

FROM SURVIVAL TO STRATEGY:
THE CRITICAL ROLE OF
ACCOUNTANTS IN ADDRESSING
EMERGING BUSINESS
CHALLENGES



TOPIC COVERED:



Inflation, Interest Rates & Corporate Financial Strategy



IMF Programs, Fiscal Reforms & Their Accounting Implications



Strengthening Audit Quality Amid Economic Uncertainty



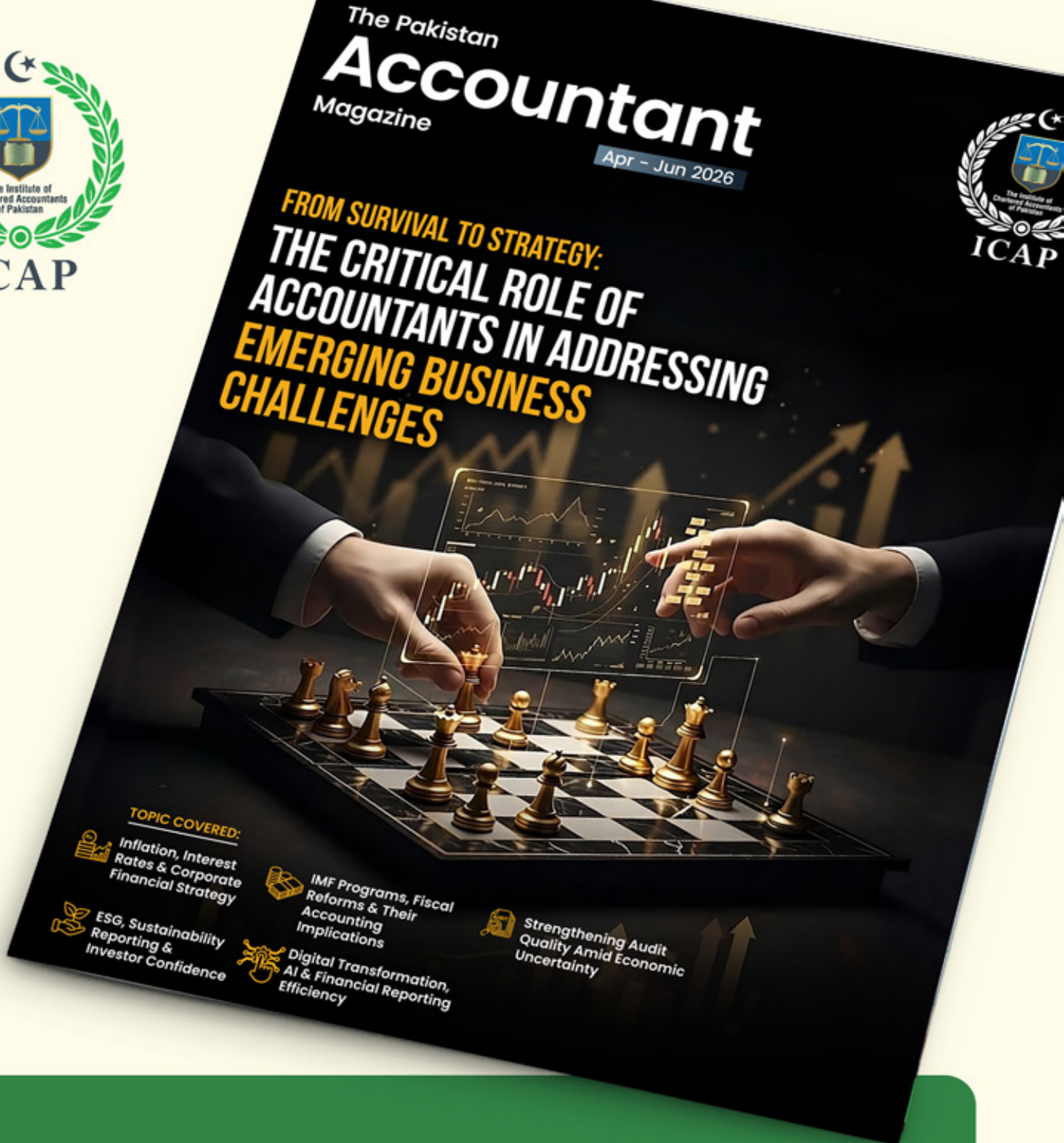
ESG, Sustainability Reporting & Investor Confidence



Digital Transformation, AI & Financial Reporting Efficiency



ICAP



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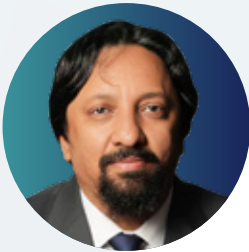


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Message from President ICAP

Dear Members,

The global business landscape is evolving at an unprecedented pace. Organizations today are operating in an environment shaped by economic volatility, technological disruption, regulatory reforms, sustainability imperatives, and rapidly changing stakeholder expectations. In such times, the role of accountants extends far beyond traditional financial reporting and compliance. Accountants are increasingly expected to be strategic advisors, trusted guardians of transparency, and catalysts for sustainable value creation.

Pakistan's economy continues to navigate a complex path marked by inflationary pressures, fluctuating interest rates, fiscal adjustments, and evolving regulatory frameworks.

implications of IMF-driven fiscal reforms, the importance of strengthening audit quality amid uncertainty, the growing significance of ESG and sustainability reporting, and the transformative potential of digital technologies and artificial intelligence in finance and reporting.

As trusted professionals, Chartered Accountants have a crucial role to play in helping organizations manage risks, maintain stakeholder confidence, and build long-term resilience. The profession's commitment to integrity, objectivity, and high-quality reporting remains fundamental to fostering trust in capital markets and supporting economic growth. Simultaneously, embracing innovation and digital transformation is essential to ensuring that finance functions remain agile, relevant, and future-ready.

The Institute of Chartered Accountants of Pakistan remains dedicated to equipping its members and future professionals with the

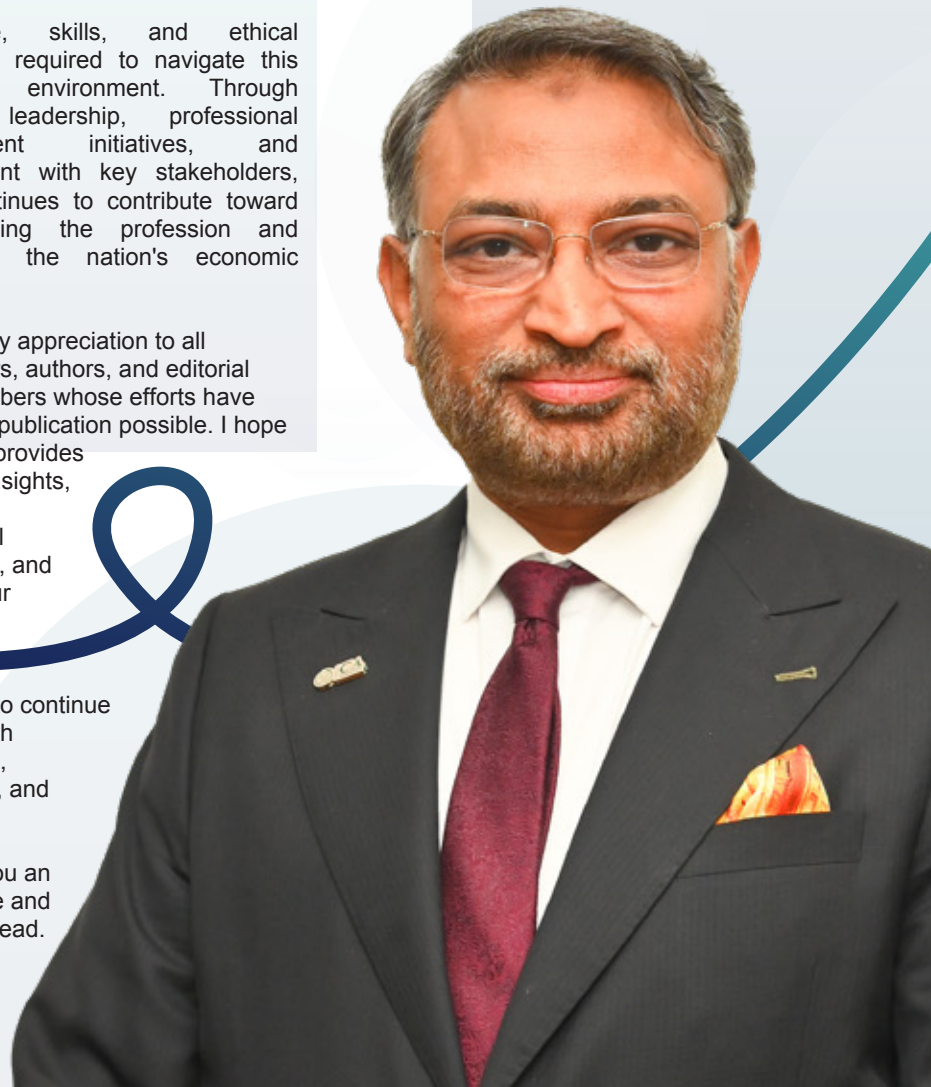
knowledge, skills, and ethical foundation required to navigate this changing environment. Through thought leadership, professional development initiatives, and engagement with key stakeholders, ICAP continues to contribute toward strengthening the profession and supporting the nation's economic progress.

I extend my appreciation to all contributors, authors, and editorial team members whose efforts have made this publication possible. I hope this issue provides valuable insights, stimulates meaningful discussion, and inspires our

members to continue leading with excellence, innovation, and purpose.

Wishing you an informative and enriching read.

**Muhammad
Samiullah Siddiqui**
President, ICAP



Message from Chairman MARCOM

Dear Members,

In today's dynamic business environment, organizations are confronted with challenges that are more complex, interconnected, and fast-evolving than ever before. Economic uncertainty, regulatory developments, technological disruption, sustainability expectations, and changing stakeholder demands are reshaping the way businesses operate and create value. In such an environment, the accounting profession has a critical responsibility not only to respond to change but also to help lead it.

As trusted advisors and strategic partners, Chartered Accountants are uniquely positioned to support organizations in navigating uncertainty and transforming challenges into opportunities. The profession's role has expanded beyond traditional financial stewardship to encompass strategic planning, performance management, governance, risk oversight, and sustainability reporting. This evolution underscores the growing importance of accountants in shaping resilient and future-ready organizations.

The theme of this issue of Pakistan Accountant, "From Survival to Strategy: The Critical Role of Accountants in Addressing Emerging Business Challenges," captures the shift required of businesses and professionals alike. Success in today's

environment demands a forward-looking mindset, informed decision-making, and the ability to anticipate emerging risks and opportunities.

This edition brings together diverse perspectives on some of the most important issues impacting businesses and the profession, including economic reforms, financial strategy in inflationary environments, audit quality, ESG reporting, and the transformative role of digital technologies and artificial intelligence. Collectively, these topics highlight how finance professionals can drive organizational agility, strengthen stakeholder trust, and support sustainable growth.

As Chairman of the Marketing, Branding, Events and Corporate Engagement (MARCOM) Committee, I firmly believe that thought leadership and knowledge sharing are essential to preparing our members for the future. Through

publications such as Pakistan Accountant, ICAP continues to provide a platform for meaningful dialogue, professional insights, and the exchange of ideas that contribute to the advancement of the profession.

I extend my sincere appreciation to all contributors, authors, reviewers, and the editorial team for their valuable efforts in making this publication possible. I trust that the insights shared in this issue will encourage reflection, inspire innovation, and empower our members to create lasting impact within their organizations and the broader economy.

I wish you an insightful and rewarding read.

**MUHAMMAD
SAJID HAMID KAPADIA**
Chairman - MARCOM





INFLATION, INTEREST RATES & CORPORATE FINANCIAL STRATEGY

**Sales
-35%**

**Revenue
-50%**

**Demand
Crash**

**Cash Flow
Freeze**

From 38% to Strategy: What Pakistan's Inflation Shock Demands of Its Finance

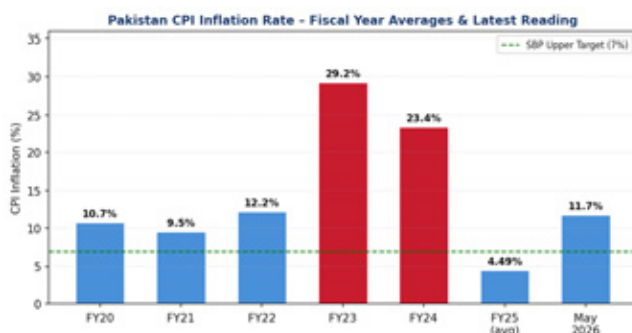
| Faraz Anwer, ACA |

The corporate environment in Pakistan has faced unprecedented pressure over the last three years. Triggered by a historic inflation peak of nearly 38% in May 2023, businesses across all industries have been forced to fundamentally restructure how they approach capital allocation, pricing models, corporate borrowing, and financial reporting. This period was characterized by a compounding mix of expensive energy imports, a weakening rupee, unprecedented interest rates, and a severe balance-of-payments crisis that nearly pushed the nation into a sovereign debt default.

In this high-stakes climate, chartered accountants have evolved. No longer just backward-looking financial scorekeepers, they are now vital frontline strategists. To help organizations move past basic survival tactics and transition toward sustainable, resilient corporate growth, finance teams must understand how to navigate this volatile macroeconomic climate.

The Macro-Economic Context: A Volatile Decade

- **The Inflation Surge:** In FY2021, average inflation was a manageable 9.5%. However, a combination of global commodity price spikes, the reversal of domestic fuel subsidies, a severe drop in foreign exchange reserves, aggressive rupee devaluations, and the catastrophic floods of 2022 triggered a severe inflationary spiral. By May 2023, headline CPI inflation surged to a record 37.97%, straining household budgets and forcing companies to rethink their entire cost structures.



- **Monetary Tightening:** To curb inflation and satisfy the requirements of the IMF's \$3 billion Stand-By Arrangement, the State Bank of Pakistan (SBP) raised its benchmark policy rate from 7% in early 2021 to an unprecedented 22% by June 2023. This

rate remained frozen for nearly a year, forcing many smaller enterprises to halt expansion or close entirely as interest expenses began consuming operating profits.

- **The Disinflation and Rebound:** Backed by fiscal consolidation and currency stability under the IMF's Extended Fund Facility, average inflation for FY2024–25 dropped to a nine-year low of 4.49%. This prompt disinflation allowed the SBP to cut its policy rate down to 11% by mid-2025. According to the Pakistan Economic Survey 2025–26, average CPI inflation for July–May FY26 settled at 6.7%, fitting within the SBP's 5–7% target band.



- **Renewed Pressures:** This stabilization remains delicate. Regional tensions in the Middle East drove up energy costs, which pushed monthly inflation from 7.3% in March 2026 up to 10.9% in April 2026. In response, the SBP executed a 100-basis-point hike to 11.5% in April 2026. It was its first-rate increase in nearly three years. This shift serves as a clear reminder that assuming a smooth path to low inflation is a risky business strategy.

Core Corporate Vulnerabilities: Where Finance Meets Operations

Rising Debt-Servicing Pressures

With the policy rate at 22%, commercial lending rates frequently peaked between 24% and 26% during FY2023–24. For companies relying heavily on variable-rate working capital lines, the financial blow was immediate. A standard PKR 500 million revolving credit line suddenly required an additional Rs. 60–70 million in annual interest payments.

Positively, the Economic Survey 2025–26 notes that the public debt-to-GDP ratio fell to 68.5% (down from over 73% the prior year), supported by a narrowed fiscal

deficit of 0.7% of GDP for July–March FY26. However, with FBR tax revenue hitting PKR 11.229 trillion and non-tax revenues at PKR 4.633 trillion, the state's financing demands remain high, keeping corporate borrowers in direct competition with the government for market liquidity.

Margin Compression and Working Capital Strains

Rapidly fluctuating costs invalidate standard corporate budgets within weeks. During this period, major sectors like textiles, cement, steel, and food processing experienced significant margin erosion. Furthermore, traditional FIFO (First-In, First-Out) inventory accounting under historical cost frameworks often masked these vulnerabilities by overstating profits on paper, even as real-world replacement costs outpaced revenues.

Simultaneously, working capital cycles lengthened. Cash-strapped suppliers began demanding upfront payments, while enterprise clients delayed payments to protect their own liquidity. In sectors like public infrastructure contracting, receivable timelines stretched out to 180–270 days, forcing businesses to bridge cash shortfalls using costly short-term debt.

Capital Structure Realignments

Leverage ratios that made sense when interest rates were at 7–10% quickly became dangerous at 22%. Highly leveraged firms saw their interest coverage ratios plunge below 1.0x, meaning operating profits could no longer cover interest expenses.

Conversely, the equity markets experienced a major turnaround: the KSE-100 index gained over 50% in FY26, total market capitalization grew by roughly 40%, and multiple initial public offerings (IPOs) were launched. This surge opens up an alternative equity-financing avenue for stable, mid-sized companies looking to reduce their reliance on traditional bank loans.

Ultimately, the goal for modern Chartered Accountants is to look beyond basic compliance and reporting.

Indicator	Latest Figure	Strategic Implication for Finance Professionals
Real GDP Growth	3.7% (FY2026)	Four-year high; build budgets on realistic, sector-specific growth assumptions
Average CPI Inflation	6.7% (Jul–May FY26)	Inflation-adjusted reporting; distinguish volume vs price-driven growth
SBP Policy Rate	11.5% (Apr 2026)	Debt-servicing stress tests; identify optimal refinancing windows proactively
Public Debt / GDP	68.5% (FY2026)	Improving sovereign position eases
Fiscal Deficit	0.7% of GDP (Jul–Mar FY26)	Monitor super-tax and minimum-tax risk despite consolidation
FX Reserves	USD 17.2 bn (+49% YoY)	Improved import cover; reassess currency and LC exposure planning
KSE-100 / Market Cap	50% / ~40% (FY26)	Evaluate equity financing and IPO feasibility
Per Capita Income	USD 1,901 (+9% YoY)	Demand-side planning; consumer sector revenue modelling

The Strategic Agenda for Modern Finance Leadership

"When policy rates hover at 22%, a CFO's primary mandate shifts from capital allocation to capital conservation."

To protect corporate value, finance leaders should focus on core operational shifts:

Scenario-Based Financial Modeling

Static, single-point corporate forecasts are no longer sufficient for volatile markets. Finance teams should build dynamic models that account for at least three distinct economic paths: a base case tracking the SBP's estimated inflation goal, a stress case built around unexpected global energy spikes, and a downside case that models severe currency depreciation. Treasury and FP&A leaders must routinely stress-test cash positions and debt covenant compliance against these variations.

Inflation-Adjusted Performance Evaluation

Standard financial statements can create a false sense of security during high-inflation periods. For instance, a 15% increase in net profit during a year with 25% inflation represents a loss in real corporate value.

Accountants should introduce inflation-adjusted key performance indicators (KPIs), such as real return on employed capital (ROCE) and real net asset value into internal management reports to better guide dividend distributions and pricing strategies.

Active Debt and Treasury Management

As interest rate cycles fluctuate based on external economic shocks, the windows for refinancing corporate debt close quickly. Finance professionals must react swiftly during easing cycles to move expensive short-term liabilities into longer-term, fixed-rate options. The surprise rate hike in April 2026 proved that easing cycles are rarely linear, highlighting the importance of robust interest rate risk management frameworks.

Proactive Tax Optimization

While Pakistan's fiscal deficit narrowed significantly in early FY26, the tax base remains narrow. Historically, revenue shortfalls are met with policy changes that impact the formal corporate sector, such as super-taxes, minimum tax adjustments, and expanded withholding nets. Finance teams need to focus on compliant tax planning, optimizing the timing of major capital expenditures for depreciation benefits, and utilizing the FBR's advance ruling options to protect corporate returns.

Conclusion: Driving Strategy, Not Just Survival

The economic shifts over the past few years have highlighted the strategic value of skilled finance professionals. In an environment where inflation can swing from historic highs down to single digits before climbing past 11% again within a short window, disciplined financial modeling and proactive liquidity management are essential for business continuity.

Ultimately, the goal for modern chartered accountants is to look beyond basic compliance and reporting. By building flexible scenario models, utilizing inflation-adjusted reporting metrics, and optimizing corporate capital structures, finance professionals provide the stability needed to withstand future economic shocks. Transitioning from operational survival to long-term corporate strategy is an ongoing discipline that helps businesses grow sustainably despite macroeconomic headwinds.

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WHEN THE COST OF MONEY CHANGES EVERYTHING: NAVIGATING INFLATION, INTEREST RATES AND CORPORATE FINANCIAL STRATEGY IN PAKISTAN

| Muhammad Ahmad, ACA |

Between 2022 and 2024, Pakistani businesses experienced something most of their leadership teams had never prepared for: a policy rate that climbed past 22 percent. For finance professionals sitting across the table from boards, bankers, and budget committees, this was not just a macroeconomic headline. It was a fire drill, except the fire was real, and the exits were few.

Inflation and interest rates move together, but they punish companies in different ways and at different speeds. Understanding that distinction, and helping management act on it in time, is where the accountant's role shifts from bookkeeper to strategist.

The Pressure Arrives in Two Waves

Inflation hits first on the cost side. Raw materials, utilities, freight, and wages all rise together, compressing margins before any pricing adjustment can catch up. In a manufacturing company, this lag between rising input costs and revised selling prices can quietly destroy a quarter's profitability before it shows up clearly in the P&L. Finance teams that wait for monthly management accounts to notice this are already behind.

Interest rates deliver a second, slower blow. Working capital facilities become expensive. Term loans renegotiated at higher rates inflate the debt service burden. Capital expenditure plans that were viable at eight percent financing become questionable at eighteen. Companies that borrowed heavily during the low-rate years find their interest coverage ratios deteriorating even when their underlying business operations are healthy.

What the Income Statement Does Not Tell You

One of the more persistent blind spots in corporate finance is the gap between reported profit and actual cash generation during inflationary periods. A company can show a healthy bottom line while its cash position weakens steadily, if inventory is being restocked at higher prices, if receivables are extending as customers face their own liquidity stress, or if payables are being paid faster due to supplier pressure.

This is where strong working capital analysis earns its keep. A finance professional who can decompose the cash conversion cycle, tracking how many days of sales are tied up in inventory, receivables, and payables can give management an early warning that profitability metrics alone would mask. When receivable days stretch from 45 to 65 over two quarters, that is not an accounting footnote; it is a



signal that collections are weakening and cash will tighten.

Similarly, under IAS 2 for inventory, the choice of cost flow assumption matters. Companies using weighted average cost in a rising price environment may be absorbing inflationary input costs into their cost of goods sold more slowly than the actual purchase pattern warrants, temporarily flattering gross margins that will normalize, sometimes sharply, in later periods. The accountant who flags this to the CFO before the variance becomes visible saves a difficult conversation later.

Debt Structure Needs a Second Opinion

When rates rise sharply, the existing debt schedule deserves fresh scrutiny. Not all debt is equally harmful in a high-rate environment. A fixed-rate term loan negotiated at an earlier, lower rate is a different

“ Economic uncertainty transforms accountants from bookkeepers into strategic business partners.”

proposition than a revolving credit facility priced on KIBOR plus a spread, where every State Bank announcement flows directly into next month's interest charge.

Finance teams should map the debt maturity profile alongside the interest rate exposure. Variable rate facilities coming up for renewal during a rate peak represent concentrated risk. Where covenants allow, prepayment using surplus cash reserves can reduce this exposure, the math is simple: paying down a facility costing 21 percent generates a guaranteed after-tax return that most investment alternatives cannot match in the same risk bracket.

Capital Allocation Under Pressure

When the cost of capital rises, the bar for investment automatically rises with it. A project that cleared a 15 percent hurdle rate in a low-rate environment may no

longer clear 20 percent when financing costs and opportunity costs are properly accounted for. This recalibration must happen explicitly and boards that continue approving capital expenditure at pre-rate-hike hurdle rates are inadvertently destroying value.

Finance professionals are uniquely positioned to drive this conversation. By updating the weighted average cost of capital to reflect current market rates, revised bank borrowing costs, updated equity risk premiums, and current capital structure weights, they can present the board with a recalibrated investment framework. This is not a technical exercise for its own sake; it is the foundation of rational resource allocation.

Beyond project appraisal, the question of whether to defer, phase, or cancel planned investments requires sensitivity analysis that most management teams do not run properly. A phased investment committing to the first tranche now and preserving the option on subsequent tranches may cost slightly more over the project life but preserves flexibility that has real economic value when the environment is uncertain.

Pricing Strategy Is a Finance Function

In many Pakistani companies, pricing is treated as a commercial decision made by sales and marketing, with finance brought in after the fact to calculate margins. This arrangement works reasonably well in a stable cost environment. In an inflationary one, it breaks down.

When input costs are rising monthly, finance needs a seat at the pricing table. Product-level margin analysis, broken down by cost component, allows the finance team to identify which lines are most exposed to inflationary pressure and by how much prices need to move to preserve target margins. This analysis also informs the commercial team's negotiating position: knowing the break-even price increase required gives a defensible floor from which to negotiate with customers.

Contribution margin analysis, often overlooked in favor of fully-absorbed product costing, becomes particularly valuable here. Understanding which products generate the highest contribution per unit of constrained input and whether that constraint is raw material availability, working capital, or production capacity allows management to optimise the product mix during periods when not all volume growth is equally worthwhile.

The Forecasting Imperative

Annual budgets become unreliable guides in volatile macroeconomic conditions. A budget prepared in

“

When the cost of capital rises, the bar for investment automatically rises with it.”

August against certain inflation and rate assumptions may be materially wrong by November if the State Bank moves rates or if global commodity prices shift. Finance teams that remain anchored to an outdated annual budget while the environment changes around them provide their boards with a false sense of control.

Rolling forecasts that are updated quarterly or even monthly, with a 12-to-18-month forward horizon are a more honest tool. They force regular reassessment of assumptions, surface emerging issues earlier, and

allow management to make course corrections before variances become crises. Scenario planning, running base, upside, and downside cases against plausible macroeconomic trajectories, adds another layer of preparation that boards increasingly expect from their finance functions.

From Bookkeeper to Strategist

The environments that demand the most from finance professionals are also the ones that most clearly reveal what they are capable of. When conditions are benign, competent bookkeeping and timely reporting are sufficient. When inflation runs in double digits and the cost of borrowing doubles within eighteen months, the question management asks is no longer "what happened" but "what should we do, and how quickly."

Answering that question well requires the accountant to move beyond compliance and reporting into active financial management, working capital optimization, debt restructuring, pricing analysis, investment prioritisation, and scenario-based planning. These are not new disciplines; they are established parts of the finance broadly. What has changed is the urgency of applying them.

For chartered accountants in Pakistan, this moment is both a challenge and an opening. The businesses that emerge from this cycle in better shape than their competitors will, in many cases, do so because someone in the finance seat chose to engage with the hard questions rather than simply report the difficult answers. That choice is available to every finance professional in every boardroom and the professional training to make it well is exactly what the CA qualification is designed to produce.



The writer is an Associate Chartered Accountant working as Manager, Financial Compliance, Pharmedic Laboratories



Navigating Inflation and High Interest Rates: **The Strategic Role of Accountants in Corporate Resilience**

| Sana Arshad, ACA |

For many Pakistani businesses, the most pressing question today is no longer, "How do we grow?" but rather, "How do we preserve cash and remain operational over the next twelve months?"

Over the past few years, I have witnessed management discussions in which plans for expansion were quickly overtaken by concerns about energy costs, financing arrangements and working capital requirements. In some cases, businesses that only a few years ago were debating new projects and capacity enhancements found themselves focused instead on preserving liquidity and managing borrowing costs. For many organizations, maintaining financial flexibility has itself become a strategic objective.

In such circumstances, access to capital alone is not necessarily a competitive advantage. Businesses that possess reliable financial insight are often better equipped to navigate uncertainty, allocate resources effectively and recognize opportunities that may not be immediately obvious. This represents a fundamental shift. The profession's greatest contribution today is not merely compliance, bookkeeping or reporting. Increasingly, its value lies in transforming fragmented financial data into meaningful analysis that management can use to make better decisions.

Beyond Profits: Managing Cash in an Era of Expensive Money

Pakistan's high inflation and elevated interest rate environment have forced many businesses to revisit assumptions that were once taken for granted. Projects that appear attractive on paper may still become difficult to sustain if they create excessive pressure on cash flows. Businesses that once evaluated decisions primarily on projected margins are increasingly assessing them through the lens of affordability and cash conversion.

Having worked with businesses across different sectors, I have seen companies with respectable profit margins struggle simply because cash flows could not support day-to-day operations. In many instances, the problem was not a lack of customers or even a lack of profitability. It was the inability to convert profits into cash quickly enough to meet obligations. Liquidity problems have little patience for accounting profits.

Consequently, cash flow forecasting, working capital management and scenario analysis have assumed far greater importance. Questions that management teams frequently ask today are not particularly complicated, but they are critical. What happens if financing costs rise further? How long can operations continue if collections slow down? What would be the

impact of a delayed customer payment cycle? These are not merely accounting questions. They are business questions, and the quality of the answers often determines whether management remains reactive or begins to think strategically again.

In Times of Reform, Clarity Matters More Than Compliance

Pakistan's fiscal landscape continues to evolve under the influence of IMF programs, changing tax policies and expanding documentation requirements. Compliance remains essential, but experience suggests that compliance alone rarely removes uncertainty.

What management often needs most is clarity.

A tax amendment, the withdrawal of incentives or changes in regulatory requirements seldom affect only compliance obligations. Their consequences are usually commercial. They influence pricing decisions, investment plans, financing arrangements and, in some cases, the viability of future projects.

In my experience, management teams are no longer satisfied with knowing what the law requires. Their questions are usually practical in nature. How will this affect our pricing? Should financing arrangements be reconsidered? Will the economics of future investments change? Those conversations illustrate how the accountant's role has gradually expanded beyond interpretation of laws towards interpretation of business consequences.

Indeed, some of the most valued finance professionals today are not necessarily those who know the greatest number of regulations. They are those who can explain what those regulations mean for the business. That distinction transforms accountants from record keepers into trusted advisors.

Trust Becomes More Valuable During Uncertain Times

Periods of economic uncertainty naturally increase the importance of dependable financial reporting. Strategic decisions are only as sound as the numbers on which they are based, which is perhaps why audit quality assumes significance that extends well beyond statutory requirements.

Going concern assessments, impairment evaluations and professional scepticism are sometimes viewed as technical exercises. Yet anyone who has been involved in difficult years knows that these matters become considerably more important when optimism begins

to replace objectivity. The discipline imposed by quality financial reporting and independent assurance often helps organizations confront uncomfortable realities before those realities become crises.

Reliable numbers do not guarantee success. But unreliable numbers have a remarkable ability to magnify poor decisions.

Sustainability Information is Becoming Business Information

Pakistani businesses have traditionally viewed sustainability reporting as something relevant primarily to multinationals and large listed entities. That perception is beginning to change. Investors, lenders and international customers are increasingly interested not only in financial performance, but also in the sustainability of that performance.

Questions relating to energy efficiency, supply chain resilience, governance practices and human capital are gradually finding their way into investment decisions and risk assessments. Businesses that recognize these developments early are likely to be better positioned when dealing with lenders, international customers and increasingly demanding stakeholders. Those that dismiss them as temporary reporting trends may eventually find themselves reacting rather than preparing. The issue, in my view, is not about adopting fashionable terminology. It is about understanding risks and opportunities that conventional financial statements may not immediately reveal.

The Real Promise of AI is Not More Data

Perhaps no topic has generated more discussion within the profession than artificial intelligence and digital transformation. Yet most organizations already

possess more data than they know what to do with. The future competitive advantage of businesses may not lie in possessing more data, but in converting that data into useful insight faster than competitors.

Technology is steadily reducing the time spent on routine processes, creating an opportunity for accountants to focus on what machines cannot easily replicate: professional judgement. Technology can identify patterns, but it cannot understand business context. It can generate reports, but it cannot replace professional scepticism or appreciate the commercial realities behind the numbers. Those qualities remain distinctly human, and they are likely to become even more valuable as automation becomes more widespread.

From Survival to Strategy

For many Pakistani businesses, survival has become an unavoidable priority. There is nothing unusual about that. Every economy experiences periods that demand resilience before expansion. Yet survival without direction eventually becomes stagnation.

The organizations that emerge stronger from uncertain times are not necessarily those with the largest balance sheets or the easiest access to capital. More often, they are the ones that possess the clearest understanding of their financial realities and are able to act upon that understanding with discipline and consistency. In an era defined by volatility, the accountant's greatest contribution is not confined to compliance or reporting. It is the ability to provide the clarity and insight that enable management to move from reactive decisions to strategic decisions.

Technology can produce information, but accountants transform information into intelligence.

That may well become the profession's most important responsibility in the years ahead.



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A Reckoning in the Ledger – The Profit Trap and the New Discipline of Cash

| Muhammad Hunain, FCA |

A business can be growing, profitable and still becoming weaker. That is the uncomfortable reality facing many companies in a more volatile and expensive operating environment. Sales may be rising, bank lines may still be available and the income statement may still show profit. But if cash is trapped in receivables, inventory, delayed pricing decisions and poorly governed payment terms, the balance sheet is quietly funding a business model that may no longer be financially sustainable.

Cash has always mattered. What has changed is the cost of ignoring it. Pandemic aftershocks, wars, energy volatility, trade disruption, inflation, cautious demand and tighter credit have narrowed the room for error. The operating regime has changed.

The change is most visible in the economics of delay. Slow collections are no longer a timing inconvenience; they are a financing cost. Inventory held for comfort is not merely operational prudence; it is expensive capital sitting still. Delayed repricing is not a commercial pause; it is a transfer of margin to inflation, suppliers and customers. Borrowing can still bridge the gap, but it now does so at a cost that compounds the original problem.

This is the modern profit trap: the business looks active, and may even look profitable, while financial strength quietly leaks out through receivables, inventory, pricing delays and borrowing costs. Revenue growth alone is no longer proof of performance. The companies that outperform will be those that convert profit into cash with discipline across the full working-capital cycle.

WORKING CAPITAL IS WHERE THE STRAIN APPEARS FIRST

The pressure does not appear in the same way across all businesses, but it usually enters through working capital. A manufacturer may feel it through energy costs, imported inputs and delayed customer payments. A retailer may feel it through weaker spending, discount pressure and slow-moving stock. An exporter may still have orders, but find that the working capital required to fulfil them has become harder and more expensive to finance.

The commercial settings differ, but the central question is the same: is activity converting into cash quickly enough? That question begins with receivables, moves into inventory, depends partly on supplier support and is ultimately tested by pricing discipline.



Receivables: When Growth Becomes Customer Financing

In easier conditions, loose credit can be mistaken for commercial confidence. Sales teams celebrate volume. Management sees growth. Customers remain engaged. But when borrowing is costly and liquidity is tight, long credit becomes a financing arrangement in disguise. A business waiting ninety days to collect is not merely extending goodwill; it is funding its customer while carrying the cost on its own balance sheet.

That is the real meaning of DSO. It is not just a number in a monthly report. It measures how long the company is financing customers before sales become cash. Ageing schedules should therefore be used in credit reviews, sales discussions and management meetings, not treated as routine attachments to the accounts. The harder questions are who is consuming cash, whether payment behaviour has changed, what delay is costing the business and whether the next sale to the same customer represents profitable growth or avoidable risk. Stronger onboarding, clearer credit limits, billing accuracy, dispute resolution and selective tightening of terms are not back-office matters. They are safeguards against turning revenue into unpaid financing.

Inventory: When Resilience Becomes Locked Capital

Receivables are where liquidity pressure first becomes visible. Inventory is where it often becomes embedded. Once cash has been converted into stock, management has already made a financing decision, whether or not it appears that way in the board pack. Businesses hold stock for valid reasons: supply uncertainty, import delays, price volatility and the fear

of losing customers. In a stable environment, that stock may look like operational comfort. In a volatile cost environment, it becomes capital at risk. The business carries more than products in a warehouse. It carries financing cost, obsolescence risk, pricing uncertainty and reduced flexibility. DIO should therefore be read as more than an inventory metric. It shows how long cash remains locked in stock before it can become revenue and, eventually, cash again. The objective is not to cut inventory to the lowest possible level, but to balance efficiency with resilience. Scenario-based demand forecasting, SKU rationalisation, better visibility of slow-moving stock and clearer rules for critical buffers can reduce excess without exposing the business to avoidable supply risk. The sharper issue is not how much inventory the business holds, but what quality of capital is tied up in that stock. Which items protect continuity, and which carry yesterday's assumptions?

Payables: Supplier Financing Has a Price

If inventory determines how much capital is committed before revenue is realised, payables determine how much of that commitment is temporarily supported by suppliers. That support has value, but it is not free.

Extending payment terms may improve reported cash flow, but it is not automatically value creation. The benefit of holding cash for a few extra weeks may be outweighed by supplier price increases, surcharges, lower service priority, reduced flexibility or weaker supply continuity.

DPO is useful only if it is read with judgment. It shows how long the business is using supplier credit, but not what that credit may cost in higher prices, weaker service, reduced flexibility or supply risk. Additional cash is valuable only if it is not bought at a higher hidden cost. The better approach is targeted, not blunt. Supplier terms should be segmented by category, supplier strength, strategic importance, dependency risk and market norms. The objective is not to stretch every supplier. It is to improve payables performance without damaging supplier stability.

Pricing: When Reported Margin Is Not Real Cash

Receivables, inventory and payables explain how cash moves through the business. Pricing determines whether enough cash is created in the first place.

If stock must be replaced at a higher cost, the margin reported on today's sale may not be enough to finance tomorrow's purchase. That is where the profit trap moves from the warehouse to the pricing table. A business may report acceptable margins while quietly losing the ability to replace what it has sold.

Many businesses delay price increases because customers are sensitive, competitors are aggressive and management hopes cost pressure may ease. Sometimes this is a valid commercial decision. In other cases, it is margin erosion presented as patience. If pricing remains anchored to historical cost while replacement cost has moved ahead, reported profit becomes misleading.

For pricing decisions to be credible, the discussion has to move beyond headline margin. The sharper issue is whether each sale generates enough cash to replace stock, cover financing cost and preserve contribution after freight, energy, taxes and customer-specific terms. Which products are profitable only on paper? Which customers require credit terms that absorb the margin? Which price increases are being delayed because management has not quantified the cost of waiting?

CASH GOVERNANCE: TURNING METRICS INTO DECISIONS

Working-capital discipline fails when it remains a report rather than a management routine. Receivables, inventory, payables and pricing decisions all affect cash, but they are usually owned by different teams, measured in different meetings and corrected too late.

That is why the cash conversion cycle deserves boardroom attention. It shows how external shocks become internal liquidity pressure: how quickly stock becomes sales, how quickly sales become cash, how much support suppliers provide and how much of the funding gap is being filled through costly borrowing.

But visibility is not discipline. Cash has to become part of the operating rhythm of the business, with clear ownership, agreed measures and visible follow-through.

A business that wants to manage cash seriously must decide who owns each part of the cycle. Credit terms cannot belong only to finance. Receivables cannot belong only to collections. Inventory cannot belong only to operations. Supplier payments cannot belong

only to procurement. Each process, from order to cash, procure to pay and overdue management, needs an accountable owner with authority to improve performance.

The metrics must also become practical. At the top level, management should track cash conversion cycle, working capital as a percentage of sales, return on invested capital and liquidity headroom. At the operating level, the focus should be more specific: overdue percentages, collection promises kept, payment-term exceptions, slow-moving inventory and the cash cost of commercial concessions. A discount offered for faster payment, a long credit term granted to protect a sale or a decision to hold extra stock should all carry a visible price tag. Without that price tag, the business may mistake commercial activity for value creation.

Governance also has to connect numbers to behaviour. The warehouse manager who reorders spare parts, the salesperson who accepts extended credit, the buyer who negotiates price without considering payment terms and the project team that delays invoicing are all making cash decisions. A cash culture emerges only when people understand the cash impact of their decisions and have the authority and incentives to act differently.

LIQUIDITY AS STRATEGIC CAPACITY

Liquidity is not a treasury afterthought. It is the capacity to act before conditions force the issue. It determines whether a business can absorb shocks without panic, negotiate from strength, fund growth without overextending the balance sheet and protect

critical relationships without surrendering financial discipline. In easier markets, weak cash conversion could hide behind growth. In a tighter environment, it becomes visible faster, costs more and narrows strategic choice.

The discipline is practical. Tighten credit where risk has changed. Clean up billing before collections become overdue. Hold inventory that protects service, not stock that preserves old assumptions. Use supplier terms with judgment, not as a blunt source of financing. Price products against replacement cost and cash recovery, not only reported margin.

None of these choices is painless. Tighter credit may reduce sales. Price increases may affect volume. Lower inventory may create supply risk. Longer supplier terms may improve cash today but return later through higher prices or weaker relationships. Avoiding these trade-offs does not eliminate them. It merely delays the moment when they reappear as liquidity pressure, margin erosion or reduced freedom to act.

That is the reckoning in the ledger. Profit that does not convert into cash is not strength; it is exposure. Growth that consumes liquidity faster than it creates it is not momentum; it is leverage disguised as progress. In a less forgiving environment, the decisive question is no longer whether a company can report profit, but whether it can fund the next cycle of operations without weakening the balance sheet. The future will belong to businesses that treat liquidity not as a defensive reserve, but as a source of strategic capacity. In the new discipline of cash, cash conversion is not a back-office measure. It is one of the clearest tests of management quality.



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Inflation and Pakistan's Economy: Challenges and Corporate Responses

| Bilal Ahmed, ACA |

Pakistan's economy has faced persistent challenges over the past several years. While recent indicators suggest a degree of stabilization, sustainable growth remains limited. Critics argue that some of this stability has been supported by external borrowing and administrative measures like pegging the dollar at a constant rate rather than fundamental economic reforms. Recent economic surveys and budget announcements also indicate that several government targets remain unmet despite increased

has slowed, and organizations have become more cautious in their decision-making.

The period since 2022 has been particularly difficult. Several multinational companies have scaled back or exited their operations in Pakistan, citing economic uncertainty, regulatory challenges, and policy inconsistency. The departure of international firms weakens investor confidence and discourages potential foreign investment. According to a Dawn report published in December

6.25%, and a trade deficit of around 8.5%. Although inflation has moderated from previous highs, it continues to place pressure on businesses and households. Trade imbalances and reliance on external financing remain significant economic concerns.

Taxation is another major contributor to rising costs. Businesses face corporate taxes, indirect taxes, levies, and regulatory charges that increase the cost of doing business, while individuals experience reduced purchasing power due to taxes



taxation and fiscal adjustments.

Inflation has significantly affected the corporate sector. Rising costs, shrinking profit margins, operational downsizing, and increased uncertainty have become common challenges across industries. In many cases, costs are increasing faster than revenues, forcing businesses to prioritize survival over growth. Consequently, investment activity

2025, around 25 large-scale companies exited Pakistan between 2022 and 2025. Similarly, the 2025 financial results of Packages Limited showed profit before tax of Rs. 6.3 billion, while taxes and levies amounted to Rs. 6.04 billion, highlighting the heavy tax burden faced by businesses.

Recent economic data shows GDP growth of 3.7% against a target of 4.2%, inflation of approximately

and inflation. Although governments often raise taxes to improve fiscal stability, excessive taxation can discourage investment, restrict business expansion, and weaken consumer spending. The latest economic survey reported an 11.3% increase in tax revenue, while the recent budget shifted part of the tax burden toward non-tax revenue sources such as petroleum levies. As a result, the overall financial

Rising costs, higher financing expenses, and economic uncertainty require organizations to rethink traditional approaches to planning and operations

pressure on businesses and consumers remains substantial.

The combined impact of inflation, taxation, and slow economic growth creates a difficult business environment. Lower profitability often leads to hiring freezes, workforce reductions, and delayed investment decisions, contributing to slower economic activity and higher unemployment.

Impact of Inflation on Corporate Performance

Inflation directly affects corporate financial performance, beginning with gross profit margins. Rising costs of raw materials, transportation, utilities, and logistics increase the cost of goods

sold, reducing profitability. At the same time, operating expenses such as wages, rent, and professional services continue to rise, placing additional pressure on margins.

Working capital management becomes increasingly challenging during inflationary periods. Higher replacement costs make inventory more expensive to maintain, requiring businesses to commit more cash to stock. Future inventory purchases also become costlier if inflation persists.

Many businesses rely on external financing to support operations and inventory levels. Higher borrowing requirements, combined with elevated interest rates, increase finance costs and can significantly reduce profitability and cash flow.

Ultimately, companies are often forced either to absorb higher costs or pass them on to consumers through price increases, which can further fuel inflation.

Government Efforts to Control Inflation

Monetary policy remains one of the primary tools used to control inflation. Interest rates and inflation generally have an inverse relationship. When inflation rises, central banks typically increase policy rates to reduce borrowing, moderate demand, stabilize the currency, and contain price pressures.

The State Bank of Pakistan has frequently used interest-rate adjustments as part of its inflation-control strategy. Conversely, when inflation declines and growth weakens, lower rates

can encourage investment and consumer spending.

Pakistan's economy is largely consumption-driven, with imports often exceeding exports. Consequently, periods of economic stress can quickly place pressure on foreign exchange reserves and external balances. Sustainable growth therefore requires not only inflation control but also improvements in productivity, exports, and investment.

How Businesses Can Adapt

Inflation changes the rules of business and financial management. Traditional budgeting and forecasting models become less reliable during periods of uncertainty, requiring companies to adopt more agile and data-driven approaches.

1. Protecting Margins and Revenue

Businesses can adopt strategic pricing based on customer behavior, product demand, and price sensitivity rather than implementing blanket price increases. Personalized promotions and loyalty programs can help improve customer retention and revenue generation. Companies can also use value-based packaging strategies, such as smaller pack sizes, bundled products, or premium product tiers, to preserve margins while maintaining affordability. Long-term supply agreements can reduce exposure to short-term price fluctuations, while the expansion of e-commerce can lower operating costs and improve customer convenience.

The combined impact of inflation, taxation, and slow economic growth creates a difficult business environment.

2. Strengthening Capital and Cash Flow Management

Businesses can reduce financing risks by optimizing debt structures and maintaining prudent leverage levels. Strong working-capital management, including efficient control of receivables, payables, and inventory, helps preserve liquidity and reduce borrowing requirements.

Organizations should also ensure that excess cash is deployed

productively rather than remaining idle, as inflation gradually erodes purchasing power.

3. Improving Operational Efficiency

Diversifying supply chains can reduce dependence on individual suppliers and improve resilience. Better inventory planning and demand forecasting help avoid overstocking and reduce working-capital requirements.

Investments in automation, process improvements, energy efficiency, and artificial intelligence can enhance productivity while lowering operating costs. Increasingly, organizations are using technology not only to reduce expenses but also to improve decision-making and competitiveness.

4. Diversification and Growth

Expanding into export markets allows businesses to reduce dependence on domestic demand and generate foreign-currency earnings. Similarly, outsourcing selected functions to specialized service providers can improve

efficiency and reduce costs when managed effectively.

Conclusion

Inflation presents significant challenges for businesses, governments, and consumers. Rising costs, higher financing expenses, and economic uncertainty require organizations to rethink traditional approaches to planning and operations.

Successful businesses are increasingly focusing on strategic pricing, efficient working-capital management, supply-chain resilience, technology adoption, and market diversification. These measures help protect profitability while strengthening long-term competitiveness.

The ability to respond quickly to changing costs and market conditions is essential for maintaining a competitive advantage. As inflation continues to influence business operations and supply chains, organizations that embrace adaptability, innovation, and strategic planning will be best positioned to navigate uncertainty and achieve sustainable growth.



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Navigating Inflation, High Interest Rates & Corporate Financial Strategy

| Qasim Ali Riaz , ACA |

Over the last few years, Pakistan's business environment has changed significantly. Rising inflation, record-high interest rates, exchange rate volatility, higher taxes, increasing energy costs, and global geopolitical tensions have made it difficult for businesses to plan. Although economic indicators have improved recently, uncertainty continues to influence business decisions across almost every sector.

These challenges have also changed the role of Chartered Accountants. Today, they are expected to do much more than prepare financial statements or ensure compliance. They must help management understand financial risks, improve cash flow, evaluate investment decisions, and develop strategies that support long-term business growth. In today's economy, finance professionals have become trusted advisors who help organisations move from simply surviving to planning.

Inflation: A Business Challenge Beyond Rising Prices

Inflation is the continuous increase in the general prices of goods and services over time. As prices rise, the purchasing power of money falls, meaning businesses and consumers need more money to buy the same goods and services. While moderate inflation is a normal part of economic growth, persistently high inflation creates significant challenges for businesses.

Pakistan experienced one of the highest inflationary periods in its recent history following the political and economic uncertainty of 2022. A sharp depreciation of the Pakistani Rupee, higher global oil and food prices after the Russia-Ukraine conflict, the devastating floods of 2022, supply chain disruptions, and declining foreign exchange reserves pushed inflation to almost 38% in May 2023 (Pakistan Bureau of Statistics, 2026).

To address the balance of payments crisis, Pakistan entered the IMF Stand-By Arrangement (SBA) in 2023 (IMF Press Release No. 23/261), followed by the Extended Fund Facility (EFF) in 2024 (IMF Press Release No. 24/343). These programmes required fiscal reforms, exchange rate adjustments, and energy price rationalisation. While these measures initially increased inflationary pressures, they were aimed at restoring macroeconomic stability, rebuilding foreign exchange reserves, and improving investor confidence. Together with tighter monetary policy adopted by the State Bank of Pakistan (SBP), inflation gradually started to decline.



According to the Pakistan Bureau of Statistics, annual inflation stood at 11.1% in June 2026, compared with 11.7% in May 2026 (Pakistan Bureau of Statistics, 2026). Although inflation has eased, businesses continue to face higher costs for imported raw materials, utilities, transportation, and salaries. The ongoing conflict in the Middle East also remains a concern as it continues to affect global energy prices and shipping routes. Since Pakistan relies heavily on imported fuel, any disruption in international markets can quickly increase business costs and put renewed pressure on inflation.

For many businesses, inflation is no longer just a pricing issue. It affects profitability, cash flows, financing decisions, inventory management, and future planning. As a result, Chartered Accountants need to regularly review budgets, reassess financial assumptions, monitor working capital, and provide management with timely financial information. Their role is no longer limited to reporting financial results. They help businesses understand the financial impact of changing economic conditions and make informed decisions before risks become bigger problems.

High Interest Rates and Their Impact on Business

Interest rates are one of the main tools used by central banks to control inflation and maintain economic stability. When inflation rises rapidly, central banks usually increase interest rates to reduce borrowing and spending. Lower demand helps slow inflation and supports the value of the local currency.

To control inflation, the State Bank of Pakistan increased its policy rate from 9.75% in January 2022 to 22% in June 2023, before gradually reducing it to 11.5% by June 2026 as inflation eased (State Bank of Pakistan, 2026). While these measures helped stabilise the economy, they also made borrowing significantly more expensive for businesses.

Many organisations, particularly those relying on bank financing for working capital or expansion, experienced a sharp increase in finance costs. At the same time, weaker consumer demand and higher operating costs reduced profit margins. As a result, many businesses postponed expansion plans, reviewed their financing arrangements, and focused more on preserving cash.

Although interest rates have started to decline, financing costs remain higher than those businesses were accustomed to only a few years ago. In these conditions, Chartered Accountants play an important role in helping management prepare realistic budgets, monitor cash flows, evaluate financing options, and assess whether planned investments remain financially viable. Their financial insights help organisations respond more effectively to changing economic conditions and make better strategic decisions.

Cash Flow Has Become More Important Than Profit

One of the biggest lessons from Pakistan's recent economic challenges is that profitability alone does not guarantee business sustainability. Many companies have remained profitable on paper while facing cash flow pressures due to delayed customer collections, higher inventory costs, rising energy prices, and expensive short-term financing.

Pakistan's circular debt in the power sector has added to these challenges (Pakistan Economic Survey 2024–25). Delayed payments across the energy supply chain have resulted in higher electricity tariffs



and increased operating costs for businesses, particularly energy-intensive industries. This has made cash flow management more important than ever.

Many finance teams now spend more time monitoring receivables, inventory, supplier payments, and operating cash flows than they did a few years ago. Rolling cash flow forecasts also help management identify funding requirements early, reducing reliance on costly short-term borrowing and improving financial resilience.

Strategic Budgeting in a Changing Economy

Traditional annual budgets are no longer enough in today's business environment. In Pakistan, exchange rates, inflation, energy tariffs, financing costs, and tax policies can change several times during the year. The Finance Act, 2026 is a recent example of how fiscal measures can affect business profitability and cash flows.

Chartered Accountants play an important role in helping management prepare realistic budgets, monitor cash flows, evaluate financing options, and assess whether planned investments remain financially viable.

To respond to these changes, organisations should adopt rolling forecasts and scenario planning. Rather than relying on one set of assumptions, finance teams should regularly update their forecasts as economic conditions evolve.

Chartered Accountants need to play an important role by challenging key assumptions used in the budgeting process. They need to assess whether inflation and interest rates are likely to change, whether exchange rate movements or higher energy costs could affect operations, and whether changes introduced through the Finance Act, 2026, or customs duties could impact profitability and cash flows. This enables management to respond quickly and make better business decisions.

Better Investment Decisions Through Better Analysis

Today's economic conditions require businesses to be more selective when making investment decisions. Although inflation and interest rates have started to ease, financing costs remain relatively high and

uncertainty continues to influence business confidence.

In this environment, Chartered Accountants should make greater use of techniques such as discounted cash flow analysis, sensitivity analysis, and scenario modelling. While these techniques are still developing in many organisations across Pakistan, they provide a structured way to assess investment risks and evaluate how changes in inflation, interest rates, taxation, exchange rates, and market demand may affect future returns. This helps businesses allocate capital more effectively and avoid unnecessary financial risks.

Transparent Financial Reporting Builds Trust

Economic uncertainty makes reliable financial reporting more important than ever. Investors, banks, the Securities and Exchange Commission of Pakistan (SECP), the State Bank of Pakistan (SBP), the Federal Board of Revenue (FBR), and other stakeholders rely on financial statements to assess an organisation's financial position and prospects.

Preparing financial statements now requires greater professional judgement than before. Attention should be given to expected credit loss assessments under IFRS 9, impairment reviews under IAS 36, inventory valuation under IAS 2, going concern assessments under IAS 1, fair value measurements under IFRS 13, and provisions under IAS 37. Management should also review whether current economic conditions require updates to key assumptions or additional disclosures. Auditors have an equally important role in challenging these assumptions to improve the quality and reliability of financial reporting.

The Accountant's Role Is Still Evolving

Technology is also changing the profession. Data analytics, business intelligence tools, and artificial intelligence are helping Chartered Accountants automate routine work, analyse larger volumes of financial data, and identify trends more quickly. This will allow finance teams to spend less time preparing information and more time helping management understand what the numbers mean.

For businesses in Pakistan, where economic conditions can change rapidly, this shift has become increasingly

“Pakistan's economy is gradually moving towards greater stability, supported by fiscal reforms, improving foreign exchange reserves, lower inflation, and growing investor confidence.”

important. Chartered Accountants are no longer seen only as compliance professionals. They are trusted advisors who help organisations manage uncertainty, improve financial performance, and build long-term resilience.

Conclusion

Pakistan's economy is gradually moving towards greater stability, supported by fiscal reforms, improving foreign exchange reserves, lower inflation, and growing investor confidence. However, businesses still face uncertainty and must remain prepared for future economic challenges.

As organisations move from managing short-term

pressures to planning for long-term growth, the contribution of Chartered Accountants will continue to grow. Through financial planning, budgeting, cash flow management, investment analysis, and transparent financial reporting, they help management make informed decisions in an increasingly complex business environment.

Today, the value of a Chartered Accountant is measured not only by the accuracy of the financial statements they prepare, but also by the quality of the decisions they help management make.

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Inflation, Interest Rates and Corporate Financial Strategy: From Survival to Strategic Advantage

| Amad Ahmad, ACA |

In an era of inflation and rising interest rates, strategic financial management has become essential for long-term business resilience.

In recent years, businesses across the world have operated in an environment characterized by elevated inflation, fluctuating interest rates, supply chain disruptions, geopolitical uncertainty, and changing consumer behavior. For many organizations, the immediate challenge has been survival—protecting margins, preserving liquidity, and maintaining operational continuity. However, the organizations that will thrive in the future are those that move beyond short-term responses and adopt a strategic approach to financial management.

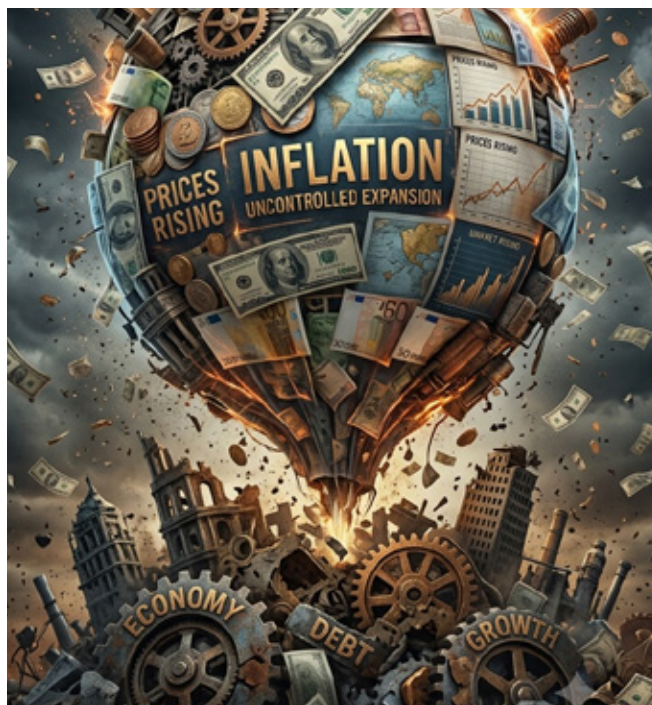
In this transition from survival to strategy, professional accountants have emerged as critical business partners. Their role now extends far beyond financial reporting and compliance. They are increasingly involved in forecasting, capital allocation, risk management, performance analysis, and strategic decision-making. In an era of inflationary pressures and higher borrowing costs, the accountant's contribution has become indispensable to long-term business resilience.

Understanding the Inflation–Interest Rate Connection

Inflation refers to a sustained increase in the general price level of goods and services. When inflation rises significantly, central banks often respond by tightening monetary policy through higher interest rates. The objective is to reduce excess demand and stabilize prices.

For businesses, this relationship creates a dual challenge. Inflation increases operating costs through higher wages, raw material prices, energy expenses, and logistics costs. At the same time, higher interest rates increase the cost of debt financing and can reduce consumer spending and investment demand.

As a result, companies may experience pressure on both profitability and cash flows. Traditional financial



assumptions that were valid during periods of low inflation and low interest rates may no longer hold. This requires management teams to revisit strategic and financial decisions with greater rigor.

The Impact on Corporate Financial Strategy

1. Liquidity Management Becomes a Strategic Priority

During periods of economic uncertainty, cash preservation becomes critical. Businesses with strong liquidity positions are generally better equipped to withstand market volatility and seize emerging opportunities.

Accountants play a key role in developing rolling cash flow forecasts, monitoring working capital efficiency, and identifying potential liquidity risks before they become critical. Enhanced visibility over cash positions

Today's accountants are no longer just financial reporters—they are strategic partners helping businesses navigate economic uncertainty.

enables management to make informed decisions regarding investments, inventory levels, and financing requirements.

Organizations should regularly review receivable collection cycles, inventory turnover, and payable management practices to optimize cash conversion and strengthen financial flexibility.

2. Financing Decisions Require Greater Discipline

Rising interest rates directly affect borrowing costs. Companies with significant variable-rate debt may experience higher finance expenses, reducing profitability and investment capacity.

Professional accountants can support management by evaluating alternative financing structures, assessing debt maturity profiles, and analyzing refinancing risks. Scenario analysis can help determine the impact of further interest rate increases on profitability, liquidity, and covenant compliance.

The objective is not merely to reduce debt but to ensure that the capital structure remains aligned with the organization's risk appetite and strategic objectives.

3. Capital Investment Decisions Need Reassessment

Higher interest rates increase the cost of capital, which affects the viability of investment projects. Projects that appeared profitable under lower discount rates may no longer generate acceptable returns.

Accountants contribute by reassessing investment appraisals using updated assumptions and realistic economic scenarios. Techniques such as Net Present Value (NPV), Internal Rate of Return (IRR), and sensitivity analysis become increasingly important in evaluating strategic investments.

Organizations that maintain disciplined capital

allocation processes are more likely to preserve shareholder value during periods of economic uncertainty.

4. Pricing Strategies Require Data-Driven Insights

One of the most challenging decisions during inflationary periods is determining how much of the increased cost can be passed on to customers.

Excessive price increases may reduce demand, while insufficient adjustments can erode margins. Accountants can support pricing decisions by analyzing product profitability, customer segments, cost structures, and market trends.

Modern management accounting techniques enable businesses to identify products, services, or customer groups that contribute most significantly to profitability, allowing management to make more informed pricing and portfolio decisions.

The Expanding Role of Professional Accountants

The evolving business landscape has transformed accountants into strategic advisors. Their value increasingly lies in their ability to convert financial data into actionable insights.

Several areas highlight this transformation:

Strategic Forecasting

Historical financial statements alone are insufficient in volatile environments. Organizations require forward-looking analysis that incorporates multiple economic scenarios.

Accountants can develop forecasting models that evaluate the financial implications of varying inflation levels, interest rate movements, exchange rate

fluctuations, and demand conditions. Such analysis helps management prepare contingency plans and improve decision-making agility.

Enterprise Risk Management

Inflation and interest rate volatility represent significant financial risks. Accountants are well positioned to identify, measure, and monitor these risks within an enterprise risk management framework. Their expertise supports the development of risk indicators, stress-testing exercises, and governance mechanisms that enhance organizational resilience.

Performance Measurement

Traditional performance measures may provide a distorted picture during inflationary periods. Revenue growth alone may not indicate genuine business improvement if it is primarily driven by higher prices rather than increased sales volumes. Accountants help management interpret performance more accurately by focusing on underlying profitability, productivity, cash generation, and value creation metrics.

Turning Challenges into Opportunities

Although inflation and higher interest rates create significant challenges, they also present opportunities for organizations willing to adapt.

Periods of economic disruption often encourage businesses to improve operational efficiency, accelerate digital transformation, optimize cost structures, and strengthen financial discipline. Organizations that invest in better financial planning

and analytics can gain competitive advantages over less prepared competitors.

Professional accountants are uniquely positioned to lead this transformation. Their understanding of financial performance, risk, governance, and strategy enables them to connect operational decisions with long-term value creation.

Conclusion

Inflation and interest rate volatility are likely to remain important considerations for businesses in the foreseeable future. In such an environment, success depends not only on responding to immediate pressures but also on building sustainable financial strategies.

The modern accountant is no longer merely a recorder of financial transactions. Instead, they serve as a strategic partner who helps organizations navigate uncertainty, allocate resources effectively, manage risk, and create long-term value.

As businesses move from survival mode to strategic growth, the role of professional accountants will continue to expand. Their ability to combine financial expertise with business insight makes them essential contributors to organizational resilience and sustainable success in an increasingly complex economic landscape.



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Inflation, Interest Rates & Corporate Financial Strategy

| Talha Khan Gimmi, ACA |

Pakistan's corporate landscape has weathered an extraordinary macroeconomic storm over the last three years. Headline inflation that touched a generational peak of nearly 38% in May 2023, a policy rate that climbed to 22%, a sliding rupee, and persistent external pressures together rewrote the rulebook for corporate finance. The volatility has not disappeared; it has become structural. After easing through 2024–25, CPI rebounded to 10.9% in April 2026 on the back of a Middle East energy shock, prompting the SBP to lift the policy rate back to 11.5%. The Federal Budget 2026–27, with its Rs 17.57 trillion outlay and Rs 7.8 trillion debt-service charge, confirms that fiscal dominance is here to stay. For Chartered Accountants in industry, this environment has redefined the job description; from custodians of the ledger to navigators of uncertainty and force multiplier for strategy.

Inflation: The Silent Erosion of Corporate Value

Inflation does not arrive uniformly across the income statement. It compresses gross margins where pricing power is weak, inflates the replacement cost of inventory, distorts depreciation charges anchored to historical cost, and quietly erodes the real value of receivables. In the oil and gas sector, where ex-refinery prices are reset fortnightly and inventory holding periods are short but volumes vast, a single adverse revision combined with rupee depreciation can wipe out months of operating margin through inventory losses. Budget 2026–27 sharpens this exposure: the Petroleum Levy target has been raised to a record ~Rs 1.7 trillion, the carbon levy on motor fuels doubled to Rs 5 per litre, and a new Federal Excise Duty of Rs 80 per litre has been imposed on solvents such as white spirit and naphtha; each flowing directly into ex-refinery prices, downstream costs and inventory valuations. The CA must therefore look beyond reported profits to economic profit; earnings adjusted for the true cost of capital and the replacement cost of assets consumed. Current-cost overlays, CPI-indexed rolling forecasts and inflation-adjusted KPIs are no longer academic exercises; they are the lenses through which the Board should view performance.

Interest Rates: Rewriting the Cost of Doing Business

If inflation is the silent thief, interest rates are the loud disruptor. When KIBOR moves from single digits to



north of 20% and back again within a two-year window, every assumption underlying a capital budgeting decision is invalidated. The SBP's recent round-trip, from 22% to 11% and back up to 11.5% in April 2026, illustrates how quickly the cost of capital can pivot. Meanwhile, FY27 debt servicing of Rs 7.8 trillion will continue to crowd out private credit and keep KIBOR sticky even as headline inflation eases. For working capital heavy businesses; OMCs, fertilizer, steel, textiles, short-term borrowing costs have, at times, exceeded operating margins. The treasury function must therefore lengthen tenors when rates are falling, exploit concessional windows such as the Export Refinance Scheme retained at 4.5%, deploy natural currency hedges, and rigorously distinguish debt that funds growth from debt that funds inefficiency. A disciplined, at least semi-annual WACC review against which every capex proposal, credit-term extension and inventory build-up is challenged is now non-negotiable.

From Survival to Strategy: Reframing the Finance Mandate

The instinctive response of many organisations during the 2022–2024 crunch was survival mode: defer capex, freeze hiring, squeeze suppliers, stretch payables.

“ In today's volatile economy, Chartered Accountants must move beyond financial stewardship to become strategic navigators of uncertainty. ”

These are legitimate tactical levers, but they are not a strategy. The CA, sitting at the intersection of data, regulation and decision-making, is uniquely positioned to lead the transition from defensive cost containment to proactive value creation. Budget 2026-27 offers tangible tailwinds to exploit: the Super Tax has been abolished across six slabs between Rs 150–500 million of income and capped at 8% above that threshold, a measurable WACC benefit for mid-sized corporates. Scenario planning must be embedded in the annual budget, not as an appendix but as the spine of the plan, with three or four explicitly modelled futures for inflation, policy rate, exchange rate and demand. Capital structure should tilt toward longer tenors, sukuk and capital-market instruments rather than over-reliance on short-term running finance. Contracts should embed price-adjustment clauses indexed to objective benchmarks, and derivative instruments deployed where permissible to hedge fuel-price and currency exposures. Above all, the Board must be given not just numbers, but options.

The Expanded Toolkit: Data, Analytics and Enterprise Risk

Strategy without data is wishful thinking. The accountant of 2026 must be comfortable with real-time dashboards, predictive analytics and integrated planning platforms that pull data from ERP, treasury, supply chain and external macro feeds. In an OMC environment, this means modelling daily inventory revaluation against international product prices and the rupee, simulating the impact of a change in KIBOR on quarterly finance costs, or

stress-testing receivables ageing against customer-segment slowdowns. Enterprise Risk Management must move out of the compliance silo and into the FP&A conversation so that financial, operational and regulatory risks are quantified, prioritised and owned. The governance dimension is equally critical: the Budget's new Climate Budget Statement, the IMF Resilience and Sustainability Facility commitments and the introduction of a Climate Support Levy give immediacy to IFRS S1 and S2 adoption, climate-related financial risk disclosure, related-party transparency and the quality of management's narratives are areas where the CA's professional judgment adds disproportionate value. ICAP's CPD framework, sectoral committees and post-qualification specialisations remain the engine that keeps the Pakistani profession relevant as the toolkit evolves.

Budget 2026-27: A Stress-Test for the Finance Function

Budget 2026-27 is, in many ways, a live stress-test for the finance function, nowhere more visibly than for the oil and gas sector, where it bundles short-term margin pressure with a long-term structural pivot. The doubling of the carbon levy on petroleum products to Rs 5 per litre, the Rs 80 per litre FED on solvents and the record Petroleum Levy target compress the conventional fuels business, even as the National Electric Vehicle (NEV) Policy 2025-30 obliges OMCs to install Level 3 fast-charging stations at their retail sites. The same policy framework, however, offers a measurable counterweight: income tax exemptions and reduced land-lease costs for charging infrastructure investors, a 45% reduction in the electricity tariff for EV charging, and customs duty and sales tax cut to 1% on EV batteries, motors and components. For an OMC, this means the fiscal arithmetic of an EV-charging rollout, historically marginal, is now materially different from a year ago. The CA must be the one quantifying that pivot, modelling the asymmetric NPV of a hybrid fuel-and-charging network, and presenting it to the Board as a natural hedge against the very carbon levies that are eroding the legacy book.

The Iran-US Détente: A Geopolitical Pivot for Pakistan

The very "Middle East energy shock" that pushed CPI back to 10.9% and forced the SBP to lift the policy rate to

“ Strategic foresight, not hindsight, will define the next generation of finance leaders.”

11.5% has, within weeks, begun to reverse and Pakistan sits unusually close to the fulcrum. On 17 June 2026 the United States and Iran signed the Islamabad Memorandum of Understanding, an interim, Pakistan-mediated accord that declares a 60-day ceasefire, reopens the Strait of Hormuz to commercial navigation and sketches a path toward sanctions relief and the resumption of Iranian oil exports. The market response was immediate: with the geopolitical risk premium evaporating, Brent retreated from a year-to-date high near \$119 approximately \$70. For an energy-importing economy, that swing eases imported inflation, widens the SBP's room to resume easing, relieves pressure on the rupee and lowers working-capital costs. Yet this is an "incomplete pause," not a peace treaty; the hardest questions are deferred to a 60-day window, and any misstep could

snap Brent back above \$100. Pakistan's emergence as mediator also carries a longer-horizon dividend in enhanced diplomatic standing and a possible reopening of the Iran-Pakistan energy corridor. The strategic CA should therefore treat the MOU not as a settled assumption but as a live scenario; building both a "détente holds, oil at \$75-85" base case and a "truce collapses, oil above \$110" stress case so that the Board is presented not with a forecast, but with options that survive whichever future arrives.

Closing Reflections

Pakistan's macroeconomic cycle will continue to test the resilience of its corporates. Inflation may moderate, the policy rate may ease further, and the rupee may stabilise but the next shock, whether geopolitical, climatic or financial, is already in motion. FY27 will be the test year: a Rs 15.26 trillion tax target, a Rs 3 trillion defence outlay, an above-target inflation outlook and a clear regulatory pivot toward green mobility. The defining question for our profession is whether we will respond to that shock as record-keepers, reporting damage after the fact, or as strategists who helped the organisation prepare for it. Chartered Accountants in industry, whether in oil sector, banking, manufacturing or services, carry a public-interest mandate that goes beyond statutory compliance. We owe it to our boards, our shareholders, our employees and ultimately to the national economy to step decisively into the strategic seat. The journey from survival to strategy is not a slogan; it is the agenda for the decade. Let us answer the call.



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IMF Programs, Fiscal Reforms & Their Accounting Implications



Pakistan IMF Programs, Fiscal Reforms and Accounting Implications

| Mashkoor Ahmed, FCA |



Pakistan's economy has historically experienced recurring balance of payment pressures, fiscal deficits, external debt challenges, and structural weaknesses in tax collection and public sector governance. To address these issues and restore macroeconomic stability, Pakistan entered into a new Extended Fund Facility (EFF) with the International Monetary Fund (IMF), accompanied by a broad agenda of fiscal, governance, energy, and structural reforms.

The IMF reform programme had entered the implementation phase during 2026, its effects are extending beyond public finance and government administration into corporate financial reporting, taxation, auditing, internal controls, and governance practices. Accountants, auditors, chief financial officers, and audit committees are increasingly required to assess how these reforms influence financial statements, business risks, compliance obligations, and strategic decision-making.

Pakistan Strategic Outlook

Pakistan is currently under the IMF's 37-month Extended Fund Facility (EFF) approved in September 2024 and supplemented by the Resilience and Sustainability Facility (RSF). The reform agenda extends through FY2026–FY2027 and focuses on fiscal consolidation, tax reforms, energy sector restructuring, governance improvements, SOE reforms, and climate-related financial disclosures.

The IMF program is gradually shifting Pakistan from a crisis-management model toward a compliance- and transparency-driven economic framework. The most significant moments during 2026 are likely to be:

- Expanded governance and internal control reporting.
- Emerging sustainability and climate-related disclosures.
- Enhanced use of technology and data analytics.
- Energy sector restructuring
- Transparency, anti-corruption measures, and institutional strengthening banks and corporates.
- Increased scrutiny by regulators including Securities and Exchange Commission of Pakistan, Federal Board of Revenue and the State Bank of Pakistan
- Higher tax compliance and documentation requirements.

These reforms are expected to increase demand for tax advisory, internal control reviews, IFRS compliance,

ESG reporting, and forensic audit services over the next three to five years.

Fiscal Consolidation and Revenue Generation

The IMF program focuses on Pakistan's fiscal consolidation through enhanced revenue generation and improved tax administration. Pakistan's tax-to-GDP ratio has historically remained below regional averages, compelling the government to broaden the tax base and reduce dependence on indirect taxation and external borrowing.

IMF-driven tax and governance reforms are reshaping financial reporting, tax accounting, audit considerations, and corporate transparency in Pakistan.

Key measures include:

- Expansion of the tax net through documentation of economic activity.
- Digitalization of tax administration and data integration.
- Rationalization of tax exemptions and concessions.
- Enhanced withholding tax enforcement.
- Provincial implementation of agricultural income taxation.
- Increased monitoring of high-net-worth individuals and under-taxed sectors.
- These reforms are expected to significantly

Sustained fiscal discipline and effective implementation of IMF-supported reforms are essential to building a more resilient, competitive, and stable Pakistani economy.

increase transparency and improve tax compliance across the corporate sector.

Accounting Implications

From a financial reporting perspective, tax reforms directly affect the recognition and measurement of current and deferred tax balances under IAS 12 – Income Taxes. The corporate companies need to:

- Reassess deferred tax assets and liabilities arising from changes in tax legislation.
- Evaluate the recoverability of deferred tax assets based on revised future taxable profits.
- Recalculate effective tax rates for budgeting and financial reporting purposes.
- Enhance disclosures relating to uncertain tax positions and tax contingencies.

Businesses previously benefiting from exemptions or preferential tax treatment may experience higher tax expenses and reduced profitability, potentially affecting earnings forecasts and valuation models.

Audit Considerations

Auditors will likely increase focus on:

- Tax compliance procedures.
- Completeness of tax provisions.
- Deferred tax computations.
- Management judgments relating to uncertain tax treatments.
- Taxation remains a significant audit risk area for the financial reporting

Energy Sector Reforms

Pakistan's energy sector continues to face substantial challenges arising from circular debt, transmission losses, inefficiencies, and subsidy burdens. IMF reforms require the government to move towards cost-reflective tariffs and reduce reliance on fiscal support for energy utilities. Electricity and Gas tariffs continue to be rationalized; businesses are likely to encounter higher operating costs.

Financial Reporting Impact

Manufacturing entities, textile exporters, cement producers, steel manufacturers, and other energy-intensive industries may experience significant increases in production costs.

Under IAS 2 – Inventories, higher utility expenses form part of production overheads and therefore influence inventory valuation and cost of sales calculations.

Where rising energy costs adversely affect expected future cash flows, impairment indicators may arise under IAS 36 – Impairment of Assets.

Going Concern Assessment

Persistent cost escalation and reduced margins may create liquidity pressures for certain sectors. Boards and management should strengthen their going concern assessments and stress-testing exercises in accordance with ISA 570 (Revised) – Going Concern. Auditors will evaluate management assumptions relating to future cash flows, financing arrangements, and operational sustainability.

State-Owned Enterprise Reforms and Governance Enhancements

State-owned enterprises (SOEs) have historically imposed a significant fiscal burden on Pakistan's economy through recurring losses, debt accumulation, and governance deficiencies. The IMF program seeks to improve transparency,

accountability, and operational efficiency within public sector entities through:

- Enhanced corporate governance structures.
- Financial restructuring.
- Privatization initiatives.
- Strengthened oversight mechanisms.
- Improved financial reporting standards.

Accounting Implications

SOEs and public sector entities may be required to recognize previously undisclosed liabilities, reassess asset valuations, and implement more robust impairment testing procedures. Areas likely to receive increased scrutiny include:

- Fair value measurement.
- Contingent liabilities.
- Employee benefit obligations.
- Asset recoverability assessments.
- Related party transactions.

Improved governance standards are expected to result in more transparent financial statements and stronger accountability frameworks.

Public Sector Pension and Liability Reforms

Pakistan's growing pension obligations have become a significant fiscal concern. Reform initiatives increasingly focus on long-term sustainability of pension commitments and public sector employee benefits.

Impact on Financial Reporting

Entities operating defined benefit schemes must ensure compliance with IAS 19 – Employee Benefits. This may require:

- Updated actuarial valuations.
- Revised assumptions regarding inflation and salary growth.
- Reassessment of discount rates.
- Recognition of actuarial gains and losses through other comprehensive income.

As interest rates fluctuate and economic conditions evolve, pension liabilities may experience considerable volatility, requiring careful monitoring by management and auditors.

Strengthening Governance and Internal Controls

IMF program supported reforms for the enhancement of governance, anti-corruption measures, and institutional accountability. Organizations are increasingly expected to maintain effective internal control systems that support reliable financial reporting and compliance with applicable laws and regulations.

The areas of focus for corporate strengthening are

- Segregation of duties.
- Procurement controls.
- Authorization procedures.
- Related party transaction monitoring.
- Whistleblowing mechanisms.
- Fraud prevention frameworks.

From the auditors, these developments increase the importance of risk assessment procedures under ISA 315 and fraud-related considerations under ISA 240.

Sustainability and Climate-Related Reporting

Under IMF's Resilience and Sustainability program, Pakistan has committed to promote climate resilience, sustainable investment, and environmental governance. The sustainability reporting remains an evolving area, global investor expectations and regulatory developments increasingly require organizations to disclose climate-related risks and opportunities.

The emerging reporting requirements to evaluate:

- Climate-related financial risks.
- Environmental obligations and provisions.
- Carbon reduction initiatives.
- Physical and transition risks affecting operations.
- Sustainability-related governance structures.

The adoption of IFRS Sustainability Disclosure Standards (IFRS S1 and IFRS S2) is expected to gain momentum over the coming years. Organizations that begin preparing early for sustainability reporting requirements will likely be better positioned to meet future regulatory and stakeholder expectations.

Implications for Auditors

IMF reform program emphasizes economic stabilization; to support improved financial discipline, transparency, and governance. For accounting professionals, the reforms create new responsibilities in areas such as:

- Tax planning and compliance.
- Financial reporting.
- Internal controls.
- Risk management.

- Sustainability reporting.
- Corporate governance advisory services.

The auditors need more emphasis on:

- Tax risk assessments.
- Going concern evaluations.
- Fraud risk considerations.
- Internal control reviews.
- Regulatory compliance testing.
- ESG and sustainability assurance services.

The demand for professional accounting services is expected to increase as businesses adapt to a more transparent and compliance-driven operating environment.

Future Outlook for Pakistan: Challenges, Opportunities and the Road Ahead

The success of the current IMF-supported reform programme will largely determine whether the country can transition from recurring economic crises to a path of sustainable and inclusive growth. While significant challenges remain, the reforms underway have the potential to fundamentally reshape Pakistan's fiscal framework, business environment, and investment landscape over the coming decade.

Economic Stability and Fiscal Discipline

The immediate objective of the reform programme is to restore macroeconomic stability through fiscal consolidation, improved revenue collection, and prudent debt management. If consistently implemented, these measures can gradually reduce budget deficits, stabilize foreign exchange reserves, and improve Pakistan's sovereign credit profile.

A sustained increase in the tax-to-GDP ratio would enable the government to invest more effectively in infrastructure, education, healthcare, and social protection while reducing reliance on external borrowing. Fiscal discipline is expected to become a permanent feature of economic management rather than a temporary condition linked to IMF programs.

Improving Investor Confidence

Domestic and foreign investors closely monitor economic stability, policy consistency, and governance standards before committing long-term capital. Improvements in taxation, public sector governance, regulatory

transparency, and financial reporting standards could enhance Pakistan's attractiveness as an investment destination. Strategic sectors such as information technology, renewable energy, financial services, logistics, mining, and export-oriented manufacturing may benefit substantially from a more stable economic environment.

Digital Economy and Documentation

The transition towards a documented and digitally integrated economy is likely to accelerate. The increasing use of digital payments, electronic invoicing, integrated tax databases, and automated regulatory reporting will improve transparency and reduce opportunities for tax evasion and informal economic activity. This requires stronger accounting systems, improved record keeping, and enhanced compliance capabilities. Organizations that invest early in digital transformation, enterprise resource planning (ERP) systems, and data analytics will gain a competitive advantage.

Energy Sector Transformation

The long-term sustainability of Pakistan's economy depends significantly on resolving structural weaknesses within the energy sector. Reforms aimed at reducing circular debt, improving operational efficiency, and encouraging private sector participation are expected to continue. The growing investment in renewable energy, solar power, wind projects, and climate-resilient infrastructure may create new opportunities for both domestic and international investors. A reliable and financially sustainable energy sector would improve industrial competitiveness and support economic growth.

Climate Finance and Green Investment

Pakistan remains among the countries most vulnerable to climate-related risks. Future economic policy is therefore expected to increasingly incorporate sustainability, environmental protection, and climate resilience considerations. International climate finance, carbon markets, green bonds, and sustainability-linked investments may emerge as important sources of capital. Businesses will likely face growing expectations regarding environmental, social, and governance (ESG) performance and sustainability reporting.

Key Risks to the Outlook

Several risks could affect the pace and success of reforms, including:

- Political instability and policy reversals.
- External financing pressures.
- Geopolitical developments.
- Inflationary pressures and social resistance to reforms.
- Delays in privatization and public sector restructuring.
- Climate-related disasters and environmental shocks.

Implications for Pakistani Chartered Accountants & Auditors

Area	Accounting Impact	Audit Impact
Tax reforms	Deferred tax, tax provisions	Tax compliance testing
GST expansion	Revenue recognition and indirect tax accounting	Regulatory compliance
Energy reforms	Cost accounting, impairment	Going concern assessments
SOE reforms	Fair value and liability recognition	Governance audits
Pension reforms	Internal control enhancement	Fraud risk assessment
Climate reforms	Sustainability reporting	ESG assurance readiness

Conclusion

Pakistan's long-term outlook remains cautiously optimistic. The country possesses significant strengths, including a large and youthful population, strategic geographic location, expanding digital economy, entrepreneurial private sector, and substantial natural resources.

The IMF Program is a critical component of Pakistan's economic stabilization strategy. It aims to restore fiscal and external sector sustainability through structural reforms, improved tax administration, prudent monetary policies, and energy sector restructuring. Successful implementation of the programme is expected to strengthen investor confidence, improve foreign exchange reserves, and support sustainable economic growth.

Pakistan's economy needs continued fiscal discipline and adherence to reform commitments, which may involve short-term economic adjustments, including higher taxation and rationalization of subsidies. In the long run, effective execution of the IMF-supported reforms can enhance Pakistan's macroeconomic stability, improve governance, and create a more resilient and competitive economy.



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IMF Programs, Fiscal Reforms and Their Accounting Implications

| Abdul Aziz Lang, FCA |

For decades, Pakistan's economy has moved in a familiar and punishing rhythm — periods of fragile stabilization giving way to fiscal stress, external financing crises, and structural imbalances that successive governments have struggled to durably resolve. Pakistan has entered into 23 IMF programs since 1958 — among the highest frequencies globally — with the most recent being the 2023 Stand-By Arrangement and the 2024–2027 Extended Fund Facility (EFF), carrying a commitment of approximately USD 7 billion. Pakistan's tax-to-GDP ratio of 9.5–11%, compared to an Asia-Pacific average of 19.5% and the World Bank benchmark of 15%, underscores the structural revenue challenge that underpins these successive reform cycles.

While public debate around IMF programs frequently focuses on taxation, inflation, and economic growth, a less discussed but equally important dimension is their direct impact on businesses and the accounting profession. Today, accountants are increasingly expected to act as strategic advisors who help organizations navigate policy changes, manage risks, and identify opportunities in a rapidly evolving economic landscape.

Understanding the Reform Landscape

IMF-supported reform programs generally focus on restoring macroeconomic stability through measures such as increasing tax revenues, reducing fiscal deficits, rationalizing subsidies, improving public sector governance, and enhancing transparency. Recent reforms in Pakistan have included:

- Expansion of the tax base and reduction of exemptions.
- Greater digitization of tax administration.
- Enhanced documentation of economic activity.
- Strengthening of financial reporting and governance frameworks.
- Increased focus on anti-money laundering and transparency requirements.

The Finance Acts of recent years have progressively withdrawn longstanding tax exemptions, introduced a super tax of up to 10% on large corporations, expanded the scope of advance tax provisions, and tightened transfer pricing regulations. For the accounting profession, each of these changes triggers a cascade of technical consequences — from recalculating deferred tax balances to revising effective tax rate

disclosures and revisiting intercompany pricing arrangements. The sheer pace of regulatory change has made it increasingly difficult for finance teams to maintain compliance while simultaneously supporting strategic decision-making.

The Direct Impact on Financial Reporting

Fiscal reforms often have significant implications and businesses may need to reassess assumptions used in impairment testing, provisioning, and valuation models. Several specific accounting standards are particularly implicated in the current reform environment.



IAS 12 (Income Taxes):

Changes in corporate tax rates and the introduction of the super tax require businesses to reassess the carrying value of deferred tax assets and liabilities. Finance teams face significant complexity in determining whether the Super Tax represents a permanent or temporary component of the rate structure, directly impacting earnings if write-downs are required.

Today's Chartered Accountants must move beyond compliance to become trusted strategic advisors

IAS 36 (Impairment of Assets):

The sustained rise in energy tariffs and input costs resulting from the removal of subsidies under IMF conditionalities directly affects the discount rates and cash flow assumptions used in impairment testing. Assets previously considered fully recoverable may now require impairment provisions as underlying economics deteriorate.

IAS 21 (The Effects of Changes in Foreign Exchange Rates):

The significant depreciation of the Pakistani Rupee has made the translation of foreign currency monetary items and the disclosure of currency risk far more complex and material. For businesses with foreign currency borrowings, supply contracts, or export revenues, IAS 21 compliance has moved from a routine exercise to a high-stakes judgment area.

IFRS 9 (Financial Instruments):

Rising interest rates and credit tightening require that Expected Credit Loss (ECL) models for trade receivables be updated. Finance teams must now incorporate forward-looking macroeconomic variables—such as inflation projections and SBP discount rates—rather than relying solely on historical default patterns.

Beyond IFRS compliance, the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP) have progressively enhanced their reporting and disclosure requirements in alignment with IMF governance conditionalities. Accountants must remain abreast of these evolving regulatory frameworks in addition to their international accounting obligations.

From Compliance Officer to Strategic Advisor

It is important to acknowledge that in a large proportion of Pakistani organizations — particularly in the SME sector — the finance function continues to operate primarily as a back-office compliance unit, focused on tax filings and year-end reporting rather than forward-looking analysis. This is not merely a resource constraint; it reflects a deeper cultural norm in which senior management has not historically demanded proactive financial insight. Closing this gap requires both an organizational mindset shift and a deliberate effort by the profession — led by ICAP — to redefine what competent financial leadership looks like in the current environment.

Chartered Accountants are uniquely positioned to provide the strategic insight management urgently needs. They understand both the financial implications of policy changes and the operational realities of businesses — making them natural partners in capital allocation decisions, pricing strategy, cost optimization, investment evaluation, and risk management.

Public Financial Management and Government Accounting Reforms

A substantial portion of IMF reform conditionalities directly targets public financial management, a dimension that is often overlooked in professional discourse. Pakistan's commitments under successive programs have included strengthening budget execution controls, improving fiscal transparency, and progressing toward the adoption of accrual-based accounting standards.

The Pakistan Integrated Financial Management Information System (PIFRA) has been instrumental in modernizing government accounting infrastructure, though its full potential remains unrealized across all tiers of government. The gradual move toward International Public Sector Accounting Standards (IPSAS) represents a significant long-term shift in how public sector financial performance and position are measured and reported. Chartered Accountants serving in government entities, regulatory bodies, or public sector enterprises have a critical role to play in this transition — their contribution to public financial management reform is no less important than their work in the private sector.

Chartered Accountants, equipped with technical expertise across IFRS, taxation, governance, and technology, are uniquely positioned to guide organizations through this complexity.

Technology, Digitization and the Accounting Function

FBR's digitization agenda has materially changed the compliance environment. The IRIS portal, mandatory Point of Sale integration, the Track and Trace system, and the push toward electronic invoicing are reshaping how businesses manage their tax obligations. Organizations that lack integrated and responsive financial systems are increasingly exposed to penalties, reconciliation failures, and audit risk as FBR's analytical capabilities improve.

The practical challenge for many businesses is bridging the gap between FBR's digital reporting requirements and their existing ERP or accounting systems. Accountants with ERP proficiency are therefore exceptionally valuable — able to evaluate system configurations, identify data gaps, and design processes that ensure both regulatory compliance and management reporting integrity. As financial data becomes more digitized, internal audit functions must also develop sufficient technological literacy to assess the growing risks of cyber fraud and data integrity failures.

Conclusion

Pakistan's IMF-supported fiscal reforms present significant and layered challenges for businesses — challenges that manifest directly in financial statements, compliance obligations, governance requirements, and strategic decision-making. The accounting implications of these reforms are neither peripheral nor administrative; they sit at the heart of how organizations understand their financial position, communicate with stakeholders, and plan for an uncertain future.

Chartered Accountants, equipped with technical expertise across IFRS, taxation, governance, and technology, are uniquely positioned to guide organizations through this complexity. The profession's value in this environment will be determined not by its ability to record change after the fact, but by its capacity to anticipate, interpret, and respond to reform in real time. As ICAP continues to evolve its competency frameworks, it must ensure its members are equipped not merely to comply with the economic changes unfolding around them — but to lead the organizational response to those changes at every level.



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Accounting in an Age of Austerity: Strategic Responses to IMF Programs and Fiscal Reforms in Pakistan

| Abid Raza, ACA |

Section 1 – Macroeconomic Reality: A Fragile and Unpredictable Landscape

Pakistan's economy suffers from extreme volatility. Inflation rebounded to 10.9% (April 2026), while the policy rate was raised to 13% after falling from a peak of 22%. The PKR is effectively stable at 278–279/USD, but medium term depreciation toward 285–290 is expected. The current account deficit reached \$1.17 billion in H1 FY2026, and the IMF's \$7 billion EFF enforces a 2% primary surplus — leaving zero fiscal space (IMF Article IV, 2025).

Policy uncertainty is chronic. Solarization was encouraged with net metering, then feared, now reversed (NEPRA, 2025). Letters of Credit are informally restricted — importers face 100% cash margins, arbitrary delays. Energy prices have risen disproportionately; industrial tariffs exceed 25 cents/kWh vs. 8–12 cents regionally (World Bank, 2025). Pakistan has shifted from a manufacturing and agriculture-based economy to a more import-based economy, driving perpetual deficits.

Tax system inverted: minimum tax, fixed tax, final tax, extensive WHT (FBR, 2025). FBR rarely issues refunds — sales tax refunds delayed years. The undocumented cash economy (50–60% of GDP) undermines planning. Dividend repatriation delayed by exchange controls. Government borrowing crowds out private credit — banks prefer risk free 13%+ T bills. Informal costs (bribery) add unquantified burden.

The cumulative outcome: Pakistani businesses are becoming price uncompetitive regionally. A Bangladeshi textile manufacturer pays 12 cents/kWh, Vietnam 10 cents, China 8 cents — Pakistan pays 25+ cents. Add 100% LC margins (vs. 10–25% regionally), irrecoverable WHT (4–5% extra cost), FBR refunds that never materialize, bribe costs, and unreliable credit. Result: a cost disadvantage of 30–40% before production begins. Exports stagnate below \$32 billion while Bangladesh crossed \$55 billion and Vietnam \$370 billion. Accountants must benchmark costs regionally and advise structural fixes. Finally, inflation is supply driven (energy, currency, LC shortages) — yet central bank uses rate hikes, punishing productive sectors.

The Costing & Pricing Paradox: How to Price What You Cannot Cost: Traditional costing assumes predictable inputs. In Pakistan today, no key variable is predictable:

In today's Pakistan, uncertainty has become a permanent business cost, making strategic financial planning more critical than ever.

raw material landed cost is distorted by LC delays, 100% cash margins, and exchange volatility; energy cost changes with monthly tariff hikes and surcharges; labor cost rises unpredictably from inflation driven wage demands; financing cost shifts every six weeks; tax/WHT includes minimum tax and zero refunds; informal costs (bribes) are unpredictable; and time to market is unknown due to customs and LC delays. You cannot produce a deterministic cost per unit — and therefore cannot produce a single price or reliable investment appraisal.

Strategic response – The CFO's mandate:

1. Range costing & dynamic pricing – Mandate cost ranges (min/expected/max) for every product using scenario assumptions (exchange 280/290/300; energy 20/25/30 cents). Price to the upper quartile and embed automatic escalation clauses in all contracts indexed to SBP rate, CPI, or energy tariffs. Review pricing monthly, not annually.
2. Contingency-first costing – Add a mandatory 20% "environmental risk premium" to all cost estimates, reviewed quarterly. Present boards with a cost confidence interval (e.g., "90% probability that unit cost will be between X and Y"), not a single number.
3. Investment appraisal under deep uncertainty – Abandon single point NPV. Replace with breakeven sensitivity dashboards showing: "At exchange 300 and interest 16%, project still generates 8% margin." Accept only projects that survive plausible worst case scenarios.
4. Real options as standard practice – Treat every investment as a series of small, reversible bets. Standardize lease over buy, outsource non core functions, and deploy cloud ERP for operational agility.

Section 2 – Capital Structure & Financing: Escaping the Crowd Out Trap: Debt is expensive, and banks lend to government, not to you. After tax cost of debt remains double digits. Equity markets are depressed. Waiting for improvement is not a strategy.

Strategic response – Capital resilience:

- Lead negotiations with banks – Use documented status and export receivables as collateral to reduce cash margins from 100% to 50%. Form industry working groups to petition SBP for separate private sector credit quotas.
- Pursue non-bank financing aggressively – Tap leasing companies, modaraba, private debt funds, and development finance institutions (Pak Kuwait, Chinese EXIM, DFID). Present CFOs with a financing matrix comparing cost, tenor, and collateral requirements of at least five alternatives.
- Islamic financing as a fixed cost hedge – Structure Murabaha and Ijarah contracts with predetermined profit rates to eliminate interest rate risk. Convert at least 30% of debt portfolio to Islamic instruments within 12 months.
- Build a policy risk premium (200 300 bps) into WACC – Explicitly present this premium to boards as “Pakistan Environmental Risk Adjustment” to justify higher hurdle rates and avoid value destroying projects.

Section 3 – Working Capital Management: Turning Crisis into Discipline: LC restrictions, refund delays, and informal costs have destroyed traditional working capital models. The old playbook fails.

Strategic response – Working capital warfare:

- Establish an LC War Room – Monitor daily bank LC acceptance rates, cash margin requirements, and

processing delays. Maintain three scenarios (best/base/worst) with specific action triggers. Increase cash buffers permanently to 20% above historical averages.

- Assume zero refund realization from FBR – Treat sales tax refunds as irrecoverable in all cash forecasts. Build refund recovery into pricing (pass cost to customer) or negotiate supplier payment terms that mirror expected refund delays.
- Corruption contingency (10%) – Add a line item for “facilitation costs” in project budgets for customs, LCs, and utility connections. Digitize wherever possible to reduce human interface.
- Dynamic discounting with suppliers – Offer 2 3% discount for early payment in exchange for extending payable days from 30 to 90. Target a 30% reduction in cash conversion cycle within six months.

Section 4 – Investment & Growth Decisions: Real Options Over Fantasy NPV: High discount rates, policy flip flops, and unreliable credit make traditional capital budgeting a

fantasy.

Strategic response – Strategic agility:

- Replace NPV with scenario sensitivity matrices – For every proposed project, present a 3×3 matrix (interest: 12/14/16%; exchange: 280/290/300). Red flag any project that fails in two or more cells. Get board sign off on worst case assumptions.
- Mandate real options analysis – Treat all capacity expansion as staged options. Lease equipment with purchase options. Pilot new products in small batches. Use cloud ERP to scale down as easily as up.
- Prioritize short payback, low regulatory projects – Target payback periods under 18 months. Avoid projects requiring multiple government approvals

When costs cannot be predicted with confidence, pricing can no longer rely on certainty—it must be built on adaptability

or foreign exchange guarantees. Shift product mix toward less price sensitive goods (e.g., specialty chemicals over commodities).

Section 5 – The Strategic Accountant: Leading the Turnaround: The compliance only accountant is obsolete. Today's finance leader must be a scenario planner, risk communicator, transparency advocate, and competitiveness champion.

Five transformative actions for ICAP members:

1. Institutionalize rolling forecasts – Move the entire organization from annual budgets to 12 month rolling forecasts updated monthly. Train department heads in scenario planning.
2. Create a Policy Risk Dashboard – Track 12 risks (see table below) with status, trend, and mitigation. Present at every board meeting. Make risk transparency your signature contribution.
3. Lead regional competitiveness benchmarking – Quarterly compare your product costs against Bangladesh, Vietnam, and China. Present the gap to CEO and government trade bodies. Advocate for policy changes through ICAP.
4. Drive documentation and digital payments – Set a target: reduce cash transactions by 50% in two years. Use POS, banking apps, and invoice factoring to bring informal activity into formal books. This is not compliance – it is competitive advantage.
5. Engage FBR and SBP systematically – File formal representations on refund delays, LC restrictions, and repatriation hurdles. Use ICAP's collective voice. Accountants who do not advocate become victims.

Key Risks Dashboard (board ready):

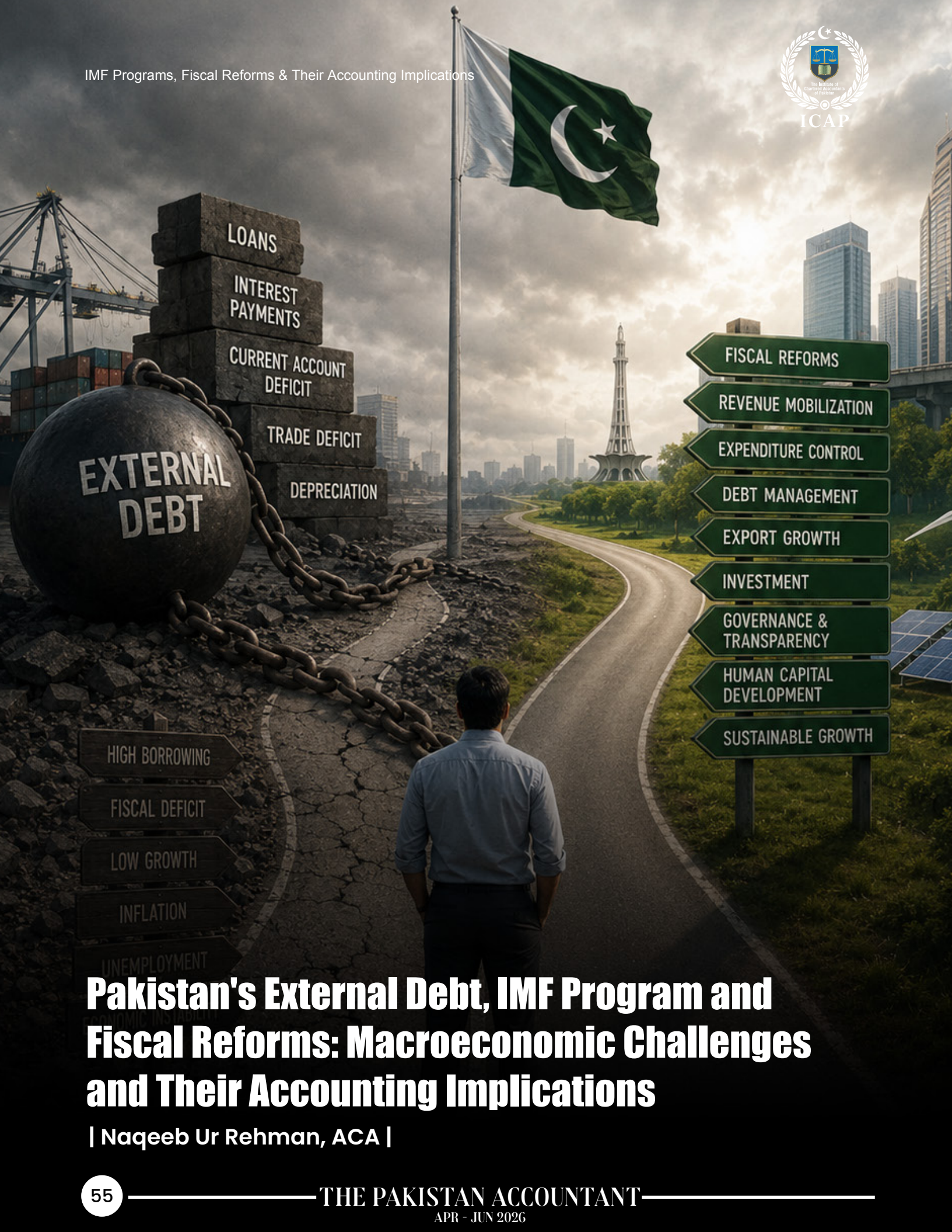
Risk	Mitigation – Lead Action
Interest rate	Convert 30% debt to Islamic fixed rate
LC availability	LC War Room; 20% cash buffer
Energy tariff	Captive power + efficiency audit
Tax inversion/WHT	Pass through pricing clause
FBR refund Non Issuance	Assume zero recovery; price it in
Cash economy	Drive digital payments; offer discounts for documentation
Policy flip flop	Real options; lease not buy
Dividend repatriation	Reinvest locally; negotiate advance approval
Govt crowding out	Non bank financing mandate
Informal costs	10% contingency; digitize interfaces
Costing uncertainty	Range costing + escalation clauses
Regional price gap	Benchmark quarterly; shift product mix

Conclusion:

Survival is not enough. The Pakistani accountant must now lead the transition from reactive compliance to strategic navigation. The tools exist. The mandate is clear. The time to act is now.



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Pakistan's External Debt, IMF Program and Fiscal Reforms: Macroeconomic Challenges and Their Accounting Implications

| Naqeeb Ur Rehman, ACA |

According to the Economic Survey of Pakistan, the country's external debt reached USD 92.2 billion as of March 2026, reflecting an increase of USD 364 million during the first nine months of FY2026. The rate of debt accumulation remained lower compared to the previous fiscal year.

The federal government's external debt stood at USD 82.26 billion, of which USD 9.89 billion (approximately 11%) was owed to the International Monetary Fund (IMF). Long-term external debt amounted to USD 68.41 billion, while short-term liabilities were recorded at USD 13.85 billion, indicating the government's ongoing strategy to reduce reliance on costly short-term borrowing in favor of longer-term financing.

Multilateral lenders, including the World Bank and Asian Development Bank, accounted for USD 42.48 billion (46%) of the total external debt stock. Debt owed to Paris Club creditors increased to USD 5.49 billion, representing nearly 6% of the total, while bilateral loans from non-Paris Club countries exceeded USD 19 billion.

Additionally, outstanding Eurobonds and international Sukuk totaled USD 6.3 billion, and borrowing from foreign commercial banks reached USD 6.32 billion.

The International Monetary Fund's Pakistan country page listed Pakistan's outstanding IMF purchases and loans at 7.14 billion Special Drawing Rights as of March 31, 2026.

Glimpse of International Monetary Fund's Pakistan Country page:

2026 Projected Real GDP (% Change): **3.6**
 2026 Projected Consumer Prices (% Change): **7.2**
 Country Population: **245.117 million**
 Date of Membership: **July 11, 1950**
 Article IV/Country Report: **October 10, 2024**
 Outstanding Purchases and Loans (SDR): **7138.08 million (March 31, 2026)**
 Special Drawing Rights (SDR): **87.54 million**
 Quota (SDR): **2031.0 million**
 Number of Arrangements since membership: **25**

Pakistan History with IMF

Pakistan has maintained a longstanding institutional relationship with the International Monetary Fund

(IMF), periodically seeking financial assistance and policy support to address recurring macroeconomic and fiscal challenges.

Pakistan became a member of the IMF on 11 July 1950, shortly after attaining independence in 1947. The country's early engagement with the IMF was driven by the economic and fiscal pressures that emerged following the partition of British India. Since joining the IMF, Pakistan has entered into 25 financial assistance arrangements with the institution. The first such arrangement, a Stand-By Arrangement (SBA), was approved in 1958 and provided financial support of US\$25 million to help stabilize the country's economy.

IMF ENGAGEMENTS

Over the years, Pakistan's engagement with the International Monetary Fund (IMF) has encompassed a range of financing arrangements, including Stand-By Arrangements (SBAs), Extended Fund Facilities (EFFs), Structural Adjustment Programs (SAPs), and concessional lending facilities. These programs have been utilized to address both immediate balance-of-payments pressures and longer-term structural and fiscal challenges.

NATURE OF IMF ASSISTANCE

The International Monetary Fund (IMF) extends financial assistance to Pakistan through various lending arrangements that are generally accompanied by policy conditionalities aimed at promoting macroeconomic stability and sustainable economic growth. These conditions typically include measures related to fiscal consolidation, monetary policy adjustments, and structural reforms.

Stand-By Arrangements (SBAs) are primarily intended to provide short- to medium-term support for addressing balance-of-payments difficulties, whereas Extended Fund Facilities (EFFs) offer medium-term financing designed to address deeper structural economic challenges and are typically subject to more comprehensive policy commitments. In addition, concessional financing mechanisms, such as the Structural Adjustment Facility (SAF), provide funding on more favorable terms, including lower interest rates and extended repayment periods, thereby easing the financial burden on the recipient country.

IMF financing is generally denominated in Special Drawing Rights (SDRs), the Fund's international reserve asset, whose value is determined based on a basket of major global currencies.

RECENT DEVELOPMENT: IMF Press Release No. 26/147

The IMF Executive Board completed the third review of the Extended Arrangement under the Extended Fund Facility (EFF) and the second review of the arrangement under the Resilience and Sustainability Facility (RSF), allowing the authorities to draw the equivalent of about US\$1.1 billion and about US\$220 million, respectively. This brings total disbursements under the two arrangements to about \$4.8 billion (SDR 3,348 billion).

Pakistan's 37-month EFF arrangement was approved on September 25, 2024, and aims to build resilience and enable sustainable growth. Key priorities include (i) entrenching macroeconomic stability through consistent implementation of sound macro policies, including rebuilding international reserve buffers and broadening the tax base; (ii) advancing reforms to strengthen competition and raise productivity and competitiveness; and (iii) reforming SOEs and improving public service provision, developing human and physical capital by expanding health, education, and social protection spending, restoring energy sector viability, and intensifying anti-corruption efforts.

Pakistan's policy efforts under the EFF arrangement have delivered significant progress in stabilizing the economy and rebuilding confidence amid a challenging global environment, including the ongoing Middle East war. Fiscal performance has been strong, with a primary surplus of 1.6 percent of GDP expected to be achieved in FY26, in line with targets. Inflation has increased as higher global commodity prices have passed through to domestic energy prices. Gross reserves stood at \$16 billion at end-December, up from \$14.5 billion at end-June 2025, and are projected to

continue to be rebuilt in the next year and over the medium term. The 28-month RSF arrangement was approved on May 9, 2025, and is supporting the authorities' efforts to reduce vulnerabilities to natural disasters and to build economic and climate resilience. The authorities' reforms prioritize: (i) building resilience to natural disasters and strengthening public investment processes at all levels of government; (ii) making scarce water resource usage more efficient, including through better pricing; (iii) strengthening federal-provincial coordination of natural disaster response; (iv) improving the information architecture for, and disclosure of, climate-related risks by banks and corporates; and (v) supporting Pakistan's efforts to meet its mitigation commitments and reduce related macro-critical risks.

ECONOMIC IMPLICATIONS

Pakistan's repeated reliance on the IMF highlights persistent structural vulnerabilities, including fiscal deficits, balance of payments pressures, and external shocks. While IMF programs provide critical financial support and policy guidance, Pakistan remains one of the largest IMF debtors, and the economy has struggled to achieve sustained growth compared to other South Asian nations. The relationship underscores the IMF's role in stabilizing Pakistan's economy while promoting reforms aimed at long-term fiscal and structural resilience.

SUMMARY

In summary, Pakistan's relationship with the IMF is long-standing, multifaceted, and ongoing, combining financial assistance with policy oversight to address recurring economic challenges and promote structural reforms.



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BREAKING THE IMF CYCLE: A ROADMAP FOR SUSTAINABLE GROWTH

SUSTAINABLE
DEVELOPMENT
GOALS

FINANCIAL
INSTABILITY



ROADMAP FOR
SUSTAINABLE GROWTH

1. ECONOMIC REFORM
2. LOCAL INVESTMENT
3. DEBT RESTRUCTURING
4. SELF-SUFFICIENCY
4. SELF-SUFFICIENCY



ECONOMIC
STABILITY

Breaking the IMF Cycle: A Roadmap for Sustainable Growth

| Majid Ali, ACA |

From Survival to Strategy: The Critical Role of Accountants in IMF-Driven Economic Reforms

Pakistan's relationship with the International Monetary Fund (IMF) has often been described as a recurring cycle of crisis and rescue. Since becoming a member of the IMF in 1950, Pakistan has entered into more than twenty IMF programs, making it one of the largest users of IMF assistance in South Asia. In comparison, Bangladesh, Sri Lanka, and India have participated in approximately 12, 16, and 7 IMF programs, respectively.

The IMF operates as a global financial institution owned by its 191 member countries, which act as shareholders. It raises capital primarily through member contributions and supplementary borrowing arrangements and provides financial support to countries facing balance-of-payments difficulties.

Today, the debate should move beyond whether Pakistan should engage with the IMF. The more relevant question is: How can accountants, finance professionals, and policymakers transform IMF-driven reforms from a survival mechanism into a strategy for sustainable economic growth?



Pakistan's Debt Landscape

As of the end of FY2025, Pakistan's total public debt stood at approximately Rs. 80.5 trillion, representing nearly 70% of GDP.

- Domestic Debt: Rs. 54.5 trillion (68% of total debt portfolio)
- External Debt: Rs. 26.0 trillion (approximately US\$91.8 billion), representing 32% of total debt portfolio.
- Outstanding IMF Credit: Approximately US\$8.2 billion, equivalent to nearly Rs. 2.3 trillion.

The challenge, however, is not merely the size of the debt but its servicing cost. For FY2025-26, debt servicing alone is expected to consume approximately Rs. 8.2 trillion, representing nearly half of the federal government's current expenditures. Every rupee allocated to debt repayment is a rupee unavailable for education, healthcare, infrastructure development, climate resilience, and social welfare.

Importantly, IMF loans are sovereign loans and do not require Pakistan to pledge land, ports, or state institutions as collateral. Instead, the IMF provides financial support in exchange for economic reforms

aimed at improving fiscal discipline, increasing tax collection, reducing losses in public enterprises, and strengthening economic governance.

Unlike commercial lenders, the IMF does not charge a fixed interest rate. The cost of borrowing is based on the Special Drawing Rights (SDR) interest rate, IMF margins, possible surcharges, and various service and commitment fees.

Pakistan's Current IMF Programs

Pakistan's current engagement with the IMF primarily consists of:

- **Extended Fund Facility (EFF)**
A 37-month programme amounting to approximately US\$7 billion, focused on restoring macroeconomic stability, strengthening foreign exchange reserves, and implementing fiscal reforms.
- **Resilience and Sustainability Facility (RSF)**
A programme of approximately US\$1.2–1.4 billion, aimed at supporting climate resilience, disaster preparedness, and green financing initiatives.

“IMF programs help stabilize the economy but frequently create short-term economic pressures that require careful management and policy support.”

- **Key Areas of Reform**
The IMF-supported reform agenda focuses on several critical sectors:
- **Fiscal and Taxation Reforms:** Broadening the tax base and improving revenue collection.
- **Energy Sector Reforms:** Reducing circular debt, restructuring state-owned enterprises, and implementing cost-reflective tariffs.
- **Financial and Monetary Reforms:** Maintaining a market-based exchange rate and controlling inflation.
- **Social Protection:** Expanding support through programmes such as the Benazir Income Support Programme (BISP).

Are IMF Programs Supporting or Penalizing Pakistan?

The answer lies somewhere in the middle. On one hand, IMF programmes provide essential financial support, stabilize foreign exchange reserves, improve investor confidence, and encourage much-needed structural reforms. On the other hand, these programmes often result in higher taxes, increased utility prices, reduced subsidies, and a higher cost of living for businesses and citizens.

In essence, IMF programmes help stabilize the economy but frequently create short-term economic pressures that require careful management and policy support.

Why Does Pakistan Repeatedly Return to the IMF?

- Poor Fiscal Management

Pakistan's tax-to-GDP ratio remains around 10%, significantly lower than many regional economies. The country also relies heavily on indirect taxation, while maintaining a fiscal deficit that exceeds regional averages.

- **Persistent Current Account Deficits**
Large trade imbalances and recurring external financing needs have repeatedly forced Pakistan to seek IMF assistance.
- **Rent-Seeking Political Economy**
The economic system often provides preferential treatment to politically connected entities, distorting competition and leading to inefficient resource allocation.
- **Import-Driven Energy Policy**
Pakistan's dependence on imported fuel and costly energy contracts places considerable pressure on foreign exchange reserves and contributes to recurring balance-of-payments crises. Without IMF support, Pakistan could have faced severe exchange-rate instability, depleted reserves, and restricted access to international financing markets.

Accounting Implications of IMF Programmes and Fiscal Reforms

This is where accountants play a critical role. Fiscal reforms are not merely policy announcements; they directly influence financial reporting, taxation, budgeting, forecasting, and corporate decision-making.

IMF-driven reforms have significant implications for businesses and finance professionals. Greater emphasis on taxation, documentation, and digital reporting demands stronger compliance frameworks, improved internal controls, and enhanced governance practices.

Macroeconomic factors such as inflation, interest rate movements, and exchange-rate volatility directly affect:

- Cash flow projections
- Asset valuations and impairment assessments
- Going concern evaluations
- Budgeting and forecasting assumptions
- Capital allocation decisions

As a result, accountants must ensure that financial

reporting accurately reflects the changing economic environment. However, the role of accountants extends far beyond compliance. Modern organizations increasingly rely on finance professionals for strategic planning, risk management, cost optimization, and business resilience.

Although reforms may initially increase compliance requirements and operating costs, they also promote transparency, strengthen governance, improve investor confidence, and enhance access to financing. Businesses that proactively adapt to these changes are likely to be better positioned for long-term growth and sustainability.

A Path Beyond IMF Dependency

Pakistan can gradually reduce its dependence on IMF support by:

- Broadening the tax base.
- Increasing exports and improving productivity.
- Attracting domestic and foreign investment.
- Reforming state-owned enterprises.
- Enhancing energy efficiency.
- Strengthening institutional governance and accountability.

Most importantly, Pakistan must transition from a consumption-driven economic model to a

productivity-driven economy focused on competitiveness, innovation, and sustainable growth.

Conclusion

IMF programmes can provide critical economic stabilization and create the foundation for reform. However, long-term prosperity cannot be achieved through external financing alone. Sustainable progress requires structural reforms, stronger institutions, a broader tax base, higher exports, and sound economic governance.

In this transformation, accountants have a vital role to play. By promoting transparency, strengthening financial management, supporting strategic decision-making, and helping businesses navigate economic uncertainty, finance professionals can contribute significantly to Pakistan's journey from survival to sustainable growth.

The future challenge for Pakistan is not simply to exit an IMF programme—it is to build an economy that no longer needs one.



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Strengthening Audit Quality Amid Economic Uncertainty

Economic Uncertainty: The Ultimate Stress Test for Audit Quality

| Ali Raza Lakho, FCA |



January 2018. Carillion plc, the UK's second-largest construction company, collapsed virtually overnight, leaving behind £7 billion in liabilities, 43,000 jobs in jeopardy, and a trail of unfinished public-sector contracts. What stunned the financial world was not merely the scale of the collapse, but what the auditors had failed to see or chosen not to challenge.

KPMG had issued unmodified audit opinions year after year while Carillion quietly overstated its assets, understated its liabilities, and clung to a going concern assumption that had long since lost any credible footing.

In March 2023, Silicon Valley Bank collapsed in what became one of the largest bank failures in US history. Within days, markets around the world were questioning asset valuations, liquidity positions, risk management practices, and the reliability of financial information.

These were not simply corporate governance failures. They were failures of audit quality at the very moment when economic signals most demanded professional skepticism.

And in today's environment, with Pakistan navigating an IMF program, persistent fiscal pressures, and a global economy clouded by geopolitical turbulence, the lessons of Carillion and Silicon Valley Bank have never been more relevant to our profession.

A World Under Economic Pressure

The past few years have tested the resilience of economies worldwide. Inflation surged to multi-decade highs across advanced economies before beginning to ease; interest rates were raised aggressively by central banks; geopolitical conflicts disrupted supply chains; and sovereign debt levels reached precarious thresholds in several emerging markets.

According to the IMF's World Economic Outlook, global growth has hovered below its historical average of 3.7%. Pakistan's experience has been particularly acute. GDP growth is projected at around 3.2% for FY2026, barely keeping pace with population growth. External debt obligations remain elevated, and foreign exchange reserves, while recovering, continue to constrain fiscal space.

When economic conditions deteriorate, the temptation to manage earnings, delay impairment recognition, or understate liabilities can intensify.



Precisely at this juncture, auditors must be at their most vigilant.

When Uncertainty Increases, Audit Risk Changes

Periods of economic stability generally allow businesses to operate within predictable parameters. Economic uncertainty, however, fundamentally alters the financial reporting landscape.

Questions that may once have appeared straightforward suddenly require significant professional judgment:

- Can an entity continue as a going concern?
- Are assets impaired due to deteriorating market conditions?
- Are Expected Credit Loss assumptions still reasonable?
- Is inventory recoverable at net realizable value?
- Will deferred tax assets generate future economic benefits?

Consequently, audit quality is increasingly determined by the auditor's ability to challenge assumptions, evaluate contradictory evidence, and exercise professional skepticism.

Global Regulators Sound the Alarm

Around the world, regulators are responding to emerging risks by placing greater emphasis on audit quality.

Audit quality is defined not by compliance alone, but by the courage to challenge assumptions in the public interest.

In the UK, the FRC's Annual Review of Audit Quality for 2025 confirmed that, while five of the six Tier 1 firms achieved positive quality outcomes on 90% or more of their inspected audits, recurring deficiencies persist, particularly in areas such as auditor skepticism, the evaluation of management estimates, and going concern assessments.

In the US, the PCAOB has placed heightened emphasis on sectors most exposed to economic volatility; the financial sector, regional banks, and entities with significant Level 3 investments and complex accounting estimates.

Australia's ASIC similarly reported concerns around going concern disclosures and asset impairment assessments amid softening commodity prices and elevated interest rates.

Across these jurisdictions, a common thread emerges: economic stress is a stress-test for audit quality, and deficiencies that may be tolerated in stable times become dangerous in volatile ones.

Audit Quality as an Economic Asset

Traditionally, audits have often been viewed through a compliance lens. However, modern capital markets increasingly recognize audit quality as a critical economic asset.

History repeatedly demonstrates that confidence can evaporate quickly when financial reporting credibility is questioned.

In September 2008, as global financial markets were reeling from the collapse of Lehman Brothers, investors around the world began asking a difficult question: How could institutions that appeared financially sound only months earlier collapse so suddenly?

Conversely, confidence is strengthened when stakeholders believe that financial statements have been subjected to robust independent scrutiny.

The Pakistani Context: Challenges Close to Home

In Pakistan, the audit quality landscape reflects both the challenges of our economic environment and the concerted efforts being made to address them. The Institute of Chartered Accountants of Pakistan (ICAP), through its Quality Assurance Department (QAD) and Quality Assurance Board (QAB), has maintained an increasingly rigorous Quality Control Review (QCR) program.

In the year 2024–25, QAD completed reviews of 67 audit firms, up from 65 in the prior year, covering 135 individual audit engagements across 96 firm offices in Pakistan. The introduction of the revised QCR Framework 2024, which adopts a risk-based approach linking review frequency to firm size and public interest

significance, marks a pivotal advancement in aligning Pakistan's oversight architecture with international best practices.

Analysis of the thematic observations reveals that IFRS-related non-compliance accounted for the largest share of findings at 71%, with IFRS 9 (Financial Instruments - Expected Credit Loss recognition) representing the single most recurring standard of concern at 28% of IFRS observations.

Other recurring ISA-related findings included Material Uncertainty Related to Going Concern paragraphs even when financial statements were prepared on a non-going concern basis, a direct and fundamental breach of ISA 570. The Carillion parallel should not be lost on practitioners: the going concern assessment is not a formality.

From Oversight to Strategy: A Call to Action

Against this backdrop, strengthening audit quality requires a strategic and forward-looking approach.

- Investing in quality management systems: The transition to ISQM 1 and ISQM 2 represents a paradigm shift from retrospective quality control to prospective quality risk management.
- Raising the bar on going concern and estimates: Assumptions must be challenged with independent data, sensitivity analyses must be documented, and conclusions must be robustly supported — not inherited from prior-year work papers. Engagement teams must place greater emphasis on professional skepticism.
- Leveraging technology without surrendering

judgement: Firms that successfully integrate technology into their methodologies while preserving the fundamental principles of auditing will be better positioned to respond to emerging risks and stakeholder expectations.

- Firms must continue investing in people: Technical competence, industry specialization, coaching, and supervision remain fundamental drivers of audit quality.
- Embracing regulatory engagement: Firms that engage constructively with the review process, address observations with genuine remediation, and share learnings across their organizations are contributing to a stronger, more trusted profession.

The collapse of Carillion, Silicon Valley Bank and Lehman Brothers did not happen in a vacuum. They happened in an environment where economic optimism had outlasted the underlying reality, where auditors had chosen comfort over challenge, and where the public interest had been sacrificed at the altar of client relationships.

As Pakistan's economy navigates its own inflection point, with stabilization efforts underway, the accountancy profession has both an obligation and an opportunity.

Strengthening audit quality is not a regulatory checkbox. This is exactly the moment when auditors must be worthiest of the trust placed in them. Auditors who rise to this moment will not merely survive the uncertainty, they will define the strategy that leads Pakistan's economy forward.



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The New Architecture of Audit Quality

| Sami Ullah Khan, ACA |

Five structural shifts are remaking the global assurance model, and Pakistan has a narrow window to lead rather than follow.”

In April this year, the International Forum of Independent Audit Regulators reported that 35% of audit engagements inspected across 52 jurisdictions carried at least one significant finding. The figure stood at 26% in 2022 and has worsened every year since. Read in isolation, the trend suggests a profession losing its grip on quality at the very moment economic uncertainty makes assurance most valuable. Read against the events of the past eighteen months, it tells a different story. The machinery that produces, owns, regulates and defines the audit is being rebuilt all at once, and the turbulence in inspection results is the sound of reconstruction. Five shifts stand out. None is procedural. Each is already law, already deployed or already funded.

Machines have joined the engagement team

On 7 April 2026, EY announced the global rollout of agentic artificial intelligence inside EY Canvas, its single assurance platform. The numbers reward a second look: 130,000 assurance professionals, 160,000 engagements, more than 150 countries, and a platform that already ingests over 1.4 trillion lines of journal entry data each year. Agentic AI is now embedded in every phase of those audits, and EY expects it to support all end-to-end audit activities by 2028. This is not a pilot. The production function of the audit, broadly stable since vouching gave way to risk-based sampling, has been altered at its core. The quality question shifts with it. It is no longer simply whether the auditor performed the work with due care, but whether the firm can supervise a workforce that is part human and part machine, evidence what each agent did, and stand behind judgements it did not directly make.

Regulation has begun to catch up. The UK Financial Reporting Council issued documentation guidance for AI-enabled audit tools in June 2025, then went further in March 2026 with guidance on generative and agentic AI, the first publication by any audit regulator anywhere to address autonomous agents inside the engagement file. Its anchor principle is deliberately old-fashioned: the human auditor remains accountable, whatever the tooling. Firms must show guardrails, traceability and a defensible basis for confidence in outputs whose internal logic they cannot

The future of audit will be defined by how effectively firms combine artificial intelligence with professional judgement.

fully observe. Quality management under ISQM 1 quietly becomes the governance perimeter for machine labour.

The end of presumed authenticity

A single deletion in ISA 240 (Revised), issued in July 2025 and effective from December 2026, may prove the most consequential sentence the IAASB has written this decade. The revised standard removes the long-standing principle that an auditor may treat records and documents as genuine unless something suggests otherwise. In an era when a convincing invoice, bank confirmation or board minute can be fabricated by synthetic media in seconds, authenticity is no longer a presumption to be rebutted; it is a conclusion to be earned. Alongside the new fraud lens applied throughout the engagement and a stand-back evaluation before sign-off, and paired with ISA 570 (Revised 2024) on going concern, the December 2026 package was built expressly for economies under financial strain. Pakistani practitioners auditing family conglomerates with intricate related-party webs should not underestimate what it demands.

Capital is buying the auditors

For a century, auditor independence rested on an unglamorous foundation: partners owned their firms and answered to one another. That foundation is dissolving. Blackstone took a majority stake in Citrin Cooperman at a valuation above two billion US dollars;



Grant Thornton in the US, Baker Tilly, EisnerAmper and CohnReznick have all accepted private equity capital. Much of the American and European mid-market is consolidating under investors whose horizon is the exit, not the engagement. Regulators noticed late. In February 2026, IOSCO placed the audit-quality effects of third-party ownership on its work programme, asking whether existing safeguards can absorb the independence and governance risks that outside capital introduces. The honest answer is that nobody yet knows.

The great regulatory divergence

While the IAASB, the FRC and the European Union tighten requirements, the United States is moving the other way. The PCAOB's 2026 budget of 362 million US dollars sits nearly ten per cent below the prior year. The SEC is assembling its own enforcement unit for auditing violations, congressional proposals to fold the board into the Commission remain live, and on 9 June 2026 the PCAOB voted unanimously to consult on stripping provisions out of QC 1000, its flagship quality control standard, barely two years after adopting it. For the first time since Sarbanes-Oxley, the world's two dominant oversight philosophies are pulling apart. Jurisdictions that import their quality architecture,

Pakistan among them, must now decide which current to anchor against.

Auditing the algorithms

The final shift expands what auditors audit. From August 2026, the EU AI Act's obligations for high-risk AI systems take effect, mandating documented risk management, human oversight and conformity assessment, with ISO/IEC 42001 emerging as the management-system backbone. A statutory market in algorithmic assurance is forming, and it is telling that EY's April announcement bundled a suite of AI assurance services alongside its agentic rollout. Sustainability assurance follows the same arc of expanding subject matter: ISSA 5000 becomes effective in December 2026, and Pakistan stands among the first five jurisdictions worldwide, with Australia, Hong Kong, Malaysia and Mexico, to have adopted it. That fact deserves wider currency at home. It proves this profession can move first when it chooses to.

Pakistan's window

Three responses follow, and the order matters. First, anchor deliberately. With oversight philosophies splitting, ICAP, the Audit Oversight Board and the newly constituted Audit Standards and Ethics Board, drawing members from the SECP, the State Bank, the PSX and the Auditor-General, should state plainly that Pakistan's quality architecture tracks the IAASB and FRC line of travel, including early adoption of the fraud and going concern package. Certainty attracts capital; drift repels it. Second, build agent governance before the global networks import it. The platforms described above will reach Pakistani member firms within an audit cycle or two, and firms that treat AI supervision, model validation and evidence traceability as core quality management disciplines now will set the local benchmark rather than inherit someone else's. Third, claim the algorithmic assurance franchise while it is unclaimed. Chartered accountants are the one profession that pairs assurance methodology with deep controls expertise, and the window before technology consultancies occupy the ground is short.

The profession spent the past decade defending the audit it had. The next two years will decide who owns the audit that is coming. From survival to strategy is not a slogan here; in 2026 it is simply an accurate description of the choice.

In the age of AI and synthetic media, authenticity can no longer be presumed—it must be verified.

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The Forgotten Duty: Bearing Witness in Times of Uncertainty

| Syed Talha Irfan, FCA |



Recent high-profile integrity failures within the professional services sector demonstrate that quality is ultimately a reflection of culture.

Economic uncertainty has a strange effect on people. When markets are stable, honesty seems easy. Principles appear firm. Decisions look rational. But when uncertainty arrives, when businesses struggle and pressure mounts, that is when something deeper is tested—not systems, not regulations, but people.

When people lose sight of their higher purpose and responsibility, standards begin to slip.

Islam offers a profound perspective on this responsibility—a duty that is often forgotten, yet lies at the heart of acting with integrity: the duty of Shahadah ("bearing witness").

I once came across a question posed to a retired chief accountant: *"What was the most important set of financial statements you worked on during your career?"*

I assumed the answer would be the one that involved the most complex accounting treatment or related to a major merger or acquisition. But as I read on, the accountant's reply surprised me, "Every single set of financial statements."

That answer made me pause. Why every single one?

As I read further, his answer was simple: *"Because I was responsible for every one of them."*

He explained that financial statements are more than numbers, disclosures, and compliance requirements. Behind every set of financial statements, people are making decisions, investors are allocating capital, and employees are planning their futures.

What he said next stayed with me:

"The numbers themselves were never the real product. Trust was."

The more I reflected on those words, the more I realised that they capture something profound about our profession.

Every Chartered Accountant can relate to this idea. Whether as preparers, advisers, auditors, or business leaders, our profession is built on trust. We attach our names to information, conclusions, and opinions that others rely upon. In essence, we are witnesses.

The Holy Qur'an repeatedly calls believers to stand firmly for the truth, even when it is uncomfortable. Financial statements tell a story. Management tells a story. But the auditor's duty is to determine the truthfulness and fairness of that story.

An auditor, in many ways, is a witness. Not a witness to an event, but a witness to reality.

This becomes especially difficult during periods of economic uncertainty. Pressure increases. Assumptions become more optimistic. Risks become easier to rationalise. Small compromises begin to look harmless. Many audit failures throughout history did not begin with a major fraud. They began with small concessions—an inquiry not made, an inconsistency ignored, a judgement softened, or a concern left undocumented.

The collapse came later. The moral compromise happened much earlier.

The lesson here is that audit quality is strengthened long before an audit engagement begins. It is strengthened in the character of the auditor.

Technical standards are necessary. Methodologies are essential. Technology is valuable. Yet none of these can replace integrity. A person who values truth above comfort strengthens quality even when nobody is watching, whereas a person who fears disappointing a client more than disappointing their conscience will eventually compromise quality.

The greatest lesson may be this:

"Economic uncertainty does not create character. It reveals it. The same is true for audit quality. Uncertain times reveal whether quality was built on compliance or conviction."

Compliance asks, "What is the minimum required?" Conviction asks, "What is the right thing to do?" The first satisfies the process. The second protects the truth. And truth has always been the foundation of both faith and professional excellence.

This naturally raises an important question: if integrity ultimately rests with individuals, what role do leaders play?

The reality is that no leader can guarantee ethical behaviour. Effective leaders therefore do more than manage performance. They help cultivate character. They understand that while rules may govern behaviour when people are being observed, values govern behaviour when no one is watching.

Perhaps the more important question is not how leaders can preserve an ethical culture, but how an organisation can preserve its ethical culture when its leaders themselves fail. This is where the Islamic model offers a profound insight.

Most organisations rely heavily on the "tone at the top." While leadership undoubtedly matters, Islam recognises a reality that history repeatedly confirms: leaders are human. We have seen repeatedly that ethical failures are rarely caused by the actions of one individual alone. More often, they occur when others see warning signs but choose not to challenge them.

Ethical organisations cannot rely solely on ethical leaders. If the moral compass of an organisation depends entirely on those at the top, then the organisation becomes vulnerable the moment its leaders lose their way.

The Islamic model strengthens the traditional approach by adding resilience and sustainability. Rather than concentrating responsibility in a few individuals, it distributes accountability across the entire community. Every believer is entrusted with the duty of Shahadah (bearing witness). Sustainable integrity requires a system of mutual accountability where leadership itself is subject to challenge. Accountability is not confined to leadership; it belongs to everyone.

A powerful framework is built on five layers of accountability:

Accountability to Allah,
Accountability to oneself,
Accountability to one another through sincere counsel,
Accountability towards society through enjoining what is right and forbidding what is wrong; and finally,
Accountability through leadership and governance structures.

Notice what this means. Leadership is not the first line of defence; it is the last. Long before an issue reaches a boardroom, a regulator, or the headlines, it should have been challenged by individual conscience,

reinforced through peer accountability, and addressed through the collective commitment to uphold the truth.

Loyalty is not measured by silence but by sincere counsel. Such a model creates a community of witnesses, not a hierarchy of followers.

Every successful organisation, regardless of geography, culture, or faith, depends on individuals who are willing to uphold the truth, challenge what is wrong, and place long-term trust above short-term convenience. Whether described as integrity, ethical courage, professional scepticism, or bearing witness, the principle remains the same: organisations thrive when people accept personal responsibility for protecting what is right.

Many, if not all, organisations seek to cultivate integrity, accountability, and ethical courage.

In the end, strengthening audit quality amid economic uncertainty is not only about better frameworks, enhanced standards and methodologies, or advanced analytics. It is about nurturing professionals who understand that every working paper, every audit file, and every report represents a form of testimony.

A testimony before regulators.

A testimony before society.

And, from an Islamic perspective, a testimony before the Almighty.



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The Strategic Accountant: From Reporting History to Influencing the Future

| Faizan Muneer, ACA |



The modern business landscape is fundamentally defined by widespread systemic economic volatility

Economic volatility is the defining characteristic of the modern corporate landscape. Factors such as inflationary pressures, volatile interest rates, geopolitical headwinds, and rapid technological transformations create profound operational unpredictability globally. For financial auditors, these conditions fundamentally transmute the nature of risk assessment.

When corporate financial health degrades, the vulnerability to material misstatements through either error or fraud grows significantly. In this rigorous environment, preserving and enhancing audit quality is not simply a matter of statutory adherence. It serves as a crucial safeguard for market confidence, investor protection, and corporate transparency.

Navigating Financial Reporting Vulnerabilities During Economic Downturns

During economic contractions, corporate executives face severe strain to achieve profit goals, preserve creditworthiness, and adhere to leverage conditions. This operational stress fundamentally heightens specific vulnerabilities within financial reporting practices.

Going Concern Assumptions

Assessing an entity's ability to maintain operations as a going concern represents a pivotal audit challenge during periods of economic distress. Escalating debt-servicing costs and restrictive credit availability can swiftly compromise corporate liquidity reserves. Consequently, assurance providers cannot merely accept management's favourable predictions. Instead, they must perform an exhaustive evaluation of cash generation models, debt amortization schedules, and viable backup financing channels.

Increased Fraud Risk

Economic turbulence profoundly exacerbates the structural pillars of the classic fraud paradigm, magnifying behavioural motivations, procedural weaknesses, and internal moral justifications within an

organization. Corporate executives face severe duress to conceal degrading profitability metrics and misrepresent operational deficiencies to external stakeholders. Simultaneously, institutional oversight mechanisms and internal controls suffer systemic erosion due to aggressive cost-rationalization strategies, capital constraints, and workforce reductions.

This weakened governance structure permits individuals to intellectually validate manipulative accounting treatments as temporary, vital measures designed to defend corporate viability or secure employee livelihoods. As a result, engagement teams must maintain an augmented posture of professional detachment to uncover these reporting anomalies.

Asset Impairment and Valuation Challenges

While economic stability ensures routine asset valuation, market contractions severely compromise the fair value assessment of goodwill, intangibles, real estate holdings, and inventory. The resulting scarcity of empirical market metrics forces corporate leadership to depend on internal forecasting and subjective hypotheses, which in turn demands exhaustive verification by external auditors to safeguard against asset overstatement.

Calibrating Auditor Detachment in High-Risk Environments

Objective scrutiny defined as an intellectually inquisitive mindset paired with an exacting appraisal of corroborative data constitutes the cornerstone of financial assurance. While stable climates allow engagement teams to rely on historical precedents, systemic volatility erodes the predictive utility of backward-looking trends.

During economic downturns, practitioners must actively counter cognitive distortions, particularly anchoring bias the over-reliance on initial disclosures and confirmation bias, which prompts the uncritical acceptance of management representations at the expense of conflicting indicators. Elevating audit integrity demands a proactive search for disconfirming evidence; for instance, if leadership asserts the full collectability of a receivable despite widespread industry layoffs, the auditor must mandate autonomous, external verification.

Ultimately, premium audit execution requires rigorous, independent dialogue regarding accelerated revenue recognition, aggressive expense capitalization, and deferred liability classifications. This uncompromising posture can only be sustained by an institutional culture that unconditionally supports engagement teams when they challenge client leadership.

Dynamic Restructuring of Assurance Risk Matrices

Static, checklist-dependent risk methodologies prove structurally inadequate during volatile economic contractions. Risk appraisal must instead operate as a fluid, continuous mechanism executed throughout the audit lifecycle. Because macroeconomic variables fluctuate rapidly, mid-engagement shifts such as sudden monetary policy tightening can instantly compromise an entity's debt-servicing capacity and alter its liability risk profile. Consequently, engagement teams must dynamically recalibrate risk registers and pivot substantive protocols as real-time economic indicators emerge.

Additionally, systemic stress routinely exposes supply chain fragilities; dependency on suppliers facing geopolitical friction or impending insolvency severely threatens operational continuity. Assurance providers must evaluate these vulnerabilities, as they directly dictate inventory impairment metrics, contractual non-compliance penalties, and financial statement disclosure mandates.

Optimizing Audit Fidelity Through Automated Data Analytics and Machine Learning

The exponential scale and intricate architecture of contemporary corporate data demand advanced assurance solutions. Technology serves as a critical force multiplier for audit quality, enabling engagement teams to transition from restrictive sampling to comprehensive, full-population data analytics. Rather than scrutinizing isolated ledger samples, advanced platforms empower assurance providers to evaluate 100% of transactional histories, significantly enhancing the isolation of statistical outliers, anomalous month-end adjustments, or unauthorized transactions indicative of financial manipulation.

Furthermore, artificial intelligence applications rapidly parse vast volumes of legal contracts, lease

agreements, and corporate minutes to expose obscured clauses, restrictive debt covenants, or undisclosed off-balance-sheet commitments. Concurrently, machine learning algorithms synthesize macroeconomic variables alongside internal financial metrics, forecasting liquidity constraints or inventory obsolescence with a predictive precision that manual spreadsheet models cannot replicate.

While technology optimizes procedural efficiency, it remains a complement to, rather than a substitute for, human judgment. The efficacy of algorithmic output is fundamentally tethered to the parameters established by the practitioner. Consequently, elevating assurance quality necessitates cultivating the analytical capacity of engagement teams to accurately interpret digital insights, formulate targeted inquiries, and apply critical context to automated finding

Leadership-Driven Assurance: Restructuring Executive Governance to Fortify Audit Integrity

Assurance integrity is fundamentally predicated on the institutional culture of the audit firm. When systemic headwinds squeeze professional practices through talent deficits and compressed margin structures, preserving an unyielding commitment to engagement quality becomes paramount. Executive leadership must unequivocally signal that technical fidelity supersedes profitability and client retention metrics. If partner compensation remains exclusively tied to portfolio revenue generation rather than the rigor of assurance delivery, structural deficiencies inevitably materialize.

To mitigate these risks, firms must institutionalize robust Engagement Quality Control Reviews (EQCR), mandating that an autonomous partner entirely detached from the daily workflow meticulously evaluate high-risk judgments prior to report issuance. Furthermore, because human capital exhaustion directly undermines assurance precision, firms must actively combat burnout induced by compressed timelines and convoluted macroeconomic variables. Sustaining quality requires proactive investment in talent retention, optimized workload distribution, and a psychologically safe ecosystem where junior personnel feel empowered to escalate technical ambiguities without friction.

Maximizing Oversight Fidelity Through Advanced Audit Committee Collaboration

An autonomous, proactive audit committee serves as a premier strategic anchor when navigating macroeconomic volatility. This governing relationship must remain fundamentally transparent, objective, and communicative. Rather than restricting dialogue to formal quarterly agendas, engagement teams should establish frequent, informal channels during periods of economic strain to deliver real-time insights regarding emerging risks, accounting bottlenecks, and management friction.

Furthermore, assurance providers must deliver comparative analyses detailing how the entity's accounting policies align with industry peers. Clarifying whether leadership adopts aggressive or conservative treatments relative to competitors provides the vital context necessary for the committee to optimize its fiduciary oversight and independently validate financial reporting integrity.

Anticipating Change: Regulatory Oversight and Next-Generation Standards

Global standard-setters and regulatory bodies are dynamically evolving auditing frameworks to match the complexities of modern markets. Regulators now demand heightened transparency in financial disclosures. Stakeholders require visibility beyond bottom-line figures, focusing heavily on the foundational management assumptions. Consequently, auditors must verify that financial statement footnotes precisely articulate the economic

uncertainties and sensitivities underlying key estimates.

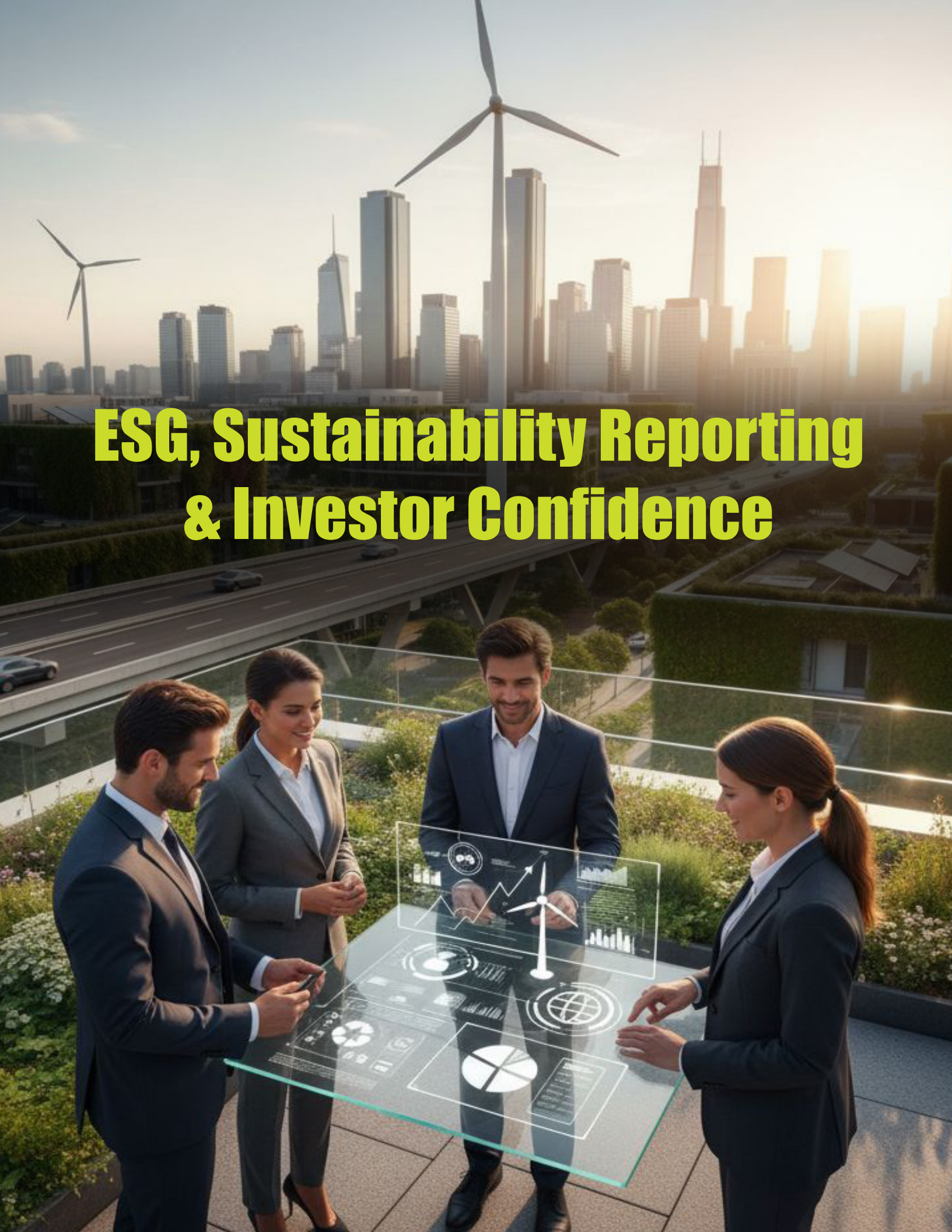
Furthermore, macroeconomic volatility increasingly intersects with Environmental, Social, and Governance (ESG) risks. Regulatory pivots on climate, for instance, can trigger asset impairment or unforeseen compliance liabilities that threaten capital stability. Robust contemporary audits must seamlessly bridge financial and non-financial metrics, recognizing that operational disruptions ultimately distort the balance sheet.

In essence, fortifying assurance fidelity amidst macroeconomic volatility demands a holistic framework predicated on unyielding objective scrutiny, agile data architecture, and an institutional culture that strictly prioritizes ethical integrity over operational convenience. While systemic contractions ruthlessly evaluate corporate resilience, they simultaneously test the foundational credibility of the assurance profession. By modernizing legacy methodologies, embedding algorithmic innovation, and aggressively interrogating management hypotheses, engagement teams deliver the definitive transparency and market trust required to anchor global capital ecosystems through economic disruptions.



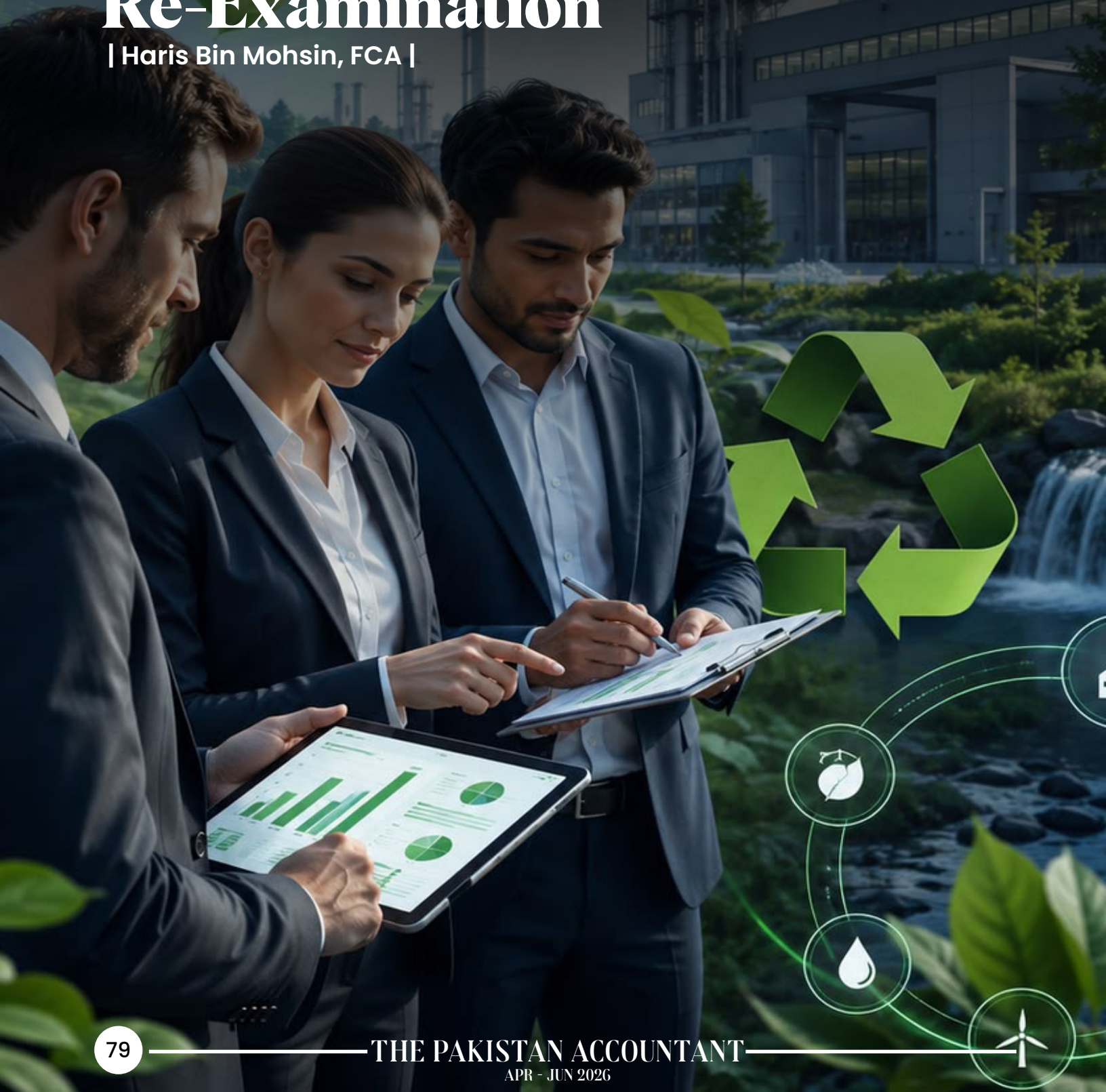
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ESG, Sustainability Reporting & Investor Confidence



Imposing ESG through Corporate Law: A Critical Re-Examination

| Haris Bin Mohsin, FCA |



Environmental, Social and Governance (ESG) considerations have increasingly entered the domain of corporate law and corporate governance. Across jurisdictions, regulators and policymakers are embedding sustainability considerations into disclosure frameworks, fiduciary expectations, and stewardship codes. Corporate boards are now routinely expected to oversee environmental risks, workforce practices, and governance structures alongside financial performance and report the same on reporting standards set by standard setters. The conceptual foundation for this shift lies in the broader debate between shareholder primacy vs. stakeholder capitalism: whether corporations should focus primarily on maximizing shareholder value or balance the interests of multiple stakeholders including employees, communities, and the environment. ESG frameworks have been showcased to emerge as a practical mechanism through which this stakeholder-oriented vision is operationalized. However, despite the growing regulatory and institutional endorsement of ESG, I differ to raise fundamental questions about its conceptual clarity, measurement reliability, and economic implications. That much of the enthusiasm surrounding ESG rests on weak empirical foundations and internal contradictions.

The Rise of ESG and the Challenge to Shareholder Primacy

The modern ESG movement is often framed as a response to the long-standing doctrine associated with economist Milton Friedman, who famously argued that the primary social responsibility of business is to increase its profits within the bounds of law and ethical custom. Over the past decade, however, many corporate leaders, investors, and academics have embraced a broader conception of corporate purpose. Statements by major corporations and investors have emphasized stakeholder interests, and large asset managers have publicly advocated that companies operate in a manner aligned with societal objectives.

This shift has been accompanied by the rapid growth of ESG ratings, ESG investment funds, corporate sustainability commitments and mandatory regulatory requirements. The dominant narrative suggests that companies that behave responsibly toward the environment and society not only contribute to social welfare but also become more



profitable, less risky, and more valuable. According to this view, ESG creates a virtuous cycle: companies benefit, investors earn superior returns, and society improves. I argue that the promises of ESG must be examined carefully through the lens of corporate finance.

Measurement Problems in ESG Ratings

A central difficulty with ESG lies in how it is measured. Unlike financial performance, which is expressed in quantifiable monetary terms, ESG assessments rely heavily on qualitative and subjective indicators. ESG rating agencies attempt to convert these indicators into numerical scores, but there is little consensus about which factors should be prioritized or how they should be weighted.

This lack of agreement produces striking inconsistencies across ESG rating services. A company that ranks highly in one rating system may rank far lower in another. Even well-known companies receive widely divergent scores depending on the methodology used and personal preferences. The divergence stems from fundamental differences in

values and priorities: an environmental activist may view Saudi ARAMCO (an oil company) as the most problematic company in the world because of its contribution to climate change, whereas another observer might regard Meta (Facebook) because of its data privacy issues or political influence as more serious concerns and therefore judge technology platforms more harshly.

Because societal priorities differ, there is no universal agreement about what constitutes a “good” company in ESG terms. This disagreement is not simply a temporary problem that will disappear as ESG matures. Rather, it reflects enduring differences in social values. The very fact that companies must be instructed on how to be “good” suggests that consensus does not exist.

capacity to invest in ESG initiatives. In this case, profitability leads to ESG performance rather than the reverse. This reverse-causation problem complicates attempts to draw firm conclusions about the economic benefits of ESG.

ESG and the Corporate Value: The Cash Flow & Risk Test

From a corporate finance perspective, the value of a firm is determined by two fundamental elements: the cash flows it generates and the risk associated with those cash flows. If a factor does not influence either cash flows or risk, it cannot affect firm value.

Under this framework, ESG can influence value only if it increases expected cash flows or reduces the cost of capital. For example, ESG could raise cash flows if responsible corporate behavior attracts customers



The Causation Problem in ESG Performance

Another challenge arises from the direction of causation. Many ESG indicators measure actions that financially successful companies can more easily afford to undertake. Firms with strong profits and stable cash flows can allocate more resources to community initiatives, environmental programs, or employee benefits without jeopardizing their financial stability.

If ESG scores reward such activities, then firms that are already successful will naturally appear more responsible. Consequently, when studies find that high-ESG companies are more profitable, it may simply reflect that profitable firms have greater

willing to pay higher prices, improves employee productivity, or reduces regulatory and reputational risks. Alternatively, ESG could reduce risk if investors and lenders perceive responsible companies as safer investments, leading to lower financing costs.

Without such effects on cash flows or risk observed and measured, ESG initiatives would not increase corporate value. This analytical lens highlights the need to move beyond general claims about corporate responsibility and instead examine concrete economic mechanisms.

Three Possible Relationships Between ESG and Value

Let's have a look at three conceptual scenarios that describe how ESG could influence corporate value.

In the first scenario, good companies are rewarded. Responsible firms attract loyal customers, maintain higher margins, require less reinvestment to sustain growth, and enjoy lower financing costs because investors and lenders perceive them as safer. In this situation, ESG would clearly enhance firm value and create a strong incentive for companies to adopt responsible practices. Now if the market reacts too positively to a company's socially responsible behavior and pushes the stock price up say by 10-15%, then ESG may appear to increase the firm's value however, investors who purchase the stock at this elevated price are likely to earn lower future returns because the good news has already been priced into the stock.

The second scenario involves punishment of bad companies. Firms with poor environmental or social practices may suffer reputational damage, lose customers, face higher regulatory scrutiny, and encounter higher financing costs. In this case, ESG still matters, but primarily as a deterrent against irresponsible behavior rather than as a source of positive rewards for exemplary conduct.

The third scenario is the most troubling for ESG advocates. It is possible that companies with weaker environmental or social standards benefit from lower operating costs and fewer regulatory constraints. These cost advantages could translate into higher margins, faster growth, and even greater investor interest. In this situation, irresponsible companies might actually outperform responsible ones in purely financial terms.

The key point is that determining which scenario reflects reality is a practical question rather than a moral one.

Empirical Evidence on ESG and Profitability

Research on the relationship between ESG and corporate profitability is extensive but to me is inconclusive. Numerous studies have attempted to identify a relationship between ESG performance and financial outcomes. According to many including my favourite Professor Aswath Damodaran's assessment, the overall evidence indicates at most a weak relationship between ESG and profitability.

This weak association is highly sensitive to how profitability is measured, which companies are included in the sample, and the time period studied. In

some analyses the relationship may appear positive, while in others it disappears entirely. The lack of consistent results may be suggesting that ESG may not be a major determinant of corporate profitability.

ESG and the Cost of Capital

Linkages of ESG to financing costs appear somewhat stronger, particularly in relation to companies engaged in activities often labeled as "sin industries," such as tobacco, gambling, or fossil fuels. Because many institutional investors avoid such industries for ethical reasons, the pool of potential investors becomes smaller. As a result, these firms may face a higher cost of equity capital.

However, the higher cost of capital for such firms also implies that investors who are willing to buy and hold these stocks at deflated prices may earn higher returns as compensation. In other words, the ethical exclusion of certain companies may create return opportunities for investors who do not care about ESG.

Catastrophic Risk and ESG

There is also some emerging evidence that companies with poor ESG profiles may face greater exposure to catastrophic or reputational events. Environmental disasters, governance failures, or labor controversies can lead to sudden and severe declines in firm value. If ESG helps reduce the probability of such extreme outcomes, responsible companies may offer investors protection against downside risk. However, this protection is non-existent.

The Internal Contradiction in ESG Investing

There is a fundamental contradiction in the claims often made about ESG investing. Advocates frequently argue both that ESG reduces companies' cost of capital and that investors who buy ESG stocks will earn higher returns. These two claims cannot simultaneously be true as discussed hereinabove. If ESG lowers a firm's cost of capital by making it more attractive to investors, the expected return on its stock must decline. Conversely, if investors earn higher returns from ESG companies, those firms must be riskier or undervalued rather than enjoying cheaper financing.

This tension highlights the importance of distinguishing between corporate value, market pricing, and investor returns.

ESG Investment Constraints and Portfolio Performance

Another issue arises from the structure of ESG investment strategies. ESG funds typically exclude companies that do not meet certain environmental or social criteria. From the perspective of portfolio theory, imposing such restrictions reduces the set of available investment opportunities. An unconstrained portfolio that can invest in all stocks cannot logically perform worse than a constrained portfolio that excludes a significant portion of the market. At best, the constrained portfolio may match the performance of the unconstrained one, but it cannot systematically outperform it. This basic principle raises doubts about claims that ESG investing will consistently generate superior returns.

Confusion Between ESG and Other Market Factors

Positive returns from ESG investing often indicate that ESG portfolios are heavily concentrated in certain types of companies, particularly technology firms with strong growth prospects and recent price momentum in the last decade. These characteristics are long-recognized drivers of stock performance. When adjusted for factors such as growth and momentum, the independent contribution of ESG to returns is clearly negligible. This suggests that the apparent success of ESG funds may partly reflect their exposure to market factors rather than ESG itself.

The Risk of ESG Becoming a Corporate Marketing Tool

ESG clearly seems to be evolving into a form of corporate signaling rather than a driver of genuine

social responsibility. As ESG becomes fashionable, companies may adopt the language of sustainability and stakeholder commitment without fundamentally changing their behavior. This risks creating an industry in which consultants, rating agencies, and advisory firms make money from the growing demand for ESG metrics while the underlying social outcomes remain unchanged.

Reconsidering the Path to Corporate Responsibility

The broader objective of encouraging companies to behave responsibly is widely shared. The question is how that objective should be pursued. Meaningful social responsibility requires aligning financial incentives with social outcomes. If consumers consistently support responsible companies by purchasing their products, and if investors are willing to accept lower returns in order to invest in socially responsible firms, then companies will naturally adapt their behavior. Without such economic incentives, however, corporate commitments to ESG may remain largely rhetorical.

Conclusion

The debate surrounding ESG ultimately reflects a deeper question about the purpose of corporations and the mechanisms through which businesses contribute to social welfare. While ESG has gained significant institutional support, its link to superior corporate performance or investment returns is limited and contested. Therefore, ESG should be approached with analytical rigor rather than moral enthusiasm. It must be grounded in transparent measurement, credible incentives, and sound economic reasoning rather than marketing narratives.



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BUILDING TRUST IN ESG REPORTING: THE CRITICAL ROLE OF ACCOUNTANTS IN STRENGTHENING INVESTOR CONFIDENCE

| Hamza Hasan, ACA |



ESG reporting is growing rapidly, but one question is becoming more important than ever: can stakeholders actually trust the information being reported?

This is where accountants come in. Not because ESG is “about numbers”, but because credibility depends on discipline – controls, evidence, and clear judgement – areas where accountants already have deep experience.

In many ways, this is not new territory for the profession. Every auditor has spent years testing controls, tracing data back to source, and ensuring information is complete and reliable. The same thinking applies naturally to ESG. Whether it is emissions data or workforce metrics, the challenge is not just measuring it – it is making sure the data can be trusted.

Professional scepticism is another example. In audit, we are trained to question what we see. Unusual trends are investigated, assumptions are challenged, and evidence is required before conclusions are accepted. ESG reporting needs the same mindset. When companies make claims around “net-zero pathways” or “responsible sourcing”, someone has to ask: what supports this? In the absence of that discipline, even well-intentioned disclosures can create a misleading picture.

Materiality also becomes critical. Accountants are used to focusing on what truly matters for decision-making. ESG reporting can easily become a long list of disclosures, but its real value lies in identifying the issues that actually affect performance and long-term value – such as climate risk, supply chain exposure, or governance weaknesses.

There is also a natural link to risk. Accountants regularly connect operational issues to financial impact. The same applies to ESG. For instance, climate-related risks can influence asset values, credit exposure and future cash flows. Translating these broader risks into financial implications is something accountants are already trained to do.

Finally, there is the question of trust. Investors rely on information that is structured, governed and independently reviewed. As organisations move towards greater assurance over ESG disclosures, the profession’s strengths in evidence evaluation, controls and independence become increasingly relevant. That said, the profession will also need to evolve. ESG brings new concepts – from emissions measurement to scenario analysis – that go beyond traditional accounting. Accountants are well positioned to contribute, but will need to build new skills and work more closely with specialists to stay effective.

The ESG agenda will continue to evolve with new standards and expectations. But the underlying challenge is simple: it is not just about what companies say – it is about how well they can support it.

The value of ESG reporting depends not on what is disclosed, but on how credibly it is supported



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ESG, Sustainability Reporting and Investor Confidence: Building Transparency, Trust and Long-Term Value

| Muhammad Javed, ACA |

An ESG and sustainability reporting framework translates a company's environmental, social, and governance impacts into meaningful information for investors and other stakeholders. Its primary objectives are to ensure transparency, mitigate regulatory and reputational risks, and build trust among investors who depend on standardized information for wealth creation and informed decision-making.

Transparency is the quality of being open, honest, and easily understood. Organizations build trust and accountability by sharing information, communicating openly, and disclosing their decision-making processes, policies, and data to stakeholders. Such transparency helps prevent corruption and strengthens organizational accountability.

ESG reporting is the public disclosure of a company's environmental, social, and governance performance. Transparency boosts investor confidence, fosters trust, and helps establish long-term relationships with investors. ESG reporting serves as a powerful tool in achieving this confidence.

By disclosing their efforts to address social and environmental risks, companies demonstrate their commitment to sustainability. ESG reporting also provides insight into governance practices, showing leadership's commitment to ethical standards, accountability, and effective decision-making. It goes beyond merely presenting achievements; it enables investors to identify and evaluate risks associated with ESG factors.

ESG as a Strategic Business Imperative

ESG has become an integral part of modern business strategy, helping organizations create value, build trust, enhance reputation, and generate wealth. ESG initiatives improve operational efficiency by lowering costs and encouraging sustainable business practices.

The production of goods and services through non-polluting processes, conservation of energy and natural resources, and the provision of safe and sustainable environments for workers, communities, and consumers have become essential components of today's business environment.

Implementing ESG initiatives can significantly improve operational efficiency, quality, and long-term business



performance. For example, transitioning to renewable energy sources can substantially reduce energy costs. Likewise, optimizing supply chains through ESG principles enhances efficiency and reduces resource consumption.

A study by McKinsey & Company found that organizations with integrated ESG frameworks can achieve cost savings of up to 20 percent over a five-year period. These efficiencies boost profitability and free resources for expansion and innovation.

Understanding ESG Reporting

ESG reporting involves the disclosure of information relating to:

Environmental Factors

- Carbon emissions
- Energy efficiency
- Water usage
- Waste management
- Climate-related risks

Social Factors

- Labour practices
- Diversity, equity, and inclusion
- Employee health and safety
- Human rights
- Community engagement

Governance Factors

- Board composition
- Executive compensation
- Shareholder rights
- Business ethics
- Anti-corruption policies

ESG reporting translates an organization's sustainability goals into measurable, data-driven performance metrics, providing stakeholders with information regarding ethical values, operational risks, and long-term resilience.

Why ESG Reporting Matters

Businesses require investment, need to meet regulatory requirements, and seek competitive advantages within their industries. To achieve standardization and transparency, organizations increasingly comply with internationally recognized reporting frameworks, including:

- Global Reporting Initiative (GRI): Focuses on economic, environmental, and social impacts.
- Sustainability Accounting Standards Board (SASB): Identifies industry-specific sustainability risks.
- Task Force on Climate-related Financial Disclosures (TCFD): Addresses climate-related risks and opportunities.

Investors increasingly expect businesses to invest in supply-chain sustainability, climate improvement initiatives, and carbon reduction practices, even if these efforts reduce short-term profits, because they believe such investments create long-term value and resilience.

ESG Reporting and Investor Confidence

Today, one of the most effective ways to strengthen investor confidence and support business growth is through transparent ESG and sustainability reporting. Companies must move beyond traditional financial statements and communicate their long-term value creation strategies, risk mitigation efforts, and ethical resilience.

Transparent ESG reporting has become a minimum requirement for attracting socially responsible capital, reducing reputational risk, achieving long-term success, and lowering the cost of capital.

Sustainability reporting is also a valuable tool for demonstrating a company's commitment to

responsible and ethical business practices and attracting ethical investment.

Context-Specific Sustainability Reporting

Companies should adopt context-specific sustainability reporting, which links a company's environmental and social impacts directly to the ecological and societal limits of the regions in which it operates.

Unlike conventional reporting, which focuses primarily on year-over-year improvements, context-specific reporting evaluates a company's performance against local and global sustainability thresholds, providing investors with a more meaningful understanding of sustainability performance.

The Financial Impact of the Three ESG Pillars

1. Environmental Conservation
 - Reducing carbon footprints
 - Preventing pollution
 - Adopting renewable energy
2. Social Welfare
 - Workforce health and safety
 - Diversity and inclusion
 - Social equity
3. Governance Ethics
 - Strong board independence
 - Transparent executive compensation
 - Anti-corruption policies

Strong performance across these three pillars can attract investment by signaling lower risk and greater long-term resilience.

Non-Financial Disclosures and Capital Allocation

Capital allocation is the strategic process through which businesses distribute financial resources and profits among reinvestment, acquisitions, debt repayment, and shareholder returns. The objective is to maximize efficiency, create long-term shareholder value, and reduce risk.

Non-financial disclosures refer to public reporting on a company's ESG performance, operational risks, and ethical practices. These disclosures directly influence capital allocation decisions because they provide investors with valuable information regarding future risks and opportunities.

Non-Financial Disclosure	Investor Benefit
Supply-chain vulnerabilities, climate impacts, and regulatory compliance	Better assessment of risks, returns, and future cash flows
Greenwashing risks	Easier comparison among companies globally
Regulatory compliance	Greater business resilience and future readiness
Integrated reporting	Holistic view of corporate performance
Greater access to capital	Improved compliance with IFRS S1 and IFRS S2
Operational risk disclosures	Better supply-chain and governance practices
Customer loyalty initiatives	Stronger brand value and stakeholder trust
Employer attractiveness	Creation of green jobs and improved reputation
Competitive advantage	Stronger ESG standards in supplier selection

ESG Reporting Challenges

ESG statistics and sustainability data are essential for managing and reporting corporate sustainability. The introduction of IFRS S2 has increased pressure on companies to produce reliable and audit-ready data across finance, operations, and supply chains.

Despite global adoption, ESG reporting still faces significant data challenges. Organizations, particularly in developing countries, often lack appropriate methodologies, centralized systems, and reliable processes for collecting and validating sustainability data. Carbon accounting, particularly Scope 3 emissions, adds further complexity because it requires coordination across multiple systems and external data sources.



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ESG Reporting in Pakistan

Several Pakistani companies regularly publish sustainability or ESG reports, including:

Energy and Utilities

- Oil and Gas Development Company Limited (OGDCL)
- K-Electric
- DSG Energy

Manufacturing and Industrial

- Sitara Chemical Industries Limited
- Cherat Packaging Limited
- International Steels Limited

Banking

- National Bank of Pakistan
- Samba Bank Limited

Automotive

- Atlas Honda Limited
- Indus Motor Company Limited

Conclusion

To remain valued, trusted, and competitive in the global marketplace, businesses—particularly those in Pakistan seeking international investment and global supply-chain opportunities—must embrace transparent ESG and sustainability reporting.

Foreign investors, international lending agencies, multinational corporations, consumers, employees, and other stakeholders increasingly expect ethical accountability and compliance with globally recognized standards such as IFRS S1 and IFRS S2. Demonstrating a strong commitment to sustainability and transparency has become an essential requirement for attracting and retaining investment in today's value-driven economy.

ESG

Environmental
Social
Governance



Employee
Well-being



Ethical
Governance



Transparency &
Accountability



Performance
Overview



SUSTAINABLE
REPORT

ESG and Sustainability Reporting: Strengthening Investor Trust and Corporate Accountability

| Muhammad Arslan Saleem, ACA |

The role of corporate reporting is undergoing a significant transformation. Investors, lenders, regulators and other stakeholders no longer evaluate businesses only through profitability, liquidity and solvency ratios. Increasingly, they also assess how companies manage environmental, social and governance risks. In this changing landscape, ESG and sustainability reporting have moved from voluntary public relations statements to a core component of corporate accountability and investor confidence. For professional accountants, this development is highly relevant.

Sustainability reporting is not merely about climate statements, charitable initiatives or environmental narratives. It involves governance structures, risk management systems, measurable indicators, reliable data, internal controls and connectivity with financial statements. In other words, ESG reporting is becoming part of the broader corporate reporting ecosystem.

1. The Expanding Meaning of Corporate Performance

Traditional financial reporting primarily answers one question: "How did the company perform financially?" Sustainability reporting expands this question: "How sustainable, resilient, responsible and future-ready is the company's business model?"

Traditional Reporting Focus	ESG and Sustainability Reporting Focus
Profitability	Long-term value creation
Assets and liabilities	Resource dependency and resilience
Cash flows	Climate, social and governance impacts
Financial risks	Sustainability-related risks and opportunities
Historical performance	Future business sustainability
Shareholder return	Stakeholder confidence

This does not reduce the importance of financial reporting. Rather, it strengthens it by adding context. A company may report strong profits today, but if it is exposed to unmanaged climate risk, weak labour practices, poor governance, regulatory penalties or reputational damage, its future cash flows and enterprise value may be at risk.

2. ESG as a Financial Reporting Issue

There is often a misconception that ESG reporting sits outside finance. In reality, ESG matters can directly affect financial statements.

ESG Matter	Possible Financial Reporting Impact
Climate-related risks	Impairment of assets, useful life reassessment and provisions
Carbon regulation	Operating costs, taxation and compliance liabilities
Supply chain disruption	Inventory shortages and revenue volatility
Labour practices	Employee turnover, litigation and productivity impact
Health and safety failures	Fines, claims and contingent liabilities
Weak governance	Fraud risk, control deficiencies and investor discount
Reputational damage	Revenue decline and impairment indicators

For example, if a manufacturing entity depends heavily on energy-intensive production, future regulation or carbon related costs may affect margins, asset recoverability and capital expenditure plans. Similarly, poor governance may increase the cost of capital, reduce investor confidence and expose the company to regulatory scrutiny. Therefore, sustainability reporting should not be treated as a separate publication prepared independently of finance. It should be connected to strategy, risk management, budgeting, impairment testing, going concern assessment and capital allocation decisions.

3. Investor Confidence and the Trust Deficit

Investor confidence depends on the credibility, consistency and comparability of information. Where ESG claims are vague, selective or unsupported, they create a trust deficit. Terms such as "green", "responsible", "sustainable" and "ethical" have limited value unless supported by measurable data and clear methodology.

A simplified investor confidence model may be viewed as follows:

Reliable ESG Data ↓
 Transparent Sustainability Reporting ↓
 Better Risk Assessment ↓
 Lower Information Asymmetry ↓
 Improved Investor Confidence ↓

Investors are particularly interested in whether ESG disclosures are:

- relevant to the company's business model
- measurable through defined indicators
- comparable across reporting periods
- consistent with financial statements
- balanced, including both positive and negative matters
- verifiable through evidence and controls.

When sustainability reporting lacks these qualities, it may create reputational exposure rather than investor confidence.

4. The Risk of Greenwashing

One of the biggest challenges in ESG reporting is greenwashing. This occurs when an entity presents an overly positive sustainability image without adequate evidence, balanced disclosure or measurable progress.

Weak ESG Reporting	Strong ESG Reporting
Generic sustainability claims	Entity-specific risks and targets
Selective positive disclosure	Balanced reporting of progress and gaps
No measurement basis	Clear metrics and methodologies
No linkage to strategy	Integration with business model and risk management
Marketing-driven language	Evidence-based corporate reporting
No assurance readiness	Documented controls and audit trail

Professional accountants can play a central role in reducing greenwashing by applying the same discipline used in financial reporting: evidence, consistency, documentation, scepticism and accountability.

5. Governance:

The Foundation of Sustainability Reporting Good ESG reporting starts with governance. Without board oversight, management ownership and internal controls, sustainability reporting may remain fragmented and unreliable.

A practical governance structure may include:
Board / Audit Committee Oversight ↓
Management Responsibility ↓

Defined ESG Reporting Framework ↓
Data Owners and Internal Controls ↓
Finance Review and Assurance Readiness ↓
External Reporting ↓

The board should understand which sustainability matters are financially material, how those matters affect strategy, and whether disclosures are supported by reliable information. Management should define reporting responsibilities, data sources, methodologies and review procedures. Finance teams are particularly important because they understand control environments, materiality, reporting discipline and audit expectations.

6. The Accountant's Evolving Role

Sustainability reporting creates a major opportunity for professional accountants. The accountant's role is expanding from financial statement preparation to integrated corporate reporting and assurance readiness.

Traditional Role	Emerging ESG Role
Prepare financial statements	Connect financial and sustainability information
Review accounting estimate	Assess ESG-related financial implications
Maintain books of account	Strengthen non-financial data controls
Support external audit	Prepare ESG evidence and documentation
Report historical results	Explain resilience and long-term value creation

Accountants can support organizations by:

- identifying ESG matters with financial implications;
- designing reporting controls over non-financial data;
- ensuring consistency between sustainability reports and financial statements;
- advising boards on materiality and disclosure quality;
- preparing entities for future assurance requirements;
- challenging unsupported sustainability claims.

This is not a departure from the accountant's role. It is an extension of the profession's core responsibility: protecting the reliability of corporate reporting.

7. ESG Reporting in Pakistan's Context

For Pakistan ESG and sustainability reporting are becoming increasingly important due to economic uncertainty, climate vulnerability, export market expectations, energy challenges, regulatory development and investor scrutiny. Companies seeking foreign investment, bank financing, export relationships or multinational supply chain access may increasingly be required to demonstrate credible sustainability practices.

Key areas of importance for Pakistani businesses include:

- energy efficiency and cost management
- climate resilience and business continuity
- water usage and waste management
- labour practices and workplace safety
- governance and ethical conduct
- supply chain transparency
- board oversight and risk management.

For many entities, sustainability reporting should begin with practical steps rather than complex frameworks. The first objective should be to identify material ESG risks, assign ownership, collect reliable data and disclose information that is relevant to the business.

8. Practical Roadmap for Companies

A phased approach can help organizations develop credible ESG reporting without creating unnecessary complexity

This roadmap allows sustainability reporting to mature from basic disclosure to structured, reliable and investor-useful reporting.

Phase	Focus Area	Practical Action
Phase 1	ESG awareness	Identify key sustainability risks and stakeholders
Phase 2	Materiality	Determine matters relevant to business value and risk
Phase 3	Data mapping	Identify data sources, owners and reporting gaps
Phase 4	Controls	Establish review, approval and documentation processes
Phase 5	Reporting	Prepare balanced and measurable disclosures
Phase 6	Financial linkage	Connect ESG matters with impairment, provisions and strategy
Phase 7	Assurance readiness	Maintain evidence for future review or assurance

Conclusion

ESG and sustainability reporting are redefining corporate accountability by connecting financial performance with long term resilience, governance quality and stakeholder trust. For investors, credible ESG information reduces uncertainty and supports better capital allocation decisions. For companies, it strengthens transparency, risk management and market confidence. For ICAP members, this is a strategic opportunity to lead the development of reliable sustainability reporting by applying professional judgement, control discipline and assurance mindset. The future of corporate reporting will not be limited to explaining profits; it will also require explaining how responsibly and sustainably those profits are generated.



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Accounting for the Future: ESG, Sustainability and Long-Term Value Creation

| Rabia Ismail, ACA |

TURN EMISSIONS INTO
MARKET ADVANTAGE

In today's increasingly complex business environment, organizations are moving beyond short-term survival toward long-term resilience and sustainable value creation. For Pakistan's corporate sector, this shift is being shaped by economic uncertainty, technological disruption, climate-related risks, and evolving stakeholder expectations. Amid these changes, the role of accountants is undergoing a significant transformation.

Traditionally associated with financial reporting and compliance, accountants are now strategic partners in decision-making. Their expertise is increasingly vital in helping organizations address emerging challenges related to Environmental, Social and Governance (ESG) factors, sustainability reporting, and investor confidence. As businesses seek to balance profitability with responsible practices, accountants are uniquely positioned to connect financial performance with sustainable growth.

ESG: From Compliance to Competitive Advantage

ESG considerations have rapidly evolved from a peripheral concern to a strategic business imperative. Investors, regulators, customers and employees increasingly assess organizations not only on financial performance but also on their environmental impact, social responsibility and governance standards.

This trend is gaining momentum in Pakistan, particularly among listed companies and sectors such as banking, energy, manufacturing and pharmaceuticals. Strong ESG performance is increasingly linked to reputation, risk management and access to capital.

The experience of Ørsted (Danish Company) demonstrates the business value of ESG integration. Once one of Europe's most carbon-intensive utilities, the company successfully transformed itself into a global leader in renewable energy. This strategic shift enhanced both investor confidence and long-term shareholder value, highlighting how sustainability can become a source of competitive advantage.

Accountants play a critical role in this transformation by developing systems to capture ESG-related information, evaluating sustainability risks, and aligning ESG objectives with broader business goals. By quantifying environmental, social and governance risks, they help management make informed decisions



and incorporate sustainability into strategy rather than treating it as a compliance exercise.

Sustainability Reporting: Expanding Corporate Disclosure

Stakeholders today expect organizations to provide a broader picture of performance than traditional financial statements alone can offer. Investors increasingly seek information on climate-related risks, governance practices, employee welfare and community impact.

Consequently, sustainability reporting has become an important component of corporate disclosure. International standards developed by the International Sustainability Standards Board (ISSB) are creating greater consistency and comparability in sustainability reporting across global markets.

Although sustainability reporting remains at a developing stage in Pakistan, many organizations are voluntarily enhancing ESG disclosures to align with international expectations. Institutions such as Habib Bank Limited and Meezan Bank have expanded disclosures relating to financial inclusion, governance, employee development and environmental

Accountants are no longer just custodians of financial reporting—they are strategic partners driving sustainable growth, transparency, and investor confidence.

stewardship, reflecting growing stakeholder demand for transparency.

This shift has significantly broadened the accountant's role. Beyond ensuring financial accuracy, accountants are increasingly responsible for measuring sustainability performance, validating ESG data, and integrating sustainability metrics into reporting systems. Their analytical expertise helps ensure that non-financial disclosures are reliable, consistent and decision-useful.

Building Investor Confidence Through Transparency

Investor expectations have changed considerably over the past decade. While financial performance remains important, transparency, governance quality and sustainability commitments increasingly influence investment decisions.

Globally, institutional investors are integrating ESG factors into their investment assessments. Companies that demonstrate strong governance and transparent reporting are often perceived as lower-risk investments and may enjoy improved access to capital.

This trend is particularly important for Pakistan, where attracting domestic and foreign investment remains a key economic priority. Organizations that provide credible and transparent disclosures are better positioned to build trust among investors and other stakeholders.

Accountants contribute directly to investor confidence

by strengthening internal controls, improving reporting quality, and supporting sound governance practices. As sustainability reporting expands, they are also increasingly involved in providing assurance over ESG-related information, enhancing the credibility of disclosures and reducing information asymmetry between organizations and investors.

In an environment where trust is a valuable asset, accountants serve as key enablers of transparency and accountability.

Integrating ESG into Risk Management and Strategy

One of the most significant contributions accountants can make is integrating ESG considerations into enterprise risk management and strategic planning.

Issues such as climate change, resource scarcity, workforce challenges and regulatory pressures are no longer solely ethical concerns; they are material business risks with direct financial implications. Organizations that fail to address these risks may face operational disruptions, increased costs and reputational damage.

Pakistan's devastating floods in 2022 provide a compelling example. The floods disrupted supply chains, damaged infrastructure and affected businesses across multiple sectors. Such events underscore the importance of incorporating climate-related risks into financial planning and business continuity strategies.

Accountants are uniquely positioned to assess these risks through financial modelling, scenario analysis and long-term planning. Their contributions include evaluating the financial implications of sustainability initiatives, supporting capital allocation decisions, and helping organizations balance short-term performance with long-term resilience. By embedding ESG considerations into decision-making frameworks, accountants enable organizations to move from reactive problem-solving to proactive strategy development.

The Evolving Skill Set of the Modern Accountant

As business expectations evolve, so too must the capabilities of accountants. Technical accounting

knowledge remains fundamental, but it is no longer sufficient on its own.

Modern accountants must develop a broader skill set that includes:

- Knowledge of ESG frameworks and sustainability standards.
- Data analytics and digital reporting capabilities.
- Risk management and strategic planning expertise.
- Understanding of climate-related and sustainability risks.
- Strong communication and stakeholder engagement skills.

Professional bodies such as the Institute of Chartered Accountants of Pakistan have an important role in preparing accountants for these responsibilities through updated curricula, professional training and continuous learning initiatives.

A Strategic Opportunity for Pakistan

The growing focus on ESG and sustainability presents a significant opportunity for Pakistan's corporate sector. As investors increasingly favour responsible and transparent organizations, companies that embrace sustainable practices can strengthen their competitiveness and attract investment.

Accountants are central to enabling this transition. Through high-quality reporting, effective risk management and strategic insight, they help organizations create sustainable value while building stakeholder trust.

Moreover, in a country facing climate vulnerability, energy challenges and social inequalities, accountants can contribute beyond individual organizations by promoting responsible business practices that support long-term economic development.

Conclusion

The transition from survival to strategy requires organizations to rethink how they create and sustain value. ESG considerations, sustainability reporting and investor confidence are no longer optional—they have become fundamental drivers of long-term business success.

Whether it is global organizations such as Ørsted leveraging sustainability to drive growth, investors demanding greater transparency, or Pakistani companies strengthening ESG disclosures, the direction of travel is clear. Sustainable business practices are increasingly becoming a source of competitive advantage.

In this evolving landscape, accountants are uniquely positioned to lead change. By combining financial expertise with strategic insight, they help organizations navigate uncertainty, strengthen stakeholder trust and build resilient, future-ready businesses. Their role has evolved from compliance to strategic leadership—an evolution that is essential for shaping a sustainable and competitive future for Pakistan's economy.



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The New Boardroom Mandate: ESG Governance, Sustainability and Long-Term Value Creation

| Farheen Shehzad, FCA |



Fast forward to today. The illusion of voluntary compliance has vanished. For Pakistan, an economy uniquely exposed to catastrophic climate vulnerabilities and urgently seeking to integrate into the global financial architecture, ESG has graduated from a moral luxury to a hard compliance mandate. The transition is no longer about organizational survival; it is about strategic competitiveness. As accountants, regulators, and directors, we find ourselves at the center of this transformation, tasked with translating non-financial data into institutional trust.

The Grunt Work: Mapping Global Standards to Local Realities

When people talk about ESG, they often drift into high-level concepts of sustainability and long-term value creation. But as a compliance practitioner, I know that the real work happens in the details of the data. During my professional tenure, I have experienced first-hand the operational intensity of mapping global frameworks like the Global Reporting Initiative (GRI) to an organization's internal compliance matrices and broader regulatory expectations.

Many corporate leaders complain of "disclosure fatigue." They look at the vast lists of GRI indicators and feel overwhelmed. However, my experience has taught me that these frameworks do not compete; they complement each other. The core of a successful compliance strategy lies in finding the shared data points between global expectations and local regulatory needs. When you map GRI's broad, impact-based metrics to the specific requirements of the Securities and Exchange Commission of Pakistan (SECP) and the Pakistan Stock Exchange (PSX), you realize they are speaking the same language, just with different accents. By building a unified data architecture, organizations can satisfy both international ESG rating agencies and local regulators without duplicating their efforts.

The Evolution of the Boardroom

The corporate governance landscape has shifted rapidly in recent years. Historically, boardroom discussions focused almost exclusively on financial controls, audit independence, and basic shareholder rights, with ESG considerations often relegated to footnotes.

Today, that paradigm has flipped. Modern board oversight no longer centers solely on balance sheets; it now demands rigorous assessment of climate-related asset impairments, evaluation of supply chain labor conditions, and the defense of carbon transition plans. Directors are no longer passive observers of sustainability; they are legally and strategically accountable for it, creating an urgent need for specialized governance that integrates compliance expertise with core board oversight.

The Pakistani Regulatory Wave: SECP, S1, S2, and the 2029 Horizon

For those who still believe ESG compliance can be indefinitely postponed, the SECP's recent regulatory roadmap serves as a clear wake-up call. The regulator is systematically putting in place a mandatory framework that will fundamentally change how businesses operate in Pakistan.

At the heart of this regulatory push is the adoption of the International Sustainability Standards Board (ISSB) standards—specifically, IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures). These standards require organizations to disclose how climate risks impact their financial position, access to capital, and long-term strategy. To support this, the SECP's ESG Sustain Portal acts as a public ledger of corporate sustainability metrics. This portal will make a company's carbon footprint, water usage, and diversity metrics open to public and regulatory scrutiny.

The final milestone of this roadmap is the SECP's target for a mandatory Green Taxonomy by 2029. This taxonomy will provide a strict, scientifically grounded classification system defining what constitutes a green or sustainable economic activity in Pakistan. For businesses, this means that claiming to be "sustainable" will require hard empirical proof aligned with national standards. For financial institutions and capital markets, it will determine which projects can access green financing and which will face penalizing capital costs.

The Strategic Choice: Dedicated ESG Committee vs. Risk Mandate

Current industry discourse surrounding board governance suggests that this debate often centers on two distinct approaches:

Governance Model	Operational Focus	Core Advantages	Strategic Suitability
Dedicated Board ESG Committee	Focused oversight on carbon targets, labor relations, supply chain diversity, and regulatory reporting.	Signals deep commitment to global investors; ensures detailed focus without competing priorities.	Essential for high-impact sectors like textiles, manufacturing, chemical, and energy.
Expanded Risk Committee Mandate	Integrating ESG factors directly into the broader Enterprise Risk Management (ERM) framework.	Treats sustainability as a material financial risk; prevents ESG from being treated as an isolated silo.	Highly effective for financial institutions, service-oriented firms, and asset-light organizations.

There is no one-size-fits-all answer. For carbon-intensive businesses, a dedicated ESG committee is crucial to drive the deep operational changes required for decarbonization. However, for many services and financial institutions, integrating ESG into the Risk Management Committee is a highly practical way to ensure that climate and transition risks are weighed alongside credit, market, and operational risks. What is non-negotiable is that the board must have a clear, documented mechanism for ESG governance, led by directors who are trained to understand these complex issues.

The Systemic Role of Quasi-Regulators and Capital Market Infrastructure

While the SECP sets the macro-level regulations, the actual implementation of these standards depends heavily on frontline market regulators and infrastructure institutions. The State Bank of Pakistan (SBP) has already established a strong precedent with its Green Banking Guidelines, requiring commercial lenders to assess environmental risks before approving credit. Similarly, the PSX is actively

incorporating ESG reporting requirements into its listing regulations, making sustainability disclosure a key factor for market visibility. As capital market infrastructure institutions, organizations like the central clearing and depository entities play a quiet but vital role in this transition. By maintaining operational integrity and managing systemic settlement risks, these entities are uniquely positioned to support the market's shift toward sustainable finance. As green bonds, transition finance, and carbon markets develop in Pakistan, our clearing, depository, and settlement systems must adapt to handle these new asset classes with the same security and transparency that define our traditional capital markets.

Conclusion: The Strategic Accountant as a Value Creator

For decades, the accounting profession has been defined by its ability to look backward; measuring historic costs, auditing past transactions, and verifying financial results. But the challenge of ESG compliance demands that we look forward. It asks us to measure things that do not fit neatly into a traditional ledger: carbon equivalents, social capital, and governance resilience. This shift is not a threat to our profession; it is our greatest opportunity. Chartered Accountants are uniquely equipped to lead this transition. We understand internal controls, we know how to design data verification systems, and we appreciate the value of objective assurance. By taking ownership of ESG reporting, we can help our organizations move from a defensive compliance posture to a proactive corporate strategy—one that builds real, long-term investor confidence and positions Pakistan as a responsible destination for global capital.

The 2029 deadline is approaching quickly. The boards that act today to build their data infrastructure, upskill their directors, and formalize their ESG governance will be the ones that thrive. The rest will find themselves struggling to catch up in a market that has permanently moved on.



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Digital Transformation, AI & Financial Reporting Efficiency

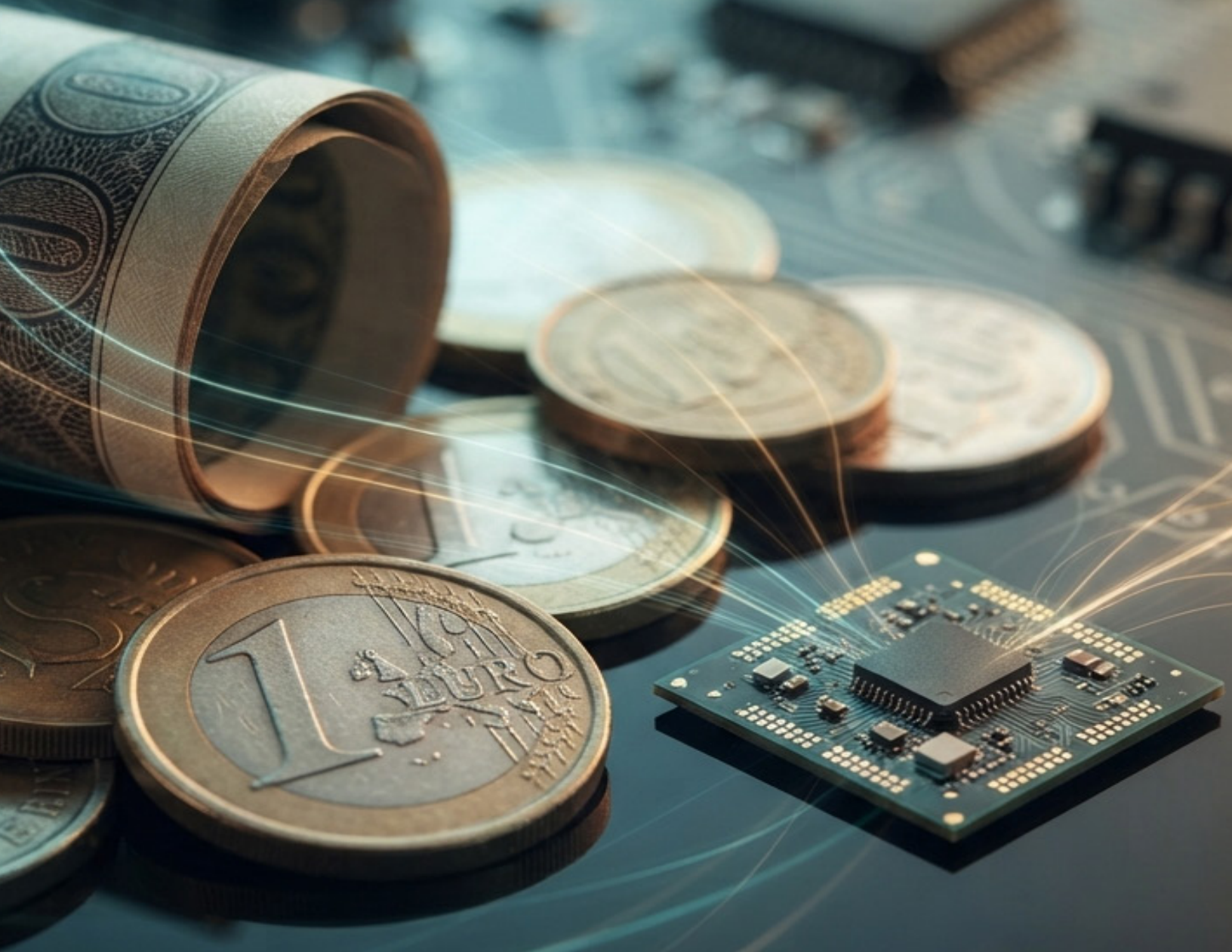


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MASSIVE PROFIT



The Silent Revolution in Finance: How AI and Digital Transformation Are Rewriting the Rules of Financial Reporting

| Muhammad Umair, ACA |

There was a time not long ago when a simple expense reimbursement could take days. An employee would fill out a paper form, hand it to their manager, who would then pass it to finance, who would manually post the entry into the accounting system, cut a cheque, and file the paperwork. Every step depended on a human being doing something correctly and not being on leave. That world is disappearing fast.

Today, that same employee submits a digital claim through an ERP portal. The system validates the receipt automatically. The line manager approves it with a single tap. The entry lands directly in accounts payable. Finance reviews a report, approves payment, and the bank integration records the transaction in the ledger without anyone manually typing a single number. What once took days now takes hours. What once required five people now requires one. This is not a future prediction. It is happening right now, in organizations around the world.

The shift from paper-based and spreadsheet-heavy workflows to fully integrated digital systems is arguably the most significant change in the finance profession in a generation. It is not just about convenience it fundamentally changes the quality, speed, and trustworthiness of financial information.

Cloud-based platforms allow finance teams spread across cities or even continents to access the same live data simultaneously. A CFO in Dubai can review the same real-time dashboard as a controller in London. There are no version conflicts, no emailed spreadsheets with mismatched figures, no waiting for end-of-month reports.

Modern ERP systems tie together accounting, procurement, treasury, and reporting into a single connected ecosystem. When a purchase order is raised, it flows automatically through approval, receipt, and invoice matching before settling in the accounts with a clean, auditable trail at every stage. The duplication and reconciliation headaches that once consumed entire finance teams are becoming a thing of the past.

While digital systems handle the plumbing, artificial intelligence is changing what finance teams can actually know and do. Machine learning models can analyze years of historical transactions and market data to generate surprisingly accurate financial forecasts. Budgeting cycles that once relied on gut feeling and past trends can now be guided by



predictive models that factor in dozens of variables simultaneously. The result is more confident planning and fewer unpleasant surprises. Perhaps more importantly, AI is transforming how organizations detect risk. Fraud detection algorithms scan millions of transactions in real time, flagging anomalies that no human reviewer could ever catch at that scale. A suspicious duplicate payment, an unusual vendor pattern, a transaction that falls just below approval thresholds AI spots these instantly, strengthening compliance and protecting the organization.

AI also handles the tedious but critical work of transaction classification. Expenses, revenues, and inter-company entries are automatically matched to the correct account codes, drastically cutting the time needed to close the books at month end. Some organizations that once spent two weeks on financial close are now completing the process in three or four days.

And for non-finance stakeholders i.e. board members, department heads, investors, the AI-powered narrative tools can convert complex financial statements into plain-language summaries. A director who struggles to interpret a variance analysis can now receive a concise, readable explanation generated automatically from the numbers.

The natural question is: if machines are doing all of this, what is left for the finance professional to do? The answer is everything that actually matters. When

reconciliations run automatically and reports generate themselves, finance teams are freed from the mechanical work that once consumed most of their time. They can focus on interpretation, strategy, and judgment i.e. asking why the numbers look the way they do, and what the organization should do about it. The accountant of today is becoming a business partner and adviser, not a data processor. In simple, the profession of accounting, derived from accountability, is now reaching its complete scope of responsibility and purpose.

Compliance also becomes more manageable. Automated systems continuously monitor transactions against evolving accounting standards and regulatory requirements, reducing the risk of errors that surface only during an audit. Real-time auditing rather than periodic sampling gives organizations far greater confidence in the integrity of their financial statements.

Against this backdrop, the situation in Pakistan presents a stark and urgent contrast. Many organizations across the country still rely on outdated systems, manual reconciliations, and spreadsheet-based workflows. Where global firms are operating with integrated ERP ecosystems and AI-driven insights, too many local businesses are still entering the same data in three different places and spending weeks closing their books.

The consequences are real. Delays, inconsistencies, and higher error rates in financial data erode investor confidence and create unnecessary audit risk. Finance teams buried in manual work have little time for the strategic analysis that leadership actually needs. The barriers are well understood: high implementation costs, limited awareness of what modern tools can do,

and a significant skills gap among finance professionals. Many graduates entering the workforce have strong technical accounting knowledge but limited exposure to ERP systems, cloud platforms, or data analytics the tools that define the modern finance function.

Small and mid-sized enterprises face a particular challenge. For a business focused on day-to-day survival, investing in digital infrastructure feels like a luxury. But the longer that investment is delayed, the wider the gap grows and the harder it becomes to compete, attract capital, or meet the expectations of international partners and regulators.

The good news is that the barriers are not insurmountable. Cloud-based ERP and accounting tools are increasingly affordable, with subscription models that remove the need for heavy upfront investment. Regulatory modernization, when it comes, will accelerate the shift. And the ICAP have a critical role to play in equipping the next generation with digital skills alongside their technical qualifications.

The global finance function is not waiting. AI, automation, and integrated digital systems are not a distant possibility, they are the current standard in developed markets. The question for Pakistani organizations is no longer whether to transform, but how quickly they can move before the competitive distance becomes too great to close.

The silent revolution in finance is already underway. The choice is whether to lead it, follow it, or be left behind by it.



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From Automation to Assurance: The Strategic Role of Accountants in the Age of AI

| Muhammad Arslan, ACA |



The role of accountants is undergoing a quiet but significant transformation. For decades, the profession has been associated with accuracy, compliance, reporting and assurance. These responsibilities remain central. However, the environment in which businesses now operate has changed considerably.

Economic uncertainty, inflationary pressure, rising finance costs, regulatory expectations, tax reforms, sustainability concerns and digital disruption have expanded the demands placed on finance professionals. In this environment, accountants are no longer expected only to report what has happened — they are increasingly expected to help organisations understand what is happening, anticipate what may happen next, and respond with discipline.

This shift from historical reporting to forward-looking insight is precisely where Artificial Intelligence can play an important and transformative role.

Reframing AI: Not a Threat, but a Reallocation

Artificial Intelligence is often presented as a threat to traditional accounting work. In reality, its more immediate impact is not the replacement of professional judgement, but the reallocation of professional effort. AI can process large volumes of data, identify unusual patterns, support forecasting, automate routine reconciliations and generate timely management information. These capabilities help finance teams reduce time spent on repetitive work and increase time spent on analysis, interpretation and decision support — precisely the activities that create the most value for organisations and stakeholders alike.

A Particular Relevance for Pakistan

For businesses in Pakistan, this shift is particularly relevant. Many organisations are operating in a challenging environment where margins are under pressure, liquidity requires close monitoring and management decisions must be taken with greater speed and caution. In such circumstances, finance functions cannot afford to remain purely transactional.

AI-enabled tools can assist accountants in several practical ways: identifying unusual journal entries, detecting inconsistencies in large data sets, improving budgeting and forecasting processes, supporting

working capital analysis, and highlighting emerging financial risks. In audit, technology can allow wider data coverage and help auditors focus their attention on areas where risk indicators are strongest.

Speed Is Not Enough: The Imperative of Reliability

However, the value of AI should not be measured only by speed. In financial reporting and assurance, reliability is more important than convenience. An automated output may appear sophisticated, but it is not automatically correct. Poor data quality, weak system controls, incomplete assumptions and over-reliance on technology can create serious risks.

A misleading analysis produced quickly is still misleading. This is precisely why the accountant's role becomes more important — not less — in an AI-enabled environment. Professional scepticism, ethical judgement, knowledge of accounting standards, understanding of business substance and awareness of materiality cannot be replaced by an algorithm. AI may identify a trend, but the accountant must assess whether that trend is relevant, reliable and meaningful. AI may produce a forecast, but the accountant must challenge the assumptions behind it.

The Future Accountant: Technical and Digitally Aware

The future accountant will need to combine technical competence with digital awareness. This does not mean that every accountant must become a technology expert. It does mean that accountants must understand how data is generated, how systems process information, how automated outputs should be reviewed and where technology-related risks may arise. The ability to ask the right questions will become as important as the ability to prepare the right report. This is a meaningful evolution — one that positions the profession not as a passive user of technology, but as an active, critical steward of it.

Governance: A Finance Profession Responsibility

Responsible use of AI requires governance. Organisations should be clear about where AI is being used, what data is being processed, who reviews the output and who remains accountable for final decisions. Policies should address confidentiality, data security, documentation, approval levels and human

review. Audit committees and boards should not treat AI as a purely technical matter. Where AI affects financial reporting, internal controls, compliance or risk assessment, it becomes a governance matter – and one that demands the involvement of finance professionals.

Accountants are well placed to lead this discussion. The profession already understands control environments, evidence, accountability and assurance. Rather than viewing AI implementation as an IT initiative alone, finance professionals should position themselves as key participants in designing responsible, controlled and value-adding use of technology.

The Public Interest Dimension

There is also a broader public interest dimension that the profession must not overlook. Financial information supports investor confidence, lender decisions, taxation, regulatory oversight and stakeholder trust. If AI is used in financial processes without adequate oversight, it may weaken that confidence. If used responsibly, it can enhance the quality, timeliness and usefulness of information.

The difference will depend largely on the judgement and integrity of the professionals who supervise its use. In this respect, the ethical foundations of the accounting profession are not a constraint on AI adoption – they are its most important safeguard.

The Chartered Accountant's Role in AI Governance

- Evaluating the reliability and quality of AI-generated outputs
- Designing and maintaining controls over automated financial processes
- Ensuring transparency in AI use within financial reporting frameworks
- Supporting boards and audit committees with governance oversight
- Championing ethical and responsible technology adoption

From Automation to Assurance

The accounting profession has adapted many times before – to changes in regulation, global reporting standards, taxation, audit expectations and corporate governance. AI is another such development, but with a wider impact on how information is processed and decisions are supported. The profession should neither resist it blindly nor adopt it uncritically.

The real opportunity lies in moving from automation to assurance. Routine processes may become faster, but the profession's value will continue to rest on trust. Accountants who use AI to improve efficiency, strengthen analysis and enhance control will become more relevant to their organisations. Those who rely on technology without judgement may expose their organisations to new risks.

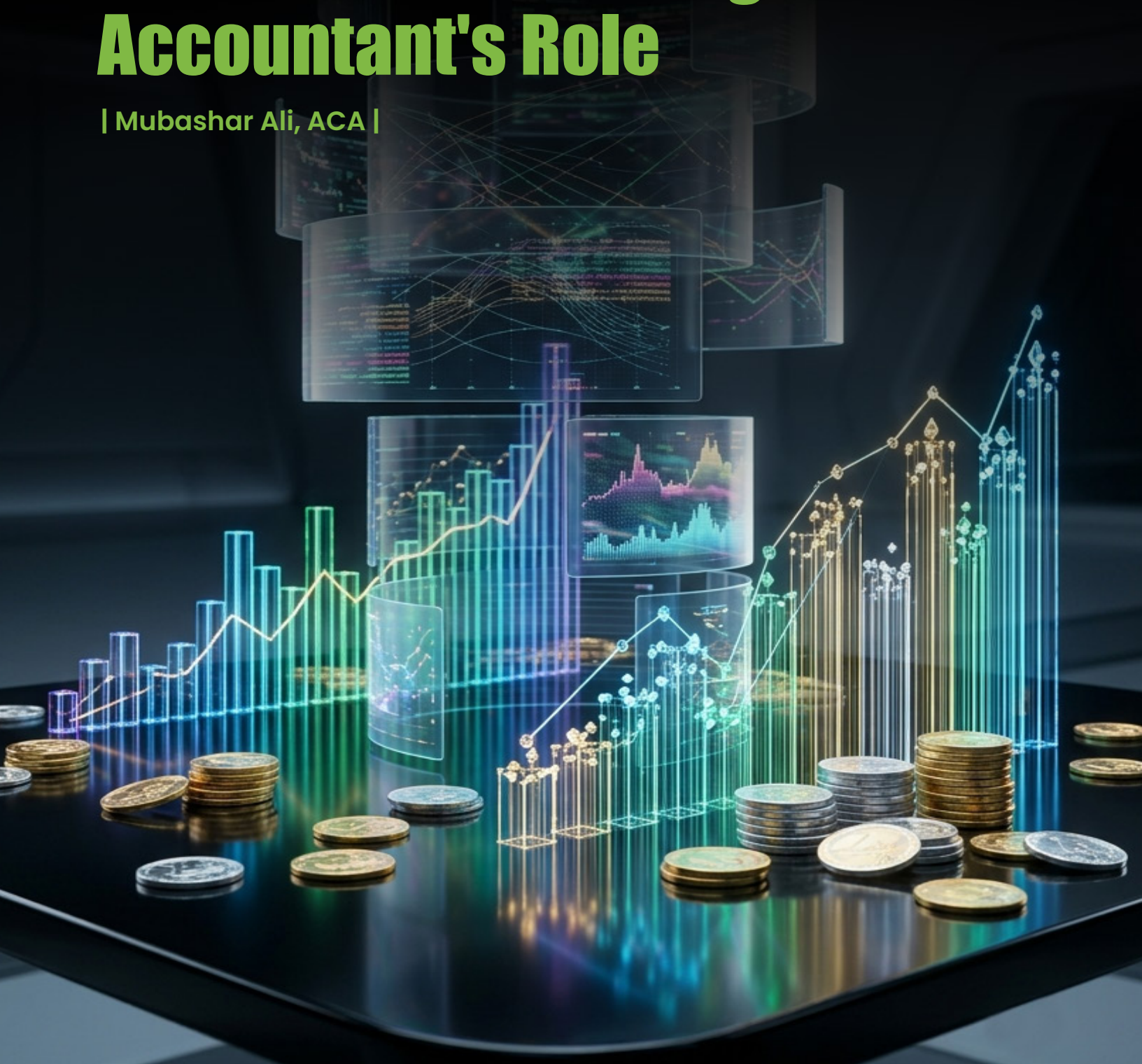
In a business environment marked by uncertainty, accountants have an opportunity to move beyond survival and contribute more directly to strategy. Their role will not be diminished by AI; it will be redefined by how responsibly and intelligently they choose to use it.



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How Digital Transformation and AI are Redefining the Accountant's Role

| Mubashar Ali, ACA |



The Boardroom Question Has Changed

A few years ago, business leaders in Pakistan were asking a simple question: How do we survive? Today, the question is very different: How do we grow, remain competitive, and create sustainable value in an increasingly uncertain environment?

For Pakistani businesses, the journey from survival to strategy has not been easy. Inflationary pressures, high interest rates, currency fluctuations, changing tax regulations, geopolitical uncertainties, and evolving stakeholder expectations have forced organizations to rethink their priorities. In this environment, the role of accountants is also changing.

The modern accountant is no longer expected merely to prepare financial statements or ensure compliance. Increasingly, businesses need professionals who can interpret information, anticipate risks, identify opportunities, and support strategic decision-making.

Interestingly, this transformation is taking place at the same time as the rapid adoption of digital technologies and Artificial Intelligence (AI).

Beyond Compliance: The New Expectation from Accountants

For decades, accountants were primarily viewed as custodians of financial information. Their success was measured by accuracy, compliance, and timely reporting. Their role was related to accounting and reporting whether it is for management or other stakeholders for compliance purposes, these responsibilities remain fundamental. However, technology is changing how they are performed.

Routine processes such as reconciliations, invoice processing, transaction matching, and management reporting are increasingly being automated. What once required days can now be completed within hours. This shift is creating a significant opportunity for the profession.

The time spent on accounting and reporting is now significantly saved and as a result the accountants spend less time processing information, and they can spend more time interpreting it. And, because of this, the finance professionals are becoming active participants in business strategy, helping management evaluate investments, assess risks, optimize resources,



and improve performance. In my experience advising businesses, organizations derive the greatest value not from the technology itself but from the insights generated through it. Technology can produce information and save time, but it still takes professional judgement to convert information into action.

Pakistan's Digital Transformation is Already Underway

Many businesses still view digital transformation as a future initiative. In reality, it is already happening around us.

One of the most visible examples is the Federal Board of Revenue (FBR). The FBR's Compliance Risk Management framework now uses Artificial Intelligence and Machine Learning techniques to identify non-filing, under-reporting, and tax evasion risks. The objective is not simply enforcement but smarter, risk-based decision-making. The FBR has also introduced AI-powered customs risk management systems to automate assessments and improve efficiency in customs administration. It is being reportedly said that in the near future, the tax audit, amendment of assessments,

Digital transformation is not replacing accountants—it is redefining their role. By combining technology with professional judgement, accountants are becoming indispensable partners in shaping business strategy and long-term growth.

refunds, exemptions, hearings all will be managed digitally without physical appearance.

These developments carry an important message for businesses. Regulators are increasingly using data analytics to identify inconsistencies and assess compliance risks. Consequently, the quality, accuracy, and consistency of financial information have become more important than ever before.

As a result, the job of the accountants who are involved in tax advisory and compliance will not only be related to compliance or filing of the returns, it will mainly be diverted to consultancy for accuracy of the data and advisory to structure the transaction. Therefore, the firms and accountants should prepare themselves for this shift which is already at the door.

Artificial Intelligence: Threat or Opportunity?

Whenever AI is discussed, one question inevitably arises: Will it replace accountants? I believe this is the wrong question. The better question is: How can accountants use AI to become more valuable?

AI can analyse vast datasets, identify anomalies, detect patterns, generate forecasts, and support decision-making at a speed impossible through manual processes. It can strengthen budgeting, improve cash flow forecasting, assist in tax compliance reviews, and enhance risk assessment.

However, AI has limitations and it cannot fully understand commercial realities, evaluate management intentions, assess strategic priorities, or exercise professional scepticism. It cannot replace the ethical judgement that underpins the accounting profession.

The greatest risk facing accountants is not that AI will replace them; it is that accountants who fail to understand technology may be replaced by those who do. The future belongs to professionals who can combine technological capabilities with sound business judgement.

Governance, Trust, and Professional Judgement

As organizations become more dependent on technology, new challenges emerge. Cybersecurity risks, data privacy concerns, algorithmic bias, and governance failures can undermine stakeholder confidence if not managed appropriately. In this environment, accountants have an important role to play in ensuring that digital systems are supported by effective controls, robust governance frameworks, and ethical decision-making.

This responsibility aligns closely with the profession's core values of integrity, objectivity, and public trust. Technology can automate processes, but trust remains a human responsibility. That is why

professional judgement will continue to differentiate successful accountants from automated systems.

Preparing for the Next Decade

The accountant of the future will require a broader skill set than previous generations. Technical expertise in accounting, auditing, taxation, and financial reporting will remain essential. However, professionals must also understand data analytics, technology governance, sustainability reporting, and strategic management.

The encouraging reality is that these developments create opportunities rather than threats. Businesses are increasingly looking for advisors who can connect finance, technology, risk management, and strategy. Accountants are uniquely positioned to perform this role because they understand how decisions translate into financial outcomes.

A Strategic Risk Often Overlooked

While much of the discussion around Artificial Intelligence/Digital Transformation focuses on efficiency gains and productivity improvements, businesses should also consider the long-term economic implications of increasing dependence on AI platforms. As AI adoption accelerates globally, the cost of advanced computing infrastructure, data processing, licensing, and premium AI services may continue to rise. Organizations that build critical business processes around third-party AI solutions could find themselves exposed to escalating costs, vendor dependency, and limited alternatives. For emerging economies such as Pakistan, where

businesses already operate under cost pressures and foreign exchange constraints, the economics of AI adoption will be as important as the technology itself.

The lesson for business leaders is clear, AI should be viewed as a strategic enabler rather than a strategic dependency. Investments in technology must continue to be supported by strong human capabilities, professional judgement, and sustainable business models so that organizations remain resilient even if the economics of AI change in the future.

Conclusion

The accounting profession has continuously evolved in response to changes in business, regulation, and technology. Artificial Intelligence and digital transformation are the latest drivers of change, offering unprecedented opportunities to enhance efficiency, insight, and decision-making. However, technology alone cannot create value. Its true potential lies in the hands of professionals who can apply judgement, scepticism, and business understanding to transform data into meaningful actions.

As Pakistan's business environment becomes increasingly data-driven, accountants must embrace technology without becoming dependent on it. Those who successfully combine innovation with professional expertise, ethical judgement, and strategic thinking will move beyond traditional compliance roles to become trusted advisors. In the journey from survival to strategy, they will not simply adapt to change—they will help lead it.



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From Traditional Accounting to Intelligent Finance: Why Accountants Must Embrace AI and Digital Transformation

| Asharab Bashir Chattha, ACA |

The role of accountants is changing rapidly. For decades, the accounting profession was mainly associated with recording transactions, preparing vouchers, maintaining ledgers, completing reconciliations, and producing financial statements. Although these responsibilities remain important, they are no longer enough. In today's dynamic business world, organizations expect finance professionals to provide timely business insights, support decision-making, improve internal controls, analyze performance and help organizations respond to emerging challenges.

This change in trend has made digital transformation and artificial intelligence central to the future of accountancy. Accountants should not fear this change. They should embrace it, understand it and learn how to use it for their benefit. AI and digital tools will not replace professionals. Instead, they are here to change the way professionals work.

My personal experience in implementing ERP systems and best practices in an organization that was previously operating through traditional accounting methods has shown me how powerful this transformation can be. In a traditional environment, many accounting processes are manual, repetitive and dependent on individuals. Reports take time. Reconciliations are delayed. Data is maintained in different formats across departments. Information is available, but not always in the right shape or at the right time for decision-making.

When an organization implements and adopts to an integrated ERP system, the finance function starts moving from manual reporting towards more structured, real-time and controlled flow of information. Procurement, inventory, sales, payroll, costing and finance are interlinked in such a way that a transaction entered in one area automatically affects other relevant areas. This creates better accessibility, comprehensive audit trails and more reliable reporting.

However, digital transformation is not only about installing a software. It is about changing the way people think and work. If an organization implements a system but continues to follow old habits, the benefit remains limited. The actual benefit is achieved when technology is backed by accurate master data, strong controls, properly trained users, clear ownership of processes and active management support. For accountants, the impact of such implementation is

significant. Instead of spending most of their time collecting data, correcting formats and preparing repetitive reports, they can focus more on analysis, controls and supporting business through providing valuable insights based on extracted reports. They can identify unusual trends, cost overruns, stock differences and budget variances earlier. This allows finance to become more proactive rather than reactive.

Artificial intelligence is now taking this transformation few steps further. AI tools and agents can assist accountants in preparing presentations, drafting budgets, supporting FP&A activities, reviewing variances, summarizing financial information, creating automated dashboards and converting large unstructured data into understandable insights. Tasks that previously required many hours can now be completed more efficiently with the right instructions (prompts), review and professional judgment.

This does not mean that AI should be followed blindly. There is a bubble around AI in the corporate world, and many organizations are now creating KPIs around the usage of AI, which is not an indicator of value generation. Some of this excitement may be excessive. Simply using AI for the sake of using AI does not create value. The real value comes when users know how to ask the right questions, verify the reasonableness and accuracy of output, understand the limitations and apply their own judgment.

For accountancy, this distinction is very important. AI can help generate analysis, summarize reports and prepare drafts, but it cannot replace professional skepticism and accounting judgment. An accountant must still understand whether the result makes sense, whether assumptions are reasonable, whether data is reliable and whether the conclusion is appropriate.

This is why young accountants and trainees should not look at AI as a threat. They should treat it as a skill. Just as MS Office knowledge, ERP understanding and financial reporting standards became essential over time, AI literacy is now becoming a basic professional requirement. Knowing how to handle AI will soon be necessary not only in finance, but in almost every field. For accountants, it is even more important because their work depends heavily on data, accuracy, analysis and interpretation.

The risk is not that AI will immediately replace accountants. The bigger risk is that accountants who do not learn digital tools may be replaced by those

“ Digital transformation is not about replacing accountants with technology—it is about empowering them to move from processing information to delivering strategic insight. ”

who do. Professionals who continue to rely only on traditional methods may find their skills becoming outdated. On the other hand, accountants who understand finance, systems, controls and AI will be in a much stronger position.

This transformation also requires a change in mindset. As futurist Alvin Toffler rightly said, “The illiterate of the 21st century will not be those who cannot read and write, but those who cannot learn, unlearn, and relearn”.

The accountant of the future must therefore combine technical knowledge with digital capability. Accounting standards, taxation, audit and compliance will remain the foundation. But on top of that foundation, accountants must build skills in ERP systems, data analysis, automation, dashboards, AI tools and business intelligence. They must understand

how transactions flow through systems and how financial data can be converted into meaningful decisions.

In my view, this is particularly relevant for developing economies like Pakistan, where many businesses are still moving from traditional accounting methods toward integrated systems and digital reporting. This transition creates a major opportunity for accountants. Finance professionals can lead this change because they understand controls, compliance, reporting needs and management expectations better than anyone else.

At the same time, organizations must support this transformation through training and culture. Digital tools cannot deliver results if employees are not trained to use them properly. Management must encourage responsible experimentation with AI.

Digital transformation, ERP systems and AI are not temporary trends. They are becoming part of the basic language of business. Accountants who embrace this change will become more efficient, more analytical and more valuable. Those who ignore it may find themselves struggling to remain relevant. This is where accountants can move from survival to evolution.

The message for current and future accountants is clear. AI and digital transformation should not be feared. They should be understood, questioned, controlled and used with responsibility. The future of accountancy will not be built on technology alone, nor only on traditional knowledge. It will belong to professionals who can combine accounting expertise with their digital capability. In that combination lies the real opportunity for accountants to move beyond routine reporting and become true strategic partners in the organizations they serve.



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The Future of Financial Reporting: AI, Digital Transformation and Strategic Finance

| Waqar Ahmed Khan, FCA |

For a long time, financial reporting was a process that demanded significant time and effort from finance teams. Month end reporting often involved gathering information from different systems, checking figures across multiple spreadsheets, and spending hours resolving discrepancies before reports could be finalized. Although these tasks were essential, they were often repetitive and left little opportunity for finance professionals to focus on analysis or strategic decision making.

In recent years, advances in technology have started to change the way organizations approach financial reporting. Digital transformation and artificial intelligence are becoming increasingly important within finance functions, helping businesses improve efficiency while also providing deeper insights into financial performance. Rather than simply speeding up existing processes, these technologies are changing how financial information is collected, analyzed, and used.

Digital transformation is a term that is frequently discussed in business, but within finance it has a very practical meaning. It involves moving away from fragmented systems and manual processes towards more connected ways of working. Many organizations are investing in platforms that allow data to flow automatically between systems, reducing the need for manual data entry and repetitive reconciliation work.

The benefits of this shift are becoming more apparent as organizations deal with larger volumes of data and increasingly complex reporting requirements. When information is integrated across systems, finance teams can access more accurate data in a shorter period of time. As a result, reporting processes become more efficient, and the likelihood of errors caused by manual handling is reduced.

Artificial Intelligence adds another dimension to this transformation. While automation is useful for handling routine tasks, AI has the ability to identify patterns, analyze large datasets, and highlight information that may require further attention. For example, an AI system can review thousands of transactions within seconds and identify unusual activity that may indicate an error or potential risk. In the past, finding these issues often depended on manual review and could take considerably longer.

AI is also changing the way organizations think about forecasting. Traditionally, financial reporting has

Digital transformation is enabling finance teams to spend less time preparing reports and more time delivering insights that support better business decisions.

focused on explaining past performance. Although this remains important, businesses are increasingly looking for insights that help them prepare for the future. AI can analyze historical trends alongside current data to produce forecasts that adjust as new information becomes available. This allows management teams to make decisions based on a more current understanding of business conditions.

Several technology companies have emerged as important contributors to this shift. UiPath is widely recognized for its work in robotic process automation, helping organizations automate tasks such as transaction processing, reconciliations, and report preparation. By reducing the amount of manual work required, these tools allow finance professionals to spend more time interpreting results and supporting decision making.

Palantir approaches the challenge from a different angle. Rather than focusing primarily on process automation, its platforms are designed to bring together data from different parts of an organization into a single environment. This makes it easier for decision makers to access information and gain a clearer understanding of how operational activities affect financial performance.

One example is Palantir Foundry, which enables organizations to combine financial and operational data into a unified platform. This creates opportunities for more advanced analysis, including scenario planning, financial modelling, and rolling forecasts. Instead of relying solely on periodic reports, organizations can monitor performance continuously and respond more quickly when conditions change.

As technology becomes more deeply embedded within finance functions, expectations of finance

professionals are also changing. Producing accurate reports remains a fundamental responsibility, but organizations increasingly expect finance teams to provide insights that support business strategy.

Senior leaders often want more than financial results. They want to understand the reasons behind those results and the potential implications for future performance. This shift is encouraging finance professionals to take on a more strategic role within organizations. Many are becoming responsible not only for reporting information but also for interpreting it, identifying risks, and helping management evaluate potential opportunities. Technology can support these activities by providing better information and more sophisticated analysis, but professional judgement remains essential. Data can highlight trends, but people are still needed to understand context and make informed decisions.

Despite the advantages, digital transformation is not always straightforward. One of the biggest challenges organizations face is data quality. Even the most advanced systems depend on accurate information. If data is incomplete, inconsistent, or poorly organized, the value of automation and AI can be significantly reduced. For this reason, many organizations must first improve their data management practices before they can fully benefit from new technologies.

There are also cultural challenges to consider. Finance departments have traditionally operated in environments where accuracy, accountability, and control are highly valued. As a result, some professionals may be cautious about relying on automated systems without a clear understanding of how they work. Building confidence in these technologies requires transparency, effective governance, and appropriate training.

Organizations that successfully adopt digital tools often invest not only in technology but also in people. Employees need opportunities to develop new skills and understand how emerging technologies can support their work. When finance professionals feel confident using these systems, they are more likely to embrace change and use technology effectively.

Looking to the future, financial reporting is expected to become increasingly dynamic. Advances in technology are making it possible for organizations to access current financial information whenever it is needed rather than waiting for scheduled reporting periods. This has the potential to improve responsiveness and provide decision makers with a more complete picture of organizational performance.

However, despite these technological developments, the purpose of financial reporting remains unchanged. Stakeholders still rely on financial information to assess performance, make decisions, and maintain confidence in organizations. Technology improves the process, but it does not replace the need for reliable information or sound professional judgement.

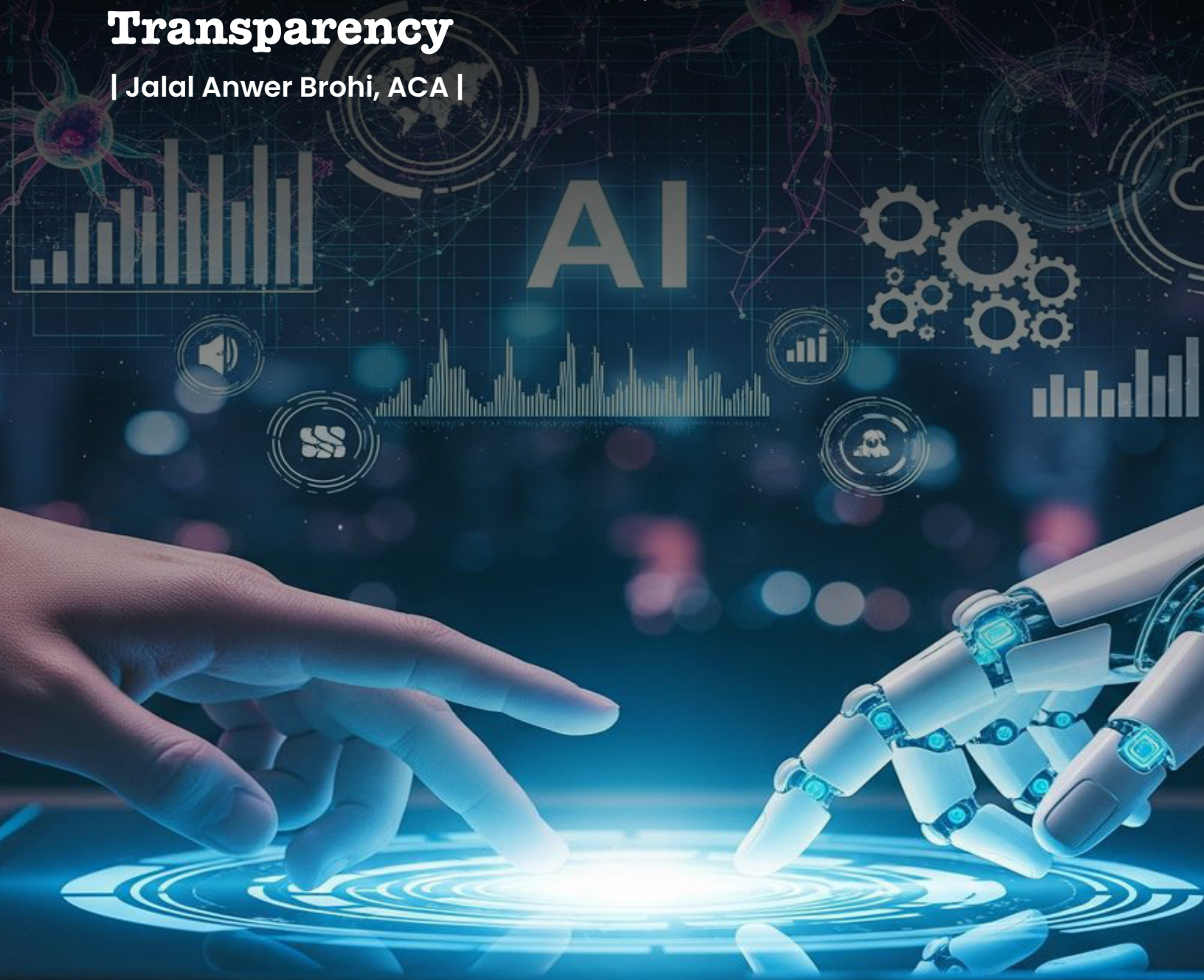
Ultimately, the most significant change may be the evolving role of finance itself. The function is gradually moving beyond its traditional focus on recording and reporting past events. Increasingly, finance teams are helping organizations understand future possibilities, evaluate risks, and make more informed decisions. In that sense, the future of financial reporting is not only about technology. It is also about how finance professionals use technology to create greater value for the organizations they support.



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Digital Transformation in Finance: Enhancing Efficiency, Accuracy, and Transparency

| Jalal Anwer Brohi, ACA |



A thorough approach to redefining financial reporting via technological advancements is digital transformation. It involves the intentional integration of advanced technologies like Artificial Intelligence (AI) and Blockchain to improve the accuracy, efficiency, and transparency of financial operations.

AI is a groundbreaking technology that transforms the methods used in financial reporting. It serves as an essential resource for enhancing these procedures. Through the automation of repetitive tasks and the application of sophisticated data analysis techniques, AI greatly minimizes human mistakes and delivers immediate insights. The overall reliability of financial information can be enhanced through the application of machine learning algorithms, which detect anomalies, predict financial trends and streamline complex accounting tasks.

The Blockchain technology introduces a decentralized and immutable ledger system that revolutionizes traditional accounting methods. By providing a transparent, secure and indelible record-keeping solution, Blockchain ensures the reliability of financial transactions and fosters trust among stakeholders. This technology enables real-time verification, reducing the risk of fraud and creating an auditable trail of financial transactions, accessible for authorized parties to review and confirm.

Strong digital financial reporting systems are now more important than ever, due to the current state of the world economy, characterized by geopolitical unrest and pandemic-related difficulties. Companies are now forced to create more robust, flexible financial systems that can swiftly adjust to quickly shifting market conditions. Real-time financial insights made possible by digital transformation help businesses to make data-driven decisions in a world market that is becoming more and more unpredictable.

The significance of digital transformation in financial reporting is becoming more widely acknowledged by regulatory agencies across the globe. Governments and international financial organizations are developing frameworks to stimulate technology innovation, while adhering to tight compliance rules. The atmosphere created by this regulatory evolution facilitates the incorporation of cutting-edge technologies into financial reporting procedures.

Access to financial data is becoming more manageable, thanks to digital transformation. Smaller

businesses can now take advantage of powerful financial reporting technologies that were previously only available to major firms, thanks to cloud computing and sophisticated reporting tools. This fair playing field promotes increased transparency and competition in the global economic environment. Digital change has greatly accelerated the growth of Environmental, Social and Governance (ESG) reporting. Modern technology makes it possible to measure sustainability parameters more thoroughly and accurately, enabling businesses to produce more transparent and in-depth reports on their social and environmental effects.

Digital technologies are removing geographical barriers in financial reporting. More effective cross-border transactions and co-operative financial management are made possible by Blockchain technology and cloud-based platforms, which enable smooth international financial communication. More uniform and transparent financial reporting procedures are made possible by this worldwide interconnection.

The ethical issues of data privacy, algorithmic bias and human oversight are becoming more crucial as digital technologies proliferate in financial reporting. Organizations need to create all-encompassing plans that strike a balance between human skills, ethical considerations and technical innovation.

Nations that have adopted digital transformation demonstrate significant advancements in the punctuality and reliability of financial reports. The table below demonstrates that the average financial reporting lag in emerging economies implementing digital tools fell notably from 60 to 38 days between 2015 and 2022.

Impact of Digital Tools on Financial Reporting Timeliness in Emerging Markets (2015–2022)

Country	Financial Reporting Lag (2015)	Financial Reporting Lag (2022)	% Reduction
Nigeria	65 days	42 days	35%
Kenya	58 days	36 days	38%
Brazil	57 days	33 days	42%
Philippines	60 days	38 days	37%
Average	60 days	38 days	37%



The adoption of International Financial Reporting Standards (IFRS) has sped up in emerging markets, thanks to digital platforms that streamline reporting obligations and improve compliance. IFRS-compliant reporting solutions now offer templates, multilingual capabilities and automatic updates that reduce regulatory obstacles.

IFRS Adoption Growth in Emerging Markets by Region (2015–2022) Driven By Digital Innovations

Region	IFRS Adoption (2015)	IFRS Adoption (2022)	% Increase
Sub-Saharan Africa	48%	76%	58%
Southeast Asia	52%	81%	56%
Latin America	62%	85%	37%
Eastern Europe	63%	79%	25%
Middle East	55%	74%	35%
Average	56%	78%	39%

Challenges in Implementing Digital Financial Reporting

Cybersecurity is increasingly becoming a significant issue as financial reporting turns more digital. The rise in cyberattacks and data breaches necessitates advanced technological solutions that ensure the integrity and security of financial information. Thanks to its distributed and immutable ledger design, Blockchain technology offers an effective solution for addressing these security concerns.

Another obstacle hindering digital financial reporting acceptance is the infrastructure deficit. In numerous developing areas, internet access continues to be significantly lower than worldwide averages. For example, just 35% of people in low-income nations have consistent internet access, while 87% in high-income nations do. This gap in digital access results in an unequal environment for companies attempting to adopt contemporary reporting systems.

Additionally, antiquated IT systems in government and corporate entities worsen this disparity. Insufficient access to dependable electricity and low levels of digital literacy further contribute to restricted adoption. These structural limitations reduce the feasibility and scalability of digital transformation efforts in the financial reporting landscape.

Regulatory ambiguities make the adoption of digital reporting more challenging in emerging markets. Policy frameworks that are inconsistent or not fully developed hinder organizations from adhering to digital reporting standards. A study finds that merely 22% of emerging economies surveyed possess a comprehensive legal framework for digital financial disclosures. Numerous nations function with either provisional rules or makeshift policies, which hampers institutional investment in digital infrastructures.

Moreover, constant changes in policy lead to risk and uncertainty for both domestic and global stakeholders. The lack of cohesive data protection laws and cybersecurity policies increases confusion. Without explicit regulatory direction, businesses hesitate to commit to long-term digital reporting strategies.

A significant issue is the rising expenses linked to the adoption of digital financial reporting systems. The upfront expenditure needed for digital infrastructure, software and workforce training is considerable, falling

Artificial Intelligence and Blockchain are transforming finance by automating routine processes, strengthening controls, and enhancing the reliability of financial information.

between \$15,000 and \$50,000 for standard companies in developing countries. Yearly upkeep and system upgrades contribute an additional \$5,000 to \$10,000. For small and medium enterprises (SMEs), such numbers constitute a considerable financial strain. Conversely, large companies in affluent nations can more readily manage these costs. Consequently, cost disparities deepen the technological gap between advanced and emerging economies.

Indicator	Emerging Markets	High-Income Countries
Internet Penetration (%)	35%	87%
Defined Digital Reporting	22%	78%
Average Setup Cost (USD)	\$15,000–\$50,000	\$30,000–\$70,000
Annual Maintenance Cost (USD)	\$5,000–\$10,000	\$8,000–\$15,000

Conclusion

Digital transformation is fundamentally altering the financial reporting and corporate governance environment in emerging markets. The incorporation of digital solutions—like cloud-based accounting software, Blockchain technology and AI-powered analytics is enhancing the precision and promptness of financial reporting. These improvements are particularly crucial in areas that have traditionally suffered from manual record-keeping, unclear reporting methods and poor internal controls. Consequently, digital financial reporting is assisting in decreasing occurrences of fraud, misreporting and data manipulation. Improved transparency directly leads to higher governance standards and strengthens public and investor confidence in corporate institutions. Moreover, through enhanced automation, organizations can shift resources towards strategic decision-making instead of routine compliance activities. In spite of these advancements, progress continues to be inconsistent because of systemic inequalities in technology access, regulatory development and organizational preparedness en-bloc.



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Digital Transformation, Artificial Intelligence, and the Accountant's Strategic Role in Modern Business

| Munazza Anwar, ACA |

In today's rapidly evolving business environment, accountants play a crucial role in helping organizations respond to emerging challenges such as technological disruption, regulatory changes, and increasing stakeholder demands. Through digital transformation and AI adoption, they enhance financial reporting efficiency, ensure compliance, manage risks, and provide strategic insights that support informed decision-making and sustainable business growth.

Digital transformation refers to the integration of digital technologies into all aspects of business operations, fundamentally changing how organizations create value and deliver services. Technologies such as cloud computing, robotic process automation (RPA), big data analytics, block chain, and AI are reshaping financial management processes.

Traditionally, accountants focused on recording transactions, preparing financial statements, and ensuring regulatory compliance. Today, digital tools automate many routine accounting tasks, allowing professionals to concentrate on higher-value activities such as financial analysis, forecasting, and strategic planning. This shift has transformed accountants from record keepers into business advisors.

Accountants are instrumental in guiding organizations through digital transformation initiatives. They assess technological investments, evaluate financial implications, and ensure that digital solutions align with business goals. Their understanding of financial systems enables them to identify opportunities for process improvement, cost reduction, and operational efficiency. Furthermore, accountants help organizations develop digital strategies that support long-term growth and competitiveness.

As businesses increasingly rely on digital platforms, accountants also play a crucial role in managing data quality and governance. Accurate financial information depends on reliable data collection, storage, and processing systems. Accountants ensure that digital systems maintain data integrity and comply with regulatory standards, thereby supporting informed decision-making.

Artificial Intelligence has become a transformative force in accounting and financial reporting. AI technologies can analyze vast amounts of data, identify patterns, automate repetitive tasks, and



generate insights with remarkable speed and accuracy. These capabilities significantly enhance financial reporting efficiency and improve organizational performance.

One of the primary applications of AI in accounting is the automation of routine tasks such as data entry, invoice processing, account reconciliation, and transaction classification. By reducing manual intervention, AI minimizes errors and accelerates reporting processes. This allows accountants to focus on complex analytical tasks that require professional judgment and expertise.

AI-powered systems also improve the accuracy and timeliness of financial reporting. Traditional reporting processes often involve extensive manual work, which can lead to delays and inconsistencies. AI can process large datasets in real time, enabling organizations to generate financial reports more quickly and accurately. Faster reporting supports better decision-making and enhances organizational agility in a competitive business environment.

Additionally, AI enhances predictive analytic and forecasting capabilities. By analyzing historical data

and market trends, AI systems can generate forecasts that help businesses anticipate financial challenges and opportunities. Accountants use these insights to develop strategic recommendations, manage risks, and support organizational planning.

However, the adoption of AI does not eliminate the need for accountants. Instead, it increases the demand for professionals who can interpret AI-generated outputs, validate results, and ensure compliance with accounting standards. Human judgment remains essential in evaluating complex financial situations, addressing ethical concerns, and making strategic decisions.

Financial reporting accuracy is critical for maintaining stakeholder trust and meeting regulatory requirements. Investors, regulators, creditors, and management rely on accurate financial information to make informed decisions. Digital transformation and AI contribute significantly to improving reporting accuracy, but accountants remain responsible for overseeing these technologies and ensuring compliance.

Advanced accounting software and AI-driven systems reduce the likelihood of human error by automating calculations and standardizing processes. Automated controls can detect anomalies, identify inconsistencies, and flag potential errors before financial statements are finalized. This improves the reliability of financial information and reduces the risk of misstatements.

Accountants play a key role in designing and monitoring these control systems. They establish reporting procedures, review system outputs, and verify compliance with accounting standards and regulatory requirements. Their expertise ensures that technology-driven processes align with legal and professional obligations.

Furthermore, regulatory environments are becoming increasingly complex. Organizations must comply with evolving financial reporting standards, tax regulations, and corporate governance requirements. Accountants use digital tools to monitor regulatory changes, assess their impact, and implement necessary adjustments. By combining technological capabilities with professional expertise, accountants help organizations maintain compliance while improving efficiency.

“Technology automates processes, while accountants ensure reliability, compliance, and effective risk management.”

The growing reliance on digital technologies introduces new risks, particularly in the areas of cybersecurity and data protection. Financial information is among the most valuable assets within an organization, making it a prime target for cybercriminals. Data breaches, ransomware attacks, and unauthorized access can have severe financial and reputation consequences.

Accountants play an essential role in managing these risks. They collaborate with information technology professionals to establish internal controls, assess vulnerabilities, and implement risk mitigation strategies. Their understanding of financial systems enables them to identify areas where security measures are most critical.

In addition to cybersecurity, accountants evaluate risks associated with AI and automated systems. AI algorithms may produce inaccurate results if they are based on incomplete or biased data. Accountants ensure that AI applications are properly monitored, tested, and validated to maintain the reliability of financial reporting.

Risk management also involves maintaining business continuity and resilience. Accountants contribute to contingency planning by assessing financial impacts, developing recovery strategies, and ensuring that organizations can respond effectively to disruptions. Their involvement helps businesses balance innovation with prudent risk management practices.

As technology automates routine accounting functions, accountants are increasingly contributing to

strategic decision-making. Access to real-time financial data and advanced analytic enables organizations to make more informed and proactive decisions. Accountants analyse this information to identify trends, evaluate performance, and recommend strategies that support business objectives.

AI and digital technologies provide valuable insights into customer behaviour, market conditions, operational efficiency, and financial performance. Accountants translate these insights into actionable recommendations that help organizations improve profitability, manage costs, and achieve sustainable growth.

Moreover, accountants play a critical role in evaluating technology investments. Organizations must determine whether digital transformation initiatives and AI solutions generate sufficient value to justify their costs. Accountants conduct cost-benefit analyses, assess return on investment, and measure the financial impact of technological projects. Their expertise ensures that resources are allocated effectively and that technology initiatives support long-term organizational goals.

The strategic contributions of accountants extend beyond financial performance. They also support environmental, social, and governance (ESG) reporting, sustainability initiatives, and stakeholder engagement. By leveraging digital tools and analytical capabilities, accountants help organizations demonstrate accountability and create value for a broad range of stakeholders.

Digital transformation and Artificial Intelligence are

reshaping the business landscape, creating both opportunities and challenges for organizations worldwide. These technologies have significantly improved financial reporting efficiency by automating routine tasks, enhancing accuracy, and providing valuable analytical insights. However, technology alone cannot guarantee effective financial management and reporting.

Accountants remain indispensable in addressing emerging business challenges. Their expertise ensures that digital transformation initiatives align with organizational objectives, regulatory requirements, and ethical standards. They oversee the implementation of AI systems, manage risks, maintain data integrity, and provide strategic guidance that supports informed decision-making.

As businesses continue to embrace technological innovation, the role of accountants will become even more critical. By combining financial expertise with technological proficiency, accountants serve as trusted advisors who help organizations navigate complexity, enhance reporting efficiency, and achieve sustainable success in an increasingly digital world.



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Smart Accountants in the Age of Digital Transformation and AI

| Imtiaz Abbas Hussain, FCA |

The present business world has shifted from survival mode to strategy mode through the use of real-time, data-driven technology and smart, value-added, proactive, and forward-looking accountants."

Smart Accountants through their professional and modern tools have changed the handling of business issues from survival mode like cash is tight, orders are late, systems and controls in mess, facing frauds and huge wastages, raw materials are short, will we make payroll?, can we cover rent?, can we cover payment of utilities? etc to strategy mode like flawless control and high-tech backed systems, managed cash flow, operation run smoothly, planning for where should we grow?, what should we stop doing? What is our 12-month plan? taking timely and effective decisions instead of problem panicky reactive decisions etc.

The value of accountant now comes from person who is proactive, forward looking, doing financial planning and analysis and making decisions and judgment, not just from person who is busy in record keeping, preparing financial statements, tax and other filings and doing compliance, because accountants are becoming strategic operators as business challenges are moving faster, more digital, and more regulated than ever.

Emerging business challenges

Nowadays the businesses in the global village are facing business complexities and challenges almost every day due to high technology, cut - throat competition, drastic changes in business dynamics, high inflation, impact of climate change, uncontrollable markup rates, energy issues, diversification of businesses, supply chain challenges and geopolitical and macroeconomic uncertainties and much more. For example, a small shopkeeper is now selling his or her goods or services by giving reference to the impact of global currencies, geopolitical and macroeconomic changes. Likewise global innovation, creation and human needs now scrapping systems and procedures, international standards, laws and rules, high risk and rewards, making products and services obsolete, work from home, shifting banking services to customers from physical presence to mobile phone etc.

Emerging business challenges are numerous having no boundaries which include:

01. Business enterprises' having annual budget showing huge budgeted profit but at the end of



year get shocked to learn that the business is in huge losses;

02. Turnover of business is huge but bottom line showing in red as losses;

03. Cash flow is stuck up and not allowing operational and other payments;

04. Annual and interim budgets of the government erode business profit;

05. Business may be running smoothly, but all of a sudden a major fraud may occur due to weak internal controls and inadequate systems, drastically reducing asset values and adversely affecting the financial position.

06. National and global high inflation adversely affect smooth running of business and indulging it towards bankruptcy as it is a systematic distortion of the corporate financial engine;

Modern accountants have evolved from record keepers to strategic advisors, using technology, data analytics, budgeting, and financial planning

07. Natural calamities including internal and external wars badly hit running and growth of business due to currency swings, blockade of imports and exports, high inflation, high markup rates, energy crisis, supply chain shocks, huge unabsorbed overhead etc;

08. Businesses need real-time data to decide on pricing, expansion, investment in technology;

09. There is a huge fine for non-compliance of government regulations etc, which also eroded profit margin and damage business reputation in the competitive market;

10. Investors, regulators, and banks now demand audited ESG and sustainability disclosures;

How Do Accountants Address Emerging Business Challenges?

Accountants, with their professional skills and talents, are dealing with business challenges that go way beyond "close the books on time." The job has shifted from financial control to navigating volatility, technology, and stakeholder pressure. Smart Accountants implement highly strategic, targeted tactics to handle these macroeconomic and other challenges headwinds, which include:

01. Accountants set up control and high-tech backed systems in the business to mitigate risk of fraud

and cyber-attack, control leakages and wastages and to perform business operation smoothly by taking following measures:

- (i) Purchases of materials, which is a major component of the income statement and current assets, will not be approved and recorded unless their relevant original all documents have been executed;
 - (ii) Purchase and expenses document will be locked after making payment to avoid duplicate payment;
 - (iii) Introduce internal audit system with the core objective to assess risk, ensure compliance and governance and improve operations;
 - (iv) Introduce security system including firefighting and insurance coverage;
 - (v) Introduce costing system with critical review of monthly cost sheet and its reconciliation with monthly financial income statement with the following objectives:
 - (a) Products with negative contribution need to be reported immediately to the management to take effective measures as these products are not absorbing overheads and eating profit;
 - (b) Products with losses also need to be reported to the management;
 - (c) Abnormal unfavourable variances of cost of materials, labour and overhead also need to be reported to the management;
 - (d) Critically review monthly yield statement and control wastages and leakages.
 - (vi) Conduct inventory and cash count at the end of every month and of fixed assets every six month and report to the management. Compute valuation of inventories;
 - (vii) Prepare cost sheet with real time and estimated future cost to quote local or export price before accepting customer order and launching new products;
02. In order to achieve business goals, Accountant should introduce the following budgetary control system:



- (i) Defined and established cost Centre to control department-wise cost and performance;
 - (ii) Prepare a corporate strategic budget covering, say, ten years to check the sustainability and growth of the business by also applying sensitivity analysis (stress test), which also identifies hurdles in its smooth running by exposing factors such as BMR&E of fixed assets, additional capital and loan requirements, the need for diversification of business or toll manufacturing, etc., so that such hurdles may be removed in time.
 - (iii) Prepare annual budget to ensure achieving of business goals, market driven return to investors and to see smooth running and financial performance of the business and to address hurdles before time. It also allows management to do efficient tax planning by taking tax saving steps and not tax evasion step, which is a crime;
 - (iv) Prepare monthly forecast based on current scenario;
 - (v) Prepare monthly financial statements of the business;
 - (vi) Compare actual financial statements with relevant monthly forecast and relevant portion of annual budget. Abnormal variations are required to be explained with reasons by the concerned head of departments which help management to address issues timely, efficiently and effectively to achieve budgeted profit.
03. When the budgeted profit is eroded due to rising trend of inflation, high interest rates, energy crises etc., the annual budget become obsolete. In this case the accountant takes the following measure to address business challenges:
 - (i) Accountants deliver Financial Planning and Analysis in real time using dashboards, not just static reports. They translate numbers into “should we do this?” recommendations;
 - (ii) Accountants navigate inflation and rising interest rates by adjusting financial statements and stress-testing cash flows. They also secure corporate flexibility by restructuring debt, actively managing working capital, and shifting from historical-cost accounting to predictive models to protect profit margins;
 - (iii) Accountant Combat Inflationary Pressure through: Inflation Accounting to restate asset values and income; dynamic Pricing Models by shifting from fixed annual budgets to rolling forecasts and by breaking down the cost structure, they guide the business on selective price adjustments and high-margin product focuses; and optimizing Supply Chains to negotiate longer-term supplier agreements and assess the true total cost of inventory replacement;
 - (iv) High inflation makes historical data obsolete and forces Accountant for the fundamental rewiring of capital allocation, debt management, and pricing strategies;
 - (v) Accountants ignore standard costs for the year which become obsolete to avoid finance team to chase “phantom profits” while real cash flow erodes;
 - (vi) Accountant must now lead sales by analysing consumer elasticity weekly to protect margins without losing volume;
 - (vii) Treasury teams are shifting from floating-rate to fixed-rate debt to buy certainty against future spikes;
 - (viii) Accountant also navigates High Interest Rates through refinancing and debt structuring and

Accountants help businesses tackle challenges like inflation, fraud, compliance, and ESG reporting by strengthening controls and supporting sustainable growth.

mitigate this by hedging, locking in fixed-rate debt, and negotiating favourable banking covenants;

- (ix) Regulatory Compliance by ensuring all required risk factors and financial statement impacts is correctly communicated;
- 04. To address the following tough and uncontrollable modern emerging business challenges, the accountants also need to get help and support from other departments of the entity, experts and outside third parties:
 - (i) SEC, EU CSRD, and others require audited sustainability data in the shape of ESG and Sustainability Reporting. Accountants are responsible for such data as these are non-financial data, hard to audit, and impacts access to capital, otherwise have to face penalties and investor distrust;
 - (ii) Cyber security and Fraud Risk are rising in the environment of businesses and society as the

digital payments, remote work, and AI Deepfakes have made fraud easier and faster. Although the Accountants have internal controls but they need to coordinate with IT and cyber security. Financial controls have to adapt to cloud systems and instant payments;

- (iii) Tax, Regulatory and Global Rules complexities are one of the major issues of a business. OECD Pillar 2 global minimum tax, digital services taxes and real-time VAT e-invoicing are making tax compliance harder. Tax has to be embedded in transactions. Miss a rule in one country and business to face big fine and penalties;

Conclusion

Most businesses underutilize accountants by treating them as mere record keepers. An accountant and his team need data analytics, technology literacy, and ESG knowledge. Traditional accountants don't have it. Therefore, the Accountants have to up-skill teams or hire expensive talent while controlling costs and addressing emerging complex business challenges, because there is a stakeholder pressure to do more with less on Accountants as boards want growth, investors want efficiency, employees want investment, and regulators want transparency and smart accountants are the ones balancing all of it with their professional skills and talent. They are expected to be strategic advisors, tech leaders, and risk managers, not just scorekeepers.



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Digital Transformation, AI & Financial Reporting Efficiency: Redefining the Accountant's Role in the Strategic Era: From Survival to Strategy

| Shahroz Saleem, ACA |

Ideas

Strategy

Succ



Over the past few decades, businesses have undergone a remarkable transformation in their priorities and operating philosophies. In earlier times, organizations were primarily focused on survival. Economic uncertainties, market competition, operational inefficiencies, and limited access to information meant that most businesses were engaged in a continuous struggle to sustain themselves. Success was often measured by the ability to remain operational and profitable.

Today, however, the corporate landscape has evolved significantly. Survival is no longer considered the ultimate objective; it is merely the starting point. Modern organizations are increasingly driven by strategy, innovation, scalability, and sustainable growth. Businesses now evaluate their performance not only through profitability but also through expansion potential, market acceptance, operational excellence, stakeholder value, and corporate social responsibility.

This strategic shift has transformed every aspect of business operation, including finance and accounting. Among the most influential developments shaping the profession today are Digital Transformation and Artificial Intelligence (AI), both of which are fundamentally redefining financial reporting and the role of accountants.

The Evolution of the Accounting Profession

Historically, accountants were often perceived as record keepers and custodians of financial information. Their primary responsibilities revolved around maintaining ledgers, recording transactions, preparing reports, and ensuring compliance with accounting standards.

While these responsibilities remain important, the expectations from finance professionals have changed dramatically. Organizations now require accountants to act as strategic advisors who can interpret financial information, identify business opportunities, assess risks, and contribute to decision-making processes.

This transformation has largely been enabled by advancements in technology. Digital platforms, Enterprise Resource Planning (ERP) systems, automation tools, advanced analytics, and AI-powered solutions have significantly reduced the



manual burden traditionally associated with accounting functions.

As a result, accountants are no longer confined to historical reporting; they are increasingly involved in shaping the future direction of businesses.

Digital Transformation: The Foundation of Modern Finance

Digital transformation is far more than the adoption of new technologies. It represents a fundamental change in how organizations operate, process information, and create value.

Modern businesses generate enormous volumes of data every day. Without digital systems, managing and interpreting this information would be nearly impossible. Through integrated financial systems, cloud-based solutions, and automated workflows, organizations can now access real-time information, improve transparency, and enhance operational efficiency.

For finance functions, digital transformation has streamlined many processes that were once labour-intensive and time-consuming. Activities such

as transaction processing, reconciliations, financial consolidations, reporting, and compliance monitoring can now be performed with greater speed and accuracy.

More importantly, digital transformation has strengthened confidence in financial information. Decision-makers increasingly rely on real-time financial insights to make strategic choices regarding investments, pricing, expansion, and resource allocation. The reliability and accessibility of these insights are direct outcomes of digitally transformed finance functions.

Artificial Intelligence: A New Era of Financial Reporting

While digital transformation laid the foundation, Artificial Intelligence has accelerated the evolution of financial reporting to unprecedented levels.

AI is not simply automating existing processes; it is enhancing the quality of financial decision-making itself. Modern AI-powered systems can analyse large datasets, identify anomalies, detect trends, and generate insights that would otherwise require substantial manual effort.

One of the most significant impacts of AI can be observed in the financial close process. Historically, month-end and year-end closings involved extensive manual checklists, follow-ups, reconciliations, and validations. Finance teams often spent considerable time ensuring completeness and accuracy before finalizing financial statements.

Today, intelligent systems actively guide users through the closing process. Automated controls can identify missing entries, incomplete reconciliations, or pending approvals before financial periods are locked. Rather than relying solely on manual monitoring, finance teams now benefit from systems that proactively highlight exceptions and risks.

The result is a faster, more efficient, and more reliable financial reporting process.

Enhancing Professional Judgment Through AI

One common misconception is that AI replaces professional judgment. In reality, AI strengthens it.

Financial reporting often requires significant judgment, particularly in areas such as provisions, accruals, impairment assessments, expected credit losses, and forecasting. Traditionally, these estimates depended heavily on historical experience and management assumptions.

AI-powered models now provide accountants with deeper analytical capabilities by evaluating historical patterns, industry trends, customer behaviour, and predictive indicators. These insights enable finance professionals to make more informed and objective judgments.

Consequently, financial estimates become more practical, data-driven, industry-aligned, and prudent. Rather than replacing accountants, AI serves as an intelligent assistant that enhances the quality of professional decision-making.

This represents one of the most valuable contributions of AI to the accounting profession.

From Transaction Processing to Strategic Advisory

Perhaps the most significant outcome of digital transformation and AI is the evolution of the accountant's role from transaction processor to strategic advisor.

As routine activities become automated, finance professionals are gaining the freedom to focus on higher-value activities. Instead of spending excessive time on manual adjustments and reconciliations, accountants can devote their efforts to business analysis, performance management, scenario planning, and strategic decision support.

Commercial controlling functions have particularly benefited from this shift. Advanced analytical tools provide deeper visibility into product profitability, customer behaviour, cost structures, and operational performance. Decision-makers can now evaluate business opportunities using data-driven insights rather than relying on broad assumptions.

This capability enables organizations to respond more effectively to market changes and make informed strategic decisions.

In many organizations, finance teams are now actively participating in discussions related to expansion

strategies, investment evaluations, operational efficiencies, sustainability initiatives, and long-term business planning.

Such involvement was far less common in previous decades when finance functions were primarily focused on compliance and reporting.

Finance as a Strategic Stakeholder

The perception of financial reporting has also changed significantly.

Historically, finance departments were often viewed as support functions or cost centres whose primary purpose was to produce financial statements and meet regulatory requirements.

Today, financial reporting serves as a critical source of strategic intelligence. Accurate, timely, and meaningful financial information influences virtually every major business decision. Boards of Directors, investors, sponsors, regulators, and executive leadership teams rely on financial insights to evaluate performance and determine future direction.

As a result, finance functions have become strategic stakeholders rather than administrative support units. No significant business decision can be made without considering the financial implications, risks, and opportunities highlighted by the finance team. This elevated position reflects the growing importance of accountants in modern organizations.

The Accountant of the Future

The future accountant will be defined not merely by technical accounting expertise but by the ability to

combine financial knowledge with technology, analytics, business acumen, and strategic thinking. Digital transformation and AI have created an environment where accountants can contribute far beyond traditional reporting responsibilities. They are becoming business leaders, strategic advisors, financial data scientists, risk evaluators, and partners in organizational growth.

Organizations that successfully embrace digital transformation will continue to unlock new levels of efficiency, transparency, and value creation. Likewise, accountants who actively develop digital capabilities and embrace emerging technologies will position themselves as indispensable contributors to business success.

Conclusion

The business world has moved from an era of survival to an era of strategy. In this new environment, Digital Transformation and Artificial Intelligence are not optional enhancements; they are strategic necessities.

For the accounting profession, these developments have transformed financial reporting from a retrospective exercise into a forward-looking strategic function. AI-driven insights, automated processes, and digitally integrated systems have improved efficiency, strengthened decision-making, and elevated the role of finance professionals within organizations.

For accountants willing to embrace change and continuously develop their digital capabilities, the opportunity is immense. Digital transformation is no longer just a technological journey—it is the pathway to becoming an industry leader and a true strategic partner in business growth.



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Beyond Automation: How AI Is Transforming Financial Reporting and the Finance Profession

| Muzammil Altaf, ACA |

Over the last decade, the accounting profession has shifted considerably. Recording transactions, preparing financial statements and staying compliant used to be the core of the job, and while those responsibilities haven't gone away, the scope of what finance functions are expected to deliver has expanded well beyond them.

The business environment today demands more. Technological innovation, wider data availability and pressure for faster information have changed how organizations make decisions. Finance is increasingly expected to contribute to business planning and performance management, not just report on outcomes. Digital technologies and AI are driving a lot of this, altering how financial reporting is done and where accountants can genuinely contribute.

The changing landscape of financial reporting

For most of its history, financial reporting ran on fixed cycles. Management and external stakeholders relied on monthly closes, quarterly reviews and annual statements as their primary window into financial performance.

Those cycles are no longer adequate on their own. Organizations today operate on integrated ERP systems that record transactions continuously, producing large volumes of data around the clock. Waiting until month-end to make sense of that data puts management at a disadvantage when conditions are shifting.

For businesses in Pakistan, where inflationary pressures, exchange rate movements, energy costs and regulatory changes can alter the picture quickly, getting financial information out faster has practical consequences. Digital transformation is helping close that gap, giving organizations real-time visibility into their numbers and improving how reporting gets done.

Artificial intelligence as an enabler of efficiency

The conversation around AI tends to default to automation, but that framing understates what's changing in finance.

Yes, AI tools are handling routine work that used to be done manually, things like reconciliations, invoice processing, data validation and flagging exceptions.

That frees up finance professionals for work that requires actual judgement and context. But beyond that, AI-powered anomaly detection can comb through transaction volumes at a scale no team could manage manually, surfacing patterns worth investigating. A recurring vendor payment landing just below an approval limit, or an unusual spike in expense claims, are the kinds of things these tools catch. Predictive analytics adds another layer, giving organizations a way to get ahead of risks rather than react to them.

What AI is really doing is shifting where finance professionals spend their time. Less on pulling data together, more on making sense of it.

Practical technology adoption within finance functions

Not every efficiency gain in finance comes from large transformation programs. A lot of it comes from getting more out of tools that are already in use.

Excel is still the dominant working environment for most finance teams. Power Query alone has changed data preparation significantly, turning what used to be repetitive manual work into something that can be set up once and run reliably. The results show up in both speed and accuracy.

Copilot's integration into Excel takes this further. Being able to surface trends or summarize data through a plain-language prompt changes the pace of analysis. Teams spend less time on the mechanics and more on what the numbers are actually saying.

Finance team structures are adjusting to reflect this. Business-facing roles have grown because there's now a genuine expectation that finance professionals will engage directly with operational decisions, not just report back on them.

Moving toward continuous financial reporting

Continuous financial reporting is another area where digital systems are changing practice in a meaningful way. Rather than waiting for period-end, organizations can now monitor transactions and controls as they happen. When something looks off, it gets picked up and corrected quickly, which has a compounding effect on data quality and the strength of internal controls over time. Stakeholders on all sides are responding to this. Investors, lenders, regulators and

management teams want financial information that is reliable and available when they need it, not just at set intervals. Reporting is becoming less of a compliance tick-box and more of an active component of how organizations maintain credibility.

For Pakistani businesses specifically, improvements in reporting timeliness and quality can have a real bearing on investor confidence and the broader economic environment.

The evolving role of Chartered Accountants

Questions about what AI means for the accounting profession are understandable, but the evidence so far points to a role that is changing shape rather than contracting.

What technology cannot do is exercise professional judgement, apply ethical reasoning, maintain appropriate skepticism or bring genuine business understanding to a situation. These remain the foundation of what a Chartered Accountant offers, and they are not replicable by automated systems.

With more of the routine work being handled by technology, the expectation is that CAs take on more in areas like business partnering, strategic planning, financial forecasting and capital allocation decisions where that judgement actually matters.

The trend is shifting from backward-looking reporting toward forward-looking that actively shapes how organizations are running.

Looking ahead

Staying relevant in this environment requires ongoing development, and the skill set involved is broader than it used to be.

Core technical accounting knowledge remains necessary, but it is not sufficient. Digital literacy, data analytics, comfort with AI-enabled tools, commercial awareness and the ability to communicate findings clearly to people outside finance are all increasingly part of the job.

Governance and ethical oversight are also growing in importance. Greater reliance on automated systems makes the need for accurate, transparent and accountable financial information more critical, and the Chartered Accountant's role in ensuring that does not diminish.

Conclusion

Digital transformation and AI are changing both what financial reporting looks like and how finance functions are organized. Tools like Power Query, Power BI and Copilot are generating real efficiency improvements, and the growth of FP&A and business partnering roles reflects a deeper strategic contribution from finance, none of this makes professional judgement, integrity or business understanding less relevant. Those attributes are arguably more valuable now precisely because the routine work is being absorbed by technology.

For Chartered Accountants in Pakistan, the core question is not one of survival but of positioning. The profession has the opportunity to deliver more, provided it engages seriously with what these changes require.

The accountant of the future will not be defined by what they report. They will be defined by what they help organizations figure out next.



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Digital Transformation, AI and the Future of Financial Reporting

| Waqas Ali, ACA |

Introduction: Financial Reporting in a Digital Era

The business environment is being reshaped by rapid technological development, economic uncertainty, evolving regulations and growing expectations from stakeholders. Organizations are no longer judged solely by their profitability; they are also expected to provide accurate, timely and transparent information about their financial position, risks and future prospects. Within this environment, traditional accounting processes based on spreadsheets, manual reconciliations and historical reporting are becoming increasingly insufficient.

Digital transformation and artificial intelligence (AI) offer practical solutions to many of these challenges. Cloud-based systems, automated workflows, data analytics and AI-powered applications can significantly improve the speed and accuracy of financial reporting. These technologies can reduce repetitive work, identify unusual transactions and provide management with real-time insights for better decision making.

However, technology does not eliminate the need for accountants. Instead, it changes and strengthens their role. Accountants are increasingly expected to move beyond recording transactions and preparing financial statements. They must become strategic advisers who can interpret financial information, evaluate technological risks and ensure that automated processes remain reliable, ethical and compliant with applicable standards.

Digital Transformation of Accounting and Financial Reporting

Digital transformation refers to the integration of technology into business processes to improve efficiency, accuracy and decision-making. In accounting, it involves replacing disconnected and largely manual procedures with integrated digital systems capable of capturing, processing and reporting financial information.

Cloud accounting platforms and enterprise resource planning systems allow financial data from different departments, branches and business functions to be maintained within a centralized environment. Instead of collecting information separately from sales,



procurement, payroll and inventory systems, accountants can access integrated data through a common platform. This reduces duplication and enables financial information to be updated more quickly.

Robotic process automation can further improve efficiency by performing repetitive and rule-based activities. These activities may include processing invoices, matching purchase orders, preparing bank reconciliations, posting standard journal entries and generating routine reports. Automation reduces the time spent on data entry and allows reporting teams to concentrate on more complex accounting issues.

Digital reporting systems can also shorten the financial close process. Traditionally, month-end or year-end reporting may require accountants to collect information from multiple sources, investigate

Digital transformation and AI are improving financial reporting by automating routine tasks, enhancing accuracy, and enabling faster, data-driven decision-making.

differences and manually consolidate spreadsheets. Integrated systems can automate much of this process and provide dashboards showing incomplete tasks, unusual balances and reporting deadlines.

However, implementing technology is not simply an information technology project. Accountants must participate in system selection, process design and implementation because they understand the organization's transactions, reporting obligations and internal controls. Their involvement helps ensure that automated workflows correctly apply accounting policies and produce complete, accurate and reliable information.

Artificial Intelligence as a Driver of Efficiency and Insight

AI takes digital transformation beyond ordinary automation. While conventional automation follows predetermined rules, AI systems can analyze large datasets, identify patterns and generate predictions or recommendations. This makes AI particularly valuable in financial reporting, where organizations process thousands or even millions of transactions.

One important application of AI is anomaly detection. AI-powered systems can examine transactions and identify items that differ from normal patterns, such as duplicate payments, unusual journal entries or transactions processed outside approved working hours. Accountants can then investigate these exceptions rather than reviewing every transaction manually. This strengthens fraud detection and allows internal controls to operate more efficiently.

AI can also support forecasting and financial analysis. By examining historical performance, customer behavior, market trends and operational data, AI tools can assist in predicting cash flows, revenues and

expenses. Management can use these forecasts for budgeting, resource allocation and strategic planning. Accountants play a critical role in assessing whether the assumptions and data behind these forecasts are reasonable.

Another emerging application is the use of generative AI to review contracts, summaries financial information and prepare initial drafts of reports. For example, AI may identify payment terms, renewal conditions or performance obligations within a contract. It may also help draft explanations of financial results by comparing current performance with previous periods.

These capabilities can save considerable time, but AI-generated outputs cannot be accepted without review. AI may misinterpret information, rely on incomplete data or produce confident but inaccurate conclusions. Professional judgement therefore remains essential. AI should be treated as a tool that supports accountants, rather than as an independent decision-maker. The final responsibility for financial information must remain with appropriately qualified individuals.

Risks, Governance and the Evolving Role of Accountants

Although digital transformation creates major opportunities, it also introduces new risks. The reliability of an automated accounting process depends heavily on the quality of its underlying data. If information entered into the system is inaccurate, incomplete or biased, the resulting reports and predictions may also be unreliable. Organizations must therefore establish controls over data collection, validation, access and modification.

Cybersecurity and confidentiality are equally important. Financial systems contain sensitive information about employees, customers, suppliers and business performance. A cyberattack or unauthorized disclosure may cause financial losses, reputational damage and regulatory penalties. Accountants must work with technology and risk teams to establish access controls, approval procedures, backup arrangements and incident-response plans.

Algorithmic bias and a lack of transparency present additional concerns. Some AI systems operate as "black boxes," making it difficult to understand how they reached a particular conclusion. If an organization cannot explain the basis of an automated decision or accounting estimate, auditors,

regulators and other stakeholders may question its reliability. Accountants should therefore ensure that important AI-supported decisions are documented, explainable and subject to human review.

Strong governance is necessary to manage these risks. Organizations should clearly identify who is responsible for approving AI tools, monitoring their performance and correcting errors. Automated outputs affecting financial statements should be tested regularly. There should also be procedures for overriding the system when its recommendation is inconsistent with accounting standards or economic reality.

The ethical responsibilities of accountants remain unchanged in a digital environment. They must continue to demonstrate integrity, objectivity, professional competence and confidentiality. Accountants should not use AI to create misleading reports, conceal unfavorable information or avoid accountability. They must challenge outputs that appear unreasonable, even when those outputs have been produced by sophisticated systems.

Consequently, accountants need to develop new capabilities. Knowledge of accounting standards must now be combined with digital literacy, data analytics, cybersecurity awareness and an understanding of AI governance. Accountants do not necessarily need to become software developers, but they should understand how systems process information, what limitations exist and which questions must be asked.

This combination of financial and technological knowledge allows accountants to become strategic business partners. They can translate complex data

into understandable insights, evaluate investment decisions and help management balance innovation with risk. Their contribution therefore extends beyond compliance and reporting to organizational resilience and long-term value creation.

Conclusion: Moving from Survival to Strategy

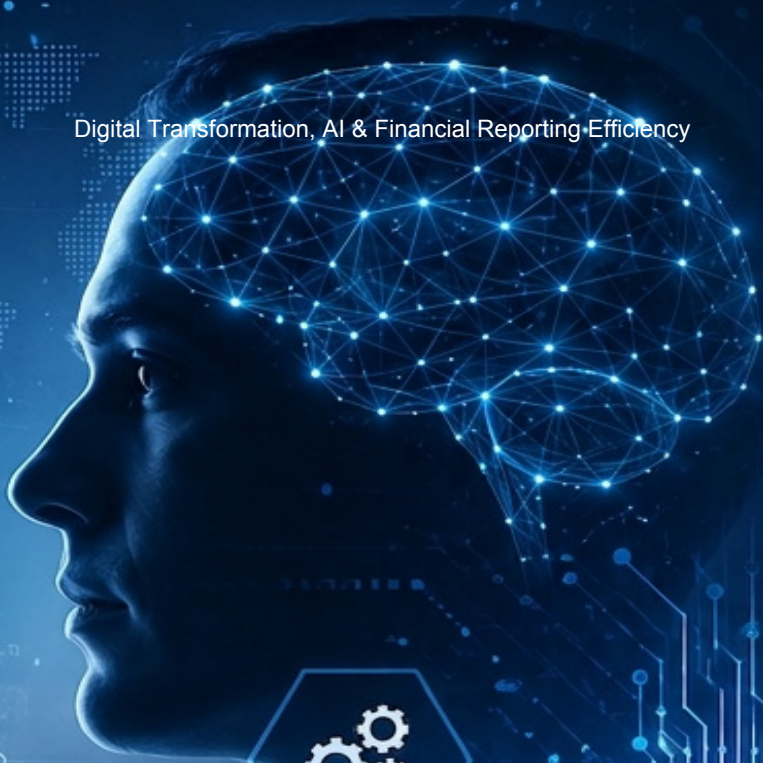
Digital transformation and AI are changing financial reporting from a slow, historically focused process into a faster and more forward-looking business function. Automation can reduce repetitive work, improve accuracy and shorten reporting timelines, while AI can identify risks, analyze trends and support better forecasts.

Nevertheless, technology alone cannot guarantee high-quality financial reporting. Reliable results still depend on accurate data, effective internal controls, ethical conduct and professional judgement. Organizations that rely excessively on automated systems without proper oversight may create new financial, regulatory and reputational risks.

Accountants are therefore central to successful digital transformation. By combining accounting expertise with technological awareness, they can ensure that innovation strengthens rather than weakens financial reporting. Their future role will not be limited to producing financial statements. They will help govern technology, interpret complex information and guide strategic decisions. In doing so, accountants can help organizations move beyond short-term survival and build more resilient, transparent and strategically focused businesses.



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AUTOMATION



MACHINE LEARNING



DATA ANALYTICS

AI



INNOVATION

AI and Digital Transformation: Creating Smarter and Faster Financial Reporting

| Zuhaib Hasan, ACA |



The Contemporary Cockpit

A modern commercial aircraft operating within highly congested airspace does not rely solely on a pilot's unassisted ability to interpret individual signals in real time. Instead, thousands of disparate data points, ranging from barometric altitude and engine thermal efficiency to macroeconomic weather patterns, navigational vectors, and air traffic telemetry, are continuously synthesized by integrated flight management systems. These platforms convert raw, chaotic data streams into immediate, actionable intelligence. The contemporary cockpit is no longer a passive repository of disconnected dials; it is an embedded decision environment engineered to ensure precision, structural resilience, and safety amidst acute uncertainty.

In 2026, the global corporate arena operates under remarkably parallel conditions. Within this turbulent landscape, the primary competitive challenge is the systematic transformation of data into timely, rigorous, and strategically potent decisions. Just as a pilot cannot safely navigate a transatlantic flight by reading scattered, legacy instruments, executive leadership cannot guide an enterprise through macroeconomic volatility using fragmented, backward-looking metrics. Digital transformation and artificial intelligence serve as the core engines addressing this vulnerability. By replacing periodic batch processing with continuous auditing and real time ledger architectures, cloud native data lakes capture transactional events at the point of inception. Financial reporting efficiency is no longer measured by how quickly a team can close the books, but by how effectively they maintain a continuous, live state of readiness.

From Autopsy to Live Telemetry

This operational shift can be mapped across a strategic 2x2 matrix that defines the evolution of the corporate decision environment. This framework balances two critical dimensions: data latency (historical versus real time) and analytical depth (descriptive versus predictive).

	Historical Data Latency	Real Time Data Latency
Predictive Analytical Depth	Scenario Simulation Static modelling based on past cycles; limited, rigid forecasting.	Dynamic Telemetry Millions of automated simulations; continuous, live risk optimization.
Descriptive Analytical Depth	Administrative Autopsy Traditional retrospective reporting; compliance-driven ledger verification	Immediate Visibility Live transactional data tracking; fast anomaly and variance detection

When mapped along these axes, traditional finance functions are historically trapped in the bottom-left quadrant, executing an administrative autopsy. Digital transformation shifts the organization to the right, yielding immediate visibility, but it is the integration of artificial intelligence that elevates the enterprise to the top-right quadrant: the domain of dynamic telemetry. When balance sheets and cash flow vectors are updated dynamically within this matrix, enterprise leaders can identify margin erosion, supply chain bottlenecks, or shifting customer default probabilities immediately. This real time visibility collapses the window between anomaly detection and strategic intervention, transforming financial reporting from a retrospective exercise into live corporate telemetry.

The widespread maturation of machine learning models and predictive analytics has redefined the parameters of financial analysis. By parsing vast reservoirs of structured financial ledgers alongside unstructured external data, such as global shipping manifests, regulatory filings, and macroeconomic sentiment indicators, AI systems identify systemic correlations and deviations far beyond human cognitive capacity. Crucially, the strategic value of these algorithmic tools lies not in the displacement of professional oversight, but in the enhancement of cognitive bandwidth. Just as advanced autopilot mechanisms liberate a pilot from manual micro adjustments to focus on high level navigation, AI driven automation absorbs the repetitive burdens of transaction matching, routine reconciliations, and baseline variance analysis.

The Human Interpreter in the Loop

With routine operational mechanics automated, the critical role of accountants in addressing emerging business challenges becomes apparent. The human element within the finance function is elevated to act as an analytical interpreter of algorithmic outputs. When an AI system flags a statistically significant anomaly in cross border transfer pricing or detects an emerging divergence from historical expenditure patterns, human contextual acumen translates that signal into a strategic response. The technology does not replace human agency; it demands a higher order of judgment, ensuring that professional intellect is applied where it is most critically required, in the mitigation of complex risks and the exploitation of fleeting market opportunities.

The ultimate manifestation of this technological evolution is the shift from retrospective reporting to forward looking simulation, effectively allowing

leadership to simulate the flight path before take-off. Historically, corporate strategy relied on static annual budgets and linear forecasting models that quickly decoupled from market realities. Today, the synthesis of cloud computing and predictive algorithms allows organizations to construct sophisticated digital representations of their financial architecture. These dynamic models enable leadership to stress test capital allocation strategies across millions of simulations and multiple scenario permutations before exposing corporate capital to risk. Whether evaluating the impact of fluctuating interest rates on debt serviceability, simulating supply chain shocks, or testing the net present value of an acquisition under various tariff scenarios, enterprises can map outcomes with unprecedented fidelity.

Designing Structural Resilience

The objective of this predictive capability is not to claim absolute certainty, but to build structural resilience. Here, accountants play a vital role by defining the commercial parameters, variable weights, and risk thresholds that guide these models. In volatile landscapes, running millions of automated scenario simulations allows firms to optimize working capital and maintain liquidity dynamically. By converting raw metrics into forward looking intelligence, organizations shift from reactive survival to proactive market shaping, altering their trajectory well before a disruption occurs.

However, as decision making relies more on automated outputs, risk management must adapt. If the underlying data architecture is compromised or suffers from algorithmic drift, rapid automated reporting merely accelerates strategic error. In cockpit terms, the most sophisticated digital display is actively hazardous if it calibrates its vectors using corrupted sensory inputs.



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Consequently, governance must expand to encompass algorithmic validation and data provenance. This is where accountants address a major emerging risk, ensuring the logic and assumptions governing automated tools remain sound. Through continuous monitoring frameworks, finance leaders establish the internal controls required to validate both data inputs and models. By acting as the ultimate arbiters of system integrity, they ensure that the efficiency gained through automation is always anchored by institutional trust.

Navigating the New Horizon

The evolution of corporate finance has reached a definitive horizon. This shift is particularly critical for emerging markets like Pakistan, where businesses face distinct macroeconomic shifts and changing regulatory frameworks. For Pakistani enterprises and finance professionals, embracing digital transformation and AI is no longer an option for the future, it is an immediate requirement to protect capital and drive national competitiveness.

Returning to our opening analogy, the pilot remains entirely indispensable, holding ultimate accountability for the vessel's destination and the safety of its passengers. However, the mechanism through which that responsibility is executed has been completely transformed. The pilot operates not in isolation, but as the orchestrator of an intelligent, highly integrated environment designed to master complexity. For the modern enterprise, technology has not diminished the relevance of financial expertise; it has liberated accountants to address the vanguard of business challenges. Their value is no longer defined by their ability to describe the past with precision, but by their capacity to illuminate the future, guiding organizations from the baseline of survival to the vanguard of deliberate strategy.



The Ledger That Learns: Digital Transformation, AI, and the Future of Financial Reporting

| Rana Fahad Abdul Sattar, ACA |

The Reporting Trap We Designed Ourselves

Financial reporting in Pakistan, whether for a listed company, an SME, or a public sector company, has been operating on what we can call “chain system” model: extract data from ERP or manual ledgers, format it in Excel, review it sheet by sheet, consolidate, and then publish. This model was designed for a world where financial complexity was manageable, reporting periods were quarterly at most, and the cost of automation exceeded its benefit.

That world no longer exists. Today's businesses, like mid-sized exporters in Sialkot or a growing financial services firm in Karachi, operate in different currencies, jurisdictions, and regulatory frameworks simultaneously. The old chain system does not just slow us down, it introduces risk. A reconciliation error buried in row 5,800 of an Excel file is not a productivity problem. It is a clerical failure waiting to happen.

Digital transformation, in its true essence, is not about replacing the accountant. It is about dismantling that chain system and replacing it with something far more intelligent: a financial reporting infrastructure that captures, validates, analyses, and presents information in near real-time, with anomaly detection built in from the start.

What Role AI Actually Plays in Finance

Let us be focused, because the word “AI” has been used so carelessly in professional circles that it has started to mean everything and nothing at once. Within financial reporting, the main applications of artificial intelligence fall into many categories; the major three are:

Intelligent Data Processing

Modern AI can process the unstructured data such as bank statements, vendor invoices, customs clearance documents, it can classify, code, and post them to the appropriate ledger accounts with accuracy rates that rivals seasoned bookkeepers. Tools like Microsoft Co-pilot integrated with Dynamics 365, or SAP Business AI layered over SAP Business One, are doing exactly this across many companies globally. For Pakistan-based firms with high transaction volumes and constrained finance teams, this is not a luxury, it is a leverage.

Predictive and Variance Analysis

Let's talk about variance in budget and actual performance, in traditional variance we focus on what

happened, and how does it compare to budget? AI-driven variance intelligence does something far more useful: why did this happen, what is the probability it will recur, and which line items are statistical outliers that needs immediate review? When we implemented SAP Business One for one of our clients, one of the most striking observations was how quickly different anomalies became visible once data was centralized, anomalies that had been invisible inside spreadsheets for years. AI amplifies this effect by order of magnitude.

Continuous Real Time Reporting

Perhaps the most important shift AI enables is the move from a periodic close cycle to a continuous close. In the traditional model, the month-end close is a stressful sprint, days of journal entry postings, intercompany eliminations, and reconciliation. AI-powered tools, particularly when connected to cloud ERP systems, can automate the bulk of routine close tasks, reducing a five-day close to under 24 hours. ICAEW research indicates that companies using AI-assisted close processes have cut reporting cycle times by 40–60%, while simultaneously improving accuracy.

The Pakistan Context: Opportunity and Friction

It would be impractical to write about AI in financial reporting without acknowledging the unique landscape Pakistani accountants navigate. Our challenges are real, inconsistent internet infrastructure in certain regions, a taxation system that still relies on manual submissions in many cases, limited availability of locally trained AI talent, and SME clients who remain suspicious of new technology. These are not imaginary barriers.

But here is what I have observed working with clients across manufacturing, services, and export sectors: the organizations that treat these frictions as permanent, remain exactly where they are. The ones that begin, even imperfectly with a single digital transformation initiative, discover that the second step is always easier than the first.

Consider SECP's increasing push toward XBRL-based financial reporting for banking and finance companies, or FBR's gradual move toward real-time invoicing integration through POS / Digital Invoice Integration. These are not optional trends we can observe from a distance. They are regulatory signals that the reporting infrastructure of Pakistani businesses must modernize and the firms with a head start in digital transformation will have a structural advantage when compliance requirements are tightened.

What Do Chartered Accountants Become?

The question in professional forums, sometimes with anxiety, sometimes with genuine curiosity is: if AI will handle data processing, variance detection, and report generation, what will accountants actually do? The answer, I believe, is that we finally get to do the work we were trained for. Our Profession was never about data entry or excel working. It was about judgment, understanding financial information in context, identifying risk, communicating reality to stakeholders, and ensuring that numbers tell an honest story. As AI will handle the mechanical scaffolding. Professional judgment still remains irreplaceable.

What changes, is the nature of our expertise. The finance professional who wants to thrive in the next decade will have combine traditional technical knowledge with the ability to design and oversee AI assisted reporting workflows, interpret outputs critically rather than accept them as it is, and translate data intelligence into business strategy. This is a higher value position for accountants.

Starting Point for Accountants?

For finance leaders reading this who are wondering where to begin, the answer is rarely "replace your ERP with an AI platform." That is a destination, not a starting point. The more sustainable path begins with three honest questions:

First, where in our current reporting cycle do human hours disappear into tasks that add no analytical value? Bank reconciliations, intercompany matching, and manual journal postings are typically the answers

and these are precisely where automation delivers immediate ROI.

Second, what decisions are we making with stale data that we should be making in real time? Cash flow forecasting, inventory-related expense accruals, and receivables ageing analysis are areas where delayed reporting directly costs money.

Third, what is our data quality like? AI is only as reliable as the data it is trained on. A digital transformation initiative that sits on top of inconsistent data and unreconciled ledgers will only amplify problems, not solve them. The unglamorous work of data sorting is, paradoxically, the most important precondition for any AI investment.

The Ledger That Learns

There is a poetic irony in the fact that double-entry bookkeeping which was invented in the fifteenth century to impose order on commercial transaction, is now being extended by machine learning systems that can identify patterns across millions of transactions in seconds. The purpose has not changed, which is ensure that every financial event is recorded truthfully and completely, and reflects the real picture.

Digital transformation and AI do not change what financial reporting is for. They change how truly and how swiftly it can fulfil that purpose. For the Pakistani chartered accountant, this is not a threat to navigate around. It is the next chapter of a profession that has always adapted, from paper ledgers to computerized accounting, from local GAAP to IFRS, and now from manual close cycles to intelligent, always-on financial reporting ecosystems.



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From Ledger to Algorithm: How AI and Digital Transformation Are Redefining Financial Reporting Efficiency

| Muhammad Faizan, FCA |

Introduction

In today's dynamic business environment, growing data volumes, regulatory expectations, and economic uncertainty have exposed the limitations of traditional financial reporting systems. As a result, organizations are increasingly adopting Artificial Intelligence (AI) and digital technologies to improve reporting efficiency, strengthen governance, and support strategic decision-making.

This transformation is also reshaping the accounting profession. Accountants are moving beyond traditional record-keeping and compliance roles to become strategic advisors who leverage technology and data-driven insights to help organizations navigate emerging business challenges.

Existing challenges

Traditional Reporting Bottlenecks (manual processes, delays, errors)

Traditional financial reporting systems have long relied on manual processes, spreadsheet-based accounting, and fragmented data flows. These methods often result in delays in financial closing cycles, increased risk of human error, and limited real-time visibility into organizational performance. As businesses grow in complexity, traditional reporting frameworks struggle to meet the increasing demand for timely, accurate, and decision-useful financial information.

Digitalization-AI leverages

AI and Automation in Bookkeeping, Reconciliation, and Auditing

Artificial Intelligence (AI) and automation technologies are significantly transforming accounting and financial reporting processes. Modern AI-enabled systems can automatically categorize, classify, and analyze large volumes of financial data with greater speed and accuracy than traditional ERP systems.

Reconciliations are becoming increasingly efficient, with automation reducing processing time from day to minutes. In auditing, AI enables auditors to shift their focus from routine verification tasks toward higher-value activities such as risk assessment, fraud detection, and professional judgment. This enhances both audit quality and operational efficiency.



Predictive Analytics for Financial Decision-Making

AI has shifted financial reporting from a reactive function to a forward-looking discipline. Through predictive analytics, organizations can continuously analyze structured and unstructured data to forecast revenue trends, assess credit risk, and simulate various market scenarios.

This transformation enables finance professionals to move beyond historical reporting and support strategic decision-making based on real-time, data-driven insights. As a result, accounting is increasingly becoming a strategic business function rather than a purely compliance-driven activity.

Real-Time Reporting and Continuous Auditing

The integration of AI and automation has enabled real-time financial reporting and continuous auditing

AI and digital technologies are revolutionizing financial reporting by automating routine accounting processes.

frameworks. Organizations can now monitor financial transactions and compliance risks as they occur rather than relying solely on periodic reviews.

Through automated AI agents and continuous data feeds, companies can identify control failures, anomalies, and potential fraud in real time. This strengthens governance, enhances transparency, and improves regulatory compliance while providing management with timely information for decision-making.

Hidden risks

Risks: Data quality, bias, cybersecurity, and overreliance on AI

Despite its benefits, AI adoption in financial reporting introduces several risks. Heavy reliance on AI systems may lead to inaccurate outputs if underlying data quality is weak. Additionally, algorithmic bias can distort financial interpretations if models are not properly designed, tested, and monitored.

Cybersecurity risks also increase as digital systems become more interconnected, exposing organizations to potential data breaches and unauthorized access. Furthermore, excessive dependence on AI may reduce the role of professional judgment in financial decision-making. These risks highlight the importance of maintaining strong governance frameworks and human oversight.

What's next

The Future-Ready Accountant

The role of accountants is rapidly evolving. Today's professionals are expected to possess strong data

literacy, analytical capabilities, and familiarity with digital tools, ERP systems, and AI-enabled technologies.

The accountant of the future will combine financial expertise with technological fluency. Beyond traditional accounting knowledge, professionals will require skills in data analytics, AI-assisted decision-making, cybersecurity awareness, and digital governance. As organizations increasingly adopt intelligent systems, accountants will be responsible for validating outputs, exercising professional judgment, and translating complex data into actionable business insights.

While AI is driving today's transformation, emerging technologies such as quantum computing may further reshape financial reporting through advanced risk modeling, fraud detection, and predictive analytics. Although still in its early stages, quantum computing highlights the need for accountants to remain adaptable and committed to continuous learning.

A Big Question – Will AI Replace Accountants?

The simple answer is no. AI will automate many routine tasks such as data entry, reconciliations, and standard reporting, but it cannot replace professional judgment, ethical decision-making, critical thinking, and strategic advisory capabilities.

The demand for accountants who can effectively leverage AI, interpret complex information, and support business decisions is expected to increase. The profession is not being replaced; it is being transformed. Those who embrace technological change will thrive, while those who resist it risk becoming less relevant in an increasingly digital economy.

Role of Chartered Accountants

Chartered Accountants are central to this transformation. Beyond preparing financial statements, they must ensure the integrity of AI-generated information, provide assurance over automated systems, support regulatory compliance, and guide organizations in the ethical use of technology.

As trusted business advisors, Chartered Accountants are uniquely positioned to bridge the gap between technology and governance. Their ability to combine professional judgment with technological understanding will be critical in ensuring that digital transformation delivers sustainable value while maintaining transparency, accountability, and stakeholder trust.

Balancing Perspective: Benefits vs. Costs

While AI and digital transformation introduce genuine risks, their overall impact on financial reporting is overwhelmingly positive. The objective is not to eliminate risk entirely but to manage it effectively through strong governance, robust data controls, cybersecurity safeguards, and continuous professional development.

When implemented responsibly, the benefits clearly outweigh the costs. AI enhances efficiency, accuracy, transparency, and decision-making capability, enabling organizations to respond more effectively to an increasingly complex business environment. The challenge for organizations is therefore not whether to adopt these technologies, but how to adopt them responsibly and effectively.

Conclusion

The evolution from ledgers to algorithms represents a fundamental shift in financial reporting. Artificial Intelligence and digital transformation are not only improving efficiency but also redefining the role of accounting professionals.

Financial reporting is no longer confined to historical

record-keeping; it is becoming a real-time, predictive, and strategic function. While challenges such as data quality concerns, cybersecurity risks, and implementation barriers remain, the opportunities far outweigh the limitations.

Ultimately, the future of accounting belongs to professionals who can combine financial expertise with technological fluency, transforming data into meaningful insights that drive better business decisions and sustainable organizational growth. In an era where businesses must move from survival to strategy, accountants who embrace innovation will be at the forefront of shaping resilient, future-ready organizations.

Digital transformation allows finance professionals to spend less time on manual tasks and more time on strategic analysis.



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From Typewriters to Autonomous Workflows: Why the Accountant's Value Has Never Disappeared—Only Migrated

| Ahmad Bilal, ACA |

Zoom out. More. No, more than that—take us back five decades. A little further... perfect. Now, let us peek through the lens and see how a highly paid accountant—or finance leader, or whatever glazed title the period preferred; potato, potahto—is doing.

That is a big room. A very big, very beautiful room. There are no screen-ish things. Instead, magnificent registers and kilogram-heavy spreadsheets occupy a twelve-foot table. At its centre sits a super-fast, almost noiseless, highly “advanced” typewriter. Our finance man is a support function to the bosses. He supplies insights now and then: sometimes after a project has been conceptualised, often after it is already in execution.

But he is important. Numbers are difficult to collect, assimilate and explain. He can read them, discover the story hidden inside them and present that story coherently. His value lies partly in scarce technical knowledge—and partly in surviving those industrial quantities of paper without losing either the plot or his eyesight.

Fast-forward five decades.

Finance leaders are still here, but something fundamental has changed. Finance is no longer merely a support function. In many businesses, it has become the nervous system: sensing pressure and coordinating the organisational muscles as the enterprise ‘punches’ into increasingly competitive markets.

The typewriter is now a decoration piece. One may wonder, what happened to the person who had built an entire reputation around being extraordinarily fast at using it. Perhaps, there is no reason to disturb our happy hormones unnecessarily. But a wise professional knows it is not incompetence; it is about irrelevance. Ultra-high-definition screens glow with dashboards connected to computers, tablets and phones—each pronounced with the prefix “smart.” The finance leader no longer waits until month-end to explain what went wrong three weeks earlier. Data moves continuously; and decisions arrive faster than papers can be formatted.

The core skills remain: understand the numbers, challenge their meaning and shape them into a story. But the story is now visually audible at 2,500 decibels. The dashboard has already announced the variance in red, animated it and emailed it to everyone before the accountant enters the room.



This is not the first transformation of finance. It is, however, the first one moving quickly enough to overtake professionals while they are still debating whether it is real. The warning is no longer confined to technology vendors: the World Economic Forum’s 2025 employer survey placed accountants and auditors among roles expected to decline as AI, information processing and automation reshape work.

Rotate the camera again—five years forward—and switch on “educated factual imagination.”

Across the value chain, information now moves with far less human pushing and pulling. A supplier invoice arrives by email; UiPath reads it and sends the relevant data into SAP. The ERP processes the transaction and updates the wider financial picture. Claude analyses the resulting information, tests assumptions and helps draft a decision paper. Power BI converts the numbers into a live management view, while Zapier routes the report, approvals and follow-up actions to the right people. What once required several departments, dozens of hand-offs and heroic spreadsheet stitching can increasingly operate as one connected workflow.

These are not tool endorsements, and the winning brand names will certainly change. Call them GPT-n, Claude Opus-n, or the next acronym born in a product-launch theatre. The strategic point is the

chain: data is captured, structured, validated, processed, reconciled, analysed, narrated, visualised, approved and monitored with progressively less manual intervention.

Now the Board asks an old question in new clothing: if machines can process transactions, build workbooks, explain variances, draft reports and produce presentations, why do we need a finance function?

A similar question surfaced when the typewriters became irrelevant. Finance survived back then. The person valued chiefly for typing speed did not necessarily survive with it. Value migrated to the professional who could use the new tool while exercising the judgment the tool did not possess.

That migration is happening again.

There are two reasons the accountant still matters—and two reasons complacency is dangerous.

The first is the law of the moving average. Generative AI is trained on enormous bodies of existing human output. Left insufficiently directed, it produces what is statistically plausible: often impressive, sometimes brilliant, occasionally wrong and never personally accountable. It can compress the distance between a weak first draft and a competent one. In doing so, it raises the average standard of acceptable work.

That is the uncomfortable part. Staying “above average” is not a destination because the average is moving upward. Yesterday’s differentiator becomes today’s button and tomorrow’s background process. The professional who uses AI merely to produce the

same reports faster has improved efficiency, but not necessarily relevance.

The second reason is the accountant’s core strategic skill: the ability to rudder the finances, frame choices and own the consequences. A model can recommend reducing inventory; it does not face the customer when stock disappears. It can optimise headcount; it does not carry the cultural consequences of the decision. It can draft an impairment assessment, tax position or going-concern paper; it does not sign the representation, defend the assumptions or answer the board when reality disagrees.

‘Someone must still know where the aircraft is going, why it is going there and whether it should take off at all.’

Anyone who has defended a forecast, challenged an investment case or explained an uncomfortable variance knows that finance is not simply the production of answers. It is the disciplined management of uncertainty. It requires commercial context, ethical courage, professional scepticism and the willingness to say, “The numbers support this, and these are the factors business should do it.”

ONE IMPORTANT NOTE: The key to survival is not attaching “AI Expert” to your CV and LinkedIn Profile.

SECOND IMPORTANT NOTE: The previous finance transformation may have unfolded over five decades. This one will not politely wait another five years. It will not issue a calendar invitation, circulate minutes or pause while everyone completes the same introductory AI course.



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The Strategic Accountant: How AI and Digital Transformation Are Elevating the Role of Finance Professionals in an Age of Uncertainty

| Maheen Akram Lodhi, ACA |

There was a time when accountants were primarily expected to explain what had already happened. Today, business leaders need someone who can help them understand what is likely to happen next.

That distinction has become critically important for Pakistani businesses. Over the past few years, organizations have operated against a backdrop of persistent inflation, elevated financing costs, exchange-rate volatility, fiscal adjustments, supply chain disruptions, and increasing stakeholder scrutiny. While many businesses have focused on survival, the next phase of economic recovery will belong to those that successfully transition from survival to strategy.

In that transition, accountants have an opportunity to play a far greater role than ever before. The profession has traditionally been associated with compliance, reporting, controls, and stewardship. These responsibilities remain fundamental. However, in an environment where market conditions can change rapidly and business assumptions can become obsolete within months, organizations require more than accurate historical reporting. They require forward-looking insight, strategic guidance, and informed decision-making. The modern accountant is uniquely positioned to provide all three.

When Numbers Alone Are Not Enough

The challenges confronting Pakistani businesses illustrate why traditional finance functions are no longer sufficient. Consider a company evaluating a major capital investment. A few years ago, management may have relied primarily on historical performance, projected growth rates, and financing availability. Today, the same decision requires consideration of inflation trends, interest-rate movements, currency risks, taxation changes, geopolitical developments, and evolving investor expectations.

Similarly, a manufacturing company dependent on imported raw materials can experience significant cost fluctuations due to exchange-rate volatility. A retailer may face changing consumer spending patterns driven by inflationary pressures. A growing enterprise may encounter increasing demands from lenders and investors for transparency, governance, and sustainability-related disclosures.

In each of these situations, financial statements explain the past. They do not necessarily illuminate the future.

What organizations increasingly need is someone capable of connecting financial information with strategic outcomes. They need professionals who can

identify emerging risks before they become financial problems and evaluate opportunities before competitors recognize them. This is where the accountant's role begins to shift from scorekeeper to strategic navigator.

The Rise of the Insight Economy

For decades, information itself was a competitive advantage. Today, information is abundant. The real advantage lies in extracting meaningful insights from it.

This shift is transforming finance functions across the world. Boards and executive teams are no longer satisfied with monthly reports that describe what occurred during the previous quarter. They expect real-time visibility, predictive analysis, and scenario-based decision support.

The finance professional who can answer questions such as 'What happens if interest rates remain elevated?', 'How resilient is our cash flow under different economic scenarios?' or 'Which investments create the greatest long-term value?' becomes significantly more valuable than one who merely reports historical results.

The emergence of advanced analytics and Artificial Intelligence has accelerated this trend. Yet contrary to many predictions, the most important impact of AI is not the replacement of accountants. It is the elevation of their role.

Why AI Makes Accountants More Important, Not Less

Much of the public discussion surrounding AI focuses on automation. While automation is undoubtedly important, it represents only part of the story. AI can process transactions faster than humans. It can identify anomalies across thousands of records, automate reconciliations, forecast trends, and support audit procedures with remarkable efficiency. Tasks that once consumed significant professional time can increasingly be performed by intelligent systems. However, businesses do not succeed because they process information quickly. They succeed because they make sound decisions.

Technology can identify patterns. It cannot fully understand business context. It cannot exercise professional scepticism in the same way as an experienced auditor. It cannot balance commercial realities against ethical responsibilities. It cannot replace judgment. In fact, as organizations become

more dependent on technology, the importance of human judgment increases. The challenge for the profession, therefore, is not to compete with AI. It is to harness AI while strengthening the uniquely human capabilities that technology cannot replicate—critical thinking, governance, ethics, communication, and strategic decision-making. The accountants who thrive in the coming decade will not necessarily be those with the deepest technical expertise in artificial intelligence. They will be those who know how to combine technological capability with business insight.

A New Mandate for the Profession

The changing business environment requires a broader vision of what it means to be an accountant.

The future-ready professional must become comfortable operating at the intersection of finance, technology, strategy, and governance. This means moving beyond traditional reporting cycles and participating actively in strategic discussions. It means helping management evaluate risks before they materialize. It means contributing to business resilience through scenario planning and informed resource allocation. It means strengthening stakeholder confidence by ensuring the integrity and transparency of both financial and non-financial information.

Increasingly, it also means understanding emerging areas such as sustainability reporting, data governance, cybersecurity risks, and digital transformation initiatives. None of these responsibilities diminish the importance of technical accounting knowledge. Rather, they expand its application.

The profession's greatest strength has always been trust. In an era characterized by uncertainty and

information overload, trust becomes even more valuable.

Organizations need professionals who can translate complexity into clarity. Investors need confidence in the quality of information they receive. Regulators need assurance that standards are being met. Boards need objective perspectives on risk and performance. These expectations place accountants at the center of modern business decision-making.

Pakistan's economic challenges are well known. Yet periods of disruption often create opportunities for meaningful transformation.

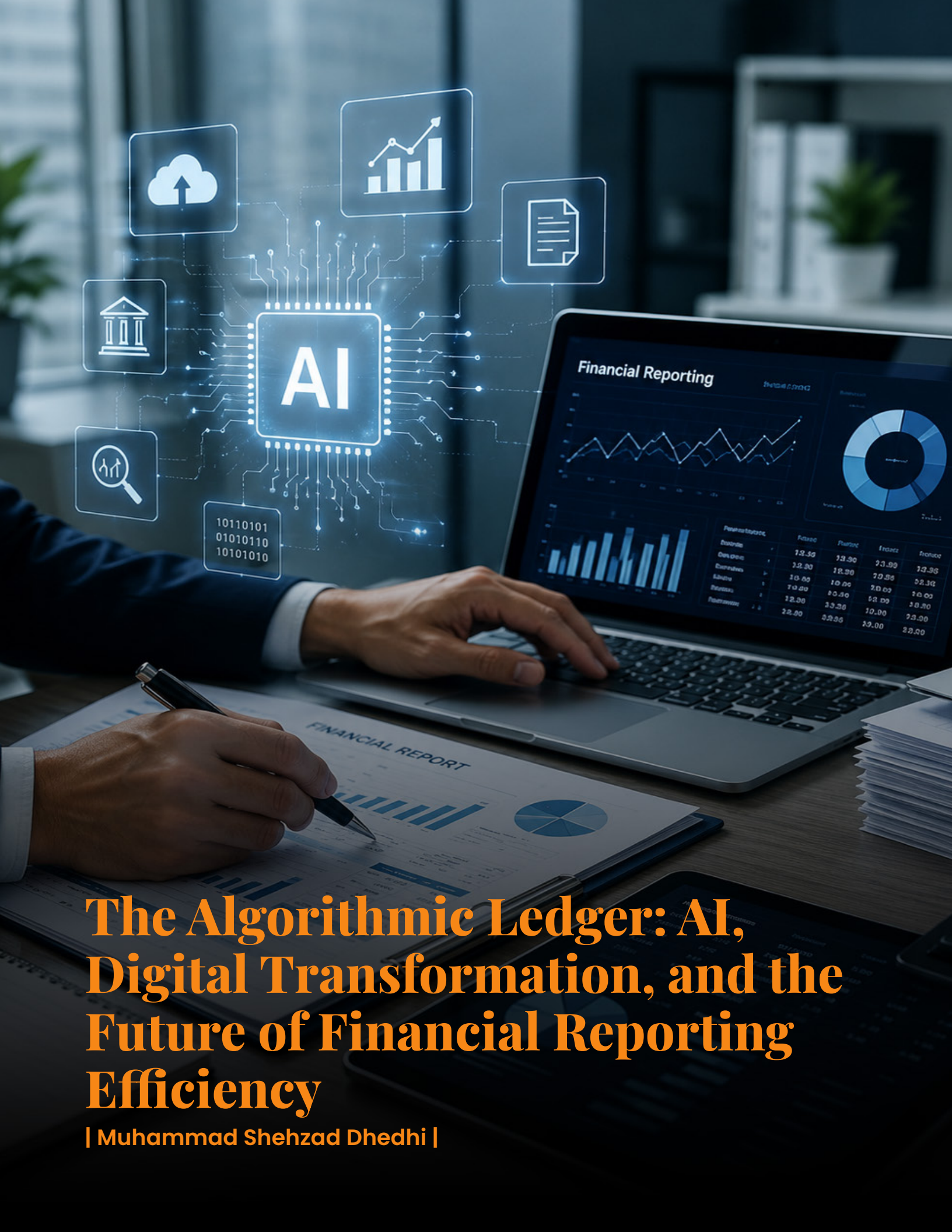
As businesses seek greater efficiency, stronger governance, improved transparency, and better strategic decision-making, demand for high-quality financial leadership is likely to increase. Chartered Accountants possess a combination of technical competence, professional ethics, and commercial understanding that few professions can match.

The question is whether the profession is prepared to embrace this expanded role. Those who continue to view accounting solely through the lens of compliance may find themselves increasingly marginalized. Those who develop capabilities in analytics, technology, strategy, and leadership will become indispensable to the organizations they serve. The future of accounting will not be defined by the reports professionals prepare. It will be defined by the decisions they influence.

As Pakistan moves through economic uncertainty and technological change, the accountant's role expands from documenting reality to helping define possibility. And in that shift lies the profession's greatest opportunity—not just to record history, but to influence the future it creates.



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The Algorithmic Ledger: AI, Digital Transformation, and the Future of Financial Reporting Efficiency

| Muhammad Shehzad Dhedhi |

The Ghost of the Typist Pool

Walk into any corporate headquarters today, and you will notice a striking, almost haunting silence in certain corridors: there are no typing pools. There are no shorthand stenographers rushing into executive corner offices with steno pads, and no rhythmic clatter of mechanical keys echoing through the halls. Forty years ago, shorthand and rapid typing were non-negotiable corporate skills; the absolute gatekeepers of white-collar employment. Today, they are museum artifacts. The technology did not just change the job description; it erased the occupation entirely.

We stand at an identical precipice in the accounting and finance profession today. The comforting illusion that "AI is a future problem" or "a tool for the tech guys" has officially shattered. Artificial intelligence is not a distant horizon; it is an active, operational reality sitting right on your ledger. Every financial process that can be codified, mapped, or standardized will be automated. The traditional, backward-looking compliance clerk who spends days manually reconciling ledgers, extracting ERP data, and formatting Excel spreadsheets is looking at the modern equivalent of the typist's desk. Those roles are going away, and they are not coming back.

"The disruption we are facing is not an incremental upgrade to our software; it is a fundamental restructuring of how financial truth is captured, validated, and communicated."

Yet, this is not an obituary for the finance professional. It is an invitation to a renaissance. Just as the demise of the typing pool gave rise to data analysts, software engineers, and executive assistants, the automation of repetitive financial tasks is opening up a vast, higher-value frontier. The future belongs entirely to two groups: those who can digitize systems and those who can use AI-driven insights to hyper-accelerate corporate impact.

From HBL to Singapore: A Personal Journey Through the Shifts

This paradigm shift isn't something I read about in a theoretical whitepaper; I have lived it across shifting financial capitals and radically different economic landscapes. Years ago, working on digital transformation initiatives within institutions like Habib Bank Limited (HBL) and the Alfalah Group in Pakistan,



the focus was primarily on digitization, moving from paper to screen, centralizing siloed databases, and setting up core processing engines. It was about speed, accessibility, and basic operational automation. We were teaching systems how to remember.

When I moved to Singapore to work with Credit Suisse, the sheer maturity and depth of the global capital markets forced a massive realization: digitization was merely the baseline. The real battleground was intelligence. In mature financial hubs, advanced algorithms were already beginning to ingest unstructured data, run predictive risk models, and flag transaction anomalies long before a human eye ever scanned a trial balance. We weren't just processing numbers; we were orchestrating predictive capital.

Returning to Pakistan to advise corporate boards and SMEs through consulting and dedicated in-house masterclasses at premium institutions like ICMAP, I see the exact same pattern repeating at an accelerated

AI is transforming finance by automating routine accounting tasks, shifting the profession's focus from compliance to strategic decision-making and value creation.

pace. The gap between organizations operating on legacy, human-intensive frameworks and those weaponizing AI is widening daily. Companies are realizing that continuing to throw expensive human hours at manual financial reporting efficiency is a losing strategy. The disruption is hitting every facet of the reporting cycle:

- **Autonomous Reconciliation:** AI agents now match complex, multi-currency receivables and intercompany transactions across multiple global entities instantaneously, turning a monthly headache into a continuous, real-time audit.
- **Intelligent Narrative Generation:** The exhausting, manual process of writing management commentaries, MD&A sections, and board presentations is being cut down from weeks to minutes, as LLMs safely synthesize financial data into clear, strategic, and natural prose.
- **The Fusion of AI and Sustainability:** The convergence of AI and non-financial reporting is already operational. By partnering with world-leading, AI-native solutions for ESG, we are now able to ingest thousands of unstructured energy bills, supply chain invoices, and emissions metrics, instantly mapping them to rigorous compliance frameworks like GRI and IFRS S2.

The New Mandate for Financial Leaders

If the routine work is automated, what is left for the human accountant? The answer is: everything that actually matters.

When an AI engine handles the mechanics of data collection, processing, and standard reporting, the finance professional is liberated to act as a true strategic partner. Your value is no longer measured by how long it takes you to close the books, but by what you do with the data once it is closed. Can you read the predictive cash flow models generated by the machine and negotiate better credit lines? Can you identify structural margin leakages that the algorithm flagged? Can you design the digital data pipelines that allow AI to audit your company's transactions in real time?

We must transform our mindsets from historical scorekeepers to forward-looking architects. The professionals who sit in my training rooms at ICMAP who succeed are not trying to compete with the machine's speed; they are learning how to pilot the machine.

The Cheat Sheet: The AI-Finance Transition Matrix

Use this matrix as a practical roadmap to transition your finance function from a cost center of manual labor into an engine of high-impact corporate strategy. Save, print, and align with your executive board.

Financial Pillar	The Legacy "Typist" Grind (Automated Away)	The AI-Driven Workflow (Right Now)	High-Impact Human Role (Your New Job)	Strategic Impact Metric (The "Wow" Factor)	Immediate Action Step
Data Ingestion & AP	Manually matching invoices, POs, and GRNs; keying in tedious voucher entries.	Vision AI extracts complex invoice data; matches 3-ways autonomously; flags exceptions.	Data Pipeline Architect: Managing edge cases; auditing AI exceptions; configuring ERP integrations.	80% Reduction in processing cycle times; near-zero manual data entry errors.	Deploy OCR & automated matching tools to eliminate manual data entry.

Financial Pillar	The Legacy "Typist" Grind (Automated Away)	The AI-Driven Workflow (Right Now)	High-Impact Human Role (Your New Job)	Strategic Impact Metric (The "Wow" Factor)	Immediate Action Step
Reconciliations	Downloading bank statements; running complex VLOOKUPS in Excel; chasing cross-border variances.	AI agents reconcile multi-currency, intercompany, and bank feeds in real time.	System Integrity Controller: Analyzing systemic friction points; managing bank API integrations.	Continuous Close: Monthly reconciliations compressed into daily automated checks.	Transition from end-of-month to continuous, daily AI-assisted reconciliation.
Reporting & Commentary	Extracting massive data tables; manually drafting board packs and MD&A variance narratives.	Private LLMs safely analyze internal financial trends to instantly generate narrative drafts.	Strategic Storyteller: Translating machine summaries into commercial action plans for the CEO.	90% Time Saved on first-draft generation, shifting hours to strategic analysis.	Use secure, private LLM prompts to draft the first iteration of your next monthly report.
ESG & Compliance	Sifting through utility bills, fuel receipts, and unstructured ESG spreadsheets.	AI-native ESG platforms ingest unstructured data; instantly map to GRI / IFRS S2.	Sustainability Advisor: Steering capital toward green taxonomy compliance; managing ESG risks.	Audit-Ready ESG: Ingestion to compliance mapping in minutes instead of months.	Partner with an AI-native ESG solution to automate non-financial compliance tracking.
Forecasting	Building static, historical Excel models based on subjective corporate averages.	Machine learning models process real-time market data to predict future cash flows.	Commercial Futurist: Running advanced stress tests; advising the board on capital structure.	Real-Time Visibility: Rolling forecasts that adapt to daily market shifts.	Replace 12-month static budgets with rolling, predictive AI cash flow forecasts.

Conclusion: The Future is an Open Ledger

The fears surrounding AI and job losses are real, but they are fundamentally misdirected. AI will not take your job. A professional who knows how to leverage AI will take your job. The typing pool is gone, and the manual spreadsheet grind is next in line. As corporate leaders, consultants, and educators, our responsibility is to build the digital bridges that allow our teams to cross over from repetitive survival to high-impact strategy. The tools are ready, the computing power is live, and the market is moving. The only question left is whether you are configuring the system, or being replaced by it.



The writer is working as CEO, ESGHexa

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MARKET

Insider Trading – When the Game is Rigged Before You Invest

| Ahmad Saeed FCA |
| Dr. Qaiser Rafique Yasser |
| Abdul Rahim Suriya, FCA |

Insider Trading is defined under Listed Companies (Insider Trading) Regulations, 2015; as Dealing in securities of a listed company, directly or indirectly, by a person who is in possession of any price-sensitive information that is not generally available to the public, or communicating such information to any other person for the purpose of dealing. When an insider such as company director, executive, or individuals closely associated with them exploit privileged access for personal gain, the fundamental principle of fairness in markets is compromised.

Insider trading occurs when an insider trades shares before price-sensitive information becomes public, or when an insider directs another person to trade on their behalf based on such information, or when an insider discloses confidential information to relatives, friends, brokers, or any other person, or when a connected person trades securities while knowing that the information in their possession is confidential and not publicly available.

Good governance expects a level playing field where prices reflect publicly available information, whereas insider trading distorts this equilibrium by privileging a select few. The result is not only a loss of confidence in markets but also long-term damage to the credibility of corporate governance systems.

1. IMPORTANCE OF TRANSPARENCY AND MARKET INTEGRITY

Transparency helps investors in making a more accurate assessment of risks and rewards of their investments for it is based on data that is accurate and the return on investment can be compared with other securities, benchmarks, and asset classes. Market integrity is fundamental for protecting investors, maintaining public trust, promoting fair competition, and detecting and preventing misconduct.

2. GLOBAL REGULATORY FRAMEWORKS FOR INSIDER TRADING

A comprehensive global regulatory framework exists for dealing with insider trading.

2.1 Organization for Economic Co-operation and Development (OECD) Principles

The OECD Principles of Corporate Governance recommends that governments:

- Most OECD countries have followed this recommendation and have prohibited insider trading through securities regulations, company law, and criminal law.
- Establish and enforce laws and regulations that criminalize insider trading and take measures to eliminate any legal or enforcement gaps that may allow insider trading to occur.
- Prohibit insider trading and abusive self-dealing. Board members and managers should disclose any material interests in transactions or matters affecting the company.
- Monitor and disclose related party transactions to address any conflicts of interest.
- Protect and facilitate shareholders' rights, including the right to obtain material information on a timely and regular basis.
- The enforcement agencies must have the authority, integrity, and resources to conduct investigations and give rulings in a professional and objective manner.

2.2 International Organization of Securities Organization (IOSCO)

IOSCO's framework considers insider trading as illegal and improper that regulators must prevent and punish. IOSCO encourages the exchange of information between regulators to strengthen oversight and enforcement capabilities. Its principles stress the importance of adequate internal controls, and restrictions on trading by insiders like board members and managing directors.

2.3 Financial Action Task Force (FATF)

The FATF is a standard-setter for anti-money laundering (AML) and counter-terrorist financing (CFT). Its focus is on financial crime. Its recommendations are aimed at preventing illicit

financial flows, and not directly regulating insider trading. However, money laundering and terrorist financing can sometimes overlap with the proceeds of insider trading. FATF provides a framework for countries to fight insider trading as a predicate offense to money laundering. Its framework requires countries to criminalize money laundering and terrorist financing, implement preventive measures in the financial sector, and develop strong legal and operational capabilities to identify, trace, and prosecute financial crimes, including insider trading when linked to illicit financial flows.

2.4 International Auditing Standards

There are no specific International Standards on Auditing (ISAs) for insider trading, as ISAs focus is on the accuracy of financial reporting rather than legal compliance. Also, auditors are not responsible for detecting all illegal acts. However, auditors must be alert to any potential signs of illegal acts, including insider trading under the following ISAs:

- ISA 240: Question under the principle of professional skepticism, unusual transactions or disclosures that might point to insider trading.
- ISA 720: Evaluate any inconsistencies in "other information" in the annual report, which may have information relating to insider trading.
- ISA 550: Focus on related party transaction to uncover transactions that may not have a clear business purpose and could be a diversion of assets into an illegal activity.

3. LEGAL AND REGULATORY FRAMEWORKS

The insider trading legislation has a long history, dating back to the U.S. Securities Exchange Act of 1934, which established the legal foundation for addressing unfair trading practices. Since then, many countries have developed parallel regimes, recognizing insider trading as both an economic crime and a corporate governance challenge. However, insider trading in Pakistan is outlawed on paper, yet loopholes, leaks, and toothless enforcement keep the market a whispered game.

Table 1: Comparative Analysis of Insider Trading Laws

	Main Law	Enforcement Mechanism	Penalties
EUROPEAN UNION	Market Abuse Regulation (MAR)	1. European Securities and Markets Authority (ESMA) 2. National competent authorities	• Imprisonment of at least four years • Can include unlimited fines for civil market abuse offenses • Disqualification from commercial activities
BANGLADESH	The Securities and Exchange Commission Act, 1993 and associated rules	Bangladesh Securities and Exchange Commission (BSEC)	Imprisonment and/or monetary fines. A company found guilty may face penalties including civil and criminal prosecution. The severity of the penalty depends on the nature and scale of the offense.
INDIA	Prohibition of Insider Trading Regulations, 2015	Securities and Exchange Board of India (SEBI)	• Civil penalties of not less than Rs.10 lakh, or three times the illicit gains, whichever is higher • Up to 10 years imprisonment.
PAKISTAN	The Securities Act, 2015	Listed Companies (Prohibition of Insider Trading) Guidelines, 2001: issued by the SECP	• A fine of up to three times the unlawful gain. • Failure to pay the fine can result in imprisonment until full payment is made.

	Main Law	Enforcement Mechanism	Penalties
SRI LANKA	Securities and Exchange Commission of Sri Lanka Act#19 (2021)	Rules and by-laws from the SEC and the Colombo Stock Exchange	• Fine of Rs. 3.3 million • Suspension or removal of a broker's license
UNITED KINGDOM	UK Market Abuse Regulation (MAR)	Financial Conduct Authority	• Up to 10 years imprisonment • Unlimited fines. • Bans from professional roles
USA	Securities Exchange Act of 1934	1. Insider Trading Sanctions Act of 1984. 2. Dodd-Frank Act	• Up to \$5 million for individuals and \$25 million for corporations • Up to 20 years per violation

This study examines the gap between Pakistan's rules and reality. It traces global regulatory evolution, dissects local laws and landmark cases, and spotlights overlooked practices that violate the spirit, if not the letter, of the law. It exposes systemic flaws, challenge cultural tolerance, and chart policy reforms to restore trust and fairness in Pakistan's capital markets.

4. IMPLICATIONS FOR AN ACCOUNTANT

Accountants have access to sensitive information (earnings, mergers and acquisitions deals, etc.) that can affect a company's share price. The general presumption is that if an accountant trades in a company's securities, the trade was made using inside information. The burden of proving otherwise is on the accountant. Insider trading is in breach of an accountant's fiduciary duty. Professional bodies consider it a serious ethical violation and can impose penalties ranging from fines to suspension or revocation of a license for professional misconduct.

5. IMPLICATIONS FOR ACCOUNTANCY BODIES

- Accountancy bodies ensure regulatory compliance by working with regulators to make sure their members comply with laws that prohibit insider trading.
- Accountancy bodies support enforcement and investigation by assisting regulatory bodies that appoint auditors to investigate insider trading, and they also take disciplinary action if a member is found engaged in illegal activity.
- Accountancy bodies contribute through setting standards and education by establishing ethical codes and professional standards to guide members' behavior, and by educating them on handling confidential information and understanding the legal and professional consequences of insider trading and other

forms of market manipulation.

- Accountancy bodies must promote market integrity by protecting the integrity of financial markets and maintaining public trust through accountability, transparency, and ethical conduct.

6. EMPIRICAL RESEARCH ON INSIDER TRADING

Insider trading has remained a cornerstone of global finance research between 2012 and 2025, owing to its profound implications for market efficiency, investor protection, and the design of regulatory frameworks. Scholarly works consistently demonstrates that opportunistic trades are the only category with meaningful predictive power. Insiders strategically time their filings, exploit surges in retail investor attention, and employ indirect channels to magnify profits while minimizing detection risk. Although legal deterrence and governance quality have proven effective in curbing abuse, brokers and tip networks continue to generate new points of leakage, complicating enforcement efforts.

A significant body of prior research highlights that indirect trading through family members, trusts, or controlled entities offers insiders both higher profitability and greater concealment than direct transactions. Such trades exhibit stronger associations with future firm outcomes, underscoring their informational advantage. Legal and enforcement risks play a moderating role: anticipated penalties reduce both the volume and intensity of trades, while the absence of short-swing profit rules enables insiders to capture substantial gains. Corporate governance further shapes outcomes, with firms possessing strong oversight mechanisms reporting markedly lower insider profits. Beyond traditional insiders, brokers with access to client order flow and social networks transmitting tips have emerged as new vectors of informed trading. At the same time, advances in

machine learning now allow regulators to detect abnormal trading intensity in real time, particularly in the lead-up to major corporate events.

Taken together, these findings portray insider trading as a dynamic, multi-layered phenomenon shaped by information asymmetry, behavioral biases, governance quality, and regulatory pressure. They provide critical benchmarks for assessing enforcement gaps in Pakistan. While global research highlights increasingly sophisticated detection and deterrence mechanisms, the Pakistan Stock Exchange continues to operate with limited real-time monitoring, delayed disclosures, and minimal prosecution. This environment creates fertile ground for opportunistic insider activity, underscoring the urgent need for stronger governance and enforcement capacity.

Table 2: Insider Research Focus in last decade (2012–2025)

Year	Title	Journal	Main Theme
2025	Investor Attention and Insider Trading	Journal of Financial and Quantitative Analysis	Insiders exploiting attention-driven mispricing by selling during high retail attention and buying during low attention, especially in lottery stocks.
2024	Legal Risk and Insider Trading	The Journal of Finance	The impact of anticipated legal risks and penalties on the aggressiveness of insider trading behavior.
2023	Informed Trading Intensity	The Journal of Finance	Developing a machine learning-based measure of informed trading intensity (ITI) that predicts events like earnings surprises and M&As.
2022	Indirect Insider Trading	Journal of Financial and Quantitative Analysis	Profitability and characteristics of indirect insider trades through controlled accounts like family or trusts, which are more opportunistic and predictive of firm performance.
2021	Dollar Profits to Insider Trading	Review of Finance	Measuring the actual dollar profits generated from insider trades and their economic significance.
2021	Inside Brokers	Journal of Financial Economics	Brokers with access to client order flow engaging in informed trading, acting as "inside brokers."
2020	Insider Trading Patterns	Journal of Corporate Finance	Insider trading strategies based on the duration of informational advantages, including spreading trades over time and timing disclosures after market close to maximize profits.
2019	Insider Trading: What Really Protects U.S. Investors?	Journal of Financial and Quantitative Analysis	The role of regulations like the short-swing rule in protecting investors from insider trading, showing insiders can earn significant returns without it.
2018	Do an Insider's Wealth and Income Matter in the Decision to Engage in Insider Trading?	Journal of Financial Economics	Examining whether insiders' personal wealth and income influence their likelihood to engage in illegal insider trading.
2017	Information Networks: Evidence from Illegal Insider Trading Tips	Journal of Financial Economics	Analyzing social networks and relationships that facilitate the spread of illegal insider trading tips and their impact on trading patterns.
2016	Corporate Governance and the Profitability of Insider Trading	Journal of Corporate Finance	How strong corporate governance mechanisms reduce the profitability of insider trading by limiting insiders' ability to exploit private information.
2015	Attentive Insider Trading	Journal of Financial Economics	Insiders trading attentively based on firm-specific information, distinguishing from inattentive trades.
2012	Decoding Inside Information	The Journal of Finance	Identifying opportunistic versus routine insider trades to decode the informational content of insider transactions.

7. LESSONS FROM THE GLOBAL HALL OF SHAME

Recent high-profile conviction from across the globe underscore a stark reality, when regulators treat insider trading as a serious crime, deterrence works. From Martha Stewart's five-month prison stint in the U.S. for dodging a mere \$45,000 loss, to Raj Rajaratnam's 11-year sentence for a \$60 million haul, the message is clear, swift disclosure rules, aggressive prosecution, and crippling penalties leave insiders with nowhere to hide. In the UK, billionaire Joe Lewis learned that even tipping a pilot can cost \$5 million and three years of freedom. Australia's Lukas Kamay and India's Harshad Mehta show how public data leaks and market manipulation invite multi-year jail terms, while China's Xu Xiang proves that no nickname "China's Buffett" shields you from a 5.5-year sentence and billions in forfeitures.

Table 3: The Global Hall of Shame

Country	Villain	Crime	Punishment
UK	Joe Lewis (Tottenham Hotspur owner)	Tipped his private-jet pilot to buy cancer-drug shares before a 16 % surge	\$5 million fine, 3 years' probation
USA	Martha Stewart (lifestyle queen)	Sold ImClone shares after CEO tip-off	5 months jail + \$30K fine
USA	Raj Rajaratnam (Galleon hedge fund)	\$60M profit from Goldman Sachs leaks	11 years jail + \$158M fine
Australia	Lukas Kamay (forex trader)	Used secret jobs data for 45 illegal trades, made AUD 8 million	7 years, 3 months in prison
China	Xu Xiang ("China's Warren Buffett")	Spoofed markets with inside tips, distorted Shanghai index	5.5 years in jail + \$16 million fine
India	Harshad Mehta (1992 scam king)	Fake bank receipts + insider deals crashed market	Died in jail awaiting trial

8. IMPACT OF THESE CASES

8.1 Civil and Criminal Penalties

Investigative reporting and extensive media coverage of the reputational and financial consequences of insider trading has heightened public awareness, and increased pressure on regulators and companies for strict enforcement of laws and for reforms to prevent insider trading.

In most jurisdictions Insider Trading is now considered a white-collar crime. In the United States, for example, under the Sarbanes-Oxley Act, an individual can be sentenced 20 years in prison and/or fined US\$ 5 million for willful Insider Trading. The SEC can also prohibit the individual from serving as an officer or director of a public company. A corporation can be fined up to US\$25 million and can also be delisted from stock exchanges.

In Pakistan, Insider trading is a criminal offense under the Securities Act, 2015, punishable by imprisonment and fines. A company can face a fine of up to PKR 300 million, or three times the amount of gain made or loss avoided, whichever is higher. An individual can face imprisonment for a term that may extend to three years, a fine of up to PKR 200 million, or three times the amount of gain made or loss avoided, whichever is higher.

8.2 Reputational Damage

Individuals and organizations lose trust. Implicated companies, therefore, struggle to regain investor confidence, and implicated individuals finding employment challenging.

8.3 Other Consequences

Insider trading has high financial implications for the organization – legal costs and regulatory penalties, increased insurance premiums, and greater oversight from regulators. It can also disrupt business operations,

result in the removal of senior management, and decline in employee morale and productivity.

Major scandals (Enron and the Galleon Group, for example) resulted in significant financial losses for shareholders and damaged market integrity and investor confidence. Investors considered stock markets and securities trading as unfair or manipulated and withdrew from it, resulting in reduced liquidity and increased volatility in the markets.

8.4 Regulators response to Insider Trading Scandals

Insider trading prompted lawmakers in US to strengthen market regulations and improve enforcement mechanisms. The Wall Street Crash of 1929 resulted in the enactment of the Securities Exchange Act of 1934. The Act established the Security and Exchange Commission (SEC) and introduced regulations to increase transparency and combat fraud, including specific provisions (like Section 16) to address insider trading. The high-profile prosecution of Ivan Boesky in the 1980s exposed the depth of insider trading on Wall Street. As a result, the Securities Fraud Enforcement Act of 1988 (ITSFEA) was enacted. The Act increased insider trading penalties and expanded the SEC's enforcement powers.

The collapse of Enron in 2001 involved massive accounting fraud and insider trading and resulted in huge losses for shareholders and employees. The Sarbanes-Oxley Act of 2002 was enacted to prevent such frauds in future. The Act introduced stricter financial disclosure requirements, established the Public Company Accounting Oversight Board (PCAOB), mandated internal controls, enhanced penalties for white-collar crimes, and prohibited insider trading during pension fund blackout periods. The act also provided whistleblower protections and required senior executives to certify the accuracy of financial statements.

Enforcement in Pakistan has long lagged, but June 2025 marked a historic first. The Sindh Special Court convicted Zakir Hussain Somji, Assistant Vice-President at Habib Metropolitan Bank, for trading 11.8 million shares between 2014 and 2016 using confidential investment data, netting illicit gains of PKR 2.87 million. Under Section 128 of the Securities Act 2015, he was fined PKR 8.6 million penalty, three times his profit and faces imprisonment if the penalty remains unpaid. The SECP hailed the verdict as a "zero-tolerance" milestone, signaling that the era of unchecked insider profits may be ending. Yet one

conviction in 78 years is only a beginning, genuine market integrity will require many more.

8 INSIDER TRADING IN PAKISTAN

Pakistan outlawed insider trading more than half a century ago, yet the prohibition has remained largely symbolic. The Securities and Exchange Ordinance of 1969 was born from the wreckage of the 1967 crash, the Finance Act 1995 forced mandatory disclosures, and the Companies Act 2017 together with SECP codified the ban. On paper, this framework rivals that of developed markets. In practice, however, the Pakistan Stock Exchange functions as a whisper network where the well-connected prosper and regulator struggle to keep pace.

Sections 129, 130, and 131 of the Securities Act, 2015 form the core of Pakistan's legal framework aimed at prohibiting insider trading and ensuring market transparency. They define what constitutes sensitive inside information, who is classified as an insider, and the disclosure obligations of listed companies to the public.

Section 129: Inside Information

Section 129 of the Securities Act, 2015 defines "inside information" as any non-public information directly or indirectly relating to listed securities or their issuers. If disclosed publicly, this information is substantial enough to materially affect the price of those listed securities.

Key Characteristics of Inside Information

Non-Public Status: It has not been disseminated to the general market.

Price Sensitivity: It would significantly influence an average investor's decision to buy, sell, or hold the security if it were known.

Broad Scope: It can encompass financial results, mergers, acquisitions, restructuring, significant new contracts, or regulatory actions.

Section 130: Insiders

Definition: Identifies who qualifies as an "insider" within the context of the capital market.

Scope: It encompasses individuals who have access to inside information by virtue of their position. This typically includes corporate directors, officers, major shareholders, employees, and professionals (such as auditors or legal advisors) who hold a fiduciary relationship with the listed company.

Strong governance, transparency, and effective enforcement are essential to protect market integrity and ensure that all investors compete on a level playing field.

Section 131: Listed Companies' Responsibilities to Disclose Inside Information

Obligation to Disclose: Listed companies are required to make full, effective, and immediate public disclosure of any price-sensitive or inside information concerning their operations.

Selective Disclosure Rule: If a listed company intentionally or accidentally discloses any inside information to a third party in the normal course of business, professional duties, or employment, it must simultaneously release a complete and effective disclosure to the public.

9.1 Domestic Case Studies

Insider trading is a serious offence in Pakistan under the Securities Act, 2015 and the Listed Companies (Insider Trading) Regulations, 2015. Any director, officer, employee, sponsor, or connected person who trades in securities while possessing material, non-public (price-sensitive) information, or who communicates such information to others for trading, may face severe penalties. These include fines of up to Rs 200 million or three times the unlawful gain, disgorgement of profits, suspension or banning from the securities market, disqualification from holding directorships, and in serious cases, imprisonment of up to three years.

SECP inquiries into suspicious trades block purchases hours before earnings announcements, sudden sell-offs preceding rights issues accumulate, but prosecutions rarely follow. Weak surveillance

technology, understaffed enforcement teams, and a cultural shrug that treats "inside tips" as savvy street smarts have kept convictions at zero. Few recent examples are as under:

Habib Metropolitan Bank: This was the first-ever conviction for insider trading in Pakistan's history. In June 2025, a Sindh Special Court convicted then Assistant Vice President (Investments), for insider trading under Section 128 of the Securities Act, 2015. He reportedly used confidential investment decision information to trade shares and earned unlawful gains. The court imposed a penalty of Rs. 8.6 million (three times the illicit profit), to be paid within seven days or face jail until full payment.

Pak Suzuki Motor Company: In August 2025, SECP filed a criminal complaint against the company secretary of the company, four of his relatives and an associated company. They allegedly accumulated shares between August and October 2023 using non-public price-sensitive information about a planned share buy-back and de-listing. After the announcement, share prices rose and the accused earned illegal profits totaling about Rs. 338 million. Under the Securities Act, insider trading is punishable by imprisonment (up to 3 years) or a fine (up to Rs. 200 million) or three times the unlawful gain.

Callmate Telips Telecom Limited: The insider trading case relating to Callmate was investigated by SECP under the Securities Act, 2015. The matter involved trading in Callmate shares while in possession of material, non-public information, particularly concerning the company's financial condition, operational difficulties, and corporate developments. SECP found that certain connected persons had access to inside information which was not available to the general public and that trading occurred before such information was formally disclosed to the market. Based on its findings, SECP initiated enforcement proceedings, imposed penalties, and directed actions under insider trading provisions to protect market integrity and investor confidence.

Hascol Petroleum Limited: In 2015, SECP bench dismissed an appeal filed by Hascol Petroleum Ltd and its CFO related to insider trading allegations involving the trading of Pakistan Refinery Limited (PRL) shares in 2014. SECP's Market Surveillance Department had found that Hascol, through its CFO (who was also a member of the management committee), accumulated PRL shares ahead of internal investment decisions not yet public and generated profits of about Rs 63.6 million,

leading to a finding of insider trading. The appellate bench upheld the regulator's order, maintaining the penalty and recovery of gains.

2 Family Controlled Firms – Perfect for Indirect Trading

Family-controlled enterprises form the backbone of the Pakistan Stock Exchange (PSX), with over 70% of PSX-100 companies characterized by concentrated ownership in founding families or business groups. This entrenched structure marked by interlocking directorships, cross-shareholdings, and private trusts creates fertile ground for indirect insider trading. Material non-public information often circulates seamlessly from boardrooms to personal or nominee accounts sidestepping direct disclosure obligations. In contrast to widely held firms in the U.S. or UK firms, where independent directors and institutional investors enforce scrutiny, Pakistani family businesses blur the boundary between corporate assets and private wealth, treating them as interchangeable. This dynamic erodes distinctions between legitimate governance and opportunistic profit-taking. An analysis of 1,800 insider-related transactions across 65 family-dominated PSX firms (2020 – 2025) reveals a systematic pattern, related-party transactions (RPTs) surge by an average of 42% in the 14 days preceding insider purchases, followed by abnormally high trading volumes in family-linked brokerage accounts (SECP Form 34 & PSX Trade Data). In 38% of cases, beneficial owners executed trades through spouses, siblings, or offshore trusts entities exempt from immediate Form 34 filing yielding cumulative abnormal returns (CARs) of 8.7% over 30 days, nearly double the 4.1% generated by direct insider trades. Illustrative examples include pre-dividend acquisitions in textile conglomerates and pre-earnings disposals in cement groups, where family nominees acted within hours of closed-door board approvals.

9.3 Broker as “Inside Intermediary”

Brokers in Pakistan serve as the critical nexus of information and execution, controlling more than 70% of PSX trading volume through just five dominant firms as of 2025 (PSX Market Statistics, 2024). This concentration transforms brokerage houses from neutral intermediaries into potential “inside intermediaries” gatekeepers with real-time visibility into client order flow, corporate block trades, and pre-announcement positioning. Unlike regulated markets where Chinese walls and trade surveillance enforce separation between research from execution,

many Pakistani brokers operate integrated models, or family offices, creating fertile ground for selective information leakage and front-running.

9.4 Roadmap to IOSCO Compliance (2026–2030)

Pakistan’s Securities and Exchange Commission of Pakistan (SECP) stands at a pivotal juncture in 2025, with the first-ever insider trading conviction signaling political will for reform. Yet, full alignment with International Organization of Securities Commissions (IOSCO) Principles particularly Objective 12 (Market Intermediaries) and Objective 25 (Enforcement) remains distant. The PSX lags in real-time disclosure, suspicious transaction reporting (STR), and digital surveillance, perpetuating insider abuse and deterring foreign institutional investment. This five-year roadmap (2026–2030) transforms structural weaknesses into global-standard strengths through phased, measurable, and enforceable reforms, if implemented with consistency and political backing, these reforms would position Pakistan as a Tier-2 emerging market by 2030, unlocking estimated annual FDI inflows of \$2.1 billion (World Bank, 2025).

Table 4: The Fix: A 5-Year Plan (2026–2030)

Year	Fix	Win for Investor
2026	T+2 filing (like USA) + live public dashboard	You see every insider trade in 48 hours
2027	Brokers must flag orders 3× normal volume + strict “Chinese walls”	No more midnight tips
2028	Anonymous whistleblower hotline + 10% bounty on recovered profits	Insiders start ratting each other out
2029	Minimum 3-year jail + special fast-track court	Fear finally beats greed
2030	Full global-standard seal (IOSCO)	\$2.1 billion extra foreign investment every year (World Bank estimate)

10 CONCLUSION

Insider trading law in Pakistan is primarily codified in the SECP Act 2015 and Companies Act 2017, presents itself as comprehensive in theory but remains ineffectual in practice. Comparative analysis underscores this weakness while regulators in advanced countries such U.S. Securities and Exchange Commission (SEC) and the UK Financial Conduct Authority (FCA) pursue insider trading with forensic

rigor securing convictions against high-profile individuals and recovering substantial sums, whereas Pakistan's enforcement record is negligible. The solitary conviction in seventy-eight years, the Somji case, exemplifies a regulatory culture where privileged information is normalized as "networking," proxy trading is rationalized as "family business," and opportunistic broker activity is valorized as "smart timing."

The consequences of such regulatory inertia are profound, though often intangible. Market integrity is compromised through eroded trust, distorted price mechanisms, and diminished foreign investment. Moreover, systemic vulnerabilities persist, as information leakage by analysts, off-market block trades, and politically insulated business elites continue to exploit gaps that existing statutory provisions have failed to address. Effective governance, therefore, transcends legislative drafting; it requires a normative shift in perception. Unless insider trading is re-conceptualized as a form of economic theft rather than a tolerated tradition, the Pakistan Stock Exchange will continue to function as a marketplace that privileges connections over confidence.

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THE EVOLVING ROLE OF HR

- AGILE
- INCLUSIVE
- STRATEGIC
- PEOPLE-CENTRIC
- FUTURE-READY

- FLEXIBILITY
- INCLUSION
- WELL-BEING
- FUTURE OF WORK

INTEGRATING

THE GIG ECONOMY
WITH ESG FOR

The Evolving Role of HR in Pakistan: Integrating the Gig Economy with ESG for Sustainable Growth

| Dr. Rozina Muzammil, FCMA, FPFA |
| Abdul Rahim Suriya FCA, FCMA |

Introduction

In an era of rapid digital transformation and rising stakeholder expectations, Pakistan's labor market and corporate landscape are undergoing significant change. Two converging trends—the growth of the gig economy and the increasing importance of Environmental, Social, and Governance (ESG) principles—are reshaping how organizations manage work, talent, and sustainable growth. Human Resources (HR) professionals are at the center of these changes, playing a key role in aligning recruitment, learning and development, and workplace policies with gig-based employment models and ESG objectives. By adapting workforce strategies to the evolving needs of Pakistan's labor market, HR contributes to organizational sustainability and long-term competitiveness.

1. The Gig Economy: A New Frontier in Pakistan's Labor Market

- The gig economy refers to flexible, short-term, freelance jobs rather than permanent positions and contract-based work delivered through digital platforms or informal arrangements. Globally, it has reshaped traditional employment models and luckily in Pakistan, this shift is increasingly visible and beneficial not only for meeting the job requirement but also good for foreign exchange earnings for the country

Key Trends in Pakistan:

- Recent data suggests that millions of Pakistanis actively participate in gig work — with estimates showing over 2.3 million individuals engaged in diverse gig activities such as tutoring, transport services, and small-scale commercial roles. LinkedIn
- Over 70% of Pakistan's population is under 30 . Freelancing is becoming a major contributor to IT exports and foreign exchange and there is strong strong presence in Digital marketing ,software development ,graphic design. Even many accounting and tax professionals are providing off shore services.
- Earlier research indicated around 2 % of the labor force engaged in platform-based gig roles, highlighting both growth and potential



Human Resource professionals play a pivotal role in aligning gig economy practices with ESG objectives to enhance organizational sustainability in Pakistan.

under-representation in formal statistics. fair.work

HR Implications:

The rise of gig work challenges traditional HR functions: recruitment, workforce planning, performance evaluation, and employee engagement must adapt to a more fluid and decentralized workforce. HR face challenges as one cannot apply standard policies like attendance, leave, or measuring work for remote working, annual performance appraisal and talent retention is almost impossible as there is no psychological sympathy of gig workforce with employers.

Studies highlight that gig engagements increase workforce flexibility but raise concerns such as job insecurity, inconsistent earnings, and lack of benefits — calling for revised HR strategies that address onboarding, classification, and fair treatment of gig workers.

Challenges within the Gig Ecosystem:

- A Fair work study of platform companies in Pakistan revealed that many failed to meet minimum fair work standards — including fair pay and contracts — and only a few scored even modestly on worker treatment. fair.work
- Informal nature of many gigs limits access to social protection, benefits, and career progression frameworks traditionally managed by HR.

2. ESG: A Rising Priority in Pakistan's Corporate Agenda

ESG frameworks — focusing on environmental sustainability, social responsibility, and strong governance — are gaining traction in Pakistan's business environment. Regulatory and market expectations are pushing companies toward greater transparency and accountability beyond financial performance.

ESG Developments in Pakistan:

- Environmental focus: The Securities & Exchange Commission of Pakistan (SECP) has accelerated work on Pakistan's Green Taxonomy, guiding companies toward eco-friendly economic activities, and proposing expanded ESG disclosure requirements for listed firms. Business Recorder Urdu

- Environmental and climate risks are recognized as major national concerns, prompting calls for integration of sustainability goals within corporate and public policy frameworks. UrduPoint

HR's Role in ESG:

HR functions intersect notably with the Social and Governance components of ESG:

- Social Metrics: Workforce diversity, fair labour practices, worker safety, and community engagement are central to ESG reporting. HR can lead programs that enhance employee well-being, equitable compensation, and inclusive work cultures, especially relevant in contexts like gig workforce inclusion.
- Governance Metrics: Transparent HR policies, ethical recruitment, anti-discrimination measures, and compliance frameworks strengthen corporate governance and trust with stakeholders.

3. Synergies between HR, Gig Economy & ESG

Understanding the overlap of HR strategy with gig work and ESG is critical for Pakistan's organizations aiming for sustainable competitiveness. Key synergies include:

a) Inclusive Talent Management

HR must design frameworks where gig and contingent workers are incorporated into broader talent ecosystems — including training, performance standards, and feedback loops — aligning with Social goals of ESG.

b) Fair Labor Practices

Embedding fair work principles (e.g., equitable pay and transparent contracts) into platform workforce policies boosts organizational reputation and aligns with ESG expectations around human rights and decent work.

c) Skills & Future-Readiness

With automation and digital platforms expanding, HR can champion reskilling and upskilling initiatives that prepare both full-time and gig workers for evolving roles, supporting social sustainability. invergejournals.com

d) Governance & Compliance

ESG reporting increasingly requires verifiable data on workforce practices. HR holds critical data and accountability mechanisms to ensure governance transparency and compliance with emerging regulatory frameworks.

4. Strategic Recommendations

For HR Leaders:

- Develop hybrid talent models that integrate gig workers into organizational talent plans with appropriate engagement, evaluation, and reward systems.
- Collaborate with legal and compliance teams to ensure fair contracts, data protection, and labour rights for gig roles.
- Build ESG-aligned HR metrics — such as diversity, equity, worker satisfaction, and governance indicators — into corporate dashboards.
- Advocate for internal policies that reflect national and global ESG norms, reinforcing both ethical practice and investor confidence.

For Policymakers:

- Facilitate platforms for social protection mechanisms that align gig work with formal labour safeguards.
- Support ESG disclosure frameworks that reward sustainability performance, including social and labour-related outcomes.
- Promote public-private collaboration to ensure gig and platform economies enhance economic inclusion without compromising standards.

Conclusion

Pakistan's gig economy is expanding rapidly, creating opportunities for HR to access flexible, cost-efficient

talent while supporting digital growth and inclusion. From an ESG perspective, gig work promotes social inclusion but raises concerns around fair wages, job security, and benefits.

The gig economy and ESG principles are reshaping work and corporate responsibilities in Pakistan. Organizations must balance efficiency with ethical responsibility to avoid reputational risks. Strategic HR must evolve toward managing a blended workforce with transparent policies, digital systems, and outcome-based performance. Aligning gig practices with ESG principles is a challenge for sustainable and responsible growth in Pakistan.

HR professionals have a strategic role in navigating this transformation by fostering inclusive practices, aligning talent strategies with ESG goals, and ensuring sustainable, equitable work environments. As such aligning HR practices with ESG standards strengthens trust, compliance, and corporate reputation.

With deliberate policies and forward-looking HR frameworks, Pakistan can harness these trends to drive competitiveness, social progress, and long-term economic resilience.

Organizations that adapt early will be better positioned for long-term competitiveness and responsible growth.



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