Era of Digital Accountability: Transforming Tax and Audit Systems in Pakistan

Introduction

Data is the lifeline of good governance, and the use of artificial intelligence (AI) and digital tools within public finance are essential factors to consider today. In the context of the digital transformation drive that is being followed globally by the public sector, SAIs and revenue authorities are becoming increasingly at the forefront to maximize the benefits of AI for transparency, accountability and efficiency (Atayah & Al-Shater, 2021; Bhatt, 2024). Ing. In view of the fact that the world is moving towards an Artificial Intelligence (AI) system, Federal Board of Revenue (FBR) and Auditor General of Pakistan (AGP) are the key to effect this change. This Article under sub theme "Digital and AI Based Tax and Audit System" (FBR/AGP) in the News Letter of CMA Journal addresses various aspects on how AI may help in improving tax compliance and public sector audit in Pakistan. It brings together the latest studies and findings from academic institutions, worldwide, and the ongoing work on the ground in Pakistan, emphasising the potential, pitfalls, and purpose of transformation strategies for the future.

Digitalizing Tax Administration in Pakistan

Digitalization of the tax system in Pakistan took a stride forward with the launch of the Integrated Revenue Information System (IRIS), the main online platform for tax filing and compliance (Ghazi, 2025). Since its inception, the FBR has evolved from paper-based to automated systems and has also moved towards cloud technology, enabling 100% real-time monitoring of taxes along with data analysis (ICT.net.pk, 2025). Indeed, it was going to be a transformation of process, technology, and people, and one important step in that transformation process was the approval of the Comprehensive Plan for a transformation from the Prime Minister in October 2024 (FBR, 2025a). This trend looks set to continue and the achievements of the digitalization and enforcement driven revenue initiatives are seeing tax receipts rising from 8,8 per cent of GDP in 2023-24 to 10,24 per cent in 2024-25 (FBR, 2025b). With the launch of new version of IRIS (Taxpayer Registration) enhancements were added to the taxpayer registration, user profile management and recovery activities, making the process easier and more efficient to use (FBR, 2025c). Furthermore, the introduction of ePayment 2.0 within IRIS 2.0 established a level playing field for tax payments; enabling millions of taxpayers to make payments easier, similar to internet banking, ATM or mobile banking (FBR, 2024). It is these pioneering digital advancements, working in tandem, that will enable the use of more sophisticated analyses incorporating AI.

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AI for Tax Compliance and Fraud Detection

The use of artificial intelligence (AI) technologies like machine learning, natural language processing, and data analytics, for tax administration is on the rise in the world.AI technologies like machine learning, natural language processing, and data analytics are giving tax administrations an opportunity to streamline, calculate, and simplify tax filing and compliance efforts in the world (Bhatt, 2024). The introduction of AI solutions has improved tax collection and minimized the rate of tax evasion thanks to the use of AI-based tools used in tax risk assessments, tax fraud detection and enforcement (Karakoyun, n.d; Attayah & AlShater, 2021). Up to 82% easier detection of tax evasion is achieved, audit tax filing time reduced by 50% and there might be notable tax revenues increases (AI & Big Data Study, 2026). Research by tax authorities around the world identified that about half of them are already leveraging AI for risk assessment and fraud detection (Tax Notes, 2024).

In line with this, FBR has officially jumped on the bandwagon of AI and made a commitment to use AI for tax enforcement. Previously the FBR used to audit income tax returns and wealth statements while currently the FBR is changing the audit methodology from random audits to risk-based audits using Artificial Intelligence (AI). In 2025 FBR also initiated a new and groundbreaking ‘mass audit' programme involving over 7 million income tax returns through the use of Artificial Intelligence (AI).

An initiative dubbed as 'Operation Greensuit', which has mobilised a group of nearly 8000 officers from the Inland Revenue and 4000 auditors for discrepancy assessment, has been driven by AI tools and digital analytics (TechJuice, 2025). Besides, there are some highly visible instances of FBR making use of AI for tax audit selection including a total of 200 tax audits of companies (PKRevenue, 2025). These are part of its ongoing efforts to link economic activities with tax filing, and to reach out to tax evaders, under its bigger data-driven economic linkages with tax filing as well as tax filing digitization effort (Pakistan Today, 2025a). The FBR wants to adopt AI to review 3-5% of all tax filings of the six million returns submitted in total, as compared to conventional tax audit mechanisms which are limited to only 24NewsHD (2025). Further, the introduction of AI in governance by the cabinet with the approval of the National AI Policy in July 2025, provides a strategic boost towards this trajectory in addition to the use of AI in tackling several tax issues (The IGC, 2025).

Artificial Intelligence in Public Sector Auditing

Meanwhile, the concept of digitisation of the auditor general of Pakistan has been revolutionised. The highlight among these developments is the Audit Management Information System (AMIS), an all-encompassing digital solution that is set to make the audit more streamlined and effective, eliminating the need for the cumbersome manual audit process (TMC, 2024; DefinePK, n.d.). The most important of the various achievements is the Federal Minister (FM) for Finance having opened the Centre for Government Data Analytics at the AGP headquarters in December 2025. It will be an AI-powered centre, shifting the paradigm from quantity to quality audit-based and bring in entity and project-based evaluations (PhoneWorld, 2025; APP, 2025). The center will also include machine learning and AI auditing and checking of government data, to enhance the audit efficiency, effectiveness and transparency (Daily Independent, 2025). This is in tune with the global best practice where supreme audit institutions (SAIs) have embraced a more liberal use of AI for improving evidencebased decision-making (CAG India, 2024). In addition, the AGP has converted a number of software licences of specialised big data analysis tools, so far looking ahead to operate these in the regular audit process as well.

These digital instruments are already having an impact on the public finances management system. AI-driven audit software, in Pakistan, is reported to have identified billions in irregular spending - a major step forward in detecting financial irregularities (Public Finance.pk, 2026). Data analysis is more than simply automated what is there; it is a paradigm shift for risk-based auditing in a proactive manner (AGP, 2025; Hum News, 2025). Digital Governance, Data Analytics and Risk Based approaches have been introduced from the start in training programmes as the Department of the Auditor General of Pakistan (DAGP) has always been an innovative department. The relevance of this digital transformation becomes even more salient with its impact in achieving its mandate, of safeguarding public finances and tranquillising governance processes, while gaining momentum from domestic and international alike — including from the IMF (ARY News, 2025) and even the President of India (2026).

While these positive developments are commendable, there are significant challenges in implementing AI in Pakistan's tax and audit processes that need to be resolved for sustainable and ethical growth. Digital gap and lack of digital competency are the main concerns. Many countries, especially in the developing world like Pakistan lack those experts to implement and operate AI powered tax administration platforms and some taxpayers may have difficulties with tax compliance in the context of digital platforms (Studia UBB - n.d.; ATI/OECD 2023). Those gaps are: the IRIS portal was frequently experiencing outages and people were apprehensive about the implementation of digital invoice, especially for small traders, is an affordable solution (Dawn 2025). In addition, AI implementation in public sector auditing might be hindered by factors like resistance to change, high implementation costs and lack of infrastructure. The studies conducted in Kenya revealed multiple reasons why AI is not yet widely adopted, most notably, there is still a challenge faced when it comes to infrastructures and cost (Su-Plus, 2024). The outcomes of the AGP report have shown a marked improvement with respect to tax coverage – the number of tax filers showed a 76% growth while tax revenue increased by 30%, suggesting that despite the strides made by digitalisation, efforts are still required for quality and reach of audit in Pakistan (AGP, 2025).

So also the moral and political hazards are always at the door. When it comes to using AI in public finance, algorithm bias, privacy issues, and social distancing are issues of concern.

The comptroller and auditor general of India (CAG) has commented that public audit bodies need to proactively handle these risks (The Hindu Business Line, 2024). Algorithmic transparency trumps the responsible use of AI, since it is crucial to understand the output from a model, and ask questions to the automated recommendations (JISEM, n.d.).

The OECD (2024) has identified ensuring data quality and data governance as first order constraints for PFM AI use. Not to mention, the security concerns completed AI streamlining in assessing have even been understood to lower audit threat (KNE Publishing, n.d.). The mission's visit to AGP and FBR to brief them regarding transparency and digitalization indicates the significance of external supervision and abiding by world-class practices (ARY News, 2025). As Pakistan steps into a future where AI's influence is increasingly felt in public administration, it is crucial to invest in data governance infrastructures, continuous and comprehensive training of CAs and audit tax authorities, and strengthening of relevant legislation to ensure AI is used responsibly and legally in public service.

Conclusion

The transformation of public-sector tax administration and auditing into AI and digital technologies is more than a mere improvement in technology; it is a shift in governance. In conclusion, the AI-driven audit of tax evasion by the FBR and the data analytics center by the AGP represent key strides in the direction of a transparent, accountable and efficient public financial management system in Pakistan. The moment one goes one level more, from greater adherence to tax rules and regulations, and fraud detection services to proactive risk-based auditing services, there are considerable benefits. But, the future journey will need to be traversed with prudence, as there are a number of key challenges to be overcome, including infrastructure, know-how, data governance and ethics. Obviously, the technologies explored in this essay strategic and responsible can change the landscape of the tax world, no less than the books they can turn in Pakistan. The road has begun and the next is to make it Inclusive, Transparent and Irreversible.

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