

DOING BUSINESS PAKISTAN

A Guide to those Contemplating Doing Business in Pakistan



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DISCLAIMER

This booklet has been prepared for use of staff of GMN International, partners, staff and clients of its member firms.

It is designed to give some general information to those contemplating doing business in Pakistan and is not intended to be a comprehensive document.

Zia Masood Kiani & Co., (Chartered Accountants) and GMN International cannot be held liable for any action or business decision taken on the basis of the information contained in this booklet.

Zia Masood Kiani & Co.
Chartered Accountants
Pakistan

ABOUT GMN INTERNATIONAL

Formed in 1977 by a group of specialist accounting firms around the world, GMN International is an international association of quality professional accounting and audit practices that provide taxation, business and management consultancy services to discerning businesses across the globe.

GMN mission is to be a leading association of quality accounting firms worldwide, providing a range of enhanced service offerings locally, for the benefit of the firms, their clients and their staff, without compromising each firm's sovereignty and professional exposure.

LOCAL KNOWLEDGE- GLOBAL REACH

GMN International strives to provide a spectrum of superior business; taxation and management consultancy services built on local knowledge and expertise and backed by global understanding and insight.

Each of GMN International's associate firms is a legally independent entity, highly respected in its region, and with its own client base and unique skills set. The association of these firms with GMN International affords them global reach through close working relationships with the other associate firms worldwide. This uniquely collaborative approach ensures that firms that form part of GMN International are able to maintain their individuality and provide personal service to their respective corporate and private clients while, at the same time, being in a position to extend their services internationally and tap into the extensive global resources of leading tax and accounting firms worldwide.



EXCELLENCE THROUGH
COLLABORATION



Whilst GMN International comprises associate firms in more than 50 countries in Europe, North America, South America, Asia Pacific, and Africa, its success is built on close working relationships. GMN associated firms, while local providers of specialist, personalized business services in their own right, enjoy access to the expertise and experience of a host of leading tax and audit firms the world over. The reciprocal, mutually beneficial relationships between GMN associate firms is forged by regular personal contact and positions each of these firms to access international information and support quickly and at a high level. In this way the vast professional experience that is evidenced across GMN International is shared efficiently at a local level by each associate firm. So, whether a client requires immediate insight into the working of a foreign tax system, or a firm could benefit from the particular experience of a GMN associated business in a specific area, it's as simple as tapping into the extensive intellectual capital and respected expertise found across GMN International.

PAKISTAN AT A GLANCE

Population:
204,756,430

Location:
South Asia bordering the Arabian Sea between India on the east and Iran and Afghanistan on the west and China in the north.

Land Boundaries:
Total 7,266 km Afghanistan 2,430 km, China 580 km, India 2,240 km, Iran 909 km.

Coastline:
1,046 km

Climate:
4 Seasons, dry desert, temperate in northwest; arctic in north.

Terrain:
Flat Indus plain in east, mountains in north and northwest, Baluchistan plateau in west and desert in south.

Elevation:
Extremes Lowest point: Arabian Sea 0 Meter, Highest point: K2 (Mt. Godwin Austin – 8611 meters)

Independence:
14th August 1947

National Day:
23rd March

Government Type:
Parliamentary

Capital:
Islamabad

Administrative Divisions

5 provinces (Punjab, Sindh, Baluchistan, Khyber Pakhtunkhwa), Islamabad (Capital)

Federally Administered Tribal Areas (FATA)

Provincially Administered Tribal Areas (FATA)

Disputed Jammu & Kashmir region includes Azad Kashmir & Northern Areas.

PAKISTAN OUTLOOK

GDP Growth Rate
5.20 % (FY 2018-19)

Inflation Rate
8.89% (FY 2018-19)

Tax collection to GDP ratio
9.9% (FY 2018-19)

Per capita income
USD 1,375

External Debt and liabilities
USD 35,094.5Billion (State Bank)

Gross Domestic Debt
PKR 27794.90 Billion (FY 2018-19)

Fiscal Deficit
5 % of GDP

Foreign Direct Investment
US \$3794.70 Billion (FY 2018-19)

FBR Provisional Tax Revenue
PKR 2681.5 Billion (FY 2018-19)

WHY INVEST IN PAKISTAN

WHAT INCENTIVES EXIST FOR FOREIGN INVESTORS?

Pakistan has the most liberal investment policy in the South Asia region. New incentives and further liberalization measures include:

- J Remittance of royalty, technology and franchise fee is allowed to projects in social, service, infrastructure, agriculture and international chains food franchise.
- J Minimum share of the local (Pakistani) partner in a joint venture will be 60:40 for the service sector. However, 100% foreign equity can be owned for first 5 years.
- J The FBR (Federal Board of Revenue) will not question as to the source of investment; however, the FBR will only want to know whether the investor has paid requisite Income Tax on that specific investment. The FBR will not inquire into the source of the funds.
- J Foreign investors are allowed to invest in industrial project on 100% equity basis without any permission from the government.
- J There is no requirement for a No Objection Certificate from the Provincial Government.
- J In addition to manufacturing sector foreign investment on a repatriate-able basis is allowed in services, infrastructure and social sectors.
- J Full repatriation of capital gains, dividends and profits.
- J The facility for contracting foreign private loans is available to all those foreign investors who make investment in the approved sectors.
- J Foreign controlled manufacturing concerns are allowed to borrow on the

domestic market according to their requirements.

- J Foreign controlled semi-manufacturing and non-manufacturing concerns can access loans equal to @ 75% & 50%, respectively, of their paid up capital including reserves.
- J BOI's (Board of Investment) approval is not required for foreign companies to open a bank account.

REASONS TO INVEST IN PAKISTAN

- J Pakistan is strategically located to become Asia's premier trade, energy and transport corridor. It is also the gateway to the energy rich Central Asian States, the financially liquid Gulf States and the economically advanced Far Eastern tigers. This strategic advantage alone makes Pakistan a marketplace teeming with possibilities.
- J Fifty five percent of our population is below the age of 19, which bodes well for long- term sustainable economic growth. Pakistan has a strong middle class. A large part of the workforce is proficient in English, hardworking and intelligent. Pakistan possesses a large pool of trained and experienced engineers, bankers, lawyers and other professionals with many having substantial international experience. The consumer market in Pakistan is growing at a very fast pace as reflected by tele-density which has now reached more than 150 million.
- J In the global financial crisis, Pakistan's economy has shown resilience to the shocks and has maintained global and regional patterns and has performed better than some of the neighboring countries. International reports of repute have shown that Pakistan ranks ahead of regional countries.

- J The Policy has been designed to provide a comprehensive framework for creating a conducive business environment for the attraction of FDI. Pakistan's policy trends have been consistent, with liberalization, de-regulation, privatization, and facilitation being its foremost cornerstones.
- J The Law of Special Economic Zones (SEZ) has been made to meet the global challenges of competitiveness to attract FDI. The law allows to create industrial cluster with liberal incentives, infrastructure, investor facilitation services to enhance productivity and reduce cost of doing business for economic development and poverty reduction. The Law further envisages to reduce processes through SEZ in Pakistan.
- J Pakistan have extensive agricultural land, crop production (wheat, cotton, rice, fruit and vegetables), mineral reserves (coal, crude oil, natural gas, copper, iron ore, gypsum, etc.) fisheries and livestock production.
- J Large and growing domestic market having 207.7 million consumers with growing incomes.
- J Existence of well-established infrastructure and legal systems which includes comprehensive road, rail and sea links, quality telecommunications and IT services, modern company laws and Long-standing corporate culture.

CHINA PAKISTAN ECONOMIC CORRIDOR

China-Pakistan Economic Corridor (CPEC) is a framework of regional connectivity. CPEC will not only benefit China and Pakistan, but will have positive impact on Iran,

Afghanistan, India, Central Asian Republic, and the region. The enhancement of geographical linkages having improved road, rail and air transportation system with frequent and free exchanges of growth and people to people contact, enhancing understanding through academic, cultural and regional knowledge and culture, activity of higher volume of flow of trade and businesses, producing and moving energy to have more optimal businesses and enhancement of co-operation by win-win model will result in well connected, integrated region of shared destiny, harmony and development.

CPEC is hope of better region of the future with peace, development and growth of economy

CPEC has Significance for the development of the region. Potential areas of cooperation /development include:

Regional Connectivity which includes transport Infrastructure, energy hub/flows, Logistic Hub/flows, trade & commerce, peace & development of region, connectivity/harmonization/integration of civilizations.

- J Diverse investment opportunities
- J Industrial and financial cooperation
- J Agricultural Cooperation, tourism
- J Educational linkage
- J Human resource development
- J Health Care
- J People to people contact
- J Increase in livelihood opportunities
- J Enhance Security and stability

SETTING UP OF BUSINESS IN PAKISTAN

TYPES OF BUSINESSES ORGANISATIONS

A business can be established in any of the following forms:

SOLE PROPRIETORSHIP

An individual may set up the business as sole proprietorship without any registration except with tax authorities.

PARTNERSHIP FIRM

A partnership firm can be established by executing a partnership deed on a stamp paper of PKR 500/- and getting the same Notarized by the authorized Notary Public Magistrate. The Partnership Act, 1932 is the legal framework for partnership firms and a firm may or may not be registered with the Registrar of Firms.

LIMITED LIABILITY PARTNERSHIP

The limited liability partnership Act, 2017 provides the legal frame work for operations in Pakistan and the Securities and Exchange Commission of Pakistan (the commission) is the regulatory authority in this regard. Further information can be obtained by visiting its website "www.secp.gov.pk".

COMPANIES

The Companies Act, 2017 (the Act) and The Companies (General Provisions and Forms) Rules, 1985 provide the legal framework for operations of companies in Pakistan and the Securities and Exchange Commission of Pakistan (the Commission) "www.secp.gov.pk" is the regulatory authority in this regard. A company may be formed with or without limited liability and the Ordinance provides for the following categories of the companies;

Company limited by shares which may be

- o Private limited company
- o Single member company – private limited Company (SMC – PVT) Ltd.
- o Public Unlisted Company
- o Public Listed Company

Company limited by guarantee having or not having a share capital

- Not for profit association
- An unlimited company

AGRICULTURE PROMOTION COMPANY

In order to facilitate agriculture sector in the country, the companies Act, 2017 has introduced the concept of Agricultural Promotion Company. Further information can be obtained by visiting its website "www.secp.gov.pk".

FREE ZONE COMPANIES

Export Processing Zones Authority is a Pakistan Government venture conceived and designed to increase and improve the exports of the country. Its main objectives are accelerating the pace of industrialization in the country and enhancing the volume of exports by creating an enabling environment for investors to initiate ambitious export-oriented projects in the Zones which would, as a corollary, create job opportunities, bring in new technology and attract foreign investment. EPZA is one of the fast-growing projects undertaken by the government and carries a great appeal for both local and overseas investors.

In order to encourage the companies carrying on business in the export processing zone are eligible to exemptions instead of those companies which are established outside the export processing zones. Further information can be obtained by visiting its website "www.secp.gov.pk".

businesses, they include

-] Banking Companies
-] Not for profit associations
-] Non-Bank Finance Companies
-] Investment Banks which includes
 - o Mutual Funds (Open ended and Close ended)
 - o Leasing Companies
 - o Modarabas
 - o Insurance Companies
-] Oil and Gas
-] Telecom
-] Power (Generation, Transmission and Distribution)
-] Security services providing companies
-] Corporate Brokerage Houses
-] Money Exchange Companies
-] Company engaged in arms and ammunition, security printing, currency and mint, high explosives and radio-active substances.

Certain conditions e.g. as to minimum capital, qualification of directors, corporate structure and area of operations etc. are required to be complied with to obtain these licenses. However, the conditions for grant of license vary from business to business.

SETTING UP OF BUSINESS BY FOREIGN INVESTORS

A foreign investor can establish an independent business with any structures like sole proprietorship, partnership and Joint Stock Company. There is no requirement of local shareholder / director. If a foreign enterprise wishes to establish a business in Pakistan as a part of its international operations, in addition to corporate structures it also has following choices:

-] It can have registration with Board of Investment – Government of Pakistan (the Board), for opening of a branch office, marketing office or liaison office.
-] It can appoint an agent in Pakistan. Relevant provisions of the Contract Act, 1872 shall apply in such agency arrangements.
-] It can enter into joint venture with other business entities. Relevant provisions of Contract Act, 1872 and Partnership Act 1932 are applicable to these ventures.

EASE OF DOING BUSINESS WORLD ECONOMIES

The ease of doing business index is an index created by Simeon Djankov at the World Bank Group. Higher rankings indicate better, usually simpler, regulations for businesses and stronger protections of property rights. From 190 countries Pakistan, Bangladesh and India are ranked at numbers 147, 177 and 100 respectively.

VISA ISSUANCE ON ARRIVAL TO BUSINESSMEN OF 68 COUNTRIES

Visa on arrival for 30 days validity and stay allowed to the businessmen of 68 countries issued by ministry of interior on production of any of the following documents.

-] Recommendation letter from chamber of commerce & industry.
-] Invitation letter from Business organization duly recommended by the concerned Trade Organization/Association in Pakistan.
-] Recommendation letter by Honorary Investment Counselor of BOI/Commercial Attach posted at Missions abroad.

List of 68 countries can be obtained by visiting its website <http://www.dgip.gov.pk>

LEGAL AND REGULATORY FRAMEWORK IN PAKISTAN

Followings are the regulatory authorities in Pakistan to deal with different nature of business in which the entity engages itself.

STATE BANK OF PAKISTAN (SBP)

State Bank of Pakistan is the central bank of Pakistan, constituted under SBP order 1948, subsequently amended by SBP Act 1956. SBP has exclusive authority to regulate the banking sector, to conduct an independent monetary policy and to set limit on government borrowings. Further information can be obtained by visiting its website www.sbp.org.pk

Following regulations deal with banking companies and foreign exchange in Pakistan.

-) Banking Companies Ordinance, 1962
-) Microfinance Institution Ordinance, 2001
-) Anti-Money Laundering Act, 2010
-) National Accountability Ordinance (NAB) 2001
-) Payment Systems and Electronic Fund Transfer Act, 2007
-) Foreign Exchange Regulation Act, 1947
-) Foreign Exchange Manual 2002

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (SECP)

The Securities and Exchange Commission of Pakistan (SECP) was set up in pursuance of The Securities and Exchange Commission of Pakistan Act, 1997. It regulates corporate sector, Capital market, supervision and regulation of insurance companies, non-banking finance companies and private pensions. The SECP has also been entrusted

with oversight of various external service providers to the corporate and financial sectors, including chartered accountants, credit rating agencies, corporate secretaries, brokers, surveyors etc.

Following laws are enacted to regulate the corporate sectors in Pakistan

-) Companies Act 2017
-) Insurance Ordinance 2000
-) Modaraba Companies and Modaraba (Floatation and Control) Ordinance 1980
-) Companies (Appointment of Legal Advisor) Act 1974
-) Securities and Exchange Ordinance 1969
-) Central Depositories Act 1997
-) Listed Companies (Substantial Acquisition of Voting Shares and Take- Overs) Ordinance 2002.

It also issued rules to regulate the operation of different nature of businesses some of them are listed below;

-) Takaful Rules 2005
-) Clearing Houses (Regulation and Registration) Rules 2005
-) Voluntary Pension System Rules 2005
-) Commodity Exchange and Futures Contract Rules 2005
-) Non-Banking Finance Companies (Establishment and Regulation) Rules 2003
-) Insurance Rules 2002
-) Stock Exchange Members (Inspection of Books and Record) Rules 2001

Further information can be obtained by visiting its website at www.secp.gov.pk

OIL AND GAS REGULATORY AUTHORITY (OGRA)

Oil and Gas Regulatory Authority (OGRA) was setup under Oil and Gas Regulatory

Authority Ordinance 2002 to foster competition, increased private investment, protect public interest and is also engaged in regulation of activities relating to Liquefied Petroleum Gas (LPG) and Compressed Natural Gas (CNG) sectors in Pakistan. Companies interested to engage in these businesses can have further information by visiting www.ogra.org.pk

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY (NEPRA)

NEPRA was established under section 3 of Regulation of Generation, Transmission and Distribution of Electric Power Act 1997. It is entrusted with following responsibilities;

-) Issue licenses for generation, transmission and distribution of electric power
 -) Establish and enforce Standards to ensure quality and safety of operation
 -) supply of electric power to consumers
 -) Approve investment and power acquisition programs of the utility companies and Determine Tariffs for generation, transmission and distribution of electric power
- Further info can be obtained at its website www.nepa.org.pk

PAKISTAN TELECOM AUTHORITY (PTA)

The Pakistan Telecommunication Ordinance 1994, established the primary regulatory framework for the telecommunication industry including the establishment of an Authority. Thereafter, Telecommunication (Re-Organization) Act no XVII was promulgated in 1996 that aimed to reorganize the telecom sector of Pakistan.

Under this Act of 1996, Pakistan Telecommunication Authority (PTA) was established to regulate the establishment, operation and maintenance of telecommunication systems, and the provision of telecom services in Pakistan.

COMPETITION COMMISSION OF PAKISTAN (CCP)

Competition Commission of Pakistan (CCP) was established on 2nd October, 2007 under the Competition Ordinance, 2007. Major aim of this Ordinance is to provide for a legal framework to create a business environment based on healthy competition towards improving economic efficiency, developing competitiveness and protecting consumers from anti-competitive practices.

Information about its function and responsibilities can be obtained by visiting its website at www.mca.gov.pk

PAKISTAN ELECTRONIC MEDIA REGULATORY AUTHORITY (PEMRA)

PEMRA was established under PEMRA Ordinance 2002 to facilitate and regulate the private electronic media. It is engaged in the licensing of following services;

-) FM Radio
-) Satellite TV
-) Multichannel Multipoint Distribution Services (MMDS)
-) Direct to Home Television Distribution System (DTH)
-) Internet Protocol TV Channel Distribution
-) Services (IP TV)
-) Cable TV

-) Teleport for Broadcast Services (Teleporting) Landing Right
-) Temporary Up linking

Laws relating to these services can be downloaded from its website www.pemra.gov.pk

BOARD OF INVESTMENT (BOI)

The Board of Investment (BOI) was established with broad based responsibilities of promotion of investment in all sectors of economy; facilitation of local and foreign investors for speedy materialization of their projects and to enhance Pakistan's international competitiveness and contribute to economic and social development.

The BOI assists companies and investors who intend to invest in Pakistan as well as facilitates the implementation and operation of their projects. The wide range of services provided by BOI includes providing information on the opportunities for investment and facilitating companies that are looking for joint venture.

FEDERAL BOARD OF REVENUE (FBR)

FBR was established by the Federal Government by reconstituting Central Board of Revenue under Federal Board of Revenue Act 2007. It is entrusted with

-) Formulation and administration of fiscal policies
-) Levy and collection of Federal Taxes
-) Quasi-judicial function of hearing of appeal

The taxes, duties and other levies can be classified in two categories i.e. direct taxes and indirect taxes.

DIRECT TAXES

Direct taxation includes Income Tax and

Capital Value Tax.

INCOME TAX

The Income Tax Ordinance, 2001 and Income Tax Rules, 2002 provide the legal framework for the levy, collection and other matter related to income tax. The levy of income tax is an annual charge on the taxable income of Taxpayer.

CLASSIFICATION OF TAXPAYER

The nomenclature of corporate and non - corporate structures for income tax purposes is as follows:

-) Individuals (Business or Salaried)
-) Company
-) Firm
-) Association of Persons (AOP)
-) Body of Individual
-) Local Authority
-) Hindu Undivided Family
-) Every Juridical Person

SOURCES OF INCOME

The Income Tax Ordinance, 2001 classifies income into the following categories (called heads of income) and prescribes the allowable deductions against each head:

-) Salary
-) Income from Property
-) Income from Business
-) Capital Gains
-) Income from Other Sources

CAPITAL VALUE TAX

The Capital Value Tax was levied under Finance Act 1989. This is the tax on capital value of the asset and is payable on the acquisition of an asset by every Individual, Association of Persons Firm or Company

INDIRECT TAXES

Indirect taxation includes Sales Tax, Excise Tax and Custom duty.

SALES TAX

Sales tax is being charged at the time of

-) Manufacturing
-) Import
-) Export
-) Service
-) Wholesales and
-) Retail stage

It is the VAT mode of taxation. Following persons are required to get registration with FBR for sales tax.

-) A manufacturer whose annual turnover from taxable supplies, made in any tax period during the last twelve months exceeds five million rupees
-) A retailer whose value of supplies in any period during the last twelve months exceed five million rupees
-) An Importer
-) A wholesaler (including dealer) and distributor

SALES TAX ON SERVICES

Sales Tax on services charged and collected at provincial and capital territory level.

CUSTOM DUTY

The Customs duty is an important indirect tax collected by Federal Government through FBR. The tax is regulated through the Customs Act, 1969 along with Custom Rules, 2001. The custom duty is levied on the following goods;

-) Goods imported into Pakistan;
-) Goods which are brought from any foreign country and are transshipped or transported,

without payment of duties, from one custom station to another;

-) Goods brought in bond from one customs station to another.

EXCISE DUTY

The federal excise duty is an indirect tax charged by the Federal Government and is regulated by the Federal Excise Act 2005 and Federal Excise Rules, 2005. The federal excise duty is levied and collected on excisable goods and services of the following categories;

-) The goods which are produced or manufactured in Pakistan
-) The goods which are imported into Pakistan
-) The Goods which are produced or manufactured in the non-tariff areas and are brought to the tariff areas.
-) The services provided in Pakistan including the services originated outside but rendered in Pakistan.

The excise duty is levied and collected at the rate of 15% ad Valorem.

OTHER APPLICABLE LAWS, RULES AND REGULATIONS

List of other applicable laws, rules and regulation governing different type of businesses in Pakistan is provided below:

-) Labour Policy 2002
-) Employment of Children Act 1991
-) Employees Social Security Act 1965
-) Workers Welfare Fund Ordinance 1971

- J Companies Profit (Workers Participation) Act 1968
- J Employees Old Age Benefits Act 1976
- J Factories Act 1934
- J Payment of Wages Act 1936
- J Minimum Wages Ordinance 1961
- J West Pakistan Industrial & Commercial Ordinance (S.O.) Ordinance 1968
- J Punjab Fair Price Shops Ordinance 1971
- J Employment Records of Service Act 1951
- J Canteen Rules 1959
- J Industrial Relations Ordinance 2002
- J Hazardous Occupation Rules 1978
- J Maternity Benefit Ordinance 1959
- J Shops and Commercial Establishments Ordinance 1969
- J Road Transport Workers Ordinance 1961

FINANCIAL REPORTING FRAMEWORK

Institute of Chartered Accountants of Pakistan (ICAP) has issued the Financial Reporting Standards for Small Size Entities (SSE). Medium Size Entities (MSE). Followed IFRS for SME issued by IASB. For Economically Significant Entities (ESE), Securities and Exchange Commission of Pakistan (SECP) has notified the International Financial Reporting Standards (IFRS) issued by the IASB.

All listed companies are required to prepare their financial statements as per IFRS for the Financial Year (12 Months), Half Year (6 months – interim financial statements) and for each Quarter (3 months – interim financial statements).

AUDITING STANDARDS

All companies are required to get their financial statements audited by a Chartered Accountant who is a member of the Institute of Chartered Accountants of Pakistan (ICAP). However, a company that has share capital below three million rupees may get their financial statements audited by a Cost and Management Accountant who is a member of the Institute of Cost and Management Accountants of Pakistan (ICMAP). Audit is conducted in accordance with International Standards on Auditing (ISA) issued by International Auditing and Assurance Standard Board (IAASB) as adopted by ICAP.

HOW TO CONTACT US

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