

SMART BOOKKEEPING CRUCIAL AFTER THE DELUGE: PWC

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THE NATION

Companies should state clearly in their books how they were affected by the flooding to make their financial statements practical for use by investors, auditors or the general public, PricewaterhouseCoopers, one of world's big four accounting firms, said yesterday.

Accountants should also not take an overly negative view of the one-off event.

Accountants were blamed for their negative opinions on businesses in the aftermath of the 1997 financial crisis. They now should use more caution in evaluating counterparties' positions, Prasarn Chuaphanich, executive chairman of PwC Thailand, told a seminar.

"Accountants should not be too concerned about debt repayment by their clients that were hit hard by the flood," he said.

They should also consider the economic outlook. The country is expected to bounce back from the severe flooding and this would help their clients' business.

At the macro level, the Bank of Thailand has projected that investment will recover in the second quarter of next year. The World Bank also predicted higher economic growth next year due to post-flood reconstruction, which will lead to more investment and other economic activities, Prasarn said.

Charchai Chaiprasit, a PwC partner, said firms should isolate the flood factor affecting their business. Many firms would face financial losses this year due to the rising cost of recovering from flood damage and the loss of business opportunities. But their financial results would jump next year from a very low base this year.

Separating out the flood factor would let flood-affected companies show their real business results, and that would help other parties such as investors, auditors, tax officials and the public assess the financial

position of the companies, he said.

Firms will also have to negotiate with insurers over claim settlements. Foreign insurers in particular may not be willing to pay claims in full as they would argue that the damage was caused by mismanagement of the government, not by an "act of God" as stated in their contracts.

They could refer to news reports and political debates in Parliament blaming the government for mismanagement of the flood situation, which led to more severe damage than the flood itself, Charchai said.

Even if insurers agree to pay, it will take about a year before the actual cheque arrives, he added.

Valaiporn Tawelappontong, another partner, said new types of insurance might be popular next year.

"Firms and households may want to buy all-risk coverage, but the premiums are expected to be high," she said.

The government, institutions and companies might be more interested in learning about "business continuity management" (BCM), which is part of risk management.

BCM will offer guidelines on how institutions or companies can draw up their own plans to deal with uncertainty in the future. For example, firms may need to arrange in advance more suppliers for raw materials in case their existing suppliers run into trouble, Valaiporn said.

Thavorn Rujivanarom, the lead PwC Thailand tax partner, called for the Revenue Department to make clear rules for taxation in case firms get partial insurance payments and they also spend money on flood prevention. The question is how much tax allowance they could get for flood-prevention spending.

The department should also give more tax breaks to those who donate money to flood victims, as the Japanese government does, he said.