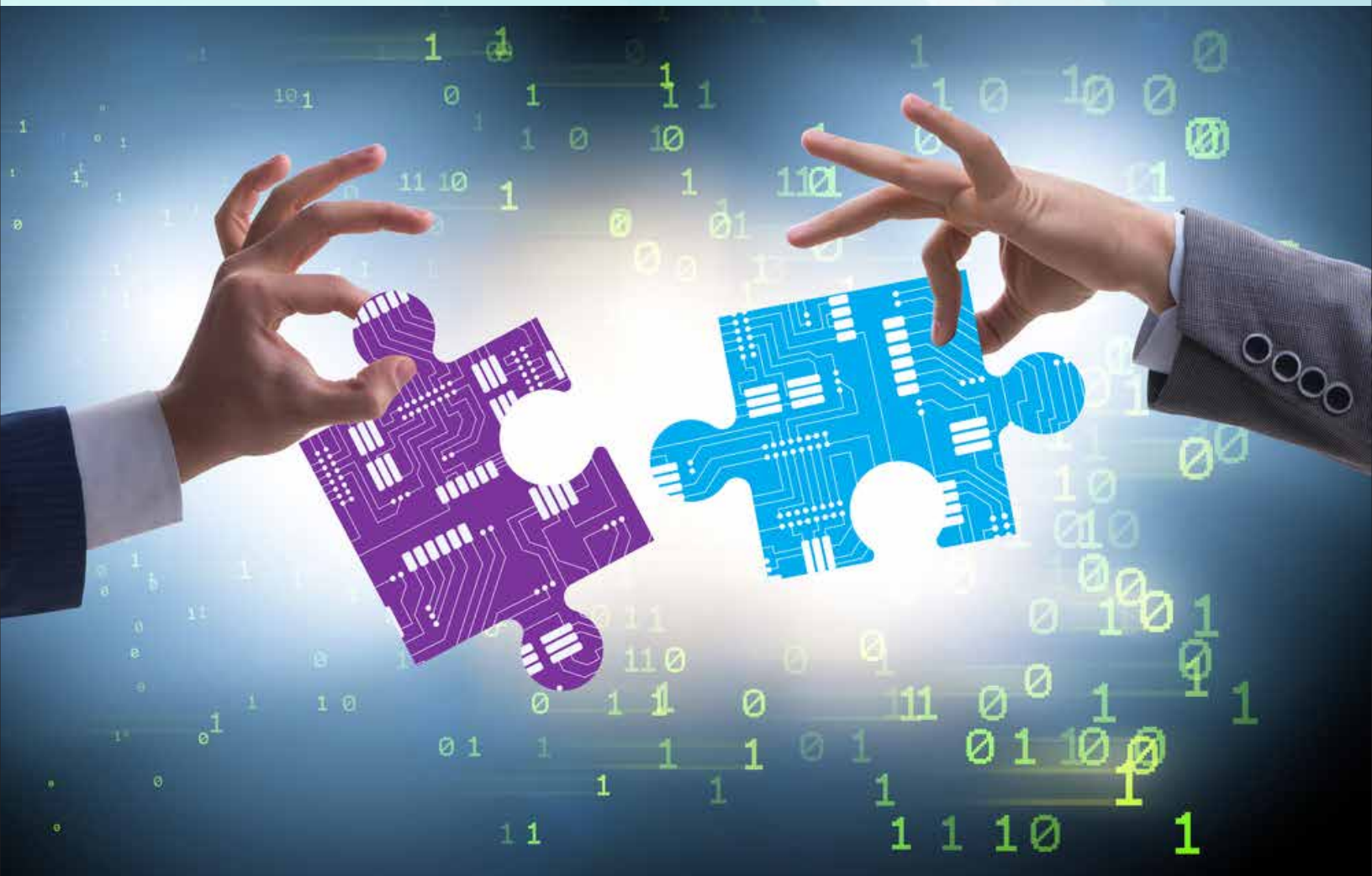
1. Enabling cost leadership across companies
2. Better cost control
3. Improved cost visibility and trend analysis
4. Slice and dice view available with drill down capabilities
5. Early identification and rectification of errors

The launch of Project Horizon has been a catalyst for a cultural transformation in Engro where business managers are now fully empowered to manage departmental costs. Also, it has freed up a lot of time of finance organization that is no longer expected to compile and report cost information on a monthly basis. Employees experience has significantly improved as the recent employee engagement survey results of Engro Fertilizers Finance have shown significant improvement of 16% in employee well-being and a mammoth 22% uptick in facets of operational excellence.

The value generated of the project is quantifiable as the company has witnessed significant cost savings in the past two years.



The writer is serving Engro Fertilizers Ltd as GM Finance and Planning and is always striving to set a new benchmark to business planning, performance and growth.



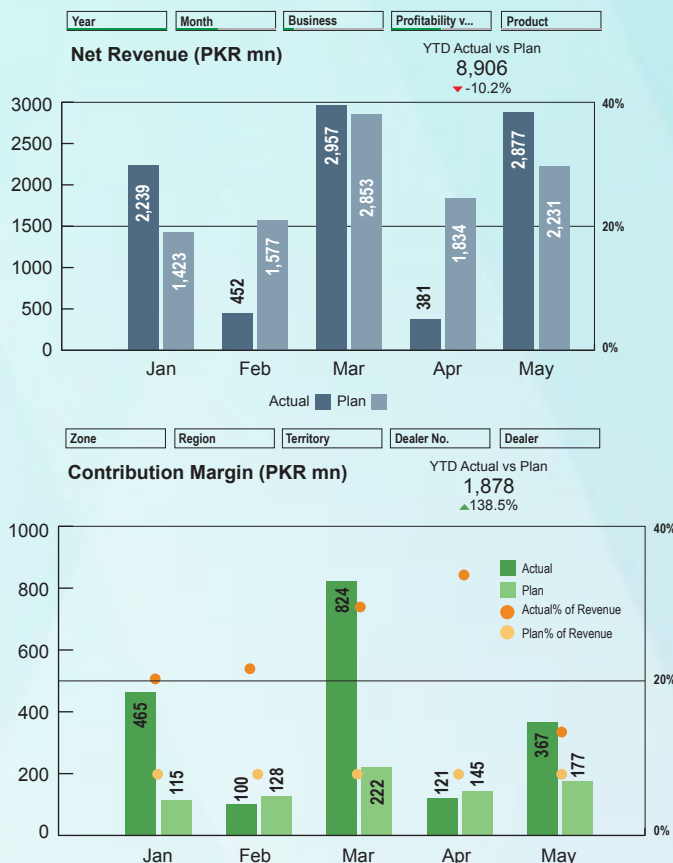
Digitally enabled business support: Qlik sense Business Performance Dashboard

Tariq Zafar, ACA

Stewarding sales and profitability at unit level is critical to deliver significant business value. Engro Fertilizers Limited (EFERT) has a sales footprint across 300 towns and cities serving over 2,700 dealers and offering over 75 products. Therefore, there is strong emphasis on location and customer wise performance metrics.

Previously, all this was being managed manually leading to extensive data compilation and analytical support interventions by our finance team. This also posed a risk of erroneous data being generated as well as ended up being extensively time consuming.

Engro Fertilizers Limited (EFERT) has a sales footprint across 300 towns and cities serving over 2,700 dealers and offering over 75 products. Therefore, there is strong emphasis on location and customer wise performance metrics.



Post go-live of OneSAP at EFERT, increased focus is being placed on automation and digitization to enable agile and efficient operations. Cognizant of the fact that digital transformation is now a core focus area for EFERT, a project was undertaken to create an automated profit and loss dashboard on Qlik sense named "Business Performance Dashboard" which would be fully integrated with SAP.

Post go-live of OneSAP at EFERT, increased focus is being placed on automation and digitization to enable agile and efficient operations.

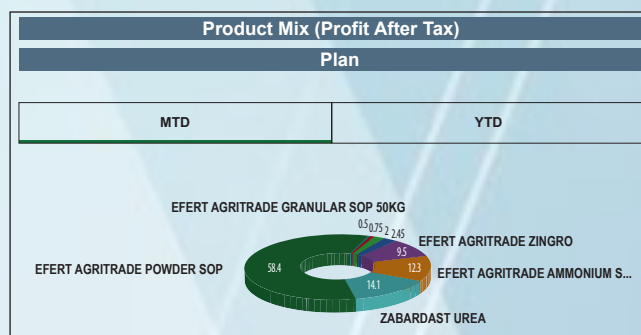
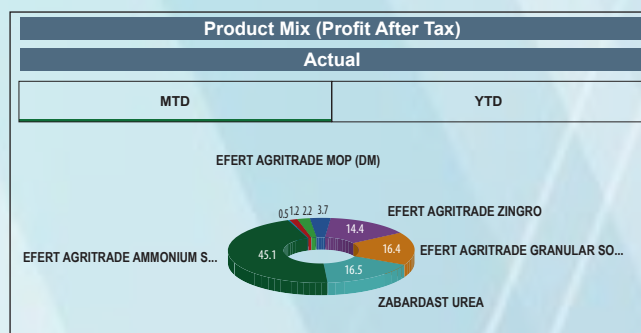
The foundation set by a state-of-the-art ERP enabled us to successfully implement this tool. The primary goal of this project is to promote **entrepreneurship** by enabling **timely and robust information sharing to facilitate improved business decision making**. This has allowed our field teams in-depth visibility into the business profitability by allowing them to review and analyze company profitability drilled down to an **individual customer level**.

This tool aids efficient decision making as our teams are now equipped with the right set of tools to **analyze and then decide** which **products and customers are to be focused upon**.

Furthermore, certain insightful charts and graphs are also provided to help the users critically analyse the data. The dashboard captures real time data further segregated into months, locations, products and customers. This transformational tool has allowed our teams greater **transparency** to their respective zonal and regional

profitability for each business category, at customer and product level, without any manual intervention. The benefits are limitless as users now have easy and immediate access to all information pertaining to the P&L statement in a consolidated form, i.e. revenue, discounts, dealer spreads, profit, sales mix etc with further drill down capabilities.

The dashboard captures real time data further segregated into months, locations, products and customers. This transformational tool has allowed our teams greater transparency to their respective zonal and regional profitability for each business category, at customer and product level, without any manual intervention.



This information also empowers our field teams to drive profit-based growth besides adding profitability inputs in the respective commercial teams' sales planning and strategy.

Key Benefits:

- Related information, including details related to revenue, discounts, dealer spread, profit and sales mix available in a consolidated form
- Field team to steward the value generated by each customer and make appropriate decisions to maximize value



The writer is working as Business and Strategy Analyst at Engro Fertilizers Limited.



Surviving a Micro Managing Saith Sahib

Ahmad Faraz

Are you a control freak? It was a question asked by my Ex-Boss, a perfect micro manager. That was my first encounter, and at that time I had no idea what it is all about. So in this article, you will know how a micro manager behave, what do they expect, why it happens and how direct reportees should handle it.

Micro managers are every where, as I had my first micro manager in West Africa, a Lebanese entrepreneur. Recalling an interview in Lahore, where candidate asked for JDs of the position, and then CFO told that there are no JDs, just Saith call.

What

Micro management is an extreme form of autocratic leadership style, where an entrepreneur or a CEO is behaving as a control freak, taking all decisions by himself and not delegating anything down to the management team. In this environment, every manager is expected to seek permission before taking a decision, or at least inform each and every bit of it instantly.

Mostly micro managers are smart guys who have a success story i.e. starting from very humble beginning to becoming a successful entrepreneur, or some inheriting a fortune and taking it to new level.

Micro management is an extreme form of autocratic leadership style, where an entrepreneur or a CEO is behaving as a control freak, taking all decisions by himself and not delegating anything down to the management team.

In my experience working with a micro manager, I found that my boss has access to see my laptop screen anytime through his laptop, has access to see my official emails, has access to my browsing history (that is why he offered free wifi). I even remember my friend telling me that he suspected phone tapping by his boss.

Why

This leadership style do have its merits, and that is why it is often so hard for startup and even mature entrepreneur to let go. And it is very profitable too, but part of profits is also attributable to non-compliance to Health & Safety, to tax laws, to custom laws, parking money off the shore, squeezing vendors, screwing workers etc.

Why Not

If it is such a successful way of doing business, than what is the problem ? Sustainability.

This structure evolves so much around one person that it is simply not sustainable. It is almost impossible to make it a corporate entity where different functions are working autonomously ensuring smooth flow of operations.

I am not going into detail on the long term effects on the team, as all direct reportees need to maintain stock of Panadol in their draws.

Survival Kit

While all best practices of work organization do stands here, but here we also need an extra dimension to look for, and following lines will elaborate as to how:

Understand his perspective

One entrepreneur told me that he had to sell his mother jewelry to pay worker wages. I don't think there could be any reason good enough to warrant a delay in worker wages or even vendors payment, after this. So once you understand his perspective, it becomes easier.

I need help

If you understand the perspective, you will realize that this guy really need your help to perform the role assigned to you. You

are brought to spare him and his time, so he could focus in his core. In most cases, I found that a micro manager is genuinely interested in your success, as this will make his life easier. But why he cannot really do it - lack of patience.

Follow me

It is easier said than done, but in almost all cases, this is true. You need to follow him, know what is his priority, know what is his expectation and schedule your work accordingly.

If you have tasks in hand that are hindering you from fulfilling his priorities, you may need to either sit late in the office to buy more time or should have convincing power to go to him to buy some time, there is apparently no third option left.

This leadership style do have its merits, and that is why it is often so hard for startup and even mature entrepreneur to let go. And it is very profitable too, but part of profits is also attributable to non-compliance to Health & Safety, to tax laws, to custom laws, parking money off the shore, squeezing vendors, screwing workers etc.

Be smart

Again, too general though, but since most of the micro managers are smart, they expect the same from their team. It is actually a vicious circle, where they expect smartness but at the same time curb it. So if you don't want to come out of your comfort zone, better to find some established corporate entity with defined JDs.

You may expect that some twisted questions or situations may be thrown at you, just to see how you handle it. So expect it, try to anticipate it and handle it honestly when you come across i.e. where you don't have specifics, simple excuse is better than a wild guess.

If you can overdeliver in some occasions, that would surely work, and a pre-emptive anticipation of his requirement will help to move in tandem.

Don't try to change

At least not in short term. Yes you may try pouring drops of water on a stone over time. But this should not be your aim at least. Your aim should be to move along, try to meet expectations, know that all these challenges are also posing great opportunity.

Win his trust

Hardest though, but this is what you may aim at. For example, instead of trying to change him, if you could win his trust, thing will start working out for you there.

If you have tasks in hand that are hindering you from fulfilling his priorities, you may need to either sit late in the office to buy more time or should have convincing power to go to him to buy some time, there is apparently no third option left.

Promise me

Often when in pressure, we make undeliverable promises. Avoid it. Always keep some cushion in your schedule and keep some margin when conveying timeline. But you should also be ready that you will be squeezed so be ready to convince and buying time for your priorities.

It is also seen that when giving timeline, we assume that this will be the only task that we will be handling, but when we get back to our desks, there is a long list just topped up with another task. So we need to consider our existing schedule and tasks in hand when giving timeline for the completion of the task.

Be ready

After spending a month or two, you will know what may be asked, so keep it ready. Even if he didn't ask for it in last one quarter, you still keep it ready, unless you feel that some other report replaced it, in that case it is better to ask if he still expect this report to be compiled.

Nail it

Rather than telling an employee what task needs to be accomplished and by when, he will expect the employee to find a way out. A micro manager wants to judge each and every employee especially a new comer, for example, one boss angrily criticized his employee and told him to just go and nail it.

Don't talk

Don't ever back bite boss, because he always has many eyes and ears around. Even ethically, we should not be saying what we can't say in front of someone, too bookish? ok for catharsis you may talk about him, but outside the organization and to your close aids who are no way connected to him.

Take advice

Seniors and mentors are always a blessing in such situations where you can share specifics and get more customized advice.

Maintain Distance

He thinks he is superior, and unfortunately you have already agreed to it, by joining the team and accepting him as your boss. So keep some distance and don't try to befriend him. While lighter moments will be there, act carefully. You should enjoy it, may crack suitable joke, smile on it but avoid laughing out loud, or taping his shoulder. And better to avoid hand-shakes in general.

Have Your Little Pleasures

You need to refresh yourself, and best way on a workplace is your little pleasures. So identify and enjoy it. It may be a smoke, a cup of tea, lunch with a colleague or some interesting browsing. You need to keep yourself going.

Often when in pressure, we make undeliverable promises. Avoid it. Always keep some cushion in your schedule and keep some margin when conveying timeline.

Don't Complain

No one likes complaining and nagging. So don't ever carry this attitude. I have seen so many people in corporate environment wearing it. There could be so many brighter sides and you need to look at those instead of focusing on darker ones.

Be marketable

It is often seen that over years, people working in such environments gets so much consumed that they don't participate in professional activities, don't move around and get stuck there. Some time you have home town advantage that you don't want to scarify, but even then, it is important to keep updating our software and to stay marketable.

Final words

Apparently, professionals are not advised to stick to micro managers for long, however, there are take-aways and if you could thrive in such environment, you would be operating outside your comfort zone, which is going to either make you or break you.

Don't be too much consumed, and spare time for your personal, family and professional activities that will help you maintain balance in your life.



Ahmad Faraz is currently working as Sr. Manager Finance in Sarena Textile Industries Pvt Ltd.

How Attitude of Gratitude Transforms Your Life

Adil Farooq Qureshi, FCA

“Gratitude is the memory of the heart”
- Jean Baptiste Massieu

Gratitude is the feeling of being thankful. Whether the feeling or the thought comes first may vary from person to person, but this is certain that the attitude of gratitude impacts the person feeling and being expressed to alike and above. The abundance that comes along with thinking thankfulness, expressing it, reciprocating it, feeling the energy is beyond words and wants experience. Moments of gratitude will the heart with positive energy and give the courage to pass on the blessings to others with generosity and face the testing moments with fortitude.

Just as creation, gratitude has no bounds or ends and can be expressed forever, for the joyful and serene nature, for the abundant supplies of needs, for the scariest dreams that keep us moving forward, for the wonderful human beings in our lives, for the beautiful moments of connection, for the abilities above all to be able to feel and express gratitude! The key lies in being authentic and innovative here too. As you progress in learning, relationship or business, expressing thankfulness through new ways would mean the world to people and environment surrounding you.

Whether the feeling or the thought comes first may vary from person to person but this is certain that the attitude of gratitude impacts the person feeling and being expressed to alike and above.

Gratitude has no bounds or ends and can be expressed forever, for the joyful and serene nature, for the abundant supplies of needs, for the scariest dreams that keep us moving forward.

The way prepositions play their part with verbs, they make interesting perspectives with being grateful, for example:

- Grateful to/towards/about – this helps in expression and reciprocity!
- Grateful for – this is perhaps the most important and helps in authenticity!
- Grateful with – gratitude alone is a blessing, practicing it together is a joy altogether!

Now, let's see each of these bullets in detail;

'Grateful To' – Gratefulness is always directed towards someone/something, whenever feelings of thankfulness arise in our heart for something or someone, immediately the mind wants to know who are we thankful to, so that we can express/reciprocate/mindful about in any way we can. This is also important that being grateful about the 'things' we cherish, treasure or use also have significant meaning for those things and us as well.

You may speak the language of gratitude, not just through words – here's the glimpse;

- Through words – you thank someone in person, through messaging or other communication methods;
- Through actions – the expression may take the form of a smile, an affectionate eye, a hand to heart, continuing the chain of kindness, praising/appreciating someone's ability in front of other people, other reciprocating acts, using the abilities in the best way possible and things in the most befitting manner are all ways of acts of gratitude;
- Through vibes – the energy communicates before you do. The thought and feelings of gratitude fill your own soul with light and positivity. Hence it best serves your surrounding and in turn feed you with positive thoughts and energy.

Words do matter when it's the time to speak or where remaining silent is not an option, but usually words gain power when coupled with appropriate action and pure intention backing them up!!

'Grateful For' – this entails peeling the layers of our own soul supply chain – who is serving us and how – this would be easy to explain with an example:

Let's say a person is grateful for their food. Taking an all-rounder approach will make him grateful for:

- the research & development which facilitates to understand & consume food according to circumstance, body need and culture
- the whole supply chain from the seed manufacturers to farmers to growers to distributors to super market
- the resources they have gained from their business or company to be able to purchase the food

- the energy generated from eating would be applied to further the passion/life purpose

This practically puts no limits on practicing gratitude. You can be grateful for the past, present and future too. You ought to be grateful for other people's journeys, their benefactors, life experiences in order to appreciate and empathize properly. You must be grateful to your teachers, and in turn your teachers' teachers and so on. The chain of gratitude holds limitless possibilities and creativity to feed your soul on daily basis.

'Grateful With' – the feelings of gratefulness stay and guide you in every situation in life and hence you become more aware, peaceful and mindful in day-to-day routine especially the challenging encounters. This encompasses individuals interacted during;

- **Input:** how did we get the blessing? Our intentions are the source of energy. Having goals & working towards them is what keeps us inspired and helps amass blessings;
- **Process:** the ability to look at the positives of blessings and challenges is not a chance but a blessing in itself. How do we approach the situation determines the next outcome; and
- **Output:** what we do with the blessed resources? Are we reinforcing the good or not is a question we need to be asking ourselves every step of the way, however small!

Daily practices of gratitude – planned and random – help fuel the soul and heart with inspiring energy and positive reminders to be in that zone of gratefulness towards self, others and environment! Don't forget the self in gratefulness as well. The daily practices may include, but not limited by this by any means – in fact it's always super to carve your own routine;

- Re-connecting with friends and family and thanking them in any way we can;
- Expressing gratitude for all those who are doing good for others or helping you;
- Taking time out to send cards or other appropriate gifts for your loved ones;
- Taking a pause and feeling / expressing gratitude for self;
- Slowing down and appreciating the gratefulness of nature and vice versa;
- Using abilities to the best of our commitment to excellence, love and beauty.

Beautiful Gratitude to you all in all forms of the word - Let's apply wholesome & holistic gratitude and include all benefactors involved to amplify the feeling and enjoy the positive energy.

"The root of joy is gratefulness. It is not joy that makes us grateful; it is gratitude that makes us joyful." – Brother David Steindl-Rast



Adil Farooq Qureshi, FCA is a chartered accountant, passionate for people, currently working as chief financial officer in Pakistan's electricity market.



Internal Audit – Impact of Effective Communication

Ali Dada, FCA

Internal Audit is an area that requires a combination of technical skillsets to allow a person to effectively deliver their required responsibility. One needs to understand audit standards and techniques, governance, risk, process mapping, regulatory requirements, financial reporting and data analytics just to name a few skills before they can be effective as an Internal Auditor.

However, now with the advantage of a few years under my belt, and the opportunity of having set-up, restructured and led multiple audit functions in a number of different countries and environments, I have a slightly different perspective on this matter. The way I see it is that while one does need technical skills to become an Internal Auditor, it is ultimately a

person's ability to communicate effectively that will determine how successful they will be as an Internal Auditor.

I feel this is an area that doesn't quite get the attention it deserves when developing or training for Internal Audit. Our objective is to highlight risks that need to be mitigated. How we communicate that message, in speech or writing, is critical if we are to achieve that objective.

An Internal Auditor's Dilemma

Let's start by accepting some harsh realities of our lives. Nobody really likes us! We are seen as this sad lonely function in the company that is perceived as an in-house Police Department. Our job, as defined by everyone else, is to pry into

other peoples' work and criticise them. Whether we like it or not, that is our default starting position in most cases, and one we have to accept and address from the onset.

I know we mean to help, and I can assure you the business does not mind the help, just not from us. I have had a chance to step outside of audit once I joined Business Transformation and my role was to develop value adding solutions for the very people I used to audit once. My standard introduction to them was that 'I am not audit anymore, and therefore on your side'. I would be more than welcome after that.

And why should they take help from us? They know their business not us. How are we qualified to help them? It is a question all of us have been asked and to this I usually say that in order to conduct an audit effectively we have to learn to see the business from the business owner's perspective. But while they are the experts in their area, we are the experts in understanding the risk and control gaps in their processes. An audit, ideally, should be a collaborative exercise that the business can also use to their advantage.

The "Other" Skillsets Required for Internal Auditors

Once you step outside of textbooks and into the real world of competitive business, you realise that your technical skills are just your starting point. As an internal auditor you have to be so much more to be effective. You will find out that are expected to be a Diplomat, a Negotiator, a Salesperson, a Consultant and a Presenter. If our ultimate ambition is to be a Business Partner and a Trusted Advisor, without obviously compromising our core responsibility of proving independent assurance, then this is what our skillsets and approach needs to be.

I have turned down Internal Audit applicants who demonstrated poor communication skills in favour of the ones who were good at it, even if technical capabilities were slightly better for the ones who were not so good in communication. That is how strongly I value the ability of an Internal Auditor to communicate effectively and their soft skills.

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If our ultimate ambition is to be a Business Partner and a Trusted Advisor, without obviously compromising our core responsibility of proving independent assurance, then this is what our skillsets and approach needs to be.

The report does not need any drama, it just needs facts to be stated in a simple way. While as auditors we have the right and power to impose our observations, it's always better to convince the stakeholders with reason and logic.

What is Effective Communication

Effective Internal Audit communication is aligned to the culture prevalent in the organisation. Therefore, understanding an organisation's culture is crucial. What worked in one pace may not work in the other. This applies more so to Internal Audit as we have to work with different departments and in different locations or countries. Work out the best way to get your message across and use that tone. There isn't a 'one size fits all solution'.

Effective communication isn't just limited to speak and writing. There is so much more to it. It encompasses the personality of the person, their ability to 'read the room', their emotional intelligence to adapt their tone based on the scenario they face. This requires experience and judgement, but first one must be aware of the importance of such skills in the role that we do. Only if we are aware can we learn.

Brevity when reporting is one skill that seems to work quite well universally. It's about Quality and not Quantity. Not everyone needs to know every detail of everything. We can lose the message far too often when you try and say too much. Get to the point and say what matters. The more senior the audience, the sharper and briefer we need to be.

Facts and data have a greater impact than opinion. Eliminate subjectivity as it does not go very well together with audit. Data and facts are our friends. If our message is backed by irrefutable facts, it will sell itself.

However, our opinions sometimes do matter. They may not have a place in an audit report, but if communicated effectively and in an advisory capacity, it goes a long way in establishing our reputation as a trusted advisor and business partner – which should be our ultimate aspiration within the business.

I personally prefer to give my opinions verbally in one-to-one conversations with the right level of Senior Executives who are the decision makers within the organisations. I feel that it works better that way than in writing or in a Group. It creates trust and that comes in handy when one day when you have a difficult message to deliver.

Criticise constructively but it's okay to give credit sometimes. I personally try to highlight aspects of positivity in audit reports or the cover note. For example, if the business is aware of an observation we raised and are making efforts to address it, or they resolve an agreed action immediately, I make sure I state that fact in the report.

The Opening Meeting Sets the Tone

How we start off our audit project or any assignment is quite critical because that's when we set the tone of the project and expectations. The business team is likely to feel a little nervous even if they seem welcoming. Because we are, whether we like it or not, intruding in their space, which no one likes.

Our job at that point is to put them at ease. Explain the process and how we intend to work collaboratively and transparently. The one thing we should assure them of is that no report we issue will be without them seeing it first or without their comments – whether it is an action plan or other comments. Make sure the report reflects their view in their words and live up to your promise of transparency.

Meet regularly as you progress, particularly as you find things that need addressing. Give the business a chance to address quick fixes during the audit. So even if we report them, we report them as completed and addressed.

Work transparently unless and only unless there is a very good reason not to do so. A normal audit should not have the feel of an investigation.

The Fundamentals of an Audit Report

The Audit report may have changed a lot over time, but it still remains (in my view) the most important part of our work. It is, in most cases, the only real output and record of all the work we do. Spend a lot of time on it to make sure it does justice to all your and your team's efforts.

An ideal report should be easy to read and understand. Keep it brief and keep it sharp. Choose the information you want to highlight carefully and don't overkill it. My rule for writing observation is introduction to the area is limited to

between four and five lines, and then the observations are listed briefly and in bullets.

Any details that need to be added to support the observation are in the Appendices. Avoid excessive jargon and write as simply as you can. I try and stick with language that, metaphorically, a five-year old can understand. Being able to articulate in a simple manner is an underrated skill. Only people who understand what they are doing can explain things simply.

Use neutral words, and do not sensationalise. The report does not need any drama, it just needs facts to be stated in a simple way. While as auditors we have the right and power to impose our observations, it's always better to convince the stakeholders with reason and logic. Think of each audit observation as a business case when you write or present them. Always highlight the impact and know the Root Cause of what you are talking about, else you don't know what needs to be fixed.

While I know we are supposed to be independent, but do not let that stop you from going the extra mile in developing your recommendation to be as close as possible to a practical solution. Push the boundary of independence as much as you can to help the business rather than use independence as an excuse to avoid helping. Work with the business and continue to support them even after the audit is complete to help them implement the agreed actions.

Audit Report – Visualisation and Infographics

The most recent change to the way I prefer to present reports is to include visuals and infographics. It gives the report a 'Wow Factor' and I have found myself using just visuals as the one key part of the audit report to discuss the entire project at times.

Visuals can be process flows. We have used them to represent time and motion studies as well and to cross reference the observations on the report. An Audit Report can hardly ever be a joyful document to read but it doesn't have to

be dull. Get creative and think outside the box!

Beyond the Audit Report

While Audit Reports are the key deliverable, there are many other ways of communicating your views. We are in a privileged position as we get to see the entire business and have the opportunity of seeing the bigger picture. We therefore also have the responsibility to make this privilege count and support the business in an advisory capacity where possible.

We can elevate ourselves to be a trusted advisor to the business if we share well thought-out opinions and advise through channels such as one-on-one meetings. Our advice can help improve the way business is done, and not just eliminate risk. If we are seen as a value adding advisor, our views as an auditor will gain more credibility in all respects.

Advisory memos are also useful if you want to put your views on record but caveat all subjectivity within them as this is not audit.

When it comes to the Audit Committee, focus on things you determine they absolutely need to know. There should be less slides and more words in Audit Committee meetings. It is best practice to meet the Audit Committee members before the meeting to run through the slides and address all questions. If the management attends those meeting, you should also meet them in advance.

I stress on importance of such meetings because the last thing you want to do in an Audit Committee meeting is put on a show with surprises. Nobody likes surprises or shocks there. There should be no grand standing in the world of audit.

Final thought – we can be the best at what we do technically, but the reality of life is that how we present our work to our stakeholders is as important as what we actually have to say.....if not more!



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Transfer Price and International Tax Implications

Khawar Mustafa, FCA

Transfer Price as the name suggests is the price at which one party sells (transfers) goods/services/tangible or intangible assets to other party.

Arm's Length Transaction A transaction between two unrelated independent parties whereby determinants of price are purely independent economic factors is called an arm's length transaction

OECD (2010) published different methods for the determination of arm's length price like profit based and transaction-based methods. Comparable uncontrolled price (CUP), cost plus method (CPM) and resale price method (RPM) are under transaction-based methods. Profit-based methods will be used where the transaction-based method will not apply. Transactional Net Margin Method (TNMM) and Profit split method (PSM) are under profit-based method.

The term **Transfer Pricing (TP)** refers to a situation whereby related parties exchange (transfer) goods/services/tangible or intangible assets which can be classified other than an arm's length transaction. Parties may be related by virtue of common directorship; one enterprise is associated or

subsidiary to other, a major supplier, major financier, or a guarantor etc. and this concept is most relevant in cross border trade of multinational enterprises (MNEs) amongst themselves.

Notable point is that in first case the determinant factors of price at which transfer is taking place are **independent market forces** while in second case the determinant factors of price are believed to be **internal factors** like dilution of profits in different tax jurisdictions keeping in view global **tax implication**.

Transfer pricing and tax abuses It is common belief that when MNEs transfer goods /services /assets in their cross-border branches, usually introducing intermediary steps/companies, which, actually do not have real economic substance rather they take into account tax rates in respective jurisdictions to minimize total global tax outflow. So determinant factor of price becomes internal planning for tax evasion rather than independent economic forces.

Transactions will be designed to minimize the profits in higher tax zones (countries) and maximize profits in lower or no tax

zones (countries) leading to loss of tax revenues of the country and reduction in overall tax outflow of the MNE.

It is quite natural that every taxpayer wants to minimize the tax expense as much as possible. However, while pursuing this objective, one should be aware of risk of crossing the line between permissible **tax avoidance** and impermissible **tax evasion**. In the context of international tax law, transfer pricing is hot issue especially, in cases where the taxpayer is a multi-national enterprise (MNE) comprised of corporate entities located in several tax jurisdictions globally. Although transfer pricing, itself, is a lawful activity but as discussed above, the abuses associated with transfer pricing in recent years have tarnished the term, making it synonymous with some immoral activity equating to tax evasion and tax fraud. Owing to this perception the fine line between tax avoidance and tax evasion is being faded away

Global Tax Implications: Common perception coupled with media reports of tax avoidance by related parties in cross border trade, using layers of companies and transfer pricing has raised the public concern because, consequentially common people and small businesses have to make up the lost tax revenue in respective tax jurisdictions domestically.

Transfer Pricing Regulations (TPR): have been introduced in various parts of the world to regulate the growing cross border intercompany trade, and have attracted attention of Multi-National Enterprises (MNEs) owing to its potential tax impact on their global tax profits.

According to **OECD** (Organization for Economic Co-Operation and Development) website "worldwide intra-group trade has grown exponentially. Transfer pricing rules, which are used for tax purposes, are concerned with determining the conditions, including the price, for transactions within an MNE group resulting in the allocation of profits to companies within the group in different countries. In this regard, based on the arm's length principle, transactions between associated enterprises have to be priced as if the enterprises were independent, operating at arm's length and engaging in comparable transactions under similar conditions and economic circumstances.

Base Erosion and Profit Shifting (BEPS) practices cost countries 100-240 billion USD in lost revenue annually, which is the equivalent to 4-10% of the global corporate income tax revenue. 140 countries and jurisdictions are implementing 15 Actions to tackle tax avoidance, improve the coherence of international tax rules, ensure a more transparent tax environment and address the tax challenges arising from the digitalization of the economy"

Transfer Pricing (TP) - Indian Tax Laws

India's market boom started in early 90's on a global scale. Her response towards globalization related requirements was swift regarding taxation and other laws as multinational corporations started substantial investments in acquiring local companies. There were many transactions taking place between the same group of companies and the transfer price between them started playing a major role in impacting the

profits and losses of Indian companies. Immediate need was felt to amend taxation laws for such transactions to safeguard national revenue and protect against tax evasion. Transfer Pricing Regulations (TPR) introduced through the Finance Act, 2001, becoming effective from March 2002. These provisions were set to be governed by the Income Tax Act, 1961, and were based on the Transfer Pricing guidelines of the Organization for Economic Co-Operation and Development.

India is one of the most transfer pricing aggressive countries as she has a huge number of foreign companies and has 2 strong databases namely CapitaLine-2000 (from Capital Line Market India Private Limited and Prowess from CMIE (Centre for Monitoring of Indian Economy Limited) Sections 92 to 92F of the Indian Income Tax Act, 1961 deal with TP issues and cover intra-group cross-border transactions. The rules prescribe that income arising from International Transactions or Specified Domestic Transactions (SDT's) between Associated Enterprises (AE) should be computed using the arm's length price principle. TPR provide a detailed statutory framework which provides guidance to:

- Computation of arm's length price
- International transaction
- Defining associated enterprise.
- Computation of reasonable, and fair profits and tax in India.
- Maintenance of information and record.

Law further requires for submission of annual report from an accountant regarding transactions attracting TPR before filing annual tax return.

The legislative rationale underlying the scheme of the statute is to prevent the shifting of profits by playing with prices charged or paid in international transactions and diluting tax revenues of the country. There are stringent penal clauses on default of compliance with these regulations.

Sri Lanka Tax Laws Related to Transfer Pricing (TP)

Transfer pricing regulations were introduced in Sri Lanka Income Tax legislation in April 2006. The regulations rely on the arm's length standard as the guiding principle for transactions between 'associated undertakings.

Transfer pricing is very new in Sri Lanka, with enforcement only beginning in 2013. Hence, Revenue Authorities are in process of implementing action plans advised by Organization for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) Action Plan.

The Inland Revenue Department (IRD) of Sri Lanka, in March 2015, issued a notification prescribing a certificate, to be obtained by the taxpayer from an approved Accountant. The certificate meant to confirm that taxpayer has maintained proper information and documentation in support of its transactions with associated undertakings, as prescribed under the Sri Lankan Transfer Pricing (TP) regulations. Thus, it highlights IRD's focus on this area of tax and revenue.

Revised TP regulations require enterprises that carry out controlled transactions or categories of controlled

transactions with associated enterprises (AEs) to prepare and file an annual transfer pricing disclosure form along with the Return of Income for each year of assessment. This requirement is applicable from the year of assessment 2018/19, and therefore the TP disclosure form will have to be submitted with the Income Tax Return for the year of assessment 2018/19. These regulations also mandate that the directors certify that transactions concluded with the related parties are at arm's length, and such certification should be included in the annual accounts and abandoned the requirement of accountant's certificate.

Further, regulations define how two entities qualify to be associated undertakings. The determinant factors are Voting power - (50%), Common Shareholder - (50%), Borrowing/Advance - (51 per cent total assets), Guarantee - (25% debt), Directors - (one appoints more than half in other's board), Appointment of Directors by the same person (more than half of the directors in each of the two undertaking are appointed by the same person) Dependence - (manufacturing or processing is wholly dependent, Supply - (more than 90% of the raw materials / consumables)

Interestingly TP regulations apply on domestic transactions, tax holiday units and no time limitations where return is not filed, fraud, evasion or willful default.

Compliance Requirements and penalties make it mandatory for tax payers to file an annual transfer pricing disclosure form along with the Return of Income for each year and maintenance of prescribed documentation.

Regulations have introduced stringent financial penalties for non-filing, late filing and concealing required information

Bangladesh Tax Laws Related to Transfer Pricing (TP)

Transfer Pricing Regulation (TPR) were introduced in Bangladesh tax laws for the first time through Finance Act 2012 which has become effective from July 01, 2014. These regulations focus international transactions between two associated entities, and one or both may be non-residents. So, focus of TPRs is mainly on MNEs or foreign companies having direct or indirect transactions with their subsidiaries, associates or other legal form of entities (e.g. liaison office, branch office, agent, etc.) in Bangladesh.

Bangladesh transfer pricing regulations though nascent and nothing concrete is mentioned regarding transfer pricing compliance of liaison office, banks and practical instances regarding the transfer pricing regulation application is not available in Bangladesh

TRPs require taxpayers to comply with transfer pricing documentation requirements for cross-border transactions with associated enterprises, and to ensure that these transactions are made on arm's length terms. Transfer pricing rules that were included in Finance Act, 2012 inserted a new chapter incorporating transfer pricing provisions into the Income Tax Ordinance, 1984 ("the ordinance"). These provisions contain definitions for terms such as associated enterprise, international transaction, etc. and provide rules for

the computation of an arm's length price by the tax officer, referrals to the transfer pricing officer (TPO) to determine the arm's length price, maintenance of documentation, furnishing of an accountant's report and penalties for noncompliance. The National Board of Revenue (NBR) simultaneously issued amendments to the Income-tax Rules, 1984 dealing with transfer pricing methods, and factors to be taken into account for judging comparability, a list of documents to be maintained and the form for the accountant's report.

Highlights of the transfer pricing provisions include the following:

Associated enterprise: Direct or indirect participation in the management/control/capital of an enterprise; Direct or indirect holding of shares carrying more than 25% of the voting power in the enterprise, Cumulative borrowings of more than 50% of the of total assets of the borrowing enterprise, Cumulative guarantees of more than 10% of the book value of total borrowings of the other enterprise, Power to appoint more than 50% of the board of directors/members of the governing board of an enterprise, Practical ability to control the decisions of the other enterprise; and Certain other relationships of mutual interest that would connect enterprises, which may be prescribed.

The arm's length price in relation to an international transaction is determined by applying the most appropriate method or methods from the six transfer pricing methodologies prescribed in the ordinance. These are the comparable uncontrolled price, resale price, cost plus, profit split and transactional net margin methods, or, if application of these methods is not reasonably possible, any other method that yields consistent results.

Taxpayers are required to maintain prescribed documentation if the aggregate value of the international transactions in the income year exceeds approximately USD 380,000. Taxpayers that have undertaken international transaction(s) exceeding this threshold also are required to furnish a report from a chartered accountant in a prescribed form and manner on or before the relevant deadline.

The penalty for failure to keep, maintain or furnish transfer pricing documentation may not exceed 1% of the value of each international transaction.

No database has been established for comparison of transfer pricing. However, consultants are using public companies' information from DSE or Indian database.

Pakistan

In Pakistan, TP regulations have become effective from Tax Year 2017 (1 July 2016 to 30 June 2017), for entities following a January to December year, the year ended 31 December 2016 is construed as Tax Year 2017.

Pakistan, though quite late, but has also responded well to the issue of BEPS (Base Erosion and Profit Shifting) by introducing relevant legislation, supported by detailed operational tax rules. section 107 (agreements for the

avoidance of double taxation and prevention of fiscal evasion),¹⁰⁸ (transactions between associates),¹⁰⁹ (recharacterization of income and deductions) and section 230E: (director general of international tax operations) of Income Tax Ordinance 2001 very comprehensively address the whole mechanism of prevention from eroding the tax base of Pakistan through transfer price manipulation.

The law covers definition of associated enterprises, Arm's length transaction, methods to be used to determine arm's length transaction, controlled and uncontrolled transactions, constituent entity, parent and surrogate parent entities and reporting requirements with time lines. The tax authorities have been empowered in respect of a transaction between associates to distribute, apportion, or allocate income, deductions, or tax credits between such associates to reflect the income that would have been realized in an arm's-length transaction. Companies are required to maintain specified records and documents for transactions between associates, and tax authorities can require information and documents for such transactions. The Commissioner of Income Tax is also empowered to appoint an approved accountant with prior approval of the FBR (Federal Board of Revenue), to determine the fair market value of an asset, product, expenditure, or service in respect of a transaction where the Commissioner is of the view that the same has not been undertaken on an arm's-length basis. From tax year 2018 and onwards, commissioner can disregard an entity or a corporate structure that does not have an economic or commercial substance or was created as part of the tax avoidance scheme. Tax rules also describe with specific details about Transfer pricing documentation requirements in order to comply with the requirements of various international Conventions/Agreements in line with OECD guide lines.

- Every taxpayer, being a constituent entity of a multinational entity (MNE) group having turnover of more than PKR 100 million, is required to keep, maintain, and make available a 'Master File', containing certain prescribed information.
- Every taxpayer entity in Pakistan that has undertaken transactions exceeding the monetary limit of PKR 50 million with related parties is required to keep, maintain, and make available a 'Local File', containing the prescribed information/details.

Every ultimate parent entity or surrogate parent entity in Pakistan that is part of an MNE group resident in Pakistan and whose consolidated group revenue is 750 million euros (EUR) or more during a fiscal year is required to file a CbC (country by country) report for each country wherein the constituent entities of the MNE group operates.

A constituent entity (including a PE of a company) of an MNE group (not being the ultimate parent or surrogate parent) is also required to furnish a CbC report in case:

- The ultimate parent is not obligated to file such report in its country of residence (other than in cases where its consolidated group revenue is EUR 750 million or below).

- The ultimate parent is required to file a CbC report in its country of residence, but such country does not have any Competent Authority Agreement in place with Pakistan.
- There has been a systemic failure due to which such information cannot be exchanged.

The main components of CbC report include following information for each country:

- Revenues from related and unrelated parties.
- Profit/loss before income tax.
- Income tax paid.
- Income tax accrued.
- Stated capital.
- Accumulated earnings.
- Number of employees.
- Tangible assets other than cash.
- Main business activities.

Conclusion /Recommendation

Good news is that all OECD and G-20 countries have agreed to implement four minimum BEPS standards:

1. Action 5, countering harmful tax practices (mostly aimed at patent boxes);
2. Action 6, preventing treaty abuse (largely about arranging payments to flow through countries with treaties that reduce withholding taxes on dividends and other passive payments)
3. Action 13, country-by-country (CbC) reporting
4. Action 14, increasing the effectiveness of dispute resolution. Transfer pricing regulations should be objective, clear and as simple as possible. A set of standardized regulations with local (unavoidable) adjustments would lead to better compliance among member states. OECD should develop and make available a reference database, with allowance for transitional local adjustments in order to enable member countries for the benchmarking of the transfer pricing for more transparent and consistent comparison would help curb tax evasion and increase global tax revenues. Pakistan and other member countries have rich potential to substantially enhance and collect additional revenue through introduction of robust operational mechanism, Transfer pricing audits and rigorous compliance of transfer pricing regulation. A very relevant example is that of India which according to some independent sources adjusted Multi billions of INR from the very beginning of 2007 on account of transfer pricing.



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Taxation of Digital Economy in Pakistan

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In recent past, the Digital Economy has remained one of the most discussed subjects amongst the Government circles. The prime reason of giving this area the utmost importance is that to highlight the potential of earning the foreign remittances in form of export proceeds, foreign direct investments etc. which could help in improving the balance of trade and payment mechanism for Pakistan. The Digital Economy in common parlance refers to the economic activities conducted by means of Information and Communication Technologies (ICT). The people of diversified backgrounds are connected together and manage their businesses through the digital means. This would include Startups, Freelancing, running e-commerce or online marketplaces or in other words being involved in Information Technology Sector (ITS) or Information Technology Enabled Sector (ITES).

The challenges of this era needs to be dealt disregarding the traditional ways and without using the old school of thoughts.

The usual focus of all the past Governments has remained on how specific sector like that of textile can help us in bringing more proceeds to our country, this has made them incentivized only the specific sector which no doubt has also helped in boosting the economy. However, now it is the high time that all the energies must be diverted to the fast-growing area of the Digital Economy. This is also due to the fact that Pakistan has got all which is required to make this direction successful. For instance, the Statista of population of Pakistan shows that one-third of our population is in between 15 and 35 years of age whereas, around 75 million are under the age of 15 years. If we work on our youth by providing them requisite ICT education, incubation centres, platforms, required financing then we can safely assume that our future would be very bright. At present, we have an annual ICT export of USD 2.5 billion while that of our neighboring country India is more than USD 200 billion per annum. Although the Government is targeting to make it USD 3.7 billion per annum but we have a lot more potential than that.

The current government showing its positive intention towards development of Digital Economy in Pakistan announced a historic package for ITS, ITES, Freelancers and Startups in an address by the Prime Minister of Pakistan on 21 February 2022. This was further approved in a meeting chaired by Prime Minister on 22 February 2022 in accordance with the Press Release issued by Ministry of IT & Telecommunication. The measures which have been announced includes, tax exemption to be given for all the mentioned sectors provided they are registered with the tax authorities, Specialized Foreign Currency accounts for ITS and ITES Companies and Freelancers will be introduced to meet their operational needs. The retention of 100% amount of remittances received through proper banking channels in Foreign Currency Accounts without any compulsion to convert them into PKR. The restriction of outward remittances from Foreign Currency accounts for Pakistan Software Export Board registered IT Companies and Freelancers shall be removed. The State Bank of Pakistan to introduce Financing streams for the ITS and ITES and Freelancers keeping in view operational architecture and industry needs for these sectors. The creation of a public-private partnership venture capital fund as Pakistan Technology Startup Fund by Ignite National Technology Fund. All the measures would give an edge to the sectors specified, however, the measures related to regulatory environment will have to be promulgated before becoming effective.

Let us now briefly touch the significant tax provisions available for Startups, ITS, ITES, e-commerce, Online Marketplaces under Income Tax Ordinance, 2001 [the Ordinance].

The Startup has been defined by the Ordinance which means, a business of a resident individual, AOP or a company that commenced on or after July 01, 2012 and the person is engaged in or intends to offer technology driven products or services to any sector of the economy provided that the person is registered with and duly certified by the Pakistan Software Export Board (PSEB) and has turnover of less than 100 million in each of the last 5 tax years; or any business of a person or class of persons, subject to the conditions as the Board with the approval of Federal Minister in-charge may, by notification in the official Gazette, specify. The income derived by the Startup would be subject to 100% tax credit under section 65F in the tax year in which the startup is certified by the Pakistan Software Export Board and the next following two tax years, provided annual income tax returns, monthly sales tax returns and if withholding tax agent, the required withholding tax statements are also filed.

In order to understand the difference between IT Services and IT Enabled Services, the Ordinance differentiates between both of them by defining IT Services which include software development, software maintenance, system integration, web design, web development, web hosting and network design; while IT enabled services include inbound or outbound call centres, medical transcription, remote monitoring, graphics design, accounting services, Human Resource (HR) services,

telemedicine centers, data entry operations, cloud computing services, data storage services, locally produced television programs and insurance claims processing. The income from exports of ITS and ITES is also subject to 100% tax credit under section 65F till June 30, 2025, provided annual income tax returns, monthly sales tax returns and if withholding tax agent, the required withholding tax statements are also filed. Whereas the 80% of the export proceeds is also required to be brought into Pakistan in foreign exchange remitted from outside Pakistan through normal banking channels. Furthermore, in order to avoid tax of 1% on export proceeds, the exemption under section 154A of the Ordinance can also be sought.

The taxation of online marketplace and e-commerce under the Ordinance is also very advantageous to those who enter. For online marketplace, the tax on commission would be at the rate of 5% under section 233 of the Ordinance if dealing with prescribed persons. While, if dealing with other than prescribed persons then the rate of tax would be 0.25% under section 113 of the Ordinance and both being the minimum tax. The rate of minimum tax for persons dealing in e-commerce is also of 0.25% under section 113 of the Ordinance. While the provisions of section 153 of the Ordinance, would also be attracted on the supply of goods. In both cases of online marketplace and e-commerce, the taxation mentioned is apart from the normal tax liability and Alternative Corporate Tax, if applicable.

The Government besides providing the usual tax incentives is also working on establishing the Special Technology Zones and Parks. Profits and gains derived by the enterprises established in such zones would be exempt for a period of 10 years from the date of issuance of license. The exemption would also be applicable on tax collected at import stage under section 148 of the Ordinance by them on import of capital equipment. Whereas dividend income and long-term capital gains of any venture capital fund from investments in zone enterprises would also be exempted from tax for the period of 10 years.

The Government at the time of providing incentives to the sectors related to Digital Economy should ensure that the ultimate goal of documentation of economy is not compromised. The benefits should be available however, only to those who declare their details and get the same documented. If the efforts of the Government continue in the same manner, it can be safely said that Pakistan would be able to cross the exports from ICT soon by USD 10 billion on per annum basis which is not only good for managing the trade deficit but will also in increasing the living standard of people of the Pakistan.



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Chinese Investment Model – Suitability for Pakistan

Muhammad Afzal, ACA

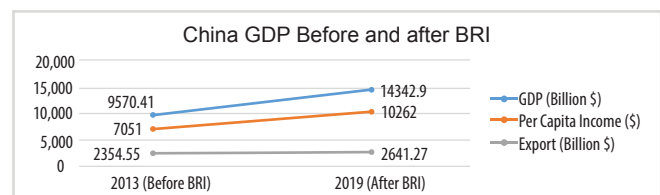
In ancient times the world economy was driven by the traders who traveled from one region to another that's why the importance of trade routes and caravans was crucial for the economic health of any kingdom. About 7,000 miles long Silk Road was the most important route, it connected Asia, Africa, and Europe. Silk Road enriched the countries it passed through, transporting material goods, cultures, religions, and languages.

Road or sea connectivity is very important and every visionary country is interested in it. America built 82 Kilometer Panama Canal back in 1914 that connects the Atlantic and Pacific oceans. America supported the separation of Panama from Colombia and immediately entered into an agreement with the new country to grab the benefits of the Panama Canal. Now China is doing the same but at a very large scale through Belt and Road Initiative (BRI).

A few years ago China built drastic surplus production capacity through debt-fueled infrastructure investment, the local government generated the new industries in competition with each other. The problem of surplus production capacity was resolved through exports that's why BRI became the ultimate fate of China's long-term economic policies. According to official information, in March 2020, 138 countries and 29 international organizations had signed cooperation

agreements for the BRI[1]. China invested hundreds of billion dollars in BRI projects after the announcement of this initiative by president Xi back in 2013 in Kazakhstan.

China economic indicator analysis before and after the BRI is presented below:



The trend shows how China's GDP is growing and exports are also increasing. Per Capital Income growth showing that its citizens are prospering. Despite the fact that the BRI is not fully operational yet that's why real growth can be analyzed effectively after the trade routes start working in full swing.

China's economy heavily depends upon exports which is a great opportunity as well as poses a huge risk if the Chinese's Product/services demand declined in international markets then the heavy debt-based infrastructure and investment will be huge trouble for China (i.e. Huawei sales decline). China Debt to GDP ratio was 37% in 2013 after BRI it is standing

around 61.7% in 2020 and is expected to rise 78.07% in 2025[1].

As BRI connects Asia, Africa, and Europe through sea and roads networks and that's why geographic threats are really high at different points. India and China escalation is the biggest threat to both BRI and China exports because India has a great potential to overthrow China's industrial supremacy with the help of America, Japan, and other countries. India Pakistan escalation is also a threat for BRI because Kashmir and Gilgit Baltistan is a bone of contention between two countries and may result in a deadly nuclear war. Different straits and maritime checkpoints can also pose a threat for the BRI for example The Strait of Hormuz where almost 30% of world oil and LNG passes through, can be problematic due to any political or armed chaos. America and China's escalation in the South China Sea can be a huge risk for BRI. Interestingly a German frigate will set sail for the South China Sea in August, become the first German warship to cross the South China Sea since 2002.

As far as BRI partners are concerned following are the key economic indicators of Kazakhstan (BRI member);

Investment	Major Projects	Key Economic Indicators before and after BRI	Remarks
\$30 Billion	<ul style="list-style-type: none"> 3,000 KM Railway 12,500 KM Highway 	<p>GROSS NATIONAL PRODUCT (\$ BILLION): 2013: 201.7 2019: 163.36 (19.1% Decrease)</p> <p>GDP PER CAPITA (\$): 2013: 13,891 2019: 9,812 (30% Decrease)</p> <p>UN-EMPLOYMENT: 2013: 5.2% 2019: 4.9% (0.3% Decrease)</p> <p>DEBT TO GDP RATIO: 2013: 12.22% 2019: 18.48% (6.26% Increase)</p> <p>USD \$/KZT: 2013: 154.20 2019: 381.54 (147% devaluation of Kazakhstan National Currency)</p>	Kazakhstan and China's partnership under BRI, Kazakhstan's Key Economic indicators are worsening instead of improving. Either the Kazakhstan government is not appropriately utilizing the benefits available under the deal, or the terms of the contracts are not favorable enough for the country to get the appropriate advantage of the BRI.

<https://www.macrotrends.net/countries/KAZ/kazakhstan/gnp-gross-national-product>

Sri Lanka also faced a huge financial burden after the construction of Hambantota Port back in 2008. The project unexpectedly became loss-making, and loan repayment was impossible, resulting in the 99 years lease of the port to China at \$ 1.4 Billion, interestingly the said amount was used as repayment of port debt.

Malaysia is also a key member of BRI because of both its geopolitical and geo-economics footprints as Malaysia's west coast would allow Chinese access to the Straits of Melaka (which is linking major Asian economies such as India, Thailand, Indonesia, Malaysia, Philippines, Singapore, China, Japan, Taiwan, and South Korea Malaysia).

Malaysia is also the biggest winner in Southeast Asia in terms of bagging investments from China, with more than \$100 billion projects but faced immense problems and hit back. The first problem was the corrupt practices of the Malaysian government, but the worst part was the support from China in favor of those corrupt Malaysian government officials. The second reason was the unfair project costs charged by Chinese firms. For example; Mahathir Mohamad renegotiated the East Coast Rail Link project from 65.5 billion ringgit to 44 billion ringgit means Chinese firms were charging around 49% higher than renegotiated prices.

Myanmar regime change is also a big question over China's involvement in BRI member states' political affairs, which may turn the BRI disputed and may compel countries to be reluctant for entering in the BRI.

For Pakistan there are lessons to learn from the other BRI member countries and the following measure precautionary measures should be taken to avoid any mishap:

1. Government should not hide the Loan terms. Instead of debt, all investment under BRI/CPEC should be on a profit-sharing basis to avoid any debt burden, it will also eradicate the debt-trap risk.
2. Award the Projects on a merit basis to contractors. Eligible parties should get equal opportunities to participate in the bidding process.
3. Evaluate the projects from a commercial aspect at the planning stage.
4. Evaluate the Environmental effects before the commencement of the projects. For example, coal-based power plants need to avoid to ensure the eco-friendliness of the projects. Adopt reasonable measures to ensure that Pakistan's overall environment will be unaffected even if the whole BRI trade passes through Pakistan.
5. Utilize the national human resources on a priority basis to grab the maximum benefit from the partnership. Plan for Proper training and skills development to enable Pakistanis to execute/manage/run such projects.
6. Devise the inclusive Tax structure, which can encourage investors to invest in CPEC, but we also need to maintain the competitiveness of Non-CPEC projects/businesses.
7. Allow the local population to grab the benefits from the projects in their locality to avoid deprived feelings.
8. Pakistan shall make itself self-sustainable in terms of technology/skill instead of relying on other countries.
9. Pakistan should not rely only on CPEC or China and should explore more commercial & business options to mitigate the risks associated with the BRI.
10. Put efforts to mitigate the disputes with neighboring countries to grab the maximum benefits from CPEC/BRI.
11. Enhance two-way trade to keep the Balance of Trade favorable.



The writer besides being the member of Institute of Chartered Accountants of Pakistan is working as CFO in a private organization.



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