

Enron in America, with all the power behind it, has set up an example of accountability and transparency for Pakistan to follow

By Ali Ashraf Khan

Accountability

groups for corrupt practices in America and abroad.

One case in Asia is of manipulating local politicians. Enron launched a joint venture project with US companies General Electric and Bechtel worth \$3bn liquefied natural gas power plant near Bombay in 1992 to produce 2,000 megawatts of electricity and imported LPG from Qatar. As opposition mounted against Enron's Dabhol Power Plant in India, it is reported that the then Clinton administration's key players Energy Secretary Hazel O'Leary and Treasury Secretary Robert Rubin used their influence

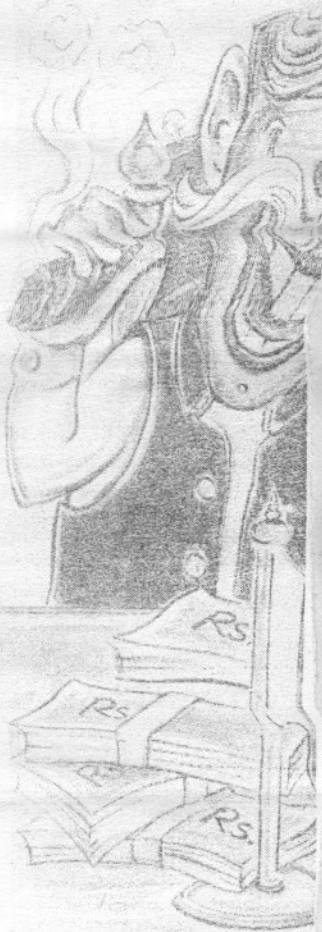
bank management. This money has presumably gone down the drain and has been questioned in these columns. The audit and accounting firm appointed to scrutinise the financial health of the bank only rescheduled the bad debts and imaginary profits were shown in the balance sheet. United Bank Ltd has been paid Rs 21bn by State Bank of Pakistan, and a major chunk of this money is not reflected anywhere in the annual audit reports by the bank's auditors.

The accounting and auditing firms, professionals as they are, owe a sacred duty not only to the country but also to the profession to which they belong to, and to the ethics, which they have been taught. Any deviation from professional ethics call for their disqualification. It is sad that in our country there is no respect or regard for professional ethics in any walk of life.

Independent auditors and accountants are simply treated as employees of their clients who pay fat fees for their unprofessional reports. In the light of the above observations, their reports must be examined again, if necessary by foreign consultants. The banks, thereof, should pay accountants and fees themselves. There is yet another case of NDFC, where the then politically appointed chairman also asked the auditors to mug up his report according to the wishes of the chairman. This accounting firm, when showed its reluctance to this demand, was sacked during the course of audit by the chairman acting beyond his authority. Audit firms are appointed in the Annual General Body meeting and can only be changed by them and not by the chairman acting under his politically inspired authority. Politics and personal considerations should have no place in financial management.

The major problem which has plagued the banking/financial sector in Pakistan is the infected loan portfolios and the nepotism/favouritism exercised in the appointment of senior personnel/CEOs in these institutions. While NDFC was set up in 1973 for financing

Asian Development Bank offered to finance private sector investment but not through PICIC and IDBP. They used NDFC as its conduit, a small insignificant but a solvent organisation. Though NDFC had lines of credit from international financial institutions, it was restricted to lending to the public sector only and there was no provision in its charter, which



could allow it to lend to anyone with government approval. As NDFC had no culture or experience for long-term lending, it added to the collapse NDFC.

One living example of poor management and regulatory control in the banking sector of project-lending by commercial banks is that of Hyatt Regency Hotel built on Railway land

administration

for the project. In 1993 Indian Prime Minister Narasimha Rao overruled objections raised by his own Finance Minister to give sovereign guarantee for both foreign and local investors in the project; while in 1993 World Bank analysts had questioned the economic viability of the project. Since June 2001 the Dabhol Power project of Enron, which is 90% complete, had been on hold over dispute in price of energy. In November 2001, Enron invoked Chapter 11 for declaring bankruptcy, which gave a disastrous blow to its power plant in India.

The main curse of the Enron scandal has been the system of corruption adopted by Arthur Anderson & Company, the auditing and accounting firm responsible for scrutiny of financial affairs, which was involved with Enron's top executives in manipulation, complicity and duplicity of its records.

If this can happen in a developed country like the US, we can imagine what is happening in a developing country like Pakistan. Writers and columnists regarding the affairs in financial institutions in Pakistan have pointed out quite a number of times. Habib Bank Ltd was paid Rs 9bn by State Bank of

The world news from February 1-5 is that daily rallies were taken out and barricades were erected on roads leading to Waldorf-Astoria Hotel in Manhattan area of New York to protest against the World Economic Forum meeting on account of the forum's failure to lay down a system, which could prevent the bankruptcy of large electric power organisations like Enron Corporation. Enron is the seventh largest company of the US, which recently underwent a loss of millions of dollars of the employees' funds which were invested therein; while the interest and investments of its corrupt top executives emerged unscathed having sold-off nearly billion dollars shares a few days before the exposure of the actual health of the company. Enron's dramatic fall from grace has brought to light dirty tricks of American business giants associated with cooking their accounts

Integrity of Administrators and Auditors

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World Bank and Asian Development Bank are also very keen on micro-credit and small and medium enterprise (SMEs). Missionary spirit essentially gives micro-credit. Even commercially, it works up to a limit; although it might bring some results in the beginning in contributing to poverty alleviation, it is never likely to make a significant contribution to

highly questionable, but who can question? When the custodians themselves want tailor-made reports, which only shows every thing is hanky dory, the office bearers only mark time for two years and in playing group politics instead of strengthening its advisory role and positive interaction on economic policies, which is its prime responsibility, to regulate and control the growth and development of trade and industry on sound and viable footings in the country.

One glaring instance of absence of financial and administrative accountability in the apex trade body is that of ETPI project launched five years back with the assistance of the Government of The Netherlands, which participated to the amount of Rs 70m with equal matching amount from the FPCCI. The entire money has been siphoned off in salaries to its managers with no visible results on the ground.

World TV news has shown a film on the disastrous effect of the toxic waste emanating from the industry and freely flowing into the rivers in China. The disastrous effect of this mishandling of the toxic industrial affluent has led to the spread of cancer among the Chinese residing in the area apart from damage to the agricultural land. The Sindh Minister for Environment, Forest & Wildlife is also on record to have said in a workshop recently that the mishandling of toxic industrial waste is leading to salinity in agricultural lands and is a threat to the human population using the produce from these lands. Some other environment projects with financial assistance from the Government of The Netherlands have also met with the same fate at Korangi Trade Association. Textiles Quota audits reconciliation leading to frauds are yet another area of plunder through Trade Associations.

Only rhetorics, seminars and photo sessions are not going to change the fate of the nation and industry. What is needed is not only framing of policies but also to see to it that the policies are implemented in letter and spirit. This is the primary responsibility of any government, its organs and apex trade bodies. Coming

from as it does, from an insider is a gospel truth and can be proved to the hilt beyond any shadow of doubt if investigations are made by a professional who is independent of the control of the apex body and expediencies.

Under our present system the auditors are hand in gloves with the executives of the organisations they are ethically and professionally suppose to protect, but they on the contrary become partners to the loot and plunder by the time serving office bearers and the managing committees, who only come to mark time for their personal interest. Hundreds of complaints are lodged against the unethical practices of Chartered Accountants in Pakistan, but all these complaints presumably go to the dustbin of the Institute of Chartered Accountants because there has not been any single visible sign of any action taken against violators of professional ethics by the Institute or the GoP. This is one of the main reasons of financial disarray in the country. The scandal of Mehran Bank has yet to see the day of light. The Prudential Bank and Indus Bank are on the list of corruption and so was Capital Bank whose sponsor managed to escape to England through Afghanistan.

Banker's Equity Ltd (BEL) which was set up in 1979 as a private limited company with 40% shares holding of the State Bank of Pakistan and 60% by its five nationalised commercial banks, while BEL was suppose to provide equity participation in projects, it was also forced to develop more or less into a lending institution in a fashion similar to other DFIs by the corrupt banking mafia. It was subsequently privatised and has more or less gone out of business. The Chief Executive of the privatised BEL is facing trial and punishment on one count or the other for the last three years, perhaps for not toeing the lines of the banking Mafia.

What have the State Bank of Pakistan and its Governor, Deputy Governors and Directors been doing when the banks under their control were making money? A unique example of saints and scoundrels working in Pakistani Banks, while adage is saints and scoundrels meet in jail.

Employees' Old-Age Benefit Institution (EOBI), which is an organisation, which is for the benefit of old men, women and orphan children, is the latest on the list where a fraud of over a billion rupees has been detected. Every year their balance sheet has been issued signed by the auditors and accountants, its board of trustees. On the face of it, the auditors and accountants have been hand in glove with the executives.

The Director General Finance Siddique Haroon is reported to have committed suicide, while national accountability teams who have investigated the records have so far found no clue to his swindling of trust money. Board of Directors and the Trustees are yet another source of corruption in the public and private sector organisations, which are practically ruled and advised by the professional accountants, auditors and legal advisors.

It is time now that there must be some tangible amendments to evolve transparent accountability in company laws to curb the powers enjoyed by the members of the Board of Directors, who not only misuse public money but also evade taxes and questionably transgress the authority vested in them for their own benefit and not in the interest of the organisation.

For the last ten years every government has been harping the tune of revival of economy. The economic condition at the moment is that nearly 4,000 industrial units are closed, nearly 200 crores of rupees are outstanding bank loans with no visible sign of recovery. Hundreds of thousands of educated and skilled Pakistanis are unemployed. That being so, it hardly justifies the employment of foreigners on fabulous salaries and perks, while there is no dearth of talent in Pakistan.

The requirement is to inculcate transparency in our system of working in each and every institution without which we have no chance for survival, what to talk of revival of economy. Enron in America, with all the power behind it, has set up an example of accountability and transparency for Pakistan to follow.



growth as it has to walk on a very tight rope between conservation and indiscriminate lending due to political and personal expediency, which will be very popular but soon acquire a defaulting portfolio.

While playing for power politics, the slogan of SMEs remains to be an excellent PR gambit. Then there is an apex trade body of trade and industry in Pakistan, the FPCCI. Its audit reports for the last ten years are