

PKF

Accountants &
business advisers

Newsletter

Building value for growing businesses



Two Sides of the Story; GAAP and
IFRS Still Differences!!

Current Economic Crisis -- Accounting
and Auditing Considerations...

Detecting Fraud in Your
Organization...

A Quarterly Publication by PKF ProGroup
www.pkf.jo

PRO
GROUP
CONSULTING



Panic?

From the Worldwide Economic Crisis...

Quarter 4, December 2008, Volume 12

Direct Tel +962 6 5621322
Direct Fax +962 6 5606344
P.O. Box 928575
Amman 11190 Jordan
Address: PKF ProGroup - Jaber Ben Hayyan Street - Shmeisani
Amman - Jordan

PKF ProGroup is a member of PKF International Limited, an association of legally independent member firms which does not accept any responsibility or liability for the actions or inactions on the part of any individual member firm or firms. Individual member firms do not accept responsibility or liability for actions or inactions on the part of any other individual member firm or firms.

INSIDE THIS ISSUE...



From the Editor's Desk.....4

Welcoming note and new year's greetings



Financial Crisis.....4

Worldwide Financial Crisis and Jordan Stance...



IFRS.....6

IFRS Developments and Updates



GAZA.....6

PKF ProGroup prayer for GAZA



PKF Conference in Vienna.....7

PKF ProGroup Participation in PKF Int. Conference



Business with CHERY Jordan Ltd.....7

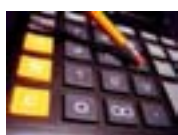
PKF ProGroup Business Relationship with CHERY

INSIDE THIS ISSUE...



ASEZA.....7

PKF ProGroup Business Relationship with ASEZA



Economic Crisis - Accounting & Auditing Considerations.....8

Current Economic Crisis



Two Sides of the Story.....8

Two sides of the story, GAAP & IFRS Still Differences



PKF ProGroup Agreements in the Region9

PKF ProGroup Agreements with *SIRAJ Capital (Dubai) Ltd.* and *First Education Holding W.L.L.*



Gaining Buy-In Procedures.....10

Getting people to believe that having, following, and maintaining procedures is important



FRAUD.....11

Tips for detecting Fraud in your Organization

FROM THE EDITOR'S DESK

Last year has been a busy year and full of achievements for PKF ProGroup.

As the year 2009 starts, PKF ProGroup (Khattab & Co.) Management and Team would like to seize this precious opportunity and sincere appreciation to thank and express our gratitude for all our valuable clients for the trust they have in our Professional Services and the chance offered to establish / extend the business relationship between us, the matter that broadened our client database with reputable references locally, regionally and internationally.

Hope the New Year will bring you Joy, Success and Prosperity

WORLDWIDE FINANCIAL CRISIS AND JORDAN STANCE...

Falling housing prices, crashing stock markets, contracting credit: Even the experts seem bewildered by the current **Economic Crisis**. Quantitative analysts (quants)—the whiz-kid financial engineers whose algorithms have dominated Wall Street trading in recent years—have watched those algorithms fail. Former Federal Reserve Chair Alan Greenspan acknowledged in October that there was “a flaw in the model that I perceived ... defines how the world works.” U.S. Treasury Secretary Henry Paulson flip-flops about the most effective way to spend an increasingly inadequate-seeming \$700 billion of taxpayer money.

How could the experts be at such a loss?

“One of the biggest factors in the current crisis is human behavior,” says Andrew Lo, a financial economist at MIT Sloan School of Management in Cambridge, Massachusetts.

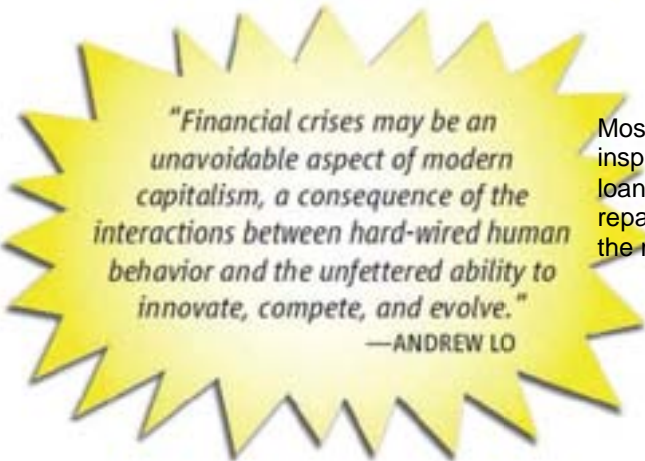
However, the classical theory of finance simply does not address human psychology. It looks more like a physical science than a social science—relying on the premises that markets are “efficient,” immediately reflecting new information, and investors are “rational,” always acting in their self-interest.

Although industry and regulators don't adopt classical finance theory wholesale, its assumptions underlie many of their choices.

Most of the time, classical finance theory works very well—and there's the rub. Lo compares it to Newtonian gravitation. During normal circumstances, people are generally rational, and the theory describes observed reality quite well. But in extreme circumstances—such as the past months for our economy—people panic, and the theory fails. Is a grander, general relativity-like theory of finance in reach? Lo says it is. Others, such as Jeffrey Wurgler, a financial economist at New York University's (NYU's) Stern School of Business, say the effort would be more like searching for a financial “string theory, which is unbelievably more complicated”—and possibly futile.

What Went Wrong ???

Most accounts of the current financial crisis begin earlier this decade, when, inspired by the booming real estate market, mortgage lenders started giving loans to just about anyone who asked for one. Those loans got bundled and repackaged many times into risk-obscuring financial instruments, such as the now-infamous collateralized debt obligations (CDOs).



“Financial crises may be an unavoidable aspect of modern capitalism, a consequence of the interactions between hard-wired human behavior and the unfettered ability to innovate, compete, and evolve.”
—ANDREW LO

Through the unregulated “shadow banking system,” these instruments ended up in the portfolios of nearly every bank and financial firm around the world. Because of the lack of regulation, members of this shadow system habitually borrowed dozens of times their own worth in cash—a debt that would be perilous if their bets didn’t pan out. And that’s what happened when the real estate market, and thus the CDOs, turned sour. The losses surged through the world economy. Many firms—and, in some cases, their associated commercial banks—couldn’t stay above water. Not knowing who would fail next, banks stopped lending, leading to further failures. To raise money, investors were forced to sell perfectly good stocks, causing stock prices to fall. “It’s a very complicated system that’s malfunctioning,” says Yale University Economist Robert Shiller.

Blame has fallen on quants for various aspects of the crisis. First, mathematical models were increasingly used to determine very little sound credit judgment going into making these credit calls,” says Bjorn Flesaker, a senior quant at Bloomberg in New York. Then, quant models were used to rate the riskiness of financial instruments, including the CDOs. “We never necessarily viewed the rating agencies as having the greatest rocket scientists around,” says Flesaker, yet investors accepted those ratings, taking on more risk than even they realized. Finally, Value at Risk models claimed to tell trading departments of Wall Street companies the maximum loss they could expect to see on any day and therefore how much money they needed on hand to avoid total collapse. These models were “the wink-and-a-nod of Wall Street,” says financial engineer Lee Maclin of NYU. Risk managers should have known to use common sense, but, in some cases, Maclin says, “the models were used to justify a bigger appetite for risk.”



Ultimately, experts must examine human behavior to find out why the crisis happened. Why did so many people take on mortgages that they would not be able to pay? Why did the best minds of Wall Street ignore warnings about a housing bubble?

“The bottom-line question that economists, I think, still are struggling with is: ‘Did anybody know that the risks were so great and, if so, why did they continue investing?’” says Lo. “I don’t think they have an answer for that.”

“Author: Chelsea Wald – Published by AAAS”



His Majesty King Abdullah II outlined the policies, reform programs and precautionary measures Jordan has taken to ease the impact of the global economic crisis on its national economy.

His Majesty said in a speech delivered by Prime Minister Nader Dahabi at the UN-sponsored International Conference on Financing for Development held in Doha, that openness, foreign trade policy and the involvement of Jordan in the world trade and economic system, are the bases that enabled the Kingdom to increase its national exports. The king urged the international community to intensify efforts to address economic challenges facing developing countries. He said that poverty and unemployment levels in these countries are expected to increase, adding that the middle class is now threatened by degradation to poverty levels.

His Majesty warned that the situation will deteriorate further unless suitable measures are taken especially after it became difficult to achieve world economic balance. The King called on world leaders to shoulder their responsibilities to ease the impact of the financial crisis and renew confidence in the global financial system.

Moreover; Prime Minister Nader Dahabi said that Jordan is not affected by the global financial crisis to the same degree experienced in major economies, however; this does not mean that we are not isolated from the negative impact of the global financial crisis. The Government is constantly on alert and is closely following up on external developments that might impact the Kingdom’s national economy.

“Source: UN-sponsored International Conference on Financing for Development held in Doha”

IFRS UPDATE

IFRS 8 *Operating Segments* was issued by the International Accounting Standards Board (IASB) on 30 November 2006, replacing IAS 14 Segment Reporting. **It is mandatory for years commencing on or after 1 January 2009, with earlier adoption permitted.**



The Main Changes summarized are as follows :-

Identification of Segments:- IFRS 8 defines operating segments by direct reference to the form of Internal Reporting and includes segments that transact solely with other segments of the entity.

Measurements Principles:- IFRS 8 requires that the amounts disclosed be the actual amounts reported to the "Chief Operating Decision Maker CODM".

Segmental Disclosures:- IFRS 8 requires the following disclosures for reportable segments:

- A measure of segment profit or loss as reported to the CODM, with specified line items if included in the measure reported or if they are separately reported to eth CODM.
- A measure of segment assets as reported to the CODM, with specified line items if included in the measure reported or if they are separately reported to eth CODM.
- A measure of segment liability but only if this measure is regularly reported to the CODM.
- General Information on how the segments are identified and the types of products or services applied by each segment.
- Reconciliations of total amounts reported for all segments to the amounts in the financial statements.

Entity-Wide Disclosures:- The following entity-wide disclosures are required, even if the entity has only one reportable segment:

- Revenues from external customers for each product or service or group of products or services.
- Revenues and certain assets by geographical area, including individual countries if material.
- The amount of revenue by customer, and the segments in which it is reported, for each customer that provides more than 10% of total revenue. The name of eth customer (s) is not required.

Summary

IFRS 8 represents a significant shift in the approach to segment reporting. In anticipation of adoption, preparers of financial statements must ensure systems are in place to capture the amounts reported to the CODM. *"Source: Conference held in Vienna by PKF International Ltd."*



PKF ProGroup Prayer for GAZA !!!

Amid the violence and massacre held currently in GAZA; PKF ProGroup expresses its "deep concern, regret and shock" over the war now raging.

God of all creation, you who are so bound to humankind that you feel the joys that complete us and the sorrows that rend us; you have commanded us to love our neighbors as ourselves; yet throughout our world we see horrifying examples of our failure to love as you command.

In the land made holy by the prophets and the birth of Christ, an insane cycle of rocket attacks and air bombardment has left hundreds of your children dead and wounded.



PKF PROGROUP PARTICIPATES IN PKF INTERNATIONAL AUDIT & ACCOUNTING CONFERENCE HELD IN VIENNA

PKF ProGroup Managing Director attended an Audit Conference in VIENNA from Sunday 23rd November – Wednesday 26th November 2008 in the Radisson SAS Palais.

All PKF Member Firms has attended the conference which focused on both professional and business aspects of auditing.

The conference included the following sessions:

- Developments around the world in PKF International
- Major new Audit business
- A PKF's approach to group audits
- Enhancing the profit made from Audit work
- Developments in PKF International Audit and Financial Reporting resources
- IFRS Developments (including global spread of IFRS)
- An Audit approach to small and medium sized enterprises.

As usual; PKF ProGroup seeks to continuously be updated with all developments and standards of PKF International and constantly interact and enhance its relationships with the other PKF Member Firms.



PKF ProGroup continuously strives to reach success and to add value even when it ultimately touches local economic improvements. Accordingly PKF ProGroup had the opportunity to render professional services to the “Aqaba Specialized Economic Zone (ASEZ) through signing an agreement with the Aqaba Specialized Economic Zone Authority (ASEZA) and in cooperation with USAID –ACED Program.

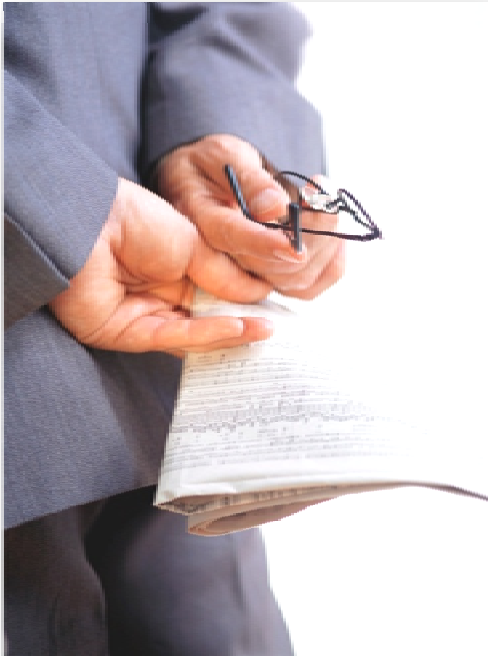
The objective of the assignment is to identify sources and strategic alternatives that would enhance revenues of in terms of all aspects, in addition to recommending key categories on which to base a sustainable revenue diversification strategy considering that these suggestions and recommendations will not affect neither social nor environmental life conditions of Aqaba in order to reach the best results.

BUSINESS RELATIONSHIP WITH CHERY JORDAN LTD.

PKF ProGroup has successfully completed the assignment undertaken for CHERY Jordan Ltd. in developing a Comprehensive ERP Systems Requirements and a fully integrated Financial and Accounting Policies and Procedures (System) which aim at documenting all policies, procedures and business processes governing the core activities of CHERY; and which serves as a foundation for a system of internal control, guidance in current financial activities, and criteria for decisions on appropriate accounting treatments.

Once the Financial and Accounting System was developed and approved; an *implementation phase* was undertaken for a period of Four Months in order to assist the Company Management and Financial Officers in specific in implementing the approved System in consistency with the Accounting System implemented through a stepped approach to introducing, communicating and implementing the Financial Policies and Procedures, thus enhancing change and **added value**.





CURRENT ECONOMIC CRISIS - ACCOUNTING AND AUDITING CONSIDERATIONS – AUDIT RISK ALERT

The U.S. economy is experiencing a great amount of instability. During 2008 and into 2009 deteriorating economic conditions and increased government intervention continues. The economic crisis undoubtedly is affecting both financial statement preparers and the auditors engaged to audit their financial statements. Few, if any, industries are immune to the affects of the crisis. This Audit Risk Alert focuses on the current economic crisis, legislative and regulatory actions taken to curtail the crises, and accounting and auditing issues arising as a result of these events. These tough economic times have made accounting for transactions and auditing entities more challenging than ever and this alert is an important tool in helping you identify the significant risks that may result in the material misstatement of financial statements. This alert can also be used by an entity's internal management to address areas of audit concern during these challenging and grave economic times.

The alert covers issues arising from the economic crisis including:

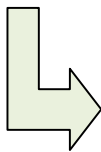
- Fair value accounting considerations including measurements of fair value in illiquid markets and auditing those fair value measurements
- Other than temporary impairment issues
- Auditing accounting estimates
- Liquidity considerations
- Going concern considerations
- Fraud considerations.

“Source: AICPA - CPA2Biz Inc.”

TWO SIDES OF THE STORY GAAP AND IFRS, STILL DIFFERENCES

Great strides have been made by the FASB and the IASB to converge the content of IFRS and U.S. GAAP. The goal is that by the time the Securities and Exchange Commission allows or mandates the use of IFRS for U.S. publicly traded companies, most or all of the key differences will have been resolved.

Because of these ongoing convergence projects, the extent of the specific differences between IFRS and U.S. GAAP is shrinking. Yet significant differences do remain.



For example:

- IFRS does not permit Last In First Out (LIFO) as an inventory costing method.
- IFRS uses a single-step method for impairment write-downs rather than the two-step method used in U.S. GAAP, making write-downs more likely.
- IFRS has a different probability threshold and measurement objective for contingencies.
- IFRS does not permit curing debt covenant violations after year-end.
- IFRS guidance regarding revenue recognition is less extensive than GAAP and contains relatively little industry-specific instruction.

Perhaps the greatest difference between IFRS and U.S. GAAP is that IFRS provides much less overall detail. As an example, IFRS fit into one book, about two inches thick while the three FASB paperbacks of pronouncements plus the paperback version of the FASB Emerging Issues Task Force consensus measures about nine inches thick, and that doesn't include all of the authoritative literature.

“Source: AICPA - CPA2Biz Inc”



SIRAJ CAPITAL



PKF ProGroup AGREEMENTS IN THE REGION...



AGREEMENT WITH SIRAJ CAPITAL (DUBAI) LTD.

PKF ProGroup had the opportunity to sign an Agreement with *SIRAJ Capital (Dubai) Ltd.* for the purpose of conducting Comprehensive **Due Diligence** for the impending acquisition of a Company located in Jordan; in addition to conducting Financial Analysis for the acquisition of another Company located in KSA.

The main objective of the Due Diligence Report furnished by PKF ProGroup to SIRAJ Capital on a confidential basis, was to accumulate the facts and assemble the appropriate financial and non financial information to support SIRAJ Capital (Dubai) Ltd. critical decision-making regarding the impending acquisitions of both the Companies; thereby ensuring a well-executed acquisition process and increasing the chances of the acquisition's success.

SIRAJ Capital Limited ("SIRAJ") is an investment company registered in Jersey (Channel Islands, UK) specialized in developing, sponsoring, and launching innovative investment funds/vehicles, and fund arranging and structuring for investment opportunities in the Gulf Cooperation Council (GCC) member countries, the Middle East and North Africa (MENA). SIRAJ has additional subsidiaries in the DIFC (Dubai, UAE) and Saudi Arabia., and is an affiliate of the Jeddah, Saudi Arabia based Ghassan Ahmad Al Sulaiman Development Company.



AGREEMENT WITH FIRST EDUCATION HOLDING W.L.L

PKF ProGroup had the opportunity to sign an Agreement with *First Education Holding W.L.L., a Holding Company managed by Addax Education Holding W.L.L.* for the purpose of conducting Financial **Due Diligence** for the impending acquisition of a Company located in Jordan.

The main objective of the Due Diligence Report developed by PKF ProGroup was to accumulate the facts and assemble the appropriate financial information to support FEH critical decision-making. In conducting the Financial Due Diligence, we have investigated events and conditions which may affect the Company, and helped identify "soft spots" and potential issues that may impact deal negotiations. We have also focused on the early identification of hidden problems that could be "deal-breakers".

GAINING BUY-IN PROCEDURES – GET PEOPLE TO BELIEVE

What do we mean by buy-in? Basically, buy-in is getting people to *believe*. In the context of procedures, buy-in is getting people to believe that having, following, and maintaining procedures is good and important for the organization as well as for their department and them individually.

If they believe the procedure is necessary and helpful, as opposed to just another pointless and burdensome exercise in bureaucratic futility, then the odds of them accepting the procedure as part of their work life will be exponentially enhanced.

Clear communication and training are part of gaining acceptance. Too often documents like procedures fall from the sky with little explanation, and then organizational leaders wonder about the lack of awareness or commitment to following procedures.

We know that explaining why the procedure is necessary is one part of gaining acceptance. Getting buy-in is a key facet of communication about the procedure.

The Formula for Gaining Buy-In

As mentioned above, buy-in is about getting people to believe. Another way to think of buy-in, however, is gaining their understanding, commitment, and action in support of a goal. Dictating actions may work in the short term, but it will rarely result in long term change. As soon as the attention or spotlight is elsewhere, they will return to their old ways of doing things. Long term change happens when people believe in it.

There is a basic formula that can at least be a starting point for gaining buy-in:

**Dissatisfaction + Vision + First Steps >
Resistance to Change**

When you overcome resistance to change, then you have conquered a very big obstacle - they are willing to embrace something different, and that goes against the nature of most us.

“Source: BizManualz”

Identifying Dissatisfaction Takes Effort

We have mentioned the importance of explaining why procedures are needed. One element of that should be how the procedure is going to help solve some of their problems. For example, with a documented process there should be less doubt and confusion. A clear, defined path is written down for them. Finding and using dissatisfaction, however, is very situational. You have to put in the effort of talking, and especially listening, to people in order to understand what they are dissatisfied about. Then you have figure out the role of a procedure in resolving it.

The Importance of Vision

One reason we fear change is that it means the future is less certain. Uncertainty leads to stress and confusion. What we are currently doing is familiar and comfortable. Changes take these comforting elements away. Expressing a clear vision of a positive future is an important element of buy-in.

A vision of a positive future must include a positive future for everyone. For example, streamlining a process in a way that leads to cuts in staff is not expressing a positive future for those potentially facing pink slips. Express a positive vision for only a select few and your effort to gain buy-in will certainly fail. A vision, however, of a growing, successful organization that is inclusive and provides opportunities for advancement is another story.

Okay; But What Are You Supposed to Do?

A vision without first steps usually leads to frustration. Talking about a glorious future without any concrete details of what you want them to do can leave people bewildered and anxious. On the other hand, laying out lengthy, detailed plans for the long term can be overwhelming, so they end up doing nothing. The idea is to tell them what they need to do today, tomorrow, and next week without confusing them with too many details about next year or five years from now. They need to know some concrete first steps they should take.

Conversely, first steps without a clear vision usually leads to false starts and flavor of the months programs that end up leaving the staff discouraged and wary of change.



DETECTING FRAUD IN YOUR ORGANIZATION

Eight simple tactics for catching a thief.

No one likes to think their employees will steal from them. But the fact remains that the most likely culprit is one of your long-term, trusted employees. Most accounting professionals will experience fraud in their organizations at some point in their careers. Some will be unfortunate enough to have it happen more than once. While it is never possible to completely eliminate fraud, there are best practice strategies that your organization can put in place to detect it early before it gets out of hand.

Best Practice Tips

Here are some techniques your company can use to uncover fraud:

- **Install an anonymous hotline.** A hotline provides a mechanism for employees to report something that doesn't look right without getting personally involved.

*"Source: AICPA - CPA2Biz Inc.,
Author : Mary Schaeffer "*

The Association of Certified Fraud Examiners (ACFE) reports that over one-third of all frauds are uncovered by a tip. Sure, some discontented staff member may use the hotline to cause trouble for another employee, but the odds are high a good portion of those tips will be legit. An even better reason to have this installed is to lower your losses when a fraud does occur.

- **Surprise audits.** The internal audit function should have the authority to go in and audit any group without advance notice. This could be in reaction to an anonymous tip or as part of its regular rotation. This is especially important whenever cash is involved, as in petty cash box.
- **Run your employees' addresses against the address file of your vendors in the master vendor file.** Any matches should be investigated. There are legitimate reasons why there may be a match, but generally these are limited. Make sure you make adjustments if your traveling employees are included in the master vendor file.
- **Create a *Changes to the Master Vendor File Report* and have it reviewed by a senior executive.** It should be run periodically as appropriate for your activity, either weekly or monthly. Its purpose is to identify any unusual or potentially fraudulent activity.
- **Do background checks on any employee handling money.** Someone who has committed fraud before is likely to repeat it, especially if the individual is having personal financial difficulty.
- **Vendor applications should be required and reviewed in accounts payable or somewhere outside the department recommending the new vendor.** The review can be cursory; simply checking to make sure the vendor exists on public records is a control to ensure an employee isn't setting up a fraudulent vendor.
- **Employ the "eyeball test" when it comes to reviewing data.** Train your employees to take a step back and look at the data objectively. Does it make sense?
- **Set up responsibilities employing appropriate segregation of duties.** Sometimes when a new function or process is put in place, the segregation issue is completely overlooked. Occasionally, a company employs perfect segregation of duties and then ruins it by giving one person access to everything —usually a Manager responsible for the function.



PKF ProGroup, member firm of PKF International, is a regional, multidisciplinary consulting firm with industry specific services. PKF ProGroup offers outstanding opportunities, by providing international standard based services, to dramatically position its clients as pioneers in a rapidly growing business environment. PKF ProGroup plays a major role in business advisory within diverse industries, including auditing, quality assurance and consulting services.



Areas of Experience include finance, taxation, marketing, quality assurance, human resource development, investment, legal, insurance, technology, information management and strategic planning. PKF ProGroup also initiates an added value component where integration, consistency and reliability are effectively enforced. PKF ProGroup high quality services help its clients identify their business needs, improve, excel, cope with business fluctuations and accomplish their anticipated goals.

PKF International is a worldwide association of legally independent firms, comprising of over 400 member firms in 200 countries. As member firm of PKF International, we share the same commitment: high quality, partner-led services tailored to each client's requirements and grounded in local knowledge. At the same time, membership of the network allows the sharing of knowledge, experience and skills that is so vital for our clients who do business in more than one country.

Our Vision:

To be number one preference for companies in their selection of professional advisors.

Our Mission:

To assist our valuable clients upgrade their business performance and **efficiency and help** them gain competitive advantage for their business to succeed and excel.

CONTACT US:

Direct Tel: +962 6 5695442/3
 Direct Fax : +962 6 5606344
 P.O. Box: 928575
 Amman 11190 Jordan
 Website: www.pkf.jo
 Email: info@pkf.jo
 Address: PKF ProGroup- Jaber Ben Hayyan Street - Shmeisani
 Amman - Jordan.