

# PIPFA Journal

Vol. 5 Reg. No. : SS-1112

Apr-Jun 2011



Participants of the Awarding Ceremony



Persistence and Determination leads  
towards Success and Excellence

## Accountancy in Supply Chain Management



Pakistan Institute of  
Public Finance Accountants

**From the Holy Quran**



***In the Name of ALLAH, the Most Magnificent, the Most Merciful.***

By the Sun and his (glorious) splendour; By the Moon as she follows him; By the Day as it shows up (the Sun's) glory; By the Night as it conceals it; By the Firmament and its (wonderful) structure; By the Earth and its (wide) expanse: By the Soul, and the proportion and order given to it; And its enlightenment as to its wrong and its right;- Truly he succeeds that purifies it, And he fails that corrupts it! The Thamud (people) rejected (their prophet) through their inordinate wrong-doing, Behold, the most wicked man among them was deputed (for impiety). But the Messenger of God said to them: "It is a She-camel of God! And (bar her not from) having her drink!" Then they rejected him (as a false prophet), and they hamstrung her. So their Lord, on account of their crime, obliterated their traces and made them equal (in destruction, high and low)! And for Him is no fear of its consequences.

**Surah: 91 - Al Shams (The Sun); Verses: 1 to 15**

**PAKISTAN INSTITUTE OF PUBLIC FINANCE ACCOUNTANT**

**Constituted by:**

**The Auditor General of Pakistan (AGP),**

**The Institute of Chartered Accountants of Pakistan (ICAP),  
and Institute of Cost & Management Accountants of Pakistan (ICMAP).**

**PIPFA is also an Associate Member of International Federation of Accountants (IFAC).**

## MISSION STATEMENT

**Identification, development and imparting knowledge  
to provide a structure for the training of accounting professionals  
in the specialized areas**



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## Why PIPFA?

### PIPFA's Membership entails many advantages like:

- ★ Entitlement to use Designatory letter APA or FPA and distinction of membership.
- ★ Continuing professional development through publication, seminars, workshops etc.
- ★ Eligibility for chief financial officer or company secretary of listed company.
- ★ Entitlement for qualification pay etc. to PIPFA Public Sector qualified.
- ★ Opportunities to inter-act at the national level with elite accounting community.
- ★ Exemptions in examination of ICAP, ICMAP, CIMA-UK, ACCA etc.
- ★ Professional activities like election of representatives etc.
- ★ We are also pursuing Higher Education Commission of Pakistan to grant PIPFA qualified/members equal to B.Com Graduate.
- ★ Dealing also with Federal Board of Revenue (FBR), Pakistan to allow PIPFA members for Tax Practicing.

### Salient features of PIPFA Qualifications:

- ★ On qualifying Final stage, one may apply for the management level jobs like Financial Advisor / Financial Officer.
- ★ Elevation in Auditor General of Pakistan for BPS-17 is possible after qualifying PIPFA.
- ★ Students may join Audit firms as Audit Trainee or internship in Financial Institutes / Organizations.

Views expressed here do not necessarily represent the official policy of the Institute

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## President's Message

I extend my heartiest congratulations to the Pakistan Institute of Public Finance Accountants team, members and students on completing the 18<sup>th</sup> year of success in the field of Public Finance and as part of celebration of accomplishment. PIPFA Journal has embarked upon a comprehensive knowledge base edition for the continuous professional development of its members and students.



The members and students will find immense opportunities in the shape of the PIPFA Journal to take a glimpse into the future of best practices in information management through supply chain application. The use of Supply Chain Management has been one of the hallmarks to reform initiative undertaken by most of the supply chain analysts. Resultantly cost of doing business has considerably gone down and quality of service delivery has improved.

We, however, have a long way to go. We understand that improvement in Supply Chain is fast paced and the competitive advantage of an organization mainly depend how fast it embraces the new technologies. In this background, PIPFA is spreading commitment to embrace world's best practices that will help to further improve its processes, operations and services delivery.

I am fully confident that the edition will go a long way in expanding the economic horizon of the government as well as trade/industry representation that in turn will contribute to the overall progress of the nation.

## Chairman, Publication & Seminar Committee's Message



I am pleased to convey you that we are bringing out theme based Journal for the benefit of the PIPFA community. In this fast changing environment, communication timely, effective and both ways has become a powerful tool for institutional strengthening and harmony. All members of the PIPFA community should have access to the same information – authentic and reliable and you all PIPFA fraternity will find practical knowledge in it. While the management will endeavor to keep all the members/students of PIPFA family informed about the various developments through this publication, each member and student can use this PIPFA Journal as a platform for articulating views, comments, suggestions, asking questions and seeking clarifications. This Journal is aimed at serving that purpose. I invite all the members of the PIPFA family to use this Journal to update themselves regarding the latest developments here. This medium can also be used to share views and ideas on topics of general interest.

## *An Exclusive Interview with* **Mr. Zafar Iqbal Sobani, FCA**

**Chief Executive Officer  
Hub Power Company Ltd. (Hubco)**

*The Hub Power Company Ltd. (Hubco) is one of the first and largest Independent Power Producer (IPP) in Pakistan. Mr. Zafar Iqbal Sobani is a renowned corporate professional in the power sector. PIPFA arranged an interview with Mr. Sobani to know the success story of Hubco under his dynamic leadership. The excerpts from his interview are reproduced below.*

**PIPFA:** *The readers of the PIPFA journal would like to know about Hubco and its success under your able guidance.*

**Mr. Sobani:** Hubco is the first and largest power station to be financed by the private sector in Southern Asia; and it is one of the largest private sector projects in the newly industrialized world.

It was the first project to be successfully financed by the World Bank as well as international private sector lenders and investors. It sets the standards for the formulation of a private power framework in Pakistan. It has elicited numerous responses from international investors.

The company is listed simultaneously on Karachi, Lahore, Islamabad and Luxembourg Stock Exchanges. It has the largest market capitalization of any private company in Pakistan and has currently over thirteen thousand (13,000) Pakistani and International shareholders.

**PIPFA:** *What are the factors that have enabled it to establish such a favorable*



### **Brief Profile of Mr. Zafar Iqbal Sobani**

- o Chief Executive Officer of Hub Power Company since July 1, 2011.
- o Chief Executive Officer between August 2008 to June 2011 of Liberty Power Tech Ltd, an IPP company which commenced its Commercial Generation in January 2011.
- o Chief Financial Officer/Director Finance Century Paper & Board Mills (Part of Lakson Group) from February 1990 to August 2008. In addition to the core responsibilities also headed various group finance activities.
- o Manager Accounts at Pakistan Oxygen (BOC) October 1985 to January 1990.
- o Ernst & Young Chartered Accountants, Kingdom of Saudi Arabia(KSA) February 1982 to September 1985.
- o Chartered Accountant and Cost & Management Accountant Trained with A.F. Ferguson(AFF), a member firm of Price Waterhouse and Coopers (December 1977 to February 1982).
- o Past President of the Institute of Chartered Accountants of Pakistan (ICAP) during year 2004/05.
- o Currently Chairman of the Quality Control Board, an independent body of the Institute of Chartered Accountant of Pakistan with the responsibility to regulate the quality of the assurance work carried by Audit Firms in Pakistan.
- o Nominated from Private sector as Director of the Privatization Board of Government of Pakistan in the years 2007 and 2008.
- o Past President of a Rotary Club.



**reputation and such good results in terms of dividends to shareholders as compared to other power generation companies?**

**Mr. Sobani:** HUBCO is the mother of power industry. This project was conceived in 1985-86 when there existed no government policy for private sector power companies in Pakistan.

This is a unique project. Many international banks participated to help and initiate the project. HUB district of Balochistan was selected for the site of this project. The project was started in 1996-97. The initial major equity was provided by Saudi Group named XENEL and International Power.

HUBCO has now taken an initiative to go on hydel. It would be the first private sector's company or independent power producer in hydel. HUBCO has 75% stake in Laraib Energy Ltd which is setting up 84 MW capacity power plant on the new Bong Escape of the Mangla Dam. It is 50% complete and it is expected to be ready in the last quarter of 2012.

**PIPFA: Do you think Thermal power project is environmental risk oriented?**

**Mr. Sobani:** No! The project is located at Hub which is a distant area away from populated dwellings as such it will not pose any environmental risk. The plant complies with World Bank Environmental Guidelines and has obtained and maintained ISO 14000 certification on Environmental Management Standards. In addition the SO<sub>x</sub> and NO<sub>x</sub> emissions are regularly tested.

**PIPFA: What about other countries where coal is used for power generation?**

**Mr. Sobani:** Yes, many countries are generating 40 to 50 percent from Coal. India, USA and other countries are one of the major Coal based electricity producers. India has indigenous resources of Coal but it also imports from outside the world so I think we should see their experiences.

**PIPFA: The present demand at peak hours for electricity is at 18,000 mega watts where as power generation is not more than 13,000 mega watts leaving a gap of 5,000 mega watts which is the real cause of load shedding. How do you propose to fill up this gap?**

**Mr. Sobani:** There are two or three reasons. One is the efficiency of government operated thermal power projects which has dropped significantly. They have not been maintained. Oil and gas as a fuel is in short supply to these power generating units. The Government shall have to provide necessary funds to make the oil available and allocate gas available to them as per their capacity requirements.

**PIPFA: The government is financially weak and lacks resources to maintain regular power supply, it has acquired rental power projects but power crisis still persists?**



*Mr. Zafar Iqbal Sobani, Mr. Sajjad Ahmed Chairman Publication Committee, Mian Muhammad Shoaib, Member Board of Governors with Mr. Imran Ahmed, Additional Director Examination and Members affairs.*





Mr. Sajjad Ahmad Chairman Publication Committee presenting souvenir to Mr. Zafar Iqbal Sobani, CEO, HUBCO.

**Mr. Sobani:** Rental power generation projects, approved in 2007-08, were expected to be available before other new IPPs started their production in 2009-10 as they have lower completion period. However due to allegations and lack of transparency on their projects they could not produce the desired results and now it is expected that maximum 800 to 900 MW electricity would be produced from rental projects.

**PIPFA:** *Our readers would like to know that we have hydel and thermal ways of power generation, as an alternate source of energy, why can't we use wind power to meet some of energy requirements?*

**Mr. Sobani:** For wind energy, the capital cost is more than thermal power. Currently we are only producing 6 mega watts and 6 to 7 projects are in initial phase. Investors are waiting for these projects to kick off then they will be able to start investing in these projects. Secondly another vital issue is arising that financing is not easily available due to law and order situation, circular debt and government's inconsistent policies. However rough estimated financial institutions exposure to power investors is Rs. 700 to 750 Billion

**PIPFA:** *What are the problems in producing nuclear energy for power generation?*

**Mr. Sobani:** Producing nuclear energy for power generation or going for gas pipeline from Iran could have political implications. Further, catastrophe in Japan in the earlier part of the year on their nuclear installations will have significant change in its usage.

**PIPFA:** *There are several sources of power generation such as thermal, hydel, wind, coal, solar and nuclear power. What are government priorities to solve the issue of power crises in the country?*

**Mr. Sobani:** Coal is number one priority. Hydel is the next source of energy. The government is making efforts on coal gasification project as we have huge reserves.

**PIPFA:** *How did your professional education help you in completing your journey from CFO to CEO?*

**Mr. Sobani:** Professional academic knowledge is helpful in controlling the industry. Financial accounting, cost accounting and management accounting are the managerial tools that help to analyze the operating results and make sound financial decisions for the benefits of the company. My education as a professionally qualified Chartered Accountant has greatly



Mian Mohammad Shoaib, BOG Member presenting plaque to Mr. Zafar Iqbal Sobani, CEO, HUBCO, Mr. Sajjad Ahmad, Chairman, Publication Committee is also seen in the picture.



helped me to achieve the success in every corner of my professional career.

**PIPFA:** Now we would like to have your comments for the students and members of PIPFA. Would you like to place some message for them?

**Mr. Sobani:** For students I say don't go on short cuts, do your homework and wait. I see that students are not clear in their thoughts. I think steadiness is required and they should not

believe in short cuts and they should work hard, I accept that country is facing hard time but these three things should always be followed.

- Should not go for short cuts
- Steadiness
- Hard work

***The interview terminated with a vote of thanks to Mr. Zafar Iqbal Sobani for sparing some of his valuable time for PIPFA.***

## About HUBCO

The Hub power station is the first and largest power station to be financed by the private sector in Southern Asia and one of the largest private power projects in the newly industrialised world.

Financial closure took place in January 1995, two years after the sponsors of the project had decided to raise mobilisation finance and to begin construction to meet the policy guidelines of the Government of Pakistan for additional electricity to be provided by private investment.

The Hub power station was the first project to be successfully co-financed by several governments, the World Bank as well as international private sector lenders and investors. It sets the standards for the formulation of a private power framework in Pakistan which has elicited numerous responses from international investors. Several medium sized projects have since completed their financing, construction and now are in operation.

Today, the Hub Power Company which is listed on Karachi, Lahore, Islamabad and Luxembourg Stock Exchanges has the largest market capitalisation of any private company in Pakistan and has **over thirteen thousand (13,000) Pakistani and International shareholders.**

The Hub Power Company is an equal opportunity employer that seeks to take on the very best talent available in the country. The Company provides employees with frequent opportunities for training and skills development, both within the country and internationally. Team building workshops and other programmes ensure that all employees in Hubco work closely together for achieving the Company's Mission. The Company offers market competitive salary and other benefits and an excellent working environment.

### HUBCO are First

- ✦ First private sector infrastructure project.
- ✦ First limited recourse financing.
- ✦ First lending into Pakistan by 15 onshore and 43 offshore banks.
- ✦ First stock market floatation of a single power station under construction (380 million US\$).
- ✦ First multi co-finance private sector infrastructure project - 9 co-financiers.
- ✦ First COFACE, JEXIM, MITI or SACE supported limited recourse financing of an infrastructure project.
- ✦ First mark up based limited recourse infrastructure project financing.
- ✦ First mark up based finance to rank pari passu with interest based finance.
- ✦ First use of the ECO programme to support a private sector project.

# Financial Reporting Supply Chain

*Extracted from a project commissioned by the International Federation of Accountants (IFAC)  
A research survey by CIMA (Chartered Institute of Management Accountants) Team*

The financial reporting supply chain refers to the people and processes involved in the preparation, approval, audit, analysis and use of financial reports. All links in the chain need to be of high quality and closely connected to supply high quality financial reporting.

The cycle both starts and ends with the investors and other stakeholders, who want to make informed economic decisions about a company and, therefore, require financial information to do so. Subsequently, it is management that, under the general direction of the board of directors (supervisory board), prepares the financial information for eventual approval by the board and, in some countries, the general meeting of shareholders. The auditors interact with management and the board while auditing the financial information and provide independent opinions. The media and others distribute financial information, and analysts and credit-rating agencies evaluate it, to be used by the investors and other stakeholders.

Also within the chain there are the various standard setters in the areas of corporate governance, financial reporting and auditing; the regulators, who enforce those standards and professionals, such as investment bankers and lawyers, who provide advice to the other participants.

## Corporate Governance Has Improved

Respondents felt that corporate governance clearly has become better over the last five years. This view was held across all types of respondents and regardless of the respondent's country of origin. Respondents gave a number of reasons for this improvement. For example, boards of directors have become more aware of their

responsibilities to provide meaningful reports and to act in a responsible way to all stakeholders. A respondent commented, "Directors of listed companies and statutory bodies have become more knowledgeable about financial reporting, take their responsibilities more seriously and appear to be more independent in carrying out their fiduciary duties."

Many respondents commented that changes to law and regulation have improved corporate governance. Other respondents pointed to increased communication as a reason for improvement. In one respondent's words, "Governance has dramatically improved. There has been an improvement of dialogue between directors and investors."

Respondents felt that overall the balance between the costs and benefits of corporate governance had become better over the last five years. While this result was consistent regardless of the type of respondent, regulators were the most positive, while users were among the least positive and felt that the balance had remained about the same.

Looking across regions, there was also little difference between respondents. According to an Asian respondent, "The benefits of corporate governance outweigh negatives. The challenge is to not lose sight of business realities." A European respondent commented that the cost-benefit balance has stayed about the same, and that in places where costs rose at the expense of benefit, this increase in costs has now ended.

## The Positive Aspects of Corporate Governance

In describing the good things that have happened over the last five years in corporate governance, the issues mentioned most often were:

- o Increased awareness that good governance counts
- o New codes and standards
- o Improvements in board structure
- o Improved risk management and internal control
- o More disclosure and transparency in business and financial reporting

## Increased Awareness that Good Governance Counts

Virtually all respondents felt that past scandals and failures in corporate governance have sparked the increased focus on improving corporate governance. Good governance counts because it makes directors and management more aware of their responsibilities to act in a responsible way to all stakeholders and to provide useful reports and also contributes to corporate effectiveness.

Respondents observed that, although most boards want to do what is right, corporate governance also has become better due to more external pressure coming from regulators, stock exchanges and, especially, investors. One respondent noted, "In addition to the government and financial market regulators, professional bodies have also put considerable efforts into promoting corporate governance." Greater public scrutiny has helped too. For example, a respondent observed, "The 'name and shame' environment in the UK has increased awareness of issues; companies don't want to be in the newspaper."

## New Codes and Standards

Changes to the codes, standards and rules governing companies and boards of directors in the past five years were widely felt by respondents to have led to improvements in governance. A

respondent from the US commented, "Corporate governance has significantly improved due to the SOX1 Act as boards are now much more involved and there is more clarity around their responsibilities." Respondents also considered that making management explicitly responsible for the information used by third parties was a positive development that had improved corporate governance.

Many respondents preferred the principles-based codes and standards to the more rules-based approach of the US. "Luckily, the UK did not fall in the SOX trap," a respondent noted. Having a 'comply or explain' provision was seen as one of the key strengths of principles-based codes. This approach has led to companies applying a sensible approach to corporate governance and has resulted in useful additional disclosures. Respondents also felt that increased oversight and enforcement were contributing to better corporate governance.

### **Improvements in Board Structure**

Many respondents mentioned improvements in board structure as an important reason for improved corporate governance. The key improvement in board structure mentioned by respondents was recognition of the importance of independent, non-executive directors. "The independent non-executive director provides a useful check and balance," one respondent commented. Non-executive directors, a respondent commented, "have a greater awareness of the expectations that shareholders and others have for them." Various respondents also had the following to say: "Directors that did not do their homework got increasingly concerned about liability and stopped serving as directors";

"New directors have a good understanding of the company and the industry in which it operates and are more knowledgeable about financial reporting"; "Boards are much more aware of board responsibilities"; and

"They are conscious of the need to add value for shareholders."

In addition, respondents felt the wider adoption, the increased competence and the improved operation of audit committees have created a key mechanism to bring internal and external audit and management together to the benefit of good corporate governance. Other committees of the board, such as the nomination and remuneration committees, were also considered to add value.

### **Improved Risk Management and Internal Control**

Respondents generally felt that increased emphasis on risk management and internal control by executive management and boards had led to improved business operations and better reporting. "The level of engagement is higher and working procedures are improved," one respondent replied.

However, many respondents objected to the way some elements had been applied. For example, the documentation and the testing of controls were often felt to be too detailed and laborious. In the words of one respondent, "The bottom-up approach to the documentation of internal controls over financial reporting (and the resulting identification and testing obligation of many detailed controls) proved to be grossly inefficient and ineffective, which ultimately provided little value to shareholders." Also, the auditor sign-off on top of the management sign-off on internal control was seen as redundant by some respondents.

### **More Disclosure and Transparency in Business and Financial Reporting**

Respondents appreciated increased disclosures, for example, on company risks, opportunities and strategic decisions, executive pay, and on related parties. They also mentioned more informative annual reports, more informative corporate websites, more

standardized financial reports, and more transparent general shareholders meetings.

Respondents felt this enabled users to get more information about the company and also improved accountability.

### **Areas of Concern in Corporate Governance**

In describing the less desirable things with respect to corporate governance, respondents were concerned about the following:

- o Governance in name but not in spirit
- o Overregulation
- o The development of a checklist mentality
- o Personal risk and liability for company directors and senior management
- o Cost-benefit concerns

### **Governance in Name but Not in Spirit**

Many respondents felt that many changes that have been made were made in "letter," not in "spirit." They shared the view that quite a few companies are pushed to improve their governance more by the regulatory bodies than by their own/inner self-discipline mechanism. In their opinion, numerous companies and boards of directors consider governance as yet another certification, and still think that forming committees and hiring consultants to write policies solves the problem. Companies quickly adopt the easy-to-comply-with governance, but seem slower to adopt the more painful measures. It is "lip service to corporate governance rather than real corporate governance," as one respondent put it.

Respondents noted that there are (still) some individuals who think they are above best practice, for example, "Directors who still believe that they are the company and do not always act in the interests of shareholders."

Respondents felt that fostering a culture for corporate governance is far more

than a compliance exercise and warned that compliance in form rather than substance provides a false sense of security.

### Overregulation

Respondents recognized that the financial reporting scandals of some years ago really let investors down. Many were skeptical, however, about the response. "Additional regulation tends to be a knee-jerk reaction to a corporate failure," said one respondent, and "governance principles are currently drowned in a whole pile of rules," according to another. Some feel the result is that "regulation now feels more over bearing and is constantly being raised."

Respondents especially disliked what one respondent called "the increased prescriptiveness of regulatory frameworks that encourages legalistic compliance rather than principles-oriented 'better' practice." And many felt that the US has gone overboard with its SOX and compliance disclosure. "This has led to a greater disclosure burden, higher costs, and many companies view it as an exercise in compliance rather than embracing the spirit of good governance," another respondent noted.

### The Development of a Checklist Mentality

It was felt that overregulation had created a situation where people focus now too much on compliance and are not talking about matters such as strategy and building a business. There is also too much focus on rules instead of integrity. This might create a culture of simply following rules instead of thinking about how to deal with governance aspects in general. "Increasing the amount of box ticking is unhelpful as it doesn't make people think," a respondent commented.

Respondents signaled a preoccupation with governance rather than making the company achieve and prosper. As a result, the potential exists that compliance activities are taking too

much time and attention and real risk areas could be overlooked. Many believe that companies have become too risk averse and are avoiding risk rather than managing it.

An external auditor commented, "Directors [are] spending more and more time in compliance issues and losing sight of operational issues." Another respondent recommended that boards take responsibility and "review their agendas and see how much time they spend on the various topics like compliance versus strategy and find a balance."

### Personal Risk and Liability for Company Directors and Senior Management

The personal risk and liability faced by company directors was an issue raised by some respondents as it had caused some directors to reevaluate their board positions. Respondents also commented that it is more difficult to recruit new board members and senior management level people due to increased legal liability exposures. "It is not worth taking the risk anymore to assume a board or CEO/CFO position," one respondent said.

Some respondents observed a level of paranoia which has caused some directors to be overly skeptical and distrustful of the action of management, which has led to inefficient business decisions. They point out the need to allow directors some protection, because now they are too risk adverse. As one respondent put it, "They should only get charged when their wrongdoing is willful."

### Cost-Benefit Concerns

The majority of respondents felt that the balance between the costs and benefits of corporate governance had become better. However, many respondents expressed concerns that the costs of certain regulations, especially section 404 of the US Sarbanes-Oxley Act, have vastly outweighed the benefits.

Many respondents felt there was a need for continuous vigilance against having a governance-at-all-costs mentality.

### What Needs to be Done Next in Corporate Governance?

Respondents were asked to think about how to further improve corporate governance in their respective countries and to prioritize a number of different measures that might achieve this goal. The measures respondents considered to be of high priority were:

- o Continue to focus on the behavioral and cultural aspects of governance
- o Review existing rules as many have been introduced as a response to crises
- o Further improve the quality of directors
- o Better relate remuneration to performance
- o Expand view from compliance governance to business governance

### Continue to Focus on the Behavioral and Cultural Aspects of Governance

Across the different types of respondents, continuous attention to the behavioral and cultural aspects of governance was considered to be the most important priority. One respondent expressed his "lingering concern that the importance of corporate governance will fade from radar screens, leaving the door open for future governance failures." Another respondent added, "There is some fatigue about corporate governance."

Ethics is not only important within companies. One respondent advised, "The ethical dimension social, cultural and personal behavior is fundamentally important throughout the whole financial reporting supply chain." Another commented, "It is good to improve accounting and auditing, but banks, financial advisers and analysts, credit raters and lawyers should also adhere to a code of ethics." Still another said,



"More attention should be given to governance arrangements of institutional investors themselves, like pension funds and equity/fund management groups" because there are "...lots of conflicts of interests that are inadequately disclosed." Finally, a respondent commented, "Companies are mirrors of the societies in which they operate and they influence each other. Therefore, improved corporate governance has a positive impact on societal governance and vice versa."

### **Review Existing Rules as Many Have Been Introduced as a Response to Crises**

Several respondents proposed a review of the regulation that has been introduced as a response to the crises, based on the experiences so far. Others observed that this is already happening in some countries. Comments included: "The Combined Code in the UK has recently been reviewed and found satisfactory; the principles are becoming much better understood," and "The Australian Stock Exchange recently refreshed its principles of corporate governance." Respondents also commented that the approach of some countries was to let the US go first through the process and then adopt what worked and reject what went wrong.

Respondents thought that in developing countries, there should be a focus on the basic principles that underlie good financial reporting, including the existence of a market economy, respect for the rule of law and legal protection for minority shareholders. Many respondents shared the opinion that emphasis needs to be given to improving skills as in some developing countries there is a lack of competent accounting and auditing professionals. Removing impediments to capital flows to allow foreign ownership of domestic companies might also improve corporate governance, according to some respondents, as foreign owners would bring with them skills, experience and expectations with respect to good financial reporting.

### **Further Improve the Quality of Directors**

Respondents considered that generally the best people to oversee management are non-executive directors. Therefore, independence of directors is seen as fundamental to good governance. In the words of one respondent, "More independent directors would generally be healthier for governance and making sure that management is 'doing the good thing.'" Many respondents considered that separation of the roles of chairman and CEO is logical and effective. "One runs the company and one runs the board," said one respondent. "They are different roles and it is hard to do both," and "Otherwise there is a risk of a less well-controlled CEO," were other comments made.

For many respondents, the crucial point is the quality of who you get on the board, focusing on substance rather than on form. A better selection processes and annual reviews might help to improve the quality of non-executive directors. Another suggestion was to increase the ability of shareholders to remove directors.

Respondents also recognized the need for (at least) some directors to have significant experience, as one respondent stated, "Directors who have been on boards a long time have accumulated wisdom and skills that are of benefit to the company."

### **Better Relate Remuneration to Performance**

According to the survey results, executive remuneration is still an issue, especially as it is difficult to relate remuneration to performance. Respondents held strong views: "Remuneration is the biggest area of trouble [because there is] very little correlation between remuneration and performance," and "A Pandora's Box is opened with all these performance incentives." Another respondent commented, "A lot of compensation is now totally at random" and this was detrimental to the quality of

corporate governance as "all or most accounting scandals involve compensation."

Respondents felt that there needed to be a better alignment of compensation with longer term company performance. Alternatives to current remuneration structures included a larger amount of pay in the form of "plain old fashioned salary," and equity only for exceptional performance. As well, respondents considered that there should be more transparency in executive compensation.

### **Expand View from Compliance Governance to Business Governance**

According to many respondents, there is a need to consolidate the current position and to move on to other areas, as one of them pointedly said, "Compliance is done. Now we need to go back to business." There is too much compliance governance instead of business governance not only to satisfy regulators, but also because many institutional investors put too much emphasis on compliance with governance rules. Respondents also felt that the overemphasis on internal control over financial reporting should be reconsidered.

Governance should not be a separate pillar mainly concerned with compliance, but "a more integrated way of running your business effectively and efficiently," a respondent commented. Furthermore, control processes should be more embedded in the business processes, and should be designed by people who have experience with the area of organization, people and processes.

And what could institutional investors do to help companies making this transition? Responses included: "They should have a more constructive relationship with management of companies in which they invest," and "Make sure that the dialogue is about long term issues, strategy, overall risk, whether they got the right people in place etcetera."

# Global Supply Chain Management

By Ubaid Muzaffar, MBA, MA (Eco)

**Overview:** This article will satisfy your query regarding Supply Chain Management, Logistics Management, Material Management, and Merchandise Management Inventory Management including Warehouse / Godown / Stores Management or Stocks of the product Management as well as this article offers good, clear answers to some of the basic supply chain questions that are asked by those new to the concept of the supply chain.

- o What is supply chain management?
- o What does supply chain software do?
- o What is the relationship between ERP, CRM, and SCM?
- o What is the goal of supply chain management software?
- o What is supply chain collaboration?
- o What is the impact of globalization on the supply chain?
- o How has radio frequency identification (RFID) technology affected the supply chain?
- o Introduction to Supply Chain Management:

If your company makes a product from parts purchased from supplier, and those products are sold to customers, then you have a supply chain. Some supply chains are simple while others are rather complicated. The complexity of the supply chain will vary with the size of the business and the intricacy and numbers of items that are manufactured.

**Elements of the supply chain:** A simple supply chain is made up of several elements that are linked by the movement of products along it. The supply chain starts and ends with the customer.

**Customer:** The customer starts the chain of events when they decide to purchase a product that has been offered for sale by a company. The customer contacts the sales department of the company which enters the sales order for a specific quantity to be delivered on a

specific date. If the product has to be manufactured, the sales order will include a requirement that needs to be fulfilled by the production facility.

**Planning:** The requirement triggered by the customer's sales order will be combined with other orders. The planning department will create a production plan to produce the products to fulfill the customer's order. To manufacture the products the company will then have to purchase the raw materials needed.

**Purchasing:** The purchasing department receives a list of raw materials and services required by the production department to complete the customer's orders. The purchasing department sends purchase orders to selected suppliers to deliver the necessary raw materials to the manufacturing site on the required date.

**Inventory:** The raw materials are received from the suppliers, checked for quality and accuracy and move into the warehouse. The supplier will then send an invoice to the company for the items they delivered. The raw materials are stored until they are required by the production department.

**Production:** Based on a production plan, the raw materials are moved inventory to the production area. The finished products ordered by the customer are manufactured using the raw materials purchased from suppliers. After the items have been completed and tested, they are stored back in the warehouse prior to delivery to the customer.

**Transportation:** When the finished product arrives in the warehouse, the shipping department determines the most efficient method to ship the products so that they are delivered on or before the date specified by the customer. When the goods are received by the customer, the company will send an invoice for the delivered products.

**Supply Chain Management:** To ensure that the supply chain is operating

as efficient as possible and generating the highest level of customer satisfaction at the lowest cost, companies have adopted Supply Chain Management has three levels of activities that different parts of the company will focus on: strategic; tactical; and operational.

**Strategic:** At this level, company management will be looking to high level strategic decisions concerning the whole organization, such as the size and location of manufacturing sites, partnerships with suppliers, products to be manufactured and sales markets.

**Tactical:** Tactical decisions focus on adopting measures that will produce cost benefits such as using industry best practices, developing a purchasing strategy with favored suppliers, working with logistics companies to develop cost effect transportation and developing warehouse strategies to reduce the cost of storing inventory.

**Operational:** Decisions at this level are made each day in businesses that affect how the products move along the supply chain. Operational decision involve making schedule changes to production, purchasing agreements with suppliers, taking orders from customers and moving products in the warehouse.

## Supply Chain Management

**Technology:** If a company expects to achieve benefits from their supply chain management process, they will require some level of investment in technology. The backbone for many large companies has been the vastly expensive Enterprise Resource Planning (ERP) suites, such as SAP and Oracle.

Since the wide adoption of internet technologies, all business can take the advantage of web based software and internet communication.

Instant communication vendors and customers allows for kindly updates of information, which is key in management of supply chain.

# Role of Management Accountant as a Supply Chain Manager

By Tanveer Uddin, B.COM., MBA, APA, ACMA

## What is Supply Chain Management (SCM)?

Supply Chain Management (SCM) includes the collection of activities from Procurement of Raw materials or components to production to delivery to the end customer.

Supply Chain Management is the coordination or integration of a series of activities/processes, which procure, produce and deliver products and/or service to customer.

## Supply Chain Management (SCM) and Management Accounting – the Necessary Linkage

Concurrent with the need for adopting Supply Chain Management strategies, the need for a measurement metric, which also makes sense at the integrated Supply Chain level, becomes important. Traditionally, organizational departments have been thinking narrowly within their own silos and the measurement metric also matched the same e.g., Production departments have always been given credit for the number of units manufactured and Sales for the number of units sold. This will not suffice when you have an integrated Supply Chain in place. Such metrics have necessarily to be linked to the financial metrics to make sense to all the participants within an organisation.

The first step in such an exercise would be to establish a common cost base. The next step is to evolve financial indices, which are meaningful not only to all the departments in the company but also to the stakeholders and the share market as well.

## Supply Chain Costing – Need of Activity Based Costing

There are two significant constraints for the firms in the present days:

First, those firms that have not implemented activity-based costing cannot provide supply chain-related costs at the activity level.

Second, the detailed level of information about process steps and costs of activities that must be shared by the enterprises requires a highly coordinated or integrated partner relationship between them. Such inter firm relationships are difficult and slow to develop.

Ultimately, restructuring the supply chain to exploit efficiencies also requires a mechanism capable of identifying and equitably allocating costs and benefits between the partners as changes are implemented.

## Direct Product Profitability (DPP)

An improvement on gross margin costing, determined profitability by not only subtracting the cost of goods from sales but also adding direct revenue and subtracting direct product costs. One major weakness of DPP was that it failed to recognize overhead and administrative expenses, and, therefore, could not be used for total company costing purposes. DPP also required a great deal of supporting data about the physical characteristics of products that continually required updating.

## Activity-based costing (ABC)

which emerged in the 1980s, improved on DPP by recognizing both direct and overhead costs. ABC goes a step further by tracing the activity costs to objects consuming those activity costs. ABC analysis allows managers to pinpoint the activities, products, services, or customers consuming overhead resources. Product and customer profitability analysis performed by firms using ABC has significantly altered management perceptions. One such study found that 29% of customers generated 225% of the profits, while 70% of the customers hovered around the break-even point. The remaining 10% of customers generated a 125% loss (Cooper & Slagmulder). **Profitability analysis using ABC can focus management effort.** High-cost products and customers can be targeted for corrective action. Applied broadly to supply chain management, ABC is helping companies finally understand their total costs. **The potential benefits of improved supply chain management are stymied by the absence of activity-based financial data and the inability to link performance measurement with cost.**

## Supply Chain Management (SCM) and Finance

Too often we believe that the financial impact of lean supply chain management is linked to reduced operating expenses or reduced

working capital. Granted, these contribute financial benefits, but they represent only a part of the story. The real leverage of lean supply chain is creating capacity for growth. Capacity accommodates demand variation. Lean supply chains create growth by matching capacity to actual demand through rate-based planning and execution (RBPE). RBPE tools help supply chains use their capacity more efficiently, which allows companies to reallocate capacity to new growth products. This produces a more efficient and productive use of inventory and resources, which is the foundation for financial benefits at both the company-wide and product-line level. Under RBPE, demand variation is accommodated with changes in capacity rather than inventory. To use an analogy, consider snow-capped mountain and the farmer in the valley. In the natural world, the snow on the mountain melts into a river that is used by the farmer in the valley. The imbalance between the rates of supply and demand is managed by building dams throughout the river system. This is similar to building inventory in a supply chain. That is the imbalance between supply and demand is handled by releasing "inventory" or building "inventory". In contrast, the lean supply chain does not use "dams". Rather, the water flow rate in the riverbed is increased or decreased to match the demand for water by the farmer. The use of tactical capacity in the supply chain is increased when demand increases and reduced when demand falls.

The "C-level" executives, the chief executive officers and chief financial officers, must be made to see supply chain management in a new light not just as a technique for lowering operating costs but also a powerful enabler of the key drivers of financial performance. When and only when the financial-supply chain connection is made will supply chain management be able to complete the transition from the backroom to the boardroom.

One of the greatest business challenges today is providing a competitive return to investors. A company may not directly compete for customers against return-rich organizations like General Electric, Cisco Systems. But all companies



compete against each other in the financial markets. Those companies offering a competitive return tend to prosper and grow. Those that don't are limited in their ability to grow and many times cease to exist.

Providing a superior return is becoming more complex because of increasingly demanding customers, heightened competition and ever changing technologies. "C-level" managers (CEOs, CFOs and so forth) are seeking new solutions to meet this challenge. SCM has the potential to provide these solutions - and, in doing so, move SCM from the "backroom to the boardroom". At many companies, however, at least two factors inhibit SCM's boardroom debate:

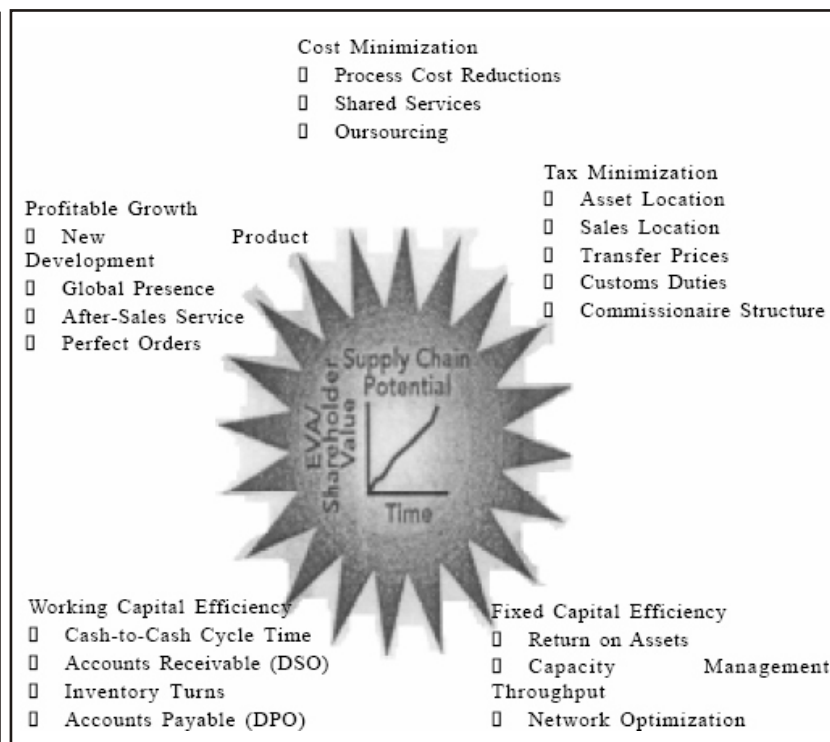
- o First, many C-level managers hold a traditional view of SCM and do not fully recognise its potential impact on all areas of financial performance (growth, profitability, and capital utilisation). Unfortunately, the traditional view is narrowly defined in terms of SCM's effect on only one aspect of overall financial performance-operating costs
- o Second, many SCM professionals do not speak the "the language of finance". Thus, they fail to articulate the real value of their solutions at the C-level.

A company must offer a competitive return in the financial markets to attract the funds it needs to maintain its existing business and provide for future growth. For a publicly traded company, a competitive return is measured by "total shareholder return" (dividend plus the change in stock price measured as a percentage of price paid for the stock). In the near term it is not always clear what drives a company's stock price. Some speculate it is investors' emotions, while others claim it is animal spirits.

**However, over time, stock price tends to be driven by the financial performance of a company's operations, which is related to three key factors:**

- o **Growth** - How fast revenues are growing year-over-year
- o **Profitability** - How much is left over in profits per Rupee of revenue after deducting operating expenses (procurement, manufacturing, transportation, distribution, etc). This is often also called operating profit margin
- o **Capital Utilization** - How many Rupees of revenue are generated for each Rupee invested in capital.

Several drivers exist for determining and



increasing a company's value. Revenue growth rate, operating income margin, effective tax rate, and working and fixed capital investment rates are among the most popular. In reality, however, true stock value emanates from capital efficiency improvements. Growth, in other words, must be profitable to be of value. How profitable? Profitable enough to generate healthy free cash flows: the money left over after subtracting expenses, taxes and capital investment from revenues.

#### Drivers of Market Value

All Cash Flows are not created equal when it comes to boosting the market capitalization. Cash flows generated by revenue enhancement and cost reduction are taxed, often heavily. However, cash flows created from greater capital efficiency - through supply chain improvements to higher inventory turns or lower DSO (accounts receivable days-of-sales-outstanding) -are untaxed. This means that 100 per cent of these freed up cash flow funds contribute to improved market capitalization via improvement in the ROI due to release of excess working capital locked up in receivables/inventories.

#### The DU Pont Model

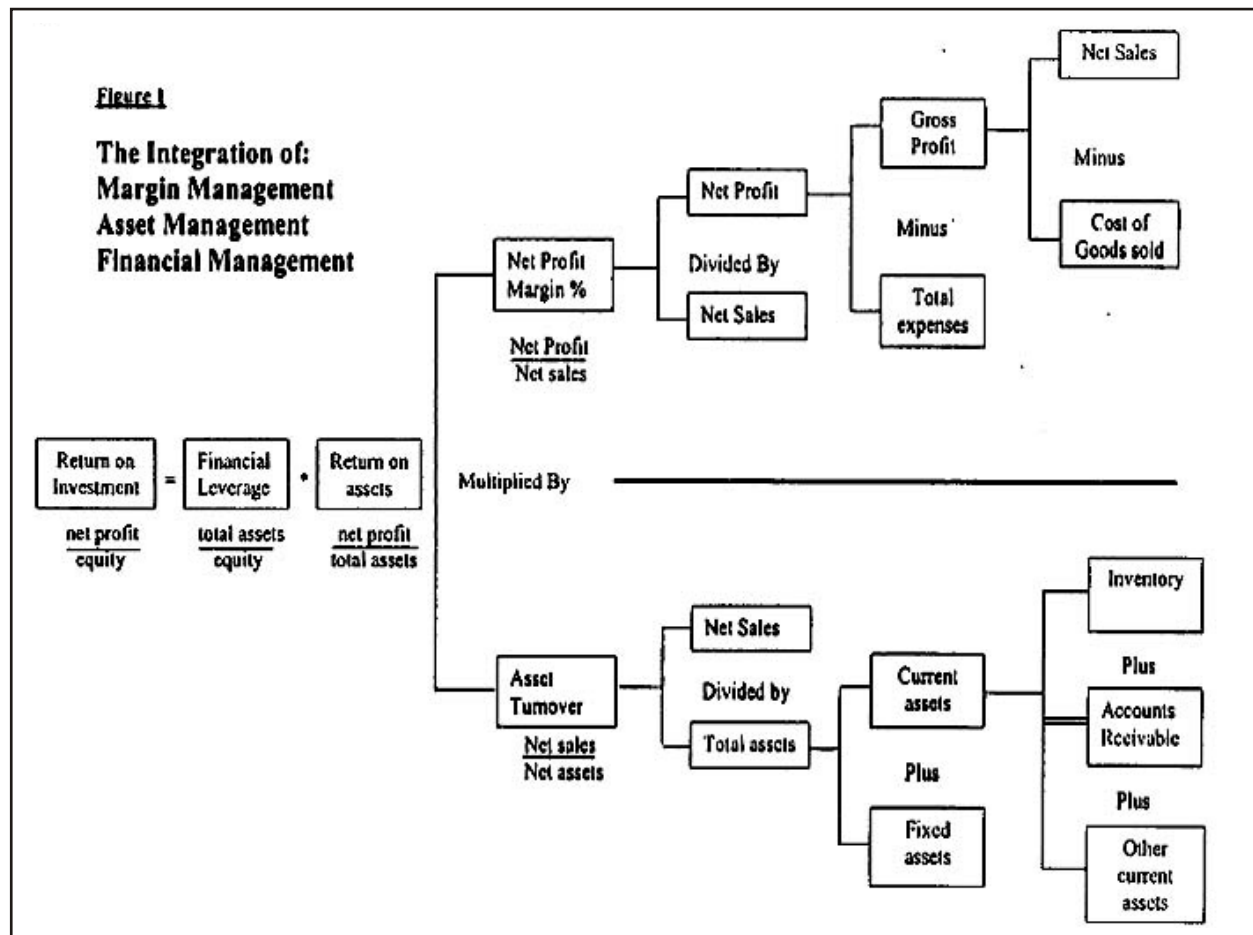
F. Donaldson Brown created a useful tool for today's supply chain executive, known as the DU Pont model, or the strategic profit model, while he was working for E.I. DU Pont de

Nemours & Co.'s Treasurer's Department in 1914 (Chandler). The financial analysis technique Brown used involved tying together the profit and loss statement and the balance sheet so that the changes in the working capital could be associated with changes in sales (See Figure). Brown's creation provide DU Pont executives with a consistent methodology with which to evaluate each operating unit's performance, locate sources of deficiencies, and prepare and adjust budgets and forecasts.

The DU Pont model is a reliable tool to aid supply chain managers in determining the outcome of project ideas. Using this model, financial simulations are easy to construct that reveal the impact of possible supply chain decisions on the firm's financial performance.

Supply chain executives often have responsibility for a significant portion of the cost of goods sold and operating expenses, and, therefore, have a major impact on margin management. Decisions and expenditures associated with procurement, inbound transportation, production planning, and materials management are directly related to the net profits of the firm. Supply chain executives have responsibility for a sizable array of assets- inventories, facilities, handling equipment, transportation equipment, and computer and communication systems -used in the operation of the business. Their decisions on





asset acquisition, utilization, replacement and disposal affect the rate of asset turnover.

The ability of the supply chain executive to perform financial analysis affecting supply chain decisions is critical in competing for funds and adding value to the firm and the supply chain. **The supply chain executive must be able to implement the often-competing strategies of cost minimization, value-added maximization, and control/adaptability enhancement (Speh & Novack).** This requires the use of financial tools.

### Role of various entities through the Supply Chain

Profits generated by operations improvements are typically contained within the firm can be found in the growth of "gain sharing" between companies and third-party logistics providers to which they outsource their logistics operations.

Under gain sharing, as the business partners' improvements result in lower costs, both share the savings in an equitable manner. **This changes the behaviors between the partners, from a customer trying to**

**bargain down price and a supplier focused on cost reductions to avoid or defer price increase, to collaborative, supply chain behaviours where gains from productivity and cost improvements are shared.** An accurate understanding of activity and process costs is a requisite for implementing gain sharing programs. Cycle time compression is one of the major emerging logistics strategies that have significant financial impact on supply chain performance (La Londe & Masters)

### Conclusion

Supply chain activities affect the profit and loss statements, balance sheets and the costs of capital. Significant opportunities exist for the competent supply chain manager to reduce expenses, generate better returns on invested capital, and improve cash flows. **Controlling supply chain expenses improves profit margins. Reducing the levels of assets (both current and fixed) improves return on assets. Continuing to shorten cycle times can enhance cash flows. Superior supply chain performance can also produce the leverage and competitive advantage to**

**increase revenues and the supply chain's share of market.**

Improved collaboration between the finance and the other business and supply chain functions is necessary to facilitate the process to develop Activity Based Costing. This collaboration should help overcome the seemingly wide spread inability of supply chain managers to articulate the costs and benefits of supply chain activities.

It is the Chief Financial Officer's job to make sure that a company's financial performance provides a competitive return to investors. He or she should take a holistic view of solutions to provide this return. The CFO constantly is searching for new answers to such questions as:

- o How can return on the existing business be improved?
- o Where will the company get the funds to run the business and fund growth?
- o How will the company meet investors' expectations?

In our opinion, the answer to the above questions lies in the effective Supply Chain Management.

# Quick Outline of Supply Chain Financing

By Jeremy P Stanfords

**S**upply chain financing combines the cost and accessibility of capital in a supply chain. Some of the different variations in common use are financing options, early payment discounting, inventory management and balancing credit. This is not an innovative idea.

In fact, in advanced economies, many corporations employ it in different variations that have existed for decades if not hundreds of years. However, in the last few decades the idea has grown in importance for several reasons, including the steady increase in the costs of labor, energy and raw materials, as well as continually decreasing cost pressures.

In a world where many successful corporations are cutting dependence on physical assets and investing heavily in working capital, clearly businesses must earn the maximum value from their working capital possible. According to a recent study, 73% of corporations intend to use payment terms in their supplier

dealings in 2007, making this type of financing a key to creating a successful trade finance strategy for the 21<sup>st</sup> Century.

The primary players in supply chain financing are the buyer, manufacturer or supplier, technology provider, and the bank or financial institution.

The principal player in this trade finance strategy is the buyer, who builds brands, advertises and often even creates demand in the consumer market for the products and commodities.

Manufacturers and suppliers need supply chain financing above all others, since they incur huge upfront expenses such as increases in labor costs, energy, and raw materials and must wait the longest before receiving payment for the products they produce.

Technology providers make supply chain financing possible through the technology they employ to bring all

the players together. In this shrinking planet with instant worldwide communications and disappearing barriers of entry, a chief priority is to enable the visibility, scalability and ever-evolving innovation that businesses need to keep ahead of the competition.

The last cog in this financing wheel are the banks and financial institutions that lend the capital, provide financial services such as insurance and inventory financing, as well as offer receivables management services and payables discounting.

Clearly, supply chain financing is a trade finance strategy that rewards every party in the supply chain by allowing each of the players to focus on the strengths of their business models. Growing in importance with each passing decade, this trade finance tool will continue to evolve and become a critical part of the overall strategy of every successful business.



Never call an accountant a credit to his profession; a good accountant is a debit to his profession.

— Sir Charles Lyell

The pen is mightier than the sword, but no match for the accountant.

— Glancey, Jonathan

Finance is the art of passing currency from hand to hand until it finally disappears.

— Robert W. Sarnoff

# Bright Opportunities for a Good Financial Culprit

By S. A. Pasha, APA

**W**e the people of Pakistan are perhaps the most fortunate nation of the World, because despite of the fact that our names are being taken with the top ranked corrupted societies, we don't pay taxes but still we are enjoying the fruits because someone is paying taxes in USA for us. But today I pick my pen with the intension of writing on the subject of future for a good financial culprit. We are fortunate again because we do not have any Comprehensive General Procedural Guidelines for procurement by government departments and ministries. Although in this regard Federal Government has notified the Public procurement Regulatory Authority (PPRA) and its Rules as a compendium of general provisions in the form of executive instructions to be followed by all offices of Government of Pakistan while dealing with matters of financial nature specifically to the procurement of Goods & Services.

Corruption in Procurement is a serious but common issue in Pakistan. Although the formation of PPRA is the first sincere effort to take notice and to take some control of the situation. The rules defined by PPRA provides a broad regulating framework for transparent Public Sector Procurement and are applicable to all Public Sector Departments of Federal Government, but only strict compliance of these rules can lead to a transparent and accountable process of procurement in public sector. But here it is worthy to mention that the PPRA Rules does not deals with many major component of the transaction for example PPRA does not deals with the mode of payments which is damn good for the culprit society like us.

The accountants as well as auditors of this Global Village are moving towards the transactional Cycle approach, but we have missed many basic component that leads towards the corruption and many times It enhances the corruption to the level of intellectual corruption for example

due to unavailability of mode of payment cash payments in various cases beside this it also leads towards the undocumented transactions.

Despite these efforts, challenges in combating corruption in public sector procurements still lay ahead of PPRA in many departments of government. Most of these challenges concern the loopholes in the regulation of procurement frameworks. A number of departments have only rudimentary checks to follow the rules and regulations set by PPRA.

In many departments, procurement policies and procedures remain too often dispersed in several areas, executive orders, or not abiding by the guidelines and great discretion is left to the lower staff of the administration. Conflicts with PPRA regulations and between numerous executive orders sometimes render these frameworks vulnerable to ambiguity.

All departments have orders to follow procurement regulations set by PPRA but they do not apply these to certain procurement orders, reasons well-known to everyone. Some departments exempt certain procuring entities or certain goods and services from the application of procurement rules. These exempt areas may constitute very large proportions of public purchases. However, substitute rules that override the defined principles of procurement framework in these exempt areas seldom exist.

Often, planning or implementation is not regulated at all according to Public Procurement Rules, 2004, these procurement phases also often escape the scrutiny of auditors and the general public. Hence, the fight against corruption in procurement is still in rudimentary stage and the only hope to combat corruption is the strict application of the Public Procurement Regulatory Authority Ordinance 2002, Public Procurement

Rules, 2004, Procurement regulations of PPRA. .

The Bright future will always be there until every authority, delegated with financial powers for procurement will act in such manner so as "to bring efficiency, economy, transparency in matters relating to public procurement and for fair and equitable treatment of suppliers and promotion of competition in public procurement".

We require a central procurement organization In case, however, a ministry or department does not have the required expertise, it would request the central purchase organization to make the procurement on its behalf, with the approval of the competent authority in the ministry/department.

In addition to the PPRA, a manual on policies and procedures for purchase of goods should be published by Department of Expenditure, Ministry of Finance, to assist the procuring entities and their officers in the procurement of goods and services.

Further, the Central Vigilance Commission (CVC) could be set up by the Government in having the primary responsibility of exercising a general check and supervision over vigilance and anti-corruption work in ministries and departments of the government and other organizations to which the executive power of Government extend. This may enables the (CVC) from time to time, to issue circulars which would be required to be followed during procurement of goods and services by the ministries and the departments. Circulars issued by the (CVC) would also aim to increase transparency and objectivity in public procurement supplementing the PPRA Rules. Via this continuously required updates could be made in Procedures and Rules and Regulations. Technical Releases could also be the add-on.

## NEWS UPDATES

## State Bank of Pakistan (SBP) News

**Development of Robust Shariah Compliant Risk Management infrastructure in Pakistan**

**M**r. Yaseen Anwar, Deputy Governor, State Bank of Pakistan has stressed the need for the development of a robust Shariah compliant risk management infrastructure in Pakistan's Islamic banking industry that will enable both the Islamic banks and their clients to mitigate genuine business risks.

Inaugurating a workshop on 'Hedging in Islamic Finance and Master Hedging Agreement,' which was organized by International Islamic Financial Market (IIFM) in collaboration with the State Bank of Pakistan in Karachi today, Mr. Anwar said that while conventional banks have access to a variety of sophisticated risk management and hedging instruments, there has been a dearth of Shariah compliant hedging products in the country for mitigating risks arising out of genuine business transactions that put Islamic Banking Institutions (IBIs) at a disadvantageous position viz a viz their conventional counterparts.

Describing the pace of growth and development of the Islamic banking industry in Pakistan as encouraging, he said that at present it constitutes over 7 percent of the country's banking system. Given the healthy growth for the past several years, the enabling regulatory and Shariah compliance framework, the growing HR capacity of IBIs and increasing awareness of the masses about Islamic banking, the share of the industry is likely to increase manifold in the future, he added.

Mr. Anwar, however, observed that despite these positive developments and trends, we need not be complacent as the industry still faces numerous challenges, including development of a robust Shariah compliant risk management infrastructure. 'Moreover, the absence of standardized documentation invariably results in significantly higher transaction costs thus making the transaction unviable,' he added.

SBP Deputy Governor noted that notwithstanding the dire need of Shariah compliant risk management and hedging instruments for Islamic banks, it should be explicitly understood that such instruments should cover/hedge the genuine risks arising due to

real business and economic transactions and should in no way allow transactions for speculative motives. 'I presume, the same is the spirit of the Tahawwut (Hedging) Master Agreement (TMA). This workshop, I believe, will enable our Islamic banking industry to better understand the objectives, the underlying transactions and legal documentation etc suggested in the TMA,' he said, adding that it will also enable our market to develop and offer Shariah compliant hedging instruments.

He said the IIFM has played an active role in the standardization of documentation for liquidity management and hedging products over the past few years, which will greatly facilitate the development of Islamic Capital and Money Markets across the globe. He said that the Tahawwut Master Agreement (TMA) developed by IIFM in collaboration with International Swaps and Derivatives Association (ISDA) has been received well globally and is likely to provide a big boost to the Shariah compliant derivatives market.

Mr. Anwar said that the Tahawwut Master Agreement (TMA), which is the focus of today's briefing by IIFM, is a major initiative to standardize the hedging document and thus minimize the transaction costs. 'Also at the institutional level, the TMA will hopefully pave the way for players to provide Shariah compliant and financially viable products as well as broaden the range of risk management instruments available at their disposal,' he added.

While giving a presentation on Tahawwut Master Agreement (TMA), Mr. Ijlal Ahmed Alvi, Chief Executive Officer, IIFM said that although in recent years Islamic hedging market has grown, yet it is still in the development phase. He said that TMA is a framework risk mitigating document for hedging transactions and is developed for the entire Islamic finance industry especially for Islamic financial institutions (IFIs) as well as for Islamic windows.

Mr. Habib Motani, Partner, Clifford Chance LLP, London gave a presentation from London through video link and highlighted the key features (legal and documentation) of Tahawwut Master Agreement. Mr. Peter M Werner, Senior Director, International Swaps and Derivatives Association, Inc. (ISDA) gave a presentation on 'Islamic Jurisdictions the Need for Law Reform.'

## Securities &amp; Exchange Commission (SECP) News

**SECP Deplores Incorrect Reports, Comments**

**T**he Securities and Exchange Commission of Pakistan (SECP) has deplored the reports which give an impression that the recent internal restructuring had abolished the legal function of the SECP and that all legal checks and balances had been removed.

The legal function continues to exist under a new name: Legislation and General Counsel Department (L&GCD). This move is completely in line with the best international practices followed by securities' regulators in other jurisdictions such as the Securities Commission Malaysia, Australian Securities and Investment Commission, US SEC etc. The restructuring is the result of a well-

thought-out decision made after thorough internal discussions and feedback from the SECP operating departments. It is aimed at improving the performance and efficiency of the organisation. The SECP would like to emphasise that there is no change in policy with regard to any of the functions mandated to it under the laws administered by it. The L&GCD will perform two important functions of legislation and giving legal advice to the SECP on the interpretation of laws administered by the SECP. The new structure will facilitate a focused approach on these two critical legal activities. The operating departments can solicit expert legal advice from the L&GCD on any legal issue.



Under the new structure, operating departments have been provided with legal resources, enabling them to pursue litigation much more efficiently and rigorously. This will also improve quality and efficiency of these departments in other areas. This practice is not new to the SECP and existed before.

The SECP is striving for the development of a vibrant corporate sector and a capital market which is fair, transparent and efficient and in line with global best practices. Further measures are being taken to improve internal working and human resources of the SECP along with steps to develop sectors and markets.

## Federal Board of Revenue (FBR) News

### FBR may Levy 15 Percent FED on Shipping Agents' Commission

The government is contemplating to make amendments in Special Procedure for Excisable Services to impose 15 percent federal excise duty (FED) on the commission of shipping agents in the forthcoming budget for 2011-12.

Sources told that the Federal Board of Revenue (FBR) has proposed to make amendments in Special Procedure for Excisable Services to impose 15 percent FED on the commission of shipping agents in coming budget.

They said that FED is charged on shipping agents under section 3 of Federal Excise Act 2005, read with Table II (Excisable Services) of the First Schedule, under PCT heading 9805.1000 at prescribed rate.

However, the revenue body is of the view that the rule 41 of Special Procedure for Excisable Services restricts this levy on commission charged by shipping agents on the net ocean freight amount of cost and freight export cargo only. Therefore, the shipping agents are not paying FED on commission earned on import cargo and other miscellaneous. Keeping this in view, the FBR has therefore proposed to make amendments in sub-rule (2) of Rule 41 through Finance Act to incorporate this levy on export as well as import cargo. Sources further said that if the government imposed 15 percent FED, as said in the proposal, the legitimate revenue would be increased by 50 percent on this account.

According to the proposal, the sub-rule (2) of Rule 41 of Special Procedures for Excisable Services should be substituted as: "every agent shall pay at the rate of 15 percent of the value of excisable services, which shall be the commission charged by an agent for services provided or rendered by him; provided that in case of non-vessel operating common carriers (NVOCC), international freight forwarders, consolidators and slot carriers, FED shall be charged at Rs. 200 per house bill of lading negotiated in the bank, instead of the rate specified above."

### FBR set to Achieve Rs 1,588 Billion Target

The Federal Board of Revenue with Herculean efforts has succeeded in provisionally amassing Rs 1554 billion during July-June 29, 2011 against the target of Rs 1,588 billion, confirming possible achievement of the revenue collection target by June 30, 2011.

Talking to local newspapers, FBR Chairman Salman Siddiq said that the tax machinery has provisionally collected Rs 1554 billion till June 29 and it is expected that the Board will surpass the target assigned by the federal government. The monthly revenue collection in June 2011 stood at Rs 242 billion against the target of Rs 276 billion and the remaining amount of Rs 34 billion would be collected on June 30, 2011.

FBR Chairman further said that the effective enforcement, monitoring and hectic efforts of the field formations has enabled the Board to achieve the desired results during 2010-2011. Salman Siddiq added that the revenue collection target of Rs 1588 billion would be amassed on June 30, 2011 following compilation of final figures from the field formations.

Meanwhile, a senior tax official said that with efficient planning all the Large Taxpayer Units (LTUs) have been able to reach the assigned revenue collection targets for 2010-2011. LTU Lahore has been able to achieve revenue collection target of Rs 110 billion and hopefully it would surpass the assigned target.

The revenue collection target of LTU Islamabad was fixed at Rs 300 billion and around Rs 293 billion has been collected so far. The LTU Islamabad would definitely meet its revenue collection target. The FBR had assigned target of Rs 568 billion to the LTU Karachi. As compared to the target, the LTU Karachi has been able to collect Rs 563 billion and it is expected that the collection would reach Rs 570 billion on June 30. Thus, all LTUs have shown remarkable achievement in revenue collection as per targets assigned by the Board, the official added.

## International Federation of Accountants (IFAC) News

### IFAC issues Exposure Draft on Predictive Business Analytics to help Professional Accountants to anticipate future events and forecast possible outcomes

The Professional Accountants in Business (PAIB) Committee of International Federation of Accountants (IFAC) has issued a new exposure draft titled "Predictive Business Analytics: Forward Looking Measures to Improve Business Performance" that aims to help the professional accountants, working in commerce, industry, financial services, education, and the public and not-for-profit sectors, as well as their organizations, to embrace predictive

analytics to achieve better forward-looking performance insights.

"Predictive business analytics" help professional accountants anticipate future events, forecast possible outcomes, and select actions and decisions to improve the performance of their organizations in response to changing market and industry dynamics. Predictive business analytics is being increasingly used by organizations to make more effective decisions at a strategic and operational level.

The future perception of professional accountants, CFOs and Finance Directors, and of the finance function, will be related strongly to the analytical support provided to decision makers and others. Finance professionals are increasingly expected to have

the capacity to provide decision support as 'business partners' or 'navigators'. As navigators, professional accountants support organizational leaders and managers with information and analysis about the organization's position and course. They contribute to strategic and operational decision making, and ensure that the organization is managed in the long-term interests of stakeholders. In essence, the financial professional needs to contribute towards the organization as a valued business partner. Such capabilities will require a blend of operational experience and a strong use of finance acumen. For more information, please visit [www.ifac.org](http://www.ifac.org)

## IFAC CEO Stresses Need for Transparency in Government Financial Reporting

**M**r. Ian Ball, CEO of IFAC has emphasized the need for transparency in government financial reporting. He noted that many countries are moving towards the adoption of International Public Sector Accounting Standards (IPSAS) or other accrual-based accounting systems. He suggested that unless there is a good public sector specific rationale for a different treatment, an asset, liability, revenue or expense, be accounted for similar to that of private sector.

## International Accounting Standards Board (IASB) News

### IASB Proposes to Amend IAS 19 on Pension and Post-Retirement Benefits Accounting

**T**he International Accounting Standard Board (IASB) has issued a Near Final Draft (NFD) of amendments to its standard on accounting for pensions and other post-retirement benefits (OPEB). The amendments aim to bring major improvements to transparency and comparability of pension obligations. The areas affected by amendments are:

- o recognition of changes in net defined benefit liability (asset) covering immediate recognition of defined benefit cost, disaggregation of defined benefit cost, recognition of re-measurements in other comprehensive income, plan amendments, curtailments and settlements;
- o disclosures about defined benefit plans;
- o accounting for termination benefits covering special benefits provided in exchange for service as well as for employment termination and affect the recognition and measurement of termination benefits;
- o miscellaneous issues such as classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk-sharing etc

### IASB proposes amendments to IAS 1 on Other comprehensive Income presentation

**I**ASB has issued a Near Final Draft (NFD) of amendments to IAS 1 on "Presentation of Financial Statements" in order to change how

components of Other Comprehensive Income (OCI) are presented. The amendments require the entities to group items, presented in OCI, based on whether they are potentially re-classifiable to profit or loss subsequently. The Draft further preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e. either as a single statement of comprehensive income, or separate income statement and a statement of comprehensive income (rather than requiring a single continuous statement).

As per the amendments, tax associated with items that are presented before tax must be shown separately for each of the two groups of OCI items. The amendments are expected to be issued soon and will apply to reporting periods beginning on or after 1st July 2012. For details, please visit the IASB website: [www.ifrs.org](http://www.ifrs.org)

### IASB issues Fair Value Measurement draft

**T**he International Accounting Standards Board (IASB) has issued Near-Final Draft - International Financial Reporting Standard X Fair Value Measurement. This IFRS defines fair value; sets out a single IFRS framework for measuring fair value, and requires disclosures about fair value measurements. For more details about the fair value project, please click <http://www.iasplus.com/agenda/fairvalue.htm>.

The IFRS draft can also be accessible on subscription from the IASB website: <http://eifrs.iasb.org/eifrs/Menu>

## Accounting Bodies Agree on New Designation

**T**he governing bodies of the American Institute of Certified Public Accountants and the Chartered Institute of Management Accountants, headquartered in London agreed on creation of a new professional designation, the Chartered Global Management Accountant, that will be a worldwide standard of professional excellence in management accounting. With approval now given by the AICPA and CIMA councils, the two accounting bodies will create

the new CGMA designation to give management accountancy a higher profile in the US and promote professional development of management accountants across the globe. Backing the new CGMA designation will be an AICPA-CIMA joint venture with international resources and experience in management accounting, business and cultural knowledge, says a press release.

## ICAP News

### CFO Conferences – Karachi and Lahore

**C**ontinuing its tradition of nurturing and supporting leaders, ICAP organized the CFO Conferences on March 22, 2011 at Karachi and April 5, 2011 at Lahore. Keeping in view the emerging

times and role of accountants the theme of the Conference was "Scaling New Heights, Facing New Challenges".

The professionals attending the Conference lauded the speakers and the topics for the Conference. Both the Conferences has an

existing blend of issues crucial to the CFO and provide an immense learning opportunity. Mr. Roger Tabor, Chairman of the Professionals Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) gave a Key note address in Karachi and Dr. Ishrat Hussain, Dean and Director IBA and Mr. Hussain Dawood, Chairman the Dawood Group were the Guests of Honor in the Conference at Lahore.

### CAWF - Chartered Accountants' Women Forum

**A** Chartered Accountants' Women Forum (CAWF) has been constituted. The Forum aims at providing a platform to Women Chartered Accountants to grow together and enhance professional development. All current female members of ICAP have become

members of the Forum at its inception. The Forum, realizing that the future of the profession lies with the students, has offered a non-voting membership to trainee students, which will automatically be converted into a voting membership on their admission as ICAP members.

### All Articles of Pakistan Accountant available on ICAP Website

**T**o facilitate accounting professionals and as a part of the Golden Jubilee Celebration ICAP decided to upload all the articles published in Pakistan Accountant during last 50 years. Articles are available at [www.icap.org.pk](http://www.icap.org.pk) which can be viewed and downloaded by various search options i.e. by article, author and its category.

## ICMAP News

### Establishment of ICMAP Chapter in UAE — Election of Managing Committee

**T**o engage the members in good contact the management of ICMAP has established its first overseas chapter in the UAE. Election of the Managing Committee was held on 20th May, 2011 in a meeting of UAE based members. The Managing Committee in its first meeting held on 24th May, 2011 elected its office bearers. Names and designations of the Managing Committee of the UAE Chapter are as under:

- |                                |               |
|--------------------------------|---------------|
| 1. Mr. Ulfat Rasool (A-2773)   | Chairman      |
| 2. Mr. Amer Hussain (A-3142)   | Vice Chairman |
| 3. Mr. Qaiser Mehmood (A-3481) | Secretary     |
| 4. Mr. Fateh Ali Shah (F-1165) | Treasurer     |
| 5. Mr. Shakeel Haider (A-3546) | Member        |

Mr. Hamid Bashir who coordinated with the members during this event was especially thanked for the coordination rendered by him with the members during this event.

The purpose of the establishment of chapter in the UAE, Members

residing in this part of the world and the Institute will be benefited and it would be a beginning of a new era of the profession of management accounting in the Middle East.

### ICMAP develops Cost Accounting Guideline to assist Fertilizer Companies to maintain cost records

**F**or the purpose of providing guidelines to the Chemical Fertilizer companies engaged in the production of 'Chemical Fertilizers', that the Institute has developed a Cost Accounting Guideline (CAG) for the chemical fertilizer industry to facilitate them in maintaining cost records / accounts in accordance with the requirements of the Companies Cost Accounting Records (General) Order, 2008. It may be noted that the Securities and Exchange Commission of Pakistan (SECP), vide its SRO 371(I)/2011 dated 9<sup>th</sup> May 2011, has deferred the applicability of the above General Order to the companies engaged in Fertilizer, thermal energy, petroleum refining, natural gas and polyester fiber industries.

The General Order shall now be applicable in the next financial year, starting July 1.

## PIPFA News

### Incentive Scheme for PIPFA (Public Sector) Trainees

**I**n order to facilitate the Pakistan Audit Department's employees Auditor-General of Pakistan has started Incentive Scheme for PIPFA (Public Sector) trainees. According to this scheme, such employees after getting permission from Auditor-General of Pakistan, can pursue PIPFA (Public Sector) qualification and can claim reimbursement of the expenditure incurred by them, after qualifying all levels of PIPFA (Public Sector) examination. The regular nomination program will continue as per past practice.

### PIPFA Signed MoU with PTCL

**P**akistan Institute of Public Finance Accountants has signed an MoU with Pakistan Telecommunication Company Limited w.e.f. July 01, 2011. By virtue of this MoU PTCL Management has agreed to provide "Special Discount" on EVO wireless broadband service throughout Pakistan, to esteemed members, students and staff of PIPFA:-

EVO (USB) [Unlimited Package # 1]	Rack Rate (Rs.)	Discounted Rate (Rs.)
USB Cost	4,000	2,000 (50%)
Monthly Line Rent	2,000	1,400 (30%)

**The above discounts are available upto 30th September, 2011 after which the following offer will be available:-**

EVO (USB) [Unlimited Package # 2]	Rack Rate (Rs.)	Discounted Rate (Rs.)
USB Cost	4,000	2,800 (30%)
Monthly Line Rent	2,000	1,400 (30%)

The above facility can be availed on presentation of legitimate identity of PIPFA membership, student or staff + CNIC at listed PTCL Corporate Customer Centre only.

## PIPFA Affairs

### PIPFA organized a Ceremony in the Honour of Past Presidents

**P**IPFA a joint emblem of ICAP, ICMAP and Auditor General of Pakistan setup with an objective to impart professional knowledge of accounting, corporate affairs and taxation to the early stage students who aspire to serve trade and industry in middle management positions.

PIPFA past presidents had a greater role to motivate young students from all walks of life to join the profession and to serve the trade and industry in a benefitting manner. The services of the past presidents for the cause of professional education are very much appreciated.

In recognition of the services of past presidents, PIPFA had organized a ceremony at Lahore and shields were presented at this occasion to the Past Presidents.

### PIPFA's Ceremony at a Glance (In the Honor of Past Presidents)



Mr. Sajid Hussain receiving the award on behalf of Mr. Maqbool.



Mirza Munawar Husain receiving his award



Mr. Fazal Muhammad receiving his award



Mrs. Syed Mujahid Hussain receiving the award on behalf of her husband (Late)



Dr. Turab Haider receiving the award on behalf of Mr. Arif Mansur (Late)



Mr. Faqir Hussain Khan receiving his award



Mr. Khalid Ali Shah receiving his award on his meritorious services as BOG Member PIPFA



Mr. Azam Khan Shad receiving his award



Syed Imtiaz Hussain Bukhari receiving the award on behalf of Mr. Sohail Safdar



### PIPFA Students' Corner

PIPFA started awarding Gold Medals and Merits Certificates to its students in recognition of their outstanding performance from 2008. PIPFA organized a ceremony for awarding gold medals and merit certificates to the students of Winter 2009-10 session at Lahore on April, 03, 2011.



Mr. Ashraf Ali receiving his Gold Medal and Special Certificate of Merit



Mr. Muhammad Uzair receiving his Certificate of Merit



Mr. Abubakar Zubair receiving his Special Certificate of Merit.



Mr. Muhammad Irshad receiving his Certificate of Merit



Mr. Humayoun Ahmed receiving his Certificate of Merit



Mr. Faisal Shahzaad receiving his Certificate of Merit



Group photo of awarded students



A Group photo of the awarding ceremony

### PIPFA's Career Counseling Seminars

PIPFA has stated arranging a series of Career Counseling Seminars in the different cities of Pakistan. In continuation of PIPFA awareness policy a couple of Career Counseling Seminars were arranged in Lahore for awareness of the accountancy profession as another option for students in selecting their career path.







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