Best Corporate Report Awards 2007

NEW DOWNLOADS ON OUR WEBSITE

Editor’s Letter 4
President’s Page 5

ETHICS
Revised Code of Ethics for Chartered Accountants 6-7
Ethics and Business: A Conceptual Context
Rashad Irfan Malik, FCA 8-10
Public Interest Responsibility:
A Fierce Challenge
Omar Jamal, FCA 12-13
This Thing Called Ethics
Mustafa Lakdawala, FCA 14-15
Professional Ethics
Nadia Azhar, ACA 16-17

Distinction Between Changes in Accounting Policies Versus Changes in Estimates
Nadeem Tirmizi, FCA 18-20
Enterprise Resource Planning – A Primer
Saood Hashim, ACA 21-24
SAARC Apex Body Conference
S. M. Shabbar Zaidi, FCA 25-26
New Downloads on Our Website 28-29
Banks CFOs Luncheon 30-31
Sparks Debate on Vital Issues
Best Corporate Report Awards 2007 32-34

IN-HOUSE
Narrative Reporting Should Tell the Company Story 35-39
World in Focus 41

Books 42
People 43
Last Stage 44
EDITOR'S LETTER

Ethics in Professional Practice

One of the objectives of IFAC’s International Ethics Standards Board for Accountants (IESBA) is to facilitate convergence of international and national ethical standards. To achieve this important objective, the IESBA has proposed changes to the Code of Ethics for Professional Accountants. The proposed changes, outlined in an exposure draft, will further clarify the specific provisions in the Code and refine the application of the Code’s conceptual framework.

Our own Code of Ethics has been recently revised. Pursuant to clause (i) of sub-section (2) of Section 15 of the Chartered Accountants Ordinance, 1961, the ICAP Council in its 196th meeting held on May 06, 2008 has adopted the revised Code of Ethics to be effective from January 01, 2009. The revised Code establishes a conceptual framework for all chartered accountants to ensure compliance with the five fundamental principles of professional ethics: integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The Code applies equally to all members, students, affiliates, employees of member firms and, where applicable, member firms in all of their professional and business activities.

Ethical standards have forever been the trademark of the accounting profession. As the debate on ethics in accounting heats up, it has become essential to define the role of ethics within the profession. The debate centers around two main issues — the role of ethics in accounting practice and the education of students regarding ethics. A study conducted by assistant Professor Robert J. Warth, CPA, of the College of Business at The Rochester Institute of Technology, has concluded that though major CPA firms unanimously acknowledge that ethics are ‘essential and fundamental’ to the profession, many of them fail to incorporate training on ethics, and instead rely on colleges and universities to instill that education.

Though imparting education on ethics is the responsibility of all entities within the education system, can we reasonably verify that schools and colleges in Pakistan, in fact, cover the study of ethics in their curricula? Thus, the onus is on the firms, in collaboration with the Institute, for taking affirmative action to ensure that our young professionals understand and comply with ethical standards of their firms and of the profession. The Institute has mandated an expanded curriculum on ethics. Teaching ethics can provide the kind of reasoning skills required by accountants to understand the role our profession plays, and must play, in society. This is purely the objective of ICAP’s Revised Code of Ethics — to provide the ethical guidelines needed by accountants to be socially responsible to their clients, to their peers, to the institutions of the state, and most importantly to the profession itself.

The discussion on ethics education has evolved mainly on the technical front. The emphasis is on following rules with little attention to conduct. But the fact remains that accountancy deals with dealing in morality, not just technical issues.

Abdul Rahim Suriya
Ethics in Professional Practice

In his book Military Ethics: A Code of Ethics for Officers, Richard T. DeGeorge emphasizes the development of a code of ethics in these words:

"The very exercise of developing a code is in itself worthwhile; it forces a large number of people to think through, in a fresh way, their mission and the important obligations they, as a group and as individuals, have with respect to society as a whole."

Ethics in our profession is of utmost importance as we are providing a service to the public whereby the public relies on the information that we provide them in order to take some major financial decisions. All of us are aware of the downfall of Enron and the world leading accounting firm solely due to a lack of ethics practiced by a few professionals. The loss of trust in the accounting profession resulting from the Enron disaster took years to be rebuilt. It is, therefore, worth highlighting the importance of continuously reviewing and updating our Code of Ethics such that it is easier for our professionals to take wise decisions when faced with an ethical dilemma.

Ethical decisions should be made by groups, not individuals, so that they are made without favoritism or prejudice, and these decisions should be made public so that there are parameters for preferred ethical behaviors. This of course does not mean that presence of a Code of Ethics puts an end to all unethical behavior, but it does provide some basic underlying ethical principles that describe the beliefs and values of an organization or an institute that have the potential of guiding behavior in the absence of any rules or codes in an arising situation.

The Institute has recently updated its Code of Ethics and has promulgated a Revised Code of Ethics. A ‘principles-based’ approach is adopted which is meant to enable practices, as well as practitioners, to cope with the rapid changes in the modern business environment by providing for the wide variation in circumstances that can arise in professional practice. But having that approach does not mean the Code lacks guidelines to produce reliable and consistent information that gives rise to comparability between reporting periods and entities. In the Revised Code, certain paragraphs of Section 290 which were in conflict with our bylaws have been deleted, whereas 290.31, 290.122, 290.146 referring to local requirements have been inserted. Some paragraphs of Section 240 requiring more stringent treatment have been changed accordingly.

The adoption of, and the promulgation of, the Revised Code of Ethics is a matter of great satisfaction for the Council. The Code of Ethics expresses members’ recognition of their obligation to the public, to clients, to colleagues, and to the state and its institutions that vest their trust in our ability to generate transparent corporate reporting and promote good governance.

Ethical behavior and integrity are vital for maintaining the trust that is the basis, not only for the accountancy profession, but for all successful business relationships. A professional’s reputation is their most prized possession. That is why the adoption of a code of ethics and professional conduct is of utmost importance so that people have trust in the quality of the complex services that chartered accountants provide.

Imran Afzal
REVISED CODE OF ETHICS FOR
Chartered Accountants

Historical Background

It was in 1969-70 that The Institute of Chartered Accountants of Pakistan published a Manual which basically explained in detail the objects and implications of various provisions of Schedules ‘C’ and ‘D’ of the Chartered Accountants Bylaws, 1961 (now superseded) relating to professional misconduct. This Manual, also known as the “Green Book”, was issued to new members as part of the Members’ Handbook.

In 1983 new bylaws were issued and the Chartered Accountants Ordinance, 1961 was amended in the same year. Schedules relating to misconduct now form part of the Ordinance instead of the bylaws.

Professional ethics is not all about misconduct. It is, to quote from the Green Book:

“Basically the moral fabric for a profession and its practice is largely a matter of conscience. The stricter its self-imposed discipline, the nobler is the image. It is not uncommon to be confronted with some act or the other which strictly may not fall under any clause of the Schedules and yet it may be improper by ethical standards. Such occasions are the true tests of professional integrity, and if members then rise to the occasion, the public image emerges not only unscathed but retains a lasting luster of probity. In the case of an individual, one’s
character finally shapes one’s destiny; in the case of a profession scrupulous observance of its ethics or the lack of it must determine its future. Where edicts fail precepts succeed. This is universally true.”

The Institute, as a member body of the International Federation of Accountants (IFAC), is committed to the IFAC’s broad objective of developing and enhancing a coordinated worldwide accountancy profession with common standards. In working towards this objective, IFAC develops guidance on ethics for professional accountants. IFAC believes that issuing such guidance will improve the degree of uniformity of professional ethics throughout the world.

As an obligation of its membership, the Institute is obliged to support the work of IFAC by (a) informing its members of every pronouncement developed by IFAC and (b) implementing to the extent possible under local circumstances.

The Institute initially adopted the IFAC Code of Ethics for Professional Accountants in July 1990. This has been revised several times since then. In June 2005 the IFAC Code was again revised and in order to adopt the same the Technical Advisory Committee of the Institute took up the review of this Code and after an exhaustive study the IFAC Code has been adopted subject to few minor changes. It may be noted that the changes are not in conflict with the requirements of IFAC Code; rather some of the requirements of ICAP Code are more stringent than those of IFAC Code.

Adoption by the Council

Pursuant to clause (i) of sub-section (2) of Section 15 of the Chartered Accountants Ordinance, 1961, the Council in its 196th meeting held on May 06, 2008 has adopted the following Code of Ethics to be effective from January 01, 2009. Section 290 is applicable to assurance engagements when the assurance report is dated on or after January 1, 2009.

About the Code

The revised Code establishes a conceptual framework for all chartered accountants to ensure compliance with the five fundamental principles of professional ethics. These principles are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Under the framework, all chartered accountants will be required to identify threats to these fundamental principles and take all possible measures to ensure that the principles are not compromised. The framework applies to all chartered accountants, whether in practice or not.

Chartered Accountants are expected to demonstrate the highest standards of professional conduct and to take into

The Code of Ethics helps the members of the Institute meet these obligations by providing them with ethical guidance. The Code applies to all members, students, affiliates, employees of member firms.
Ethics and Business: A Conceptual Context

SCOPE
In this short write-up I will not try to amplify either the meaning of the word ethics or explain its derivatives, or discuss close association of the word with linked concerns like morality. In the context of ethics and businesses or market practices I will also not be touching upon the impact of globalization, impact of new sites of global governance and harmonization of ethical concerns through international standards setting. I will also not be examining any existing specific rules and regulations and/or judge these on ethical grounds. The write-up is a modest effort into looking at ethics and businesses in a purely conceptual context.

INTRODUCTION
The word ‘ethics’ meaning character or custom has direct connection to social customs. Ethics are essential for survival in a civilized society, within the framework of its various traditions, practices and institutions. In turn, however, these traditions, practices and institutions do not necessarily provide ethical validity, e.g. tax avoidance may be an accepted norm in a society but the phenomenon can never achieve ethical validity. Though societies themselves define the ethical outlook of the people living in them, it is important that these practices must be assessed according to internationally accepted ethical standards. Ethics, therefore, have both a personal and, more importantly, a social dimension, and it is not at all easy either in theory or in practice to separate these.

BACKGROUND
The teachings on Ethics, until fairly recently focused on the behavior of individuals vis-à-vis one another in their economic dealings in the context of proprietor owned or family run businesses. Ethical concerns about organizational entities which undertake economic activity as a phenomenon is almost a century and a half old.

Most business schools teachers across the globe are inevitably tied to a ‘good ethics is good business’ approach. This approach to business ethics is broad and provides an opportunity to firms to claim a moral high ground in order to protect their reputations in the
also to the extent that those standards are socially acceptable or desirable, and the means by which they are put into practice by society. What may seem like an innocent action may set a disruptive precedent, for e.g. using privileged information for personal gains such as insider trading in capital markets. Similarly, a course of action may further one's personal ambitions at the cost of violating some basic ethical rule or personal integrity (e.g. giving or taking bribes etc).

Ethics, as standards of a society, do not exist in a vacuum but have to be evaluated with reference to accepted thresholds, actions and feelings. Thus ethics, organizational design and corporate governance are intertwined.

ENVIRONMENT

The ethical issues in corporate governance are important and need to be addressed. However, the question which normally arises here is to what extent the regulatory environment can take account of ethical issues. At first sight, regulatory environment or statutory laws do not give much attention to core ethical issues. The regulations in any system do not mention ethics and no legal texts refer to ethical concerns.

The regulatory environment does, however, take account of ethics and reflects an effort to inculcate ethics through instruments like guidelines, recommendations, and at times through law itself. Further, enforcement and dispute settlement outcomes inevitably reflect certain values about how society should be organized and individual choices should be structured. In other words, the regulatory environment takes account of ethics and values, even though one might think that they are the wrong ones or need to be balanced by recourse to another, potentially competing values such as consumer protection and trading on privileged information exist side by side.

REGULATIONS

There are a variety of processes for framing social behavior at organizational level. There are laws; regulations, traditions and customs, at times embodied in ethical norms; media monitoring; and civil society activism. Law, for these purposes, derives from state action (legislation, judicial decisions, regulatory rulings, and promulgations by other public bodies) and articulates public policy enforced by governmental authority. Law prescribes human action to allow societies to function with some degree of predictability and, fairness and justice.
Law, however, is an imperfect mechanism for defining good corporate behavior because it is an artifact of political processes characterized by asymmetric power and the necessity to arrive at compromise approaches between different interest groups. The law alone does not tell us that we should have good governance and why corporations should be socially responsible. Rather, it is our own values, informed by ethical theory, that tell us how to think about the need for social uplift and how to determine our individual obligations.

**A NOTE OF CAUTION**

For that minority of industry actors who are actively inclined to avoid regulatory requirements, a rule-based system will do nothing to address that inclination. Creating ever-longer lists of prohibited behavior or checklists for compliance-related best practices will not be effective unless the basic culture of the firm fosters law-abiding behavior. This limitation for regulators is not specific to developing countries alone where regulators have limited capacities. The problem exists even in developed countries. For example, Enron's Code of Ethics, with its Vision and Values platform encompassing its RICE (Respect, Integrity, Communication and Excellence) values statement, was once cited as a model for corporate code of ethics.

**BOOTSTRAPPING**

One of the underlying notions of the New Governance theory is that regulators can improve industry conduct and stimulate a race to the top through ‘bootstrapping’ or ‘rolling best practices rulemaking’.

The rolling best practices rulemaking approach suggests a mechanism for harnessing regulation to change the ground rules by which industry operates. The approach shifts regulatory expectations toward a model that incorporates the best practices of the highest performing actors. This regulatory structure forces firms to continually strive for improvement in appropriate, industry-generated directions. The regulator’s primary roles in such a regime are to aggregate industry actors’ experiences, to establish careful environment for assessing performance across firms, and to challenge laggards with the experiences of their higher performing peers.

In capital markets, or what is generally referred to as the securities regulation, the notion of rolling best practices at times runs into an immediate, but ultimately artificial, conceptual roadblock. Therefore, the emphasis is always on light-touch regulation especially in countries like Pakistan which have small markets where implementation and compliance costs have to be kept to the minimum. Light-touch regulation (primarily suggesting regulations based on disclosure obligations and a relatively minimalist set of regulatory and registration requirements) is the dominant paradigm in securities especially in developing or emerging markets.

Transparency coupled with guidelines and recommendations backed by strong laws in which ethical standards are embedded can improve ethical standards in the corporate sector, but simultaneously crooks bent upon avoiding regulatory requirements and indulging in unethical practices need to be checked, shunned and rejected by the corporate world itself to make the system, as a whole, credible and respected.

**The teachings on Ethics, until fairly recently focused on the behavior of individuals vis-a`-vis one another in their economic dealings in the context of proprietor owned or family run businesses.**

Rashad Malik,

Commissioner Securities & Exchange
Commission of Pakistan
Do financial statements prepared and audited by professional accountants have any value in terms of their quality and reliability? Failures of very high profile corporate businesses, restatements of their financial statements and apparent weaknesses of audit procedures in identifying the misstatements, raised this question in the minds of every user of financial statements. The answer to this question is presently the top agenda item of every professional body.

The accounting profession all over the world has always been regulated by independent professional bodies. Public confidence is the foundation on which this system of self regulation was established. Therefore, serving the public interest is the first task the International Federation of Accountants (IFAC), the leading forum of professional accountants, takes as its mission. Establishment of accounting and auditing standards, pronouncement of code of ethics and making efforts in international convergence of such standards are the initiatives to improve the quality of professional services and thereby increasing public confidence.

Despite all such vigorous efforts by professional bodies at all levels, the news of the day is that the public has started looking at the official regulators to intervene. Sarbanes-Oxley Act in USA, changes mandated by oversight boards around the globe, and introduction of
panel of auditors are some of the responses from the official regulators for protecting public interest.

Now the threats ahead are (a) application of excessive regulations; (b) increased risk for professional accountants if professional bodies try to match the unwarranted expectations of the public by adopting a more rules based approach in standards setting rather than framing principles; and (c) we may expect deviations from the well established objectives and scope of accountancy and assurance services.

What should be the course of action to strike a balance between a professional's personal interest and responsibilities towards society? A hard task, indeed, for professional bodies! There is hardly any measure available to assist members of professional bodies to detect or even know of a breach of public confidence. In such a situation, there is need for exceptional change in philosophy and operation of professional bodies. We will now proceed to some suggestions in this regard.

IDENTIFICATION OF STAKEHOLDERS

The term public interest, which is expected to be protected, is vague. Some of the well identified stakeholders are professionals, clients and employers, and government and professional bodies, while society as a whole is ascertained as having direct interest in the professional services of accountants.

ALIGNING CONFLICTING INTERESTS

Once stakeholders are identified, they are certain to be diverse in nature, needs, objectives and values; and of course, their interests are likely to conflict with each other. It is essential to clearly define the extent to which the profession is expected to take the responsibility of serving their interests. This should be done with the involvement of all stakeholders in prioritizing their interests and setting a cut-off somewhere at a reasonable level. One must understand that it is not possible to fully satisfy all stakeholders. However, well defined expectations of stakeholders would make it possible for a member of a professional body to adhere to a pragmatically framed code of ethics.

PROFESSIONAL DEVELOPMENT

Society not only expects a high level of technical competency but it gives equal importance to ethical behavior of the professionals. Ethical training is now being emphasized throughout the qualification process. However, the assessment of the degree of ethical attitude one has achieved before obtaining membership is still a dilemma to be resolved by the professional bodies. The ethical training within the studentship period and post qualification phase should be explained to the professionals in the context of alignment of interest among different stakeholders. In addition to the above measure, professional bodies may go for a specialization approach in which a professional may be asked to select one or two segments, according to their aptitude before taking up the final stage of qualification. These segments may be of the nature of highly regulated, limited public interest, public interest, or negligible public interest industries.

MONITORING AND GRADING

Absence of effective quality assurance system within the professional bodies forced the official regulators to take up the job as somewhere along the line the effectiveness of quality control had fallen prey to the self-interest issues of individuals. However, the situation is changing and it is bound to change. Monitoring and grading of such highly technical professionals cannot be done appropriately by official regulators who do not have the resources and capacity required for this purpose. The individual members should be aware of the benefits of monitoring and system of grading or grouping.

TRANSPARENCY

Much has already been done by the official regulators for corporate sectors to make financial information more transparent and readily available for public as early as possible. Official regulators are taking very cautious steps in case of conduct of professionals. Their approach is so far restricted to collection of limited data and information from professionals in public practice. There is a need for proactive action by the professional bodies to avoid unnecessary intervention by the official regulator, and to restore declining public confidence. Members of professional bodies may be more comfortable with their own institution than the official regulator.

The issue raised in the beginning is not unknown to professional accountants. However, its seriousness in present times has become a fierce challenge and it cannot be resolved by maintaining the status quo or taking a reactive approach. The good news is that we all, at least, have realized the importance of ethics and public confidence in maintaining the honor of our profession.

Omair Jamal, Director Education & Training, ICAP
What is Ethics? The most concise and precise definition of ethics that I have come across, is systematizing, defending, and recommending concepts of right and wrong behavior. Professional literature usually covers the aspect of professional ethics but if we have a society that develops its moral values based on ethical concepts then the acceptability of professional ethics develops on its own. In order to understand the ethical values of a society it is important to understand the basic philosophy of ethics.

A lot of work has been done on the philosophical theories of ethics. The modern day theories divide ethics in three categories i.e. metaethics, normative ethics, and applied ethics.

**METAETHICS**

Metaethics or analytic ethics is the study of what in essence ethical values are, how such values are obtained and how moral goods are achieved, in any context. Metaethics is often concerned with logical analyses of what an ethical system must be. Answers to these questions focus on the issues of universal truths, the will of God, the role of reason in ethical judgments, and the meaning of ethical terms themselves.

**NORMATIVE ETHICS**

Normative ethics involve creating or evaluating moral standards against which we judge all actions. It is an attempt to figure out what people should do or whether their current moral behavior is reasonable. This process involves examining the moral standards people currently use in order to determine if they are justifiable, as well as attempting to construct new moral standards which might be better. The golden rule “we should do to others what we would want others to do to us” is a classic example of a normative principle: Since I do not want my neighbor to steal my car, then it is wrong for me to steal his car. Since I would want people to feed me if I was starving, then I should help feed starving people. Using this same reasoning, we can theoretically determine whether any possible action is right or wrong. So, based on the Golden Rule, it would also be wrong for me to lie, harass, victimize, assault, or kill others.
APPLIED ETHICS

Normative ethical concepts when applied in practice are termed as applied ethics. Thus, normative ethics when used in different aspects of life evolve to form a code of conduct for that discipline. Such codes of conduct include medical ethics, legal ethics, environmental ethics, computer ethics, corporate social responsibility, or business ethics. Many considerations of applied ethics also come into play in human rights discussions. Fundamentally all religions preach ethical value and, therefore, the evolution process for different codes of conduct is shortened and has formed the basic principles of various religions.

Let us look into our society to study how ethics is applied. Our country has its links with the oldest civilizations. Therefore, our traditional and cultural practices have gained ethical values. All fractions of our society follow common fundamental principles of ethics and play an important role in shaping the way different parts of society relate to one another. Individuals and groups make decisions based on their ethical stances that determine whether a society functions well, exhibits friction, falls apart, or anything in between.

In recent years we have seen a gradual paradigm shift in our moral values. Every new product, every change in fashion, every modification of design adds to options to satisfy our needs. Such a phenomenal increase in temptations prompts one to compromise on moral values to get the best satisfaction out of one’s limited resources or find shortcuts to increase one’s resources. This cycle of greed starts with the desire to have the best, which cumulates into a struggle for power and finally into the desire to rule. The over achievers create a sense of deprivation among the underachievers who are tempted to compromise their moral values to gain status in life. Why have old values failed to inspire our younger generation? A simple answer would be the observable fruit of such values. Our younger generation is quick to pick up on hypocrisy. If they are told that certain values and standards are the ones they should live by, yet they do not see an older generation living by them, then they will be open to other values. Similarly, if they do not see a positive result from living those values, they will seek something different.

The young generation of today is subjected to enormous amounts of psychological conditioning. The idea of political correctness is being imbedded through our institutions of higher studies. Young minds are taught to question and reject morality based on values with any absolute substance. This form of teaching eventually finds its way into the political and moral fiber of our society. Sex, violence, fashion depicted as acceptable on television and in movies will eventually become the politically correct stance that everyone is expected to embrace. As we witness divorce rates, corporate greed, self-serving political leaders, violence, and hatred at all levels of society, the next generation is going to question the values that have produced these results.

What can we do to improve? We need to revive the importance of ethics in our society. Think tanks should be constituted to debate and publicize the logic and arguments to advocate good moral and social values. Institutions of higher studies should be encouraged to discuss and closely look at the values held by all generations. Those ideals of our older generation that have failed to deliver may be substituted by progressive values through logical argument and statistics. Our young minds need to be developed and educated about the benefits of morality. Public figures with sound principles, morals and character should be invited in public and on media. Extensive media coverage is required to eliminate the culture of might is right. Institutions like ICAP can also play their role by inviting morally acclaimed personalities to chair our gatherings.

In short we, as a nation, need to propagate moral values with the hope that the pendulum will swing; if it has been right, it will go left. And after a period of time, when the left-leaning fails to produce peace and happiness, then the pendulum will swing to the right again. History documents such never-ending swings. What is needed is a consistent set of values that work, values that will produce the results everyone desires.

Mustafa Lakdawala, FCA
Professional Ethics

Every profession has some ethics, written or unwritten, but ethics are there. All professions — accountancy, law, medicine, engineering, teaching, the sciences etc. thrive on ethics. Similarly, ethics form the basis for accounts and auditing, banks, insurance, construction, multi-national projects, factories, income tax, sales tax, excise duties, charitable institutions, hospitals, NGOs, cooperative societies, corporates, companies etc. are fields for specialization in accounting. Ethics are the principles laid down in the Code of Ethics for Professional Accountants.

Accounts and auditing ethics are quite different from audit quality. World Bank appointed a Committee to prepare a Report on Standards & Codes (ROSC) for Pakistan. Among the objectives of ROSC is instituting a system for independent oversight of auditing profession, developing simplified Small and Medium Enterprises (SME) reporting requirements, and upgrading the licensing procedure for professional accountants.

Professional ethics of almost every institute of accountants in the world do exist, but professional culture, practice and procedure differs slightly and so the scope of ethics also differs from country to country. In Pakistan, what the Council of ICAP deems fit is applicable. These principles of ethical behavior undergo change from time to time. Sometimes, if a point of ethics comes under investigation, it may result in a change in that provision.

Common morality is the basis of professional ethics. Ethics interpret our common morality for the specific working of a particular profession. It enables a large number of people to think anew the mission and important dynamics of that profession in respect to society.

The following provisions of Ethics in Chapter 6 of Part IV of ICAP Rules in the Members’ Handbook is provided free of cost to all existing ICAP members, as well as new members. It is in loose-leaf binder, which enables ICAP to add, withdraw or change any Directive. The rules are referred to only when need arises or some reference is to be made. The actual use of these Handbooks is that members, particularly those in practice, should study these in depth to enable them to abide by the laws, rules, directives and requirements of the local Council and international bodies which are issued after various exposure drafts for comments on accounting and auditing policies.

A Chartered Accountant could be in practice, in service, or retired.

All Chartered Accountants:
- Integrity and objectivity
- Confidentiality
- Tax practice
- Resolution of ethical conflicts
- Activities outside Pakistan
- Publicity & advertising by CAs

Chartered Accountants in Practice:
- Professional competence and responsibilities of non-accountants
- Independence
- Relation with other CAs in practice
- Other occupations without the Council’s permission
Chartered Accountants Employed:

- Professional competence
- Presentation of information
- Support for professional colleagues
- Conflicts of loyalties

Whether a person derives ethical values from religious principle, history and literature, or personal observation and experience, there are some basic ethical guidelines to which everyone can agree. In the July 1992 issue of Management Accounting, James Brackner, member of the IMA Committee of Ethics stated:

‘The universities are responding with an increased emphasis on ethical training for decision making. For the most part, however, they ignore the teaching of values. For moral and ethical teaching to have meaning, there must be agreement on the values that are considered right.’

Benefits of a Code of Ethics

Reasons to have a Code of Ethics maybe one or more of the following:

- Occupational maturity
- Accepted or acceptable professional behavior
- High standard of profession
- Framework for responsibility and professional behavior
- Mark of occupational identity
- Self-evaluation of the professional performance

Ethics, if followed, have the following benefits:

- Assurance
- Certainty
- Utility
- Pleasant relationship
- Cooperation
- Productivity
- Beneficial to followers
- Maintains general compliance

Accounting profession serves the country’s economy as a whole, and particularly all stakeholders, viz., management, shareholders, lenders, creditors, investors, share market etc. They trust the audit reports and the final accounts so published.

Conflict of Interest: Private or Personal Interest

It is generally financial interest but special advantages to a spouse or child may also be included in it. To cover this interest in the accounting profession, all the employees of the professional firms have to declare their personal interest in any client or business. The problem arises when this private interest conflicts with the professional duty. As a professional, certain responsibilities to clients are supposed to triumph over private and personal interest.

Secondly personal ethics may clash with political correctness. Thirdly, this conflict of interest disrupts professional responsibilities by interfering with objective professional judgment. Accounting professionals have a bigger duty to uphold their reputation among all stakeholders, specially the public.

Some of the instances in which one may go against professional ethics are:

- Accepting benefits
- Using confidential information
- Using client’s assets for private advantage
- Self-dealing
- Influenced peddling
- Increasing professional charges
- Procuring other assignments

The final test to ascertain if you are in conflict of interest is to determine whether you would get this benefit if you were not in this position of accountant or auditor.

Accounting Ethics

Definite duties of the accounting profession are put forth in the different codes of ethics circulated by institutes such as the AICPA, ICAEW, ICAP etc.

With the passage of time and claims against professional faults, misgivings, oversights etc., insurance policies are available to cover the financial risk of the professional firm, if a claim by any stakeholder shall be paid by the insurance company. These types of policies are also available in Pakistan but at the same time they reduce the responsibility and effectiveness of the staff at all levels working in the professional firm because of all the insurance policies they know.

Ethics in every profession are based on the integrity and honesty of the members of the profession.

Nadia Azhar, ACA
DISTINCTION BETWEEN CHANGES IN

Accounting Policies Versus

Changes in Estimates

The distinction between accounting policies and estimation techniques is an important one in practice due to different treatments. Changes in accounting policies are dealt with as prior year adjustments whereas changes in estimates or estimation techniques are reflected in the profit and loss account during the year of change.

An entity adopts Accounting Policies that in the opinion of the directors are most appropriate to its particular circumstances for the purpose of giving a true and fair view and are consistent with the requirements of accounting standards and Company Law.

The objectives against which an entity judges the appropriateness of the accounting policy to its particular circumstances as per paragraph 24 of the Framework are;

Relevance;
Reliability;
Comparability; and
Understandability

Relevant financial information has the ability to influence the economic decisions of users and is provided in time to influence those decisions. Relevant information possesses either predictive or confirmatory value or both.

Reliable financial information must:

- Faithfully represent the transactions of the entity and therefore reflect their substance
- Be neutral that is free from bias
- Be free from material error
- Be complete within the bounds of materiality
- Be prudently prepared under conditions of uncertainty.

Useful financial information should be comparable with financial information of the entity that relates to a different period and with financial information relating to other entities. In practice comparability is achieved by a combination of consistency and disclosure.

Useful financial information should also be capable of being understood by users with a reasonable knowledge of business and accounting and also for users who are willing to study the information provided with reasonable diligence.

Therefore, an entity should regularly review its accounting policies in light of the above objectives to ensure that they remain the most appropriate to its particular circumstances for the purpose of giving a true and fair view. If an entity’s present accounting policy is no longer judged most appropriate to its particular circumstances the entity should change and implement an accounting policy which more closely meets the above objectives.

Accounting Policy is defined in Para 5 of IAS 8 as specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Thus an entity adopts Accounting Policies:

- that are most appropriate to its particular circumstances for the purpose of giving a true and fair view;
- they are reviewed regularly to ensure that they remain appropriate, and are changed when a new policy becomes more
appropriate to the entity’s particular circumstances; and that sufficient information is disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been applied.

Similarly an entity applies accounting policies to reflect the effects of transactions and other events through recognizing, selecting measurement bases for, and presenting assets, liabilities, gains, and losses and changes to shareholders’ funds.

**Measurement** is defined in para 99 of the Framework, as the process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the balance sheet and income statement.

**Measurement basis** are those monetary attributes of the elements of financial statements (assets, liabilities, gains, losses, and changes to shareholders’ funds) that are reflected in financial statements. Measurement basis are defined in paragraph 100 of the Framework as:

A number of different measurement bases are employed to different degrees and in varying combinations in financial statements. They include the

(a) Historical Cost
(b) Current Cost
(c) Realizable (settlement) Value
(d) Present Value

**Monetary Attributes** are different attributes or values of an element of a financial statement. In other words, the different measurement basis defined in paragraph 100 of the Framework are monetary attributes.

To determine whether a change is to be recognized as a change in accounting policy or estimate requires an analysis of the effect of the change. This can be achieved by testing the effect on three general principles arising from the definition of accounting policy relating to preparation and presentation of financial statements being:

- recognition criteria, that is how to recognize elements of financial statements (assets, liabilities, gains or losses) as a result of the transaction;
- presentation, where to present the elements in the financial statements i.e balance sheet or profit and loss account; and
- measurement basis, how to attribute a monetary amount to the elements that are recognized.

Therefore, when a change becomes imminent it has to be reviewed in light of the above principles and objectives to determine the exact effect so that the purpose of the change as per paragraph 14 of IAS 8, is met. The paragraph requires An entity to change an accounting policy only if the change:

(a) is required by a Standard or interpretation; or
(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, financial performance or cash flows.

Therefore, a change in Accounting Policy occurs when the policy for the current year is different from the policy used in the preceding year and the same is permitted when the management can show that the new principle is preferable to the old principle and the change is capable of being reported retroactively for improved comparability.

The above discussion can be explained with the help of the following examples

**Example 1**

Capitalized Finance Cost. A company decides to write of interest immediately in the profit and loss account instead of capitalizing the same as cost of construction assets. The change reflects a change in accounting policy as interest is now recognized as a loss instead of part of asset as the recognition criteria is affected.

**Example 2**

An entity previously depreciated vehicles using the reducing balance method and decides to charge depreciation using straight line method.

The change will be accounted for as a change in estimate as there is no change in principles that is the assets are being recognized and presented in the same manner using the same measurement basis being historical cost, i.e. the assets are still carried at cost less accumulated depreciation, the fixed assets and depreciation are presented in the same manner in the balance sheet and profit and loss account respectively.

**Example 3**

An entity reflected certain overheads as cost of sales and decides to reflect them in administrative expenses.

The change will constitute a change in accounting policy as the presentation has changed.

**Example 4**

An entity adopts the FIFO inventory valuation method in place...
of average inventory valuation method as in the opinion of the management the new method is preferable to the old method. The change is to be accounted for as a change of accounting policy as under IAS 2 an entity has the choice of using either weighted average or FIFO method for valuing its inventory and unless the entity discloses which method of inventory valuation it has used in the preparation of its financial statements, users of these financial statements would not be able to use the financial statements properly to make relative comparisons with another entity’s financial statements. As comparison is one of the accounting policy objectives.

Policies do not include estimation techniques which are the methods and estimates adopted by an entity to arrive at monetary values, corresponding to the measurement basis selected for assets, liabilities, gains, losses and changes to shareholders’ funds. The estimation techniques for example include methods of depreciation, such as straight line and reducing balance, applied in the context of a particular measurement basis which is used to estimate the proportion of economic benefits of a tangible fixed asset consumed in a period.

Estimation involves judgments based on the latest available, reliable information because of inherent uncertainties in business activities many items in financial statements can not be measured with precision and can only be estimated. For example estimates may be required of:

- Bad debts
- Inventory obsolescence;
- The fair value of financial assets or financial liabilities;
- The useful lives of, or expected pattern of, consumption of the future economic benefits embodied in depreciable assets;

Warranty obligation.

**Changes in accounting estimate** is defined in IAS 8 paragraph 5 as an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and accordingly are not corrections of errors.

Much of the accounting information presented in the financial statements is based on judgment of future events. These judgments involve estimates for items such as bad debts associated with accounts receivable, warranty costs to be incurred in future, useful life and residual value of depreciable assets, etc. With the passage of time new information may be obtained that requires a change in assessment about a previous estimate. New information or developments may indicate that the original estimate which at that particular time was considered the best possible one based on available evidence is not currently a proper assessment of facts. Based on this the original estimate will require a change resulting in a change in accounting estimate. However, if an original estimate was not the best estimate based on the available facts and if later information indicates that the original estimate was improper an accounting error is considered to have occurred requiring correction of an error.

Estimation techniques enable application of the adopted accounting policies and therefore an entity should select estimation techniques that are most appropriate to its particular circumstances and are consistent with the requirements of accounting standards and Companies Ordinance.

Estimation techniques should be reviewed regularly to ensure that they remain the most appropriate to particular circumstances. An entity should implement a new estimation technique if the new estimation reflects the entity’s particular circumstances more accurately.

Accounting policies and estimation techniques require continuous review keeping in view the different accounting treatments. A change in accounting policy requires a prior year adjustment whereas a change in estimation technique or estimate does not require a prospective change and therefore it is important to correctly determine whether a change is a change of accounting policy or estimate.

This can be achieved if the issue is put to test of whether the change affects any of the objectives of the financial statements being relevance, reliability, comparability and understandability or any of the three principles of recognition, presentation and measurement basis. Where any of these principles are affected the change will be accounted for as a change of accounting policy otherwise it will constitute a change of estimate. However, where it is difficult to distinguish a change in an accounting policy from a change in accounting estimate, the change is treated as a change in an accounting estimate.

Nadeem Tirmizi, FCA
Enterprise Resource Planning (ERP) – A Primer

With the pace of contraction in a global world, every day a new competitor or a new challenger to your business emerges with a new vision to serve its stakeholders. This contestant is armed with numerous Weapons of Mass Competition (WMC). Unless you are extremely alert, odds are that you will be engaged in a severe clash – the most unfortunate part of this encounter being the degree of surprise with which it will engage you. Extemporary wars are seldom won. Same is the fate of extemporary businesses. Even a loyal customer of yours will fall prey to a competitor who provides cost efficient high quality customer service. How does he do that? And if he can, you can, too.

Your rival does this with his supply of WMC. One such WMC is technology and one such technology is Enterprise Resource Planning (ERP) system. Accountants more aptly understand equations. Let’s put this success formula as such:


**Hence**

**High Profitability = ERP**

**What is an ERP**

Enterprise Resource Planning (ERP) systems serve in managing enterprise wide business processes by integrating business functions end to end i.e. commencing from procurement, warehouse management, and production through to sales and distribution. In this whole process accounting records are updated whenever required. ERPs seek to integrate all data and processes of an organization into a unified system. Business functions include, among others:

a. Sales and marketing which performs activities like marketing, advertising, sales order processing, customer relationship management, customer support and sales forecasting.

b. Production and procurement which performs activities like procurement, warehousing, logistics, production scheduling, manufacturing and plant maintenance

c. Accounting and finance which performs activities like financial accounting, costing, budgeting and treasury management

**Why an ERP**

Have a look at the equation again. Derivatively, high profitability is directly proportional to cost efficiency and cost efficiency is directly proportional to business process efficiency. What is business process efficiency? Let’s have a deeper look into this dynamic.

The business function of marketing and sales cannot function properly without the necessary information from production and procurement as to product / capacity availability and from finance and accounting as to cost and profit analysis. If this function works in a silo, quite possibly it may end up in any or all of the following mishaps:

a. Agreements with customers for goods which cannot be produced

b. Agreements with customers for goods which cannot be made available at the agreed deadlines

c. Agreements with customers for goods at a price which fetches nothing but red numbers for the organization

d. Loss of potential customers by quoting exorbitantly
higher prices, when actually they can be served at a lower cost.

Similarly the business function of production and procurement will fail to achieve its objectives without the requisite contribution from marketing and sales regarding sales forecasts and orders and from finance and accounting regarding manufacturing cost analysis. Similarly, if these functions go on as uncorrected units of the entity they are bound to encounter the following troubles:

a. Producing more than is required, thereby tying up funds of the company in unwanted goods and in the process costing the company dearly in financial charges.

b. Producing less than is required, resulting in bad service and lost customers

c. Producing at costs which could render the business as unsustainable.

Equally the business function of finance and accounting cannot carry out its assigned responsibilities without vital inputs from marketing and sales concerning sales forecasts and orders and from production and procurement concerning production plans, production and inventory data. In the event this function attempts to ignore the necessities, it could lead the business out of business by:

a. Improper forecasting of expected cash inflows and outflows bringing a completely profitable business into liquidity crisis
b. Providing inaccurate information about the costs and profits to the sales and production functions and in the process meeting any or all of the ill-fated outcomes mentioned above.

From the aforementioned analysis, you can appreciate more evidently the need of an organization to be more coordinated and efficient in terms of its information flow. This is the key to manage the business processes of sales, production and finance efficiently.

As businesses expand into new products and territories, the only solution to the effective and efficient information flow is through technology and ERP is ‘the technology’ addressing this need. ERP makes all these interactions possible – effectively, efficiently and effortlessly.

Now let’s expand on the three basic business processes which an ERP can serve:

**Sales and Distribution**

This is how a typical ERP will work when performing the functions of sales and distribution (S&D)

- When a sale order is received and input in the S&D,
the ERP system checks for product availability (Inventory Management System).

- If unavailable, production of the same is scheduled in such a way that the final product becomes available for the customers at his desired delivery date (Manufacturing System).
- The ERP system also checks whether any special pricing needs to be applied to the customer or product (Sales System).
- It simultaneously also ensures that the customer has available credit limit (Finance and Accounts System).
- After the product is ready, the distribution machinery gets the signal to ship the goods (Logistics System).
- When shipped, the invoice is raised and the customer accounts charged with the sales (Finance and Accounts System).
- Collection efforts then start and upon collection, customer balance is settled (Finance and Accounts).

**Production and Material Management**

In order to efficiently produce the required product, many variables play their role and each variable’s disturbance can cause the entire production process to halt with serious implications on the customer relationship and the organization’s bottom line.

Below is a brief account of the operations of the Production and Material Management (P&MM) part of the ERP system.

- To begin with, sales forecast arrives from the S&D module which is the input for the P&MM for calculating the overall production plan for a specific time period. The production plan will be linked with available production capacity before its finalization.
- Once the production plan is ready, ERP system schedules the production to meet the expected delivery dates.
- Based on this production schedule a Material Requirement Plan and Schedule (MRPS) is prepared. The ERP system uses the bill of material (the recipe for producing a particular product) to work out the material requirement. In addition, in order to prepare the MRPS, the ERP will also take into account the expected schedule of the material requirement at the production floor, lead times for the supply of material from its suppliers and the optimum lot sizes for each order.
- This MRPS will then interact with the finance and accounts part of the ERP, to arrive at the acceptable payment terms with suppliers in line with the company’s cash position.
- Actual production can then be captured in the production module and either entered manually or through bar codes or other electronic mechanisms to provide data for the finance and accounting module to record the production.

**Finance and Accounting**

In an ERP the accounting of the entire activities of the company are done through various modules. Briefly, they are as follows:

- The Finance and Accounting (F&A) module takes information regarding sales from the S&D module and updates the record automatically.
- Similarly, it takes the necessary input from the P&MM module to record the actual production, purchasing and material movement.
- Recording of receipts and payments for sales and purchases respectively are managed in the F&A itself.
- Along with it, F&A module also performs product cost accounting and recording of fixed asset purchases and related depreciation.
- Human Resources (HR) module provides the input regarding payroll costs.

If there is so much interaction between the various modules in the system then to make it effective, efficient and effortless (to the extent possible), all these modules need to be tightly integrated and updated all the time. The method, in which this tight integration is possible, is the use of one single database to store all kinds of data relevant to any module of the ERP. This single database methodology also helps in reducing the organization’s work by automatically updating the records of one function with the data and information received from the other function, thereby increasing the degree of business process efficiency.

**ADDITIONAL ERP BENEFITS**

**Customer Relationship Management (CRM)**

Since all of the information is stored in one single ERP system, a company can use this vast amount of data for different types of analysis to its advantage. One such possible analysis tool is Customer Relationship Management (CRM) by which the data can be used to analyze trends, patterns and relationships in specific customer’s or a specific group of customers’ (segment) data.
In order for CRM to function desirably, it needs a database where information about each customer and prospect is stored together with their interactions with the organization, including order and support information, customer requests and complaints, and interviews and survey responses. An organization which has an ERP already has the foundation laid for an effective CRM to function.

**Supply Chain Management (SCM)**

Manufacturers can hook up their systems with both their suppliers and customers. By practicing SCM, a company gives the suppliers and customers access to its records. Customers place orders directly into the system of the manufacturer. In addition, the manufacturer has its own sales forecast. From these orders and forecasts, the manufacturer's ERP schedules the production and the material requirements. The connected suppliers become aware of the production and material requirement of the manufacturer and can gear up their resources to have the materials ready for the manufacturer’s intended production on time.

Working this way results in less paperwork and quick response times translating into cost savings for the customer, manufacturer and the supplier.

**Best Practices**

Best Practices are also a benefit of implementing an ERP system. When implementing an ERP system, organizations can actually adopt the 'Best Practices' delivered by the ERP vendors in their software. Having a known ERP implemented results in adopting the best practices that those ERP vendors have built in their software based on their experiences with other organizations.

**Other Benefits**

a. Easier global integration.

b. Lower maintenance cost since only one system has to be maintained instead of many systems un-integrated with each other.

c. Standardization, resulting in increase in operating efficiency.

**Why ERP Implementations Fail**

The major reason for the failure of ERP systems to deliver as desired is the inadequate investment in ongoing training of the personnel involved. Success depends on the skill and experience of the workforce, including training on how the system works. Many companies cut costs by cutting training budgets.

**Limitations**

a. ERP systems can be very expensive to install.

b. ERP vendors can charge for annual license renewal that may be unrelated to the size of the company using the ERP.

c. Customization of the ERP software is limited. Some customization may involve changing the ERP software structure which is usually not allowed.

d. ERP systems can be difficult to use.

e. ERP systems can be too restrictive and may not allow much flexibility in implementation and usage.

f. ERP systems, since tightly integrated, can suffer from the inefficiencies of the weaker participants in the information supply chain.

g. ERP systems call for extended planning efforts, since once implemented, switching over is not easy and the costs are very high.

h. Resistance in sharing sensitive internal information between departments can reduce the effectiveness of the system.

**Conclusion**

Every business decision comes with its share of disadvantages and limitations. If it were not so, businesses would have been the easiest things in the world to do. Not so. Business decisions require the weighing of the pros and cons of going with or against an option. However, the benefits of having an ERP far outweigh its disadvantages. Except for a very few of them, many of the associated risks can be mitigated to a large extent.

With the ever increasing need to provide an ever rising level of service at an ever diminishing level of cost, ERPs are a must have tool. ERPs not just help in monitoring the business, they help in managing it. With the inbuilt best practices in an ERP, they don’t remain just any software. They become a business conduct methodology.

Saood Hashim, ACA
SAARC APEX BODIES CONFERENCE - COLOMBO

Excerpts from the Presentation by Syed Shabbar Zaidi President South Asian Federation of Accountants - Colombo, July 31, 2008

PROLOGUE

"Every gun that is made, every warship launched, rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and not clothed. This world in arms is not spending money alone. It is spending the sweat of its laborers, the genius of its scientists, the hope of its children."

Dwight D Eisenhower

Do these words have meaning in this unipolar world?

"Normally speaking, it may be said that the forces of capitalist society, if left unchecked, tend to make the rich richer and poor poorer, thus increasing the gap between them."

Jawaharlal Nehru

Is it also not true for the nations?

Growth

There is a need for convergence of economic growth as per capita income of the poorer countries increases at a rate higher than richer countries. Bulk of the population growth will emerge by 2050 in countries where poverty is self reinforcing than self correcting.

While the first point is a desire, the second is reality. We are busy fighting the “war against terror”. There is no agenda for equitable economic growth. Is there any institution, forum, body, organization that is focusing on this matter?

Even if some agencies are doing the same, the question is whether they have the trust of people around the world; not the governments e.g. IMF, WTO etc. The answer is ‘No’. We have gathered here to look forward to achieve the same, at least in our region.

Equity

We are facing a ‘Globalization without Trust’. It existed for a long time but accelerated in the Bush era. Is this not a catastrophe? Fleets of jumbo jets ply the skies of our interconnected global economy yet our fear of terrorism is so high that toothpastes can not be carried on-flight. Free trade and no protectionism, but only for farmers in Europe. Carbon emission, but from plants in USA.

The need for economic convergence and getting out of the poverty trap works in opposite directions. The gap has to narrow. Strategy for a new sustainable economic development perspective for the world is required. The wave of change is emerging everywhere but the question is change to what, why and how....
History

For young people history is 9/11. It is not so. History is full of differences and diversities. Nothing special has happened. Differences and diversities have always existed.

John F Kennedy said:
“Let us not be blind of our differences—let us direct attention to our common interests and the means by which such differences can be resolved. And if we can not now end our differences, at least we can help the world safe for democracy. For in the final analysis our most basic common link is that we all inhabit this planet. We all breathe the same air. We all cherish our children’s future. And we are all mortals.”

We can live with cultural and political diversities. But too much diversity in the level of economic growth leads to terrorism, deprivation, mass migration etc. within the country and globally. The momentum of efforts for carrying everybody along has slowed down in the last two decades. What Nehru said is true. Unchecked capitalism leads to problems. The question is the identification of checks and their implementation.

Non-trustworthy globalization with untamed capitalist vigor has effectively enhanced such economic diversities. Free market and globalization is seen as a panacea for all ills.

Governments’ pursuit in following this route is alienating the masses. A new kind of ‘non-participative democracies’ are emerging in the region.

Regionalism

History reveals that political differences within regions have seriously effected economic development. North and South Vietnam, North and South Korea, India and Pakistan are examples. Europe learnt it earlier that a European Union was the answer. We in South Asia have to think out of the box. We will be able to cherish the future of our children and grandchildren only if we really change. The message is clear… diversity in political agendas but not in economic aptitude!

‘Economic Aptitude’ is the appreciation of similarities and strengths within the region, whilst formulating economic policies in any particular country notwithstanding politics. In the long run politics will follow. Trade within the region in all economic terms adds value over that made outside the region.

Economic realities have changed. Both production and use of commodities lies in the region. The real effective ‘import’ is knowledge or technology which is being priced high [for lack of equity] for the people of this region. This adds to imbalances and poverty.

We import Windows XP, aeroplanes, life saving drugs, Hollywood films and higher education; and also energy. Can these imports be curtailed? Again the example is Europe. Net import is negligible. That pattern has to be followed. This is the only solution.

This region [South Asia] is the only region in the world, other than China, which has the potential and the human resources to develop knowledge and technology.

Strengths and Shortcomings

Strengths
Educated masses
Stable culture, history and values
Proficiency in common laws
International exposure

Shortcomings
Politics overriding economics
Non-participative democracies
Disjointed approach at international level

Participative Democracy

One of the primary issues of the region is lack of participative democracies. There is a widening expectation gap between governments and the people. Panchayat Raj in India; city district government etc. in Pakistan is the answer. Real change and impact will arise when such governments are really empowered.

Way Forward

Regional economic aptitude
Participative democracies
Continuous dialogue
Regional cooperation at the operational level on forums such as SAFA etc.

The Future

The world will be different in the coming decades. Globalization will take a new dimension.

There will be extreme pressure for ‘poverty alleviation’ especially in this region

International support, traditionally available will not be there, in the manner it was in the past;

Solution lies in regional economic cooperation notwithstanding politics.
The CPD Department has arranged to post informative articles and presentations on our website. The articles and presentations were made at the last SAFA Conference “Value Creation by Professional Accountants” which was held in April this year in Lahore. These articles and presentations are now placed in the Downloads section of our website for the benefit of our members and students.

**Fair Value Accounting – A Paradigm Shift**

This article has been contributed by Dr. Jamaluddin Ahmad, Partner of the affiliate firm of Deloitte Touche Tohmatsu, Bangladesh. Dr. Ahmad argues that historical cost financial statements do not provide information that is relevant to investors. The market value of publicly traded firms on the New York Stock Exchange is five times their asset values. He further goes on to discuss the term ‘Fair Value’ and the effectiveness of Fair Value Accounting. Dr. Ahmad has cited the example of insurance companies and has discussed this in the U.K context. Further in this article Dr. Ahmad has discussed the skepticism towards IAS and has also listed down the Accounting Standards that require/ do not require Fair Value measurement along with the standards that require Fair Value measurement by reference to another standard. The article also includes a brief summary of the three level Fair Value hierarchy and the auditor’s responsibilities regarding risk management procedures.

The article also includes FAQs on Fair Value accounting and their detailed answers. This section clarifies a lot of questions on the topic and helps the reader in putting things in the right perspective. In the article Dr. Ahmad has also discussed Relevance versus Reliability and the posed challenges. At the end of this article a comprehensive comparison between Lux GAAP, IFRS and US GAAP is given. The article can be viewed at [http://www.icap.org.pk/web/downloads.php](http://www.icap.org.pk/web/downloads.php).

**Accounting Regulations and Standards**

This article by Ajith S. Ratmayake, Director General of the Sri Lanka Accounting and Auditing Standards
Monitoring Board discusses the issues regarding the IFRS convergence. In this article the writer has discussed the global integration of the standards from the regional perspective. The article can be viewed at http://www.icap.org.pk/web/downloads.php.

Performance Management

Mr. Abdul Aziz, a Fellow member of the Institute of Cost and Management Accountants of Bangladesh in his article titled ‘Performance Management’ emphasizes that SAFA needs to remind its member bodies and its members that their existence shall be highly dependent on how they add value to their organization and how they are advising their clients to make them more and more competitive, quality conscious and taking care of the consistent evaluation and improvement of the product they produce/ or services they offer. Without any doubt we have to agree that this will never be possible without ensuring the measurement and management of performance. The article can be viewed at http://www.icap.org.pk/web/downloads.php.

Accounting Profession and Practices

A presentation on Accounting Profession and Practices by Syed Masoud Ali Naqi, Sr. Partner, KPMG Taseer Hadi & Company is posted on the website which reviews the development of the accounting profession through the years. It further explains the impact of globalization of economy on the accounting profession and the current state of the profession. It also discusses the challenges the profession is facing currently. The presenter has also included some surveys related to the topic which are conducted by the IFAC. In the end the presenter has suggested ways and means for creating value in the profession. The presentation can be viewed at http://www.icap.org.pk/web/downloads.php.

Effective Resource Management

A presentation by Mr. A.N. Raman of the Institute of Cost and Works Accountants of India and Institute of Chartered Accountants of India on the topic Effective Resource Management is also posted on the website. In this presentation Mr. Raman has mainly discussed the Effectiveness and Efficiency in the context of Resource Utilization. The presentation can be viewed at http://www.icap.org.pk/web/downloads.php.

Risk Management – A Management Perspective

You may find a presentation by Mr. Hasan A. Bilgrami, FCMA, President of the Bankislami, Pakistan on the topic. In this presentation Mr. Bilgrami has highlighted the classification of risks along with various methods of managing them. The presentation can be viewed at http://www.icap.org.pk/web/downloads.php.

Value Creation by Professional Accountants

A thought provoking presentation by Syed Shabbar Zaidi, President, South Asian Federation of Accountants (SAFA) and Past President ICAP has also been posted at the website. In this presentation Mr. Zaidi has addressed the impending issues the profession is facing and has also suggested ways of building public confidence in financial reporting and value creation. The presentation can be viewed at http://www.icap.org.pk/web/downloads.php.

Value Creation by Professional Accountants

This presentation by Mr. Uttam Prakash Agarwal, Vice President, Institute of Chartered Accountants of India discusses different roles Chartered Accountants are playing in various sectors of the economy and also the changes the profession is facing. The presentation can be viewed at http://www.icap.org.pk/web/downloads.php.
As part of ICAP's plan to hold industry specific forums, participants in the first gathering suggested making it a regular quarterly event, and create a yahoo group to facilitate a pre-meeting dialogue. Fifteen CFOs of banks met in ICAP on August 7 to discuss the current accounting and financial reporting environment and the issues faced by them.

Moderated by Moiz Ahmad, Executive Director ICAP, the session debated the adoption of IAS 39 and IFRS 7 by Banks and DFIs; Internal Control Report; problems in application of IFAS 2 Ijarah Standard; ICAP proposal to include a requirement of Audit of Borrowers of Financial Statements; and tax issues including Seventh Schedule.

**Adoption of IAS 39**

Syed Liaquat Ali of Saudi Commercial Bank Limited informed the gathering that Pakistan Banking Association's (PBA) recommendations on adoption of IAS 39 had been formerly communicated to the State Bank.

**Internal Control Report**

Participants agreed on the need for development of a framework for Internal Control Reporting and to form a task force of representatives of ICAP, PBA and Statutory Auditors to approach SBP with a request to defer the requirement till the development of such framework, and also to urge SBP to develop the framework as it will not be practical to adopt, or even adapt to SOX or PACOB AS 5.

**Problems in Application of IFAS 2 Ijarah Standard**

It was suggested that a comparative working be sent to SBP on the conflicts arising in application of IFAS 2 Ijarah and Prudential Regulations, to expedite the process of SBP issuing a clarification.

Many participants were of the view that the IFAS 2 needed to be revised to address all the practical issues involved in hybrid accounting in Pakistan.

Currently, in view of the practical difficulties, Statutory Auditors are not qualifying Bank's reports on not following IFAS 2. Instead Banks are giving a detailed disclosure in their financial statements to cover the same.

Another suggestion was to conduct research on practices of countries like Malaysia and Indonesia for Islamic Banking issues, and in particular for developing a framework.
It was suggested that a comparative working be sent to SBP on the conflicts arising in application of IFAS 2 Ijarah and Prudential Regulations, to expedite the process of SBP issuing a clarification.

ICAP Proposal to Include a requirement of Audit of Borrowers Financial Statements

The gathering was informed of ICAP’s proposal to include a requirement of Audit of Borrowers Financial Statements to SBP and the progress made in this respect.

Tax Issues including Seventh Schedule

ICAP informed that a meeting with FBR was being held at ICAP on Monday August 11, 2008 in which Banks concerns would be raised. Relating to the tax issues in particular to Islamic Banks a copy of the letter written by Bank Alfalah to FBR was given to ICAP for follow up.

The session concluded with a vote of thanks to all participants.

Ayyaz Ahmad                   Albaraka Islamic Bank
Syed Liaquat Ali               Saudi Commercial Bank Limited
S.Majid Ali                    Faysal Bank Limited
Mohammad Yousaf Amanullah     JS Bank Limited
Anjum Hai                      Citi Bank N.A
Mohammad Iqbal                Faysal Bank Limited
Noor ul Islam                  HSBC
Yameen Karai                   NIB Bank Limited
Raymond Kotwal                 NIB Bank Limited
Azfar Naqvi                    Allied Bank Limited
Mahmood Qureshi                Deutsche Bank AG
Syed Shah Sajid               Dawood Islamic Bank Limited
Najam Siddiqi                  Crescent Commercial Bank Limited
Muhammad Salim Yusuf          Emirates Global Islamic Bank
Ammar Ali Zaidi               Dubai Islamic Bank Pakistan Ltd
The Joint Committee of the Institute of Chartered Accountants of Pakistan (ICAP) and Institute of Cost and Management Accountants of Pakistan (ICMAP) announced the final results for Best Corporate Report Awards for the year 2007 in an elegant ceremony on July 25, 2008. Chief Guest, Dr. Ishrat Hussain, Dean and Director of Institute of Business Administration (IBA), awarded shields and certificates to the winners. He said the Best Corporate Report Awards recognized companies endeavoring to enhance transparency of their accounts in an age of globalization, increasing legalization, and changing social expectations.

Imran Afzal, President ICAP, Sher Afgan Malik, President ICMAP, Muhammad Rafi, Chairman Joint Committee of ICAP and ICMAP, and Abdul Rahim Suriya, Chairman Joint Evaluation Committee expressed hope that regular presentation of Best Corporate Report Awards will go a long way in improving disclosures in annual accounts, the quality of information provided in Annual Reports, and improving the standard of corporate governance in Pakistan.
RESULTS

Companies were judged in six categories:

1. Financial Sector
2. Fuel & Energy
3. Engineering
4. Chemical & Fertilizer
5. Miscellaneous
6. Textile

Other Sector wise Positions

First Five Positions in Financial Sector

<table>
<thead>
<tr>
<th>Position</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>Allied Bank Limited</td>
</tr>
<tr>
<td>Second</td>
<td>Askari Bank Limited</td>
</tr>
<tr>
<td>Third</td>
<td>Faysal Bank Limited</td>
</tr>
<tr>
<td>Fourth</td>
<td>Atlas Insurance Limited</td>
</tr>
<tr>
<td>Fifth</td>
<td>Asian Stock Fund Ltd</td>
</tr>
</tbody>
</table>

The Pakistan Accountant
First Five Positions in Fuel & Energy
First Attock Petroleum Limited
Second Pakistan Oilfields Limited
Third Pakistan Refinery Limited
Third Attock Refinery Limited
Fourth Pakistan Petroleum Limited
Fifth Oil & Gas Development Company Limited

First Five Positions in Engineering
First Crescent Steel & Allied Products Limited
Second International Industries Limited
Third Pakistan Cables Limited
Fourth Hinopak Motors Limited
Fifth Millat Tractors Limited

First Five Positions in Chemical & Fertilizer
First Fauji Fertilizer Company Limited
Second ICI Pakistan Ltd
Third Dawood Hercules Chemicals Limited
Fourth Highnoon Laboratories Limited
Fifth Fauji Fertilizer Bin Qasim Ltd
Fifth Sanofi Aventis Pakistan Limited

First Five Positions in Miscellaneous
First Pakistan Tobacco Company Limited
Second Rafhan Maize Products Company Limited
Third Century Paper & Board Mills Limited
Fourth Security Papers Limited
Fifth Pakistan Telecommunications Ltd.

Certificates of Merit were awarded to Companies in Textile Sector
Ibrahim Fibres Limited
Crescent Textile Mills Limited
Dawood Lawrencepur Limited
More regulators are now demanding that financial reporting should tell a story about a company. Sondra Stokes, an associate chief accountant of the American Securities & Exchange Commission said at an AICPA conference in 2006 that, “The disclosures in Management Discussion & Analysis should comply with both the spirit, as well as the letter of the law. This helps make the story being told complete, meaning more specific, transparent, and, ultimately, more informative.”

In 2007, the UK Accounting Standards Board (ASB) released its Review of Narrative Reporting by UK Listed Companies in 2006. This report was based on a study conducted by the UK ASB, as well as external studies conducted by Black Sun Plc, Radley Yeldar, Deloitte & Touche, the Virtuous Circle, and Pricewaterhouse Coopers. The review identified areas of good reporting, including descriptions of the business and markets, along with strategies and objectives; descriptions of current development and performance; and increases in reporting of environmental, employee, and social issues. Areas of reporting needing improvement included the disclosure of forward-looking information, descriptions of resources available, assessments of principal risks and uncertainties, and the identification of Key Performance Indicators (KPIs), although the report acknowledged that many companies provided a “good deal of information on measures and indicators”.

The same year IFAC commissioned an independent global survey among participants in the financial reporting supply chain — investors, preparers, company management and directors, auditors, standard setters and regulators — for publicly listed companies. One of the four areas that the survey focused on was usefulness of financial reports. In this area, respondents noted that
though the relevance and reliability of financial reports have improved, the understandability of the reports has not. Respondents also showed their preference for more business driven and contextual narrative reporting as financial reports become more complex. Many respondents suggested that these reports should be written and presented in a manner that tells a story. As one respondent pointed out, “In the honest and open style used by Warren Buffett from Berkshire Hathaway: ‘these are the numbers and this is how I look at the business’.”

Here follows an extract from Warren Buffett’s annual letter to shareholders, known for its candid revelations about the past, present and future.

**BERKSHIRE HATHAWAY INC.**

*To the Shareholders of Berkshire Hathaway Inc.*:

Our gain in net worth during 2007 was $12.3 billion, which increased the per-share book value of both our Class A and Class B stock by 11%. Over the last 43 years (that is, since present management took over) book value has grown from $19 to $78,008, a rate of 21.1% compounded annually.

Overall, our 76 operating businesses did well last year. The few that had problems were primarily those linked to housing, among them our brick, carpet and real estate brokerage operations. Their setbacks are minor and temporary. Our competitive position in these businesses remains strong, and we have first class CEOs who run them right, in good times or bad.

… we can report that Berkshire’s newest acquisitions of size, TTI and Iscar, led by their CEOs, Paul Andrews and Jacob Harpsz respectively, performed magnificently in 2007.

Iscar is as impressive a manufacturing operation as I’ve seen, a view I reported last year and that was confirmed by a visit I made in the fall to its extraordinary plant in Korea.

Finally, our insurance business – the cornerstone of Berkshire – had an excellent year. Part of the reason is that we have the best collection of insurance managers in the business – more about them later. But we also were very lucky in 2007, the second year in a row free of major insured catastrophes.

That party is over. It’s a certainty that insurance-industry profit margins, including ours, will fall significantly in 2008. Prices are down, and exposures inexorably rise. Even if the U.S. has its third consecutive catastrophe-light year, industry profit margins will probably shrink by four percentage points or so. If the winds roar or the earth trembles, results could be far worse. So be prepared for lower insurance earnings during the next few years.

**Yardsticks**

Berkshire has two major areas of value. The first is our investments: stocks, bonds and cash equivalents. At yearend these totaled $141 billion (not counting those in our finance or utility operations, which we assign to our second bucket of value).

Insurance float – money we temporarily hold in our insurance operations that does not belong to us – funds $59 billion of our investments. This float is “free” as long as insurance underwriting breaks even, meaning that the premiums we receive equal the losses and expenses we incur. Of course, insurance underwriting is volatile, swinging erratically between profits and losses. Over our entire history, however, we’ve been profitable, and I expect we will average breakeven results or better in the future. If we do that, our investments can be viewed as an unencumbered source of value for Berkshire shareholders.

Berkshire’s second component of value is earnings that come from sources other than investments and insurance. These earnings are delivered by our 66 non-insurance companies, itemized on page 76. In our early years, we focused on the investment side. During the past two decades, however, we have put ever more emphasis on the development of earnings from non-insurance businesses.

The following tables illustrate this shift. In the first we tabulate per-share investments at 14-year intervals. We exclude those applicable to minority interests.

<table>
<thead>
<tr>
<th>Year</th>
<th>Per-Share Investments</th>
<th>Years</th>
<th>Compounded Annual Gain in Per-Share Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>$4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td>577</td>
<td>1965-1979</td>
<td>42.8%</td>
</tr>
<tr>
<td>1993</td>
<td>13,961</td>
<td>1979-1993</td>
<td>25.6%</td>
</tr>
<tr>
<td>2007</td>
<td>90,343</td>
<td>1993-2007</td>
<td>14.3%</td>
</tr>
</tbody>
</table>

For the entire 42 years, our compounded annual gain in per-share investments was 27.1%. But the trend has been downward as we increasingly used our available funds to buy operating businesses.

Here’s the record on how earnings of our non-insurance businesses have grown, again on a per share
basis and after applicable minority interests.

<table>
<thead>
<tr>
<th>Year</th>
<th>Per-Share Pre-Tax Earnings</th>
<th>Years</th>
<th>Compounded Annual Gain in Per-Tax Pre-Tax Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>$4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td>18</td>
<td>1965-1979</td>
<td>11.1%</td>
</tr>
<tr>
<td>1993</td>
<td>212</td>
<td>1979-1993</td>
<td>19.1%</td>
</tr>
<tr>
<td>2007</td>
<td>4,093</td>
<td>1993-2007</td>
<td>23.5%</td>
</tr>
</tbody>
</table>

For the entire period, the compounded annual gain was 17.8%, with gains accelerating as our focus shifted.

Though these tables may help you gain historical perspective and be useful in valuation, they are completely misleading in predicting future possibilities. Berkshire’s past record can’t be duplicated or even approached. Our base of assets and earnings is now far too large for us to make outsized gains in the future.

Charlie Munger, my partner at Berkshire, and I will continue to measure our progress by the two yardsticks I have just described and will regularly update you on the results. Though we can’t come close to duplicating the past, we will do our best to make sure the future is not disappointing.

Businesses – The Great, the Good and the Gruesome

And now it’s confession time. It should be noted that no consultant, board of directors or investment banker pushed me into the mistakes I will describe. In tennis parlance, they were all unforced errors.

To begin with, I almost blew the See’s purchase. The seller was asking $30 million, and I was adamant about not going above $25 million. Fortunately, he caved. Otherwise I would have balked, and that $1.35 billion would have gone to somebody else.

Finally, I made an even worse mistake when I said “yes” to Dexter, a shoe business I bought in 1993 for $433 million in Berkshire stock (25,203 shares of A). What I had assessed as durable competitive advantage vanished within a few years. But that’s just the beginning: By using Berkshire stock, I compounded this error hugely. That move made the cost to Berkshire shareholders not $400 million, but rather $3.5 billion. In essence, I gave away 1.6% of a wonderful business – one now valued at $220 billion to buy a worthless business.

To date, Dexter is the worst deal that I’ve made. But I’ll make more mistakes in the future – you can bet on that.

Americans like buying products made elsewhere more than the rest of the world likes buying products made in the U.S.

The U.S. dollar weakened further in 2007 against major currencies, and it’s no mystery why: Americans like buying products made elsewhere more than the rest of the world likes buying products made in the U.S. Inevitably, that causes America to ship about $2 billion of IOUs and assets daily to the rest of the world. And over time, that puts pressure on the dollar.

There’s been much talk recently of sovereign wealth funds and how they are buying large pieces of American businesses. This is our doing, not some nefarious plot by foreign governments. Our trade equation guarantees massive foreign investment in the U.S. When we force-feed $2 billion daily to the rest of the world, they must invest in something here. Why should we complain when
they choose stocks over bonds?

Our country’s weakening currency is not the fault of OPEC, China, etc. Other developed countries rely on imported oil and compete against Chinese imports just as we do. In developing a sensible trade policy, the U.S. should not single out countries to punish or industries to protect. Nor should we take actions likely to evoke retaliatory behavior that will reduce America’s exports, true trade that benefits both our country and the rest of the world.

Our legislators should recognize, however, that the current imbalances are unsustainable and should therefore adopt policies that will materially reduce them sooner rather than later. Otherwise our $2 billion daily of force-fed dollars to the rest of the world may produce global indigestion of an unpleasant sort.

On His Successor

As I have told you before, we have for some time been well-prepared for CEO succession because we have three outstanding internal candidates. The board knows exactly whom it would pick if I were to become unavailable, either because of death or diminishing abilities. And that would still leave the board with two backups.

Last year I told you that we would also promptly complete a succession plan for the investment job at Berkshire, and we have indeed now identified four candidates who could succeed me in managing investments. All manage substantial sums currently, and all have indicated a strong interest in coming to Berkshire if called.

The board knows the strengths of the four and would expect to hire one or more if the need arises. The candidates are young to middle-aged, well-to-do to rich, and all wish to work for Berkshire for reasons that go beyond compensation.

(‘I’ve reluctantly discarded the notion of my continuing to manage the portfolio after my death – abandoning my hope to give new meaning to the term “thinking outside the box.”’)

Fanciful Figures – How Public Companies Juice Earnings

Former Senator Alan Simpson famously said: “Those who travel the high road in Washington need not fear heavy traffic.” If he had sought truly deserted streets, however, the Senator should have looked to Corporate America’s accounting.

An important referendum on which road businesses prefer occurred in 1994. America’s CEOs had just strong-armed the U.S. Senate into ordering the Financial Accounting Standards Board to shut up, by a vote that was 88-9. Before that rebuke the FASB had shown the audacity – by unanimous agreement, no less – to tell corporate chieftains that the stock options they were being awarded represented a form of compensation and that their value should be recorded as an expense.

After the senators voted, the FASB – now educated on accounting principles by the Senate’s 88 closet CPAs – decreed that companies could choose between two methods of reporting on options. The preferred treatment would be to expense their value, but it would also be allowable for companies to ignore the expense as long as their options were issued at market value.

A moment of truth had now arrived for America’s CEOs, and their reaction was not a pretty sight. During the next six years, exactly two of the 500 companies in the S&P chose the preferred route. CEOs of the rest opted for the low road, thereby ignoring a large and obvious expense in order to report higher “earnings.” I’m sure some of them also felt that if they opted for expensing, their directors might in future years think twice before approving the mega-grants the managers longed for.

It turned out that for many CEOs even the low road wasn’t good enough. Under the weakened rule, there remained earnings consequences if options were issued.
with a strike price below market value. No problem. To avoid that bothersome rule, a number of companies surreptitiously backdated options to falsely indicate that they were granted at current market prices, when in fact they were dished out at prices well below market.

… After decades of pushing the envelope – or worse – in its attempt to report the highest number possible for current earnings, Corporate America should ease up. It should listen to my partner, Charlie: “If you’ve hit three balls out of bounds to the left, aim a little to the right.”

The Annual Meeting

Our meeting this year will be held on Saturday, May 3rd. As always, the doors will open at the Qwest Center at 7 a.m., and a new Berkshire movie will be shown at 8:30. At 9:30 we will go directly to the question-and-answer period, which (with a break for lunch at the Qwest’s stands) will last until 3:00. Then, after a short recess, Charlie and I will convene the annual meeting at 3:15. If you decide to leave during the day’s question periods, please do so while Charlie is talking.

At 84 and 77, Charlie and I remain lucky beyond our dreams. We were born in America; had terrific parents who saw that we got good educations; have enjoyed wonderful families and great health; and came equipped with a “business” gene that allows us to prosper in a manner hugely disproportionate to that experienced by many people who contribute as much or more to our society’s well-being. Moreover, we have long had jobs that we love, in which we are helped in countless ways by talented and cheerful associates. Every day is exciting to us; no wonder we tap-dance to work. But nothing is more fun for us than getting together with our shareholder-partners at Berkshire’s annual meeting. So join us on May 3rd at the Qwest for our annual Woodstock for Capitalists. We’ll see you there.

February 2008
Warren E. Buffett
Chairman of the Board

Courtesy BERKSHIRE HATHAWAY INC.
Annual Shareholder Letters available online

---

**Advertisement Rates**

<table>
<thead>
<tr>
<th>Positions</th>
<th>Per Issue</th>
<th>Six Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Back Cover</td>
<td>30,000</td>
<td>174,000</td>
</tr>
<tr>
<td>Inside Front Cover</td>
<td>20,000</td>
<td>114,000</td>
</tr>
<tr>
<td>Inside Back Cover</td>
<td>20,000</td>
<td>114,000</td>
</tr>
<tr>
<td>Ordinary Position</td>
<td>9,000</td>
<td>51,000</td>
</tr>
</tbody>
</table>

**Subscription Rates**

<table>
<thead>
<tr>
<th>Position</th>
<th>Single Copy</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA Students (After Completion of Training Period)</td>
<td>Rs. 30/-</td>
<td>Rs. 150/-</td>
</tr>
<tr>
<td>Others</td>
<td>Rs. 40/-</td>
<td>Rs. 200/-</td>
</tr>
</tbody>
</table>
Pakistan Set to Lift Export Price Curbs on Rice

Pakistan is likely to remove a minimum export price of $750 per tonne imposed on non-basmati rice to boost overseas sales after forecasts of a bumper harvest, according to Abdul Basheer, vice-chairman of the Rice Exporters Association of Pakistan (REAP).

Pakistan, the world’s fifth-largest rice exporter, had imposed a minimum export price to increase earnings and withhold some cargoes destined abroad in order to build a domestic strategic reserve. Pakistani exporters are likely to offer Irri 6, a non-basmati variety, at $400-$450 per tonne free on board at Karachi port after the minimum export price is removed.

Pakistan’s rice exports jumped 50 per cent to 3.2 million tonnes in the first half of 2008 as one of its main competitors, India, imposed curbs on the overseas sale of the grain.

Chinese Economy Shows Signs of Slowdown

After spending two years trying to slow rapid growth in exports, credit and investment, Beijing is considering tax rebates for labor-intensive industries and changes in energy pricing as China’s economy weakens in areas ranging from clothing exports to auto sales to manufacturing. Chinese businesses are suffering blows from record high costs for energy and raw materials, slowing foreign demand as their key US export market sales fell an alarming 10 percent, and a rise in the yuan which makes Chinese goods more expensive for American consumers.

Analysts expect China’s economic growth to fall as low as 9 percent this year, a sharp decline from 2007’s 11.4 percent.

Indian Inflation Tops 12% for First Time in 13 Years

India’s inflation accelerated to 12.6 percent, the fastest pace in more than 13 years. Wholesale prices rose 12.01 percent in the week to July 26, after gaining 11.98 percent in the previous week. The fastest price gains since 1995 have prompted the Reserve Bank of India to raise interest rates three times in two months. That’s squeezing consumer spending and hurting sales of companies such as Tata Motors and Maruti Suzuki, India.

Runaway inflation, caused by soaring energy and commodity prices, has forced RBI to raise its year-end inflation target to 7 percent from 5.5 percent.

Disparity between Rich and Poor in the US Widens

The United States has the largest gap between rich and poor of any western industrialized country. According to the Gini* index, in terms of equitable distribution of income and wealth, the US is closer to Iran, Argentina or Mexico than to Canada or Germany. While there are 469 billionaires in the US, up from just 13 in 1982, 12.3 percent (36.5 million) Americans live below the official poverty line, down from 13 percent during the Reagan years. The minimum wage in the US is $6.55 an hour, which after adjustment for inflation comes down to less than in 1964 when President Lyndon Johnson had declared “unconditional war on poverty in America”. Poverty and inequality have become subjects of wide debate this election year in America. A recent poll by Time magazine and the Rockefeller Foundation showed 85 percent Americans are unhappy with the economy.

* The Gini index is a complex statistical measure of inequality, named after Corrado Gini, the Italian economist who devised it in 1912.
MUST READ
"A Business Book for Conspiracy Theorists"
The Secret History of the American Empire
The Truth About Economic Hit Men, Jackals, and How to Change the World
John Perkins

The Secret History of the American Empire is John Perkins’ second book. His first book, Confessions of an Economic Hit Man, was on The New York Times bestseller list for 70 weeks. In Confessions John Perkins detailed his former role as an “economic hit man” in the international corporate skullduggery of a de facto American Empire. The premise of The Secret History is that since the 1970s American foreign aid has been a conspiracy to plunder Third World countries, bury them in debt, and control their oil for the interests of corporate America that controls the United States.

A recent poll in the US shows 70 percent of Americans believe the Bush White House is controlled by big corporations. Perkins was an economic forecaster for businesses connected to the National Security Agency (NSA) and the World Bank. The book buys in to the distrust Americans have for big corporations, giant lending agencies and the government.

You may not believe everything Perkins says in The Secret History, but the book is worth reading just because it leaves you with the sensation:
What is big business really about?
Paperback available @ amazon.com
Price: $10.20

Break From the Pack
How to Compete in a Copycat Economy
Oren Harari

Everywhere, products are being commoditized, services are being imitated, and traditional barriers to market entry are collapsing. To sustain competitive advantage in today’s Copycat Economy, companies must break from the pack, says Oren Harari. He starts his book by identifying 10 common mistakes that keep companies trapped in the pack. Next, he introduces six strategies for propelling an organization where competitors can’t follow, how to dominate markets (and when to leave them); how to create a “higher cause” that will mobilize stakeholders; and how to build cool, compelling products, in any industry. Harari reveals new ways to take customers far beyond mere satisfaction, and shows how to innovate in even the most prosaic areas of a business.

Instead of destructive mergers,

Harari insists on buying what really matters: talent, imagination, foresight, speed, rebelliousness, and inspiration.
Hardcover available@ amazon.com
Price: $19.79

The Snowball: Warren Buffett and the Business of Life
Authorized Warren Buffett biography hits bookstores September 29
Alice Schroeder

The long-awaited authorized biography of billionaire investor Warren Buffett, the first written with his cooperation, is scheduled for release on September 29, the publisher Bantam Dell Publishing Group said.

The 976 page book is written by former Morgan Stanley insurance analyst Alice Schroeder. The title comes from a reported comment by Buffett: “Life is like a snowball. The really important thing is finding wet snow and a really long hill.”

Bantam Dell, a division of Random House Inc, said the biography’s cover price is $35, a tiny fraction of the cost of buying one Berkshire share.
Joel Mokyr is one of the world’s leading economic historians and a professor at Northwestern University in Chicago. He is also the editor-in-chief of the Oxford Encyclopedia of Economic History. Professor Mokyr is a firm believer in that the strength of a business lies in making use of new ideas. According to him, in a knowledge economy, knowledge leads to wealth creation.

Mokyr is the author of a number of books on the links between history and change. His most well known work is The Lever of Riches: Technological Creativity and Economic Progress published in 1990 in which he analyses why some nations are more creative than others, and why some highly innovative societies, such as ancient China or Britain during the industrial revolution, became stagnant.

The Causes of Technological Creativity

In The Lever of Riches, Mokyr studies the relationship of inventors with their physical and social environments, and how these factors interact to help or hinder a nation’s creativity. He examines such aspects as the role of the state, of religion and politics, the impact of science and even nutrition on the creative potential of a nation.

The book begins with a narrative of the technologies of Greek and Roman antiquity, then goes on to analyze Western Europe’s Dark Ages and the Islamic Golden Age. The Lever of Riches attempts to compare technological progress with biological evolution and concludes:

“A society that has ceased to concern itself with the progress of the past will soon lose belief in its capacity to progress in the future.”

The Enlightened Economy

Mokyr’s forthcoming book is The Enlightened Economy which centers on the ‘age of enlightenment’ in Europe in the 18th century. In his story, New Spirit of Enlightenment in the Financial Times, Peter Marsh writes this about Joel Mokyr:

“Even the most innovative businesses should understand their limitations, according to Joel Mokyr. Their strengths lie not so much in dreaming up new ideas but making use of them.

… Mokyr argues that those companies that want to gain the most from new concepts should not necessarily seek to hire the most original thinkers, but instead tweak their management structures so they are as receptive as possible to outsiders with something new to say.”*

In the same story Professor Mokyr goes on to say that the process of creating knowledge and capitalizing on it happens most efficiently in the United States with “the top 0.1 percent of smart people, the whizzkids and brilliant geeks who will move the world”, though many brilliant geeks in the developing world might challenge the Professor’s assertion.

In his Harvard Business Review (December 2002) article ‘What’s a Business For?’ Charles Handy writes:

"By creating new products, spreading technology and raising productivity, enhancing quality and improving service, business has always been the active agent of progress. It helps make the good things of life available and affordable to ever more people. This process is driven by competition and spurred on by the need to provide adequate returns to those who risk their money and their careers, but it is, in itself, a noble cause. We should make more of it. We should, as charitable organizations do, measure success in terms of outcomes for others as well as for ourselves.

Business cannot always afford to be [so] generous to [so many] people, but doing good does not necessarily rule out making a reasonable profit. You can, for example, make money by serving the poor as well as the rich. As C.K. Prahalad and Allen Hammond recently pointed out in this magazine, there is a huge neglected market in the billions of poor in the developing world. Companies like Unilever and Citicorp are beginning to adapt their technologies to enter this market. Unilever can now deliver ice cream in India for just two cents a portion because it has rethought the technology of refrigeration. Citicorp can now provide financial services to people, also in India, who have only $25 to invest, again through rethinking technology. In both cases the companies make money, but the driving force is the need to serve neglected consumers. Profit often comes from progress."