ACCOUNTABILITY, TRANSPARENCY & ETHICAL NORMS - Good Practices

I would argue that the nature of modern economics has been substantially impoverished by the distance that has grown between economics and ethics.

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1. ETHICAL & SOCIAL PRACTICES

Ethics also called MORAL PHILOSOPHY, the discipline concerned with what is morally good and bad, right and wrong. The term is also applied to any system or theory of moral values or principles.

How should we live? Shall we aim at happiness or at knowledge, virtue, or the creation of beautiful objects? If we choose happiness, will it be our own or the happiness of all? And what of the more particular questions that face us: Is it right to be dishonest in a good cause? Can we justify living in opulence while elsewhere in the world people are starving? If conscripted to fight in a war we do not support, should we disobey the law? What are our obligations to the other creatures with whom we share this planet and to the generations of humans who will come after us?

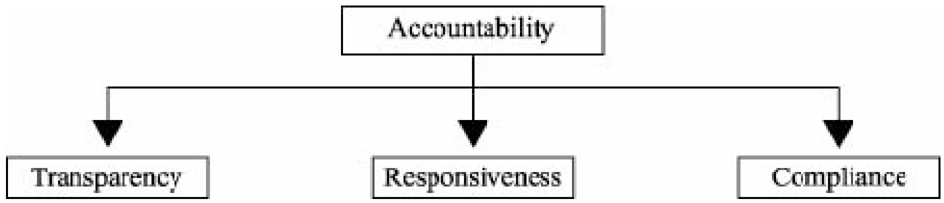
Ethics deals with such questions at all levels. Its subject consists of the fundamental issues of practical decision making, and its major concerns include the nature of ultimate value and the standards by which human actions can be judged right or wrong.

The term ethical and social characteristics or virtues of an individual or an organisation can have different connotations, for instance The Institute of Social & Ethical Accountability, London recognises different traditions of organisational and individual behaviour on social and ethical issues :

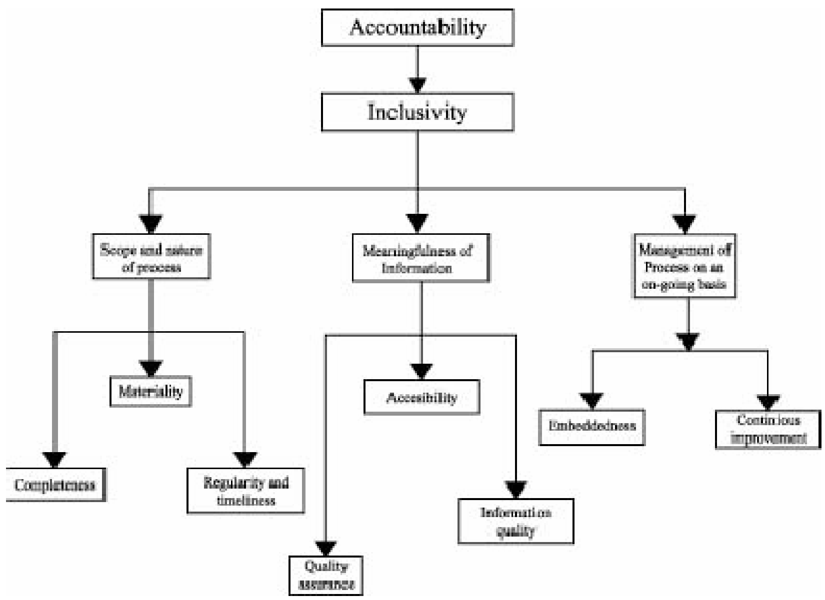
“The terms ethical and social have a number of theoretical and practical traditions in organisational accountability. For some, ethical (or ethics) refers to an organisation’s systems and the behaviour of individuals within the organisation, whereas social refers to the impacts of the organisation’s behaviour on its stakeholders, both internal and external. For others, ethical embraces both the systems and individual behaviour within an organisation, and the impacts of the systems and behaviour-on stakeholders, on the environment, on the economy etc.”

2. ACCOUNTABILITY

Accountability is the ownership undertaken by an individual or an organisation for acts, omissions, risks and dependencies for which one is responsible to various stakeholders. The two flow charts depict the dynamics and the alchemy of accountability. Transparency, responsiveness and compliance are the 3 wings of accountability. Transparency implies sharing of processes and informations across the stakeholders. Responsiveness implies owning responsibility for acts, omissions and processes and infusing continuous improvement in the systems and processes. Compliance concerns the duty to comply with agreed standards of practice and policies and also statutory requirements.



The 2nd flow chart depicts the principle of inclusivity which means that at all stages of social and ethical accounting, auditing and reporting process the aspirations and needs of all stakeholder groups-who are affected or likely to be affected by the organisation and its activity-are taken care of. The principle of inclusivity requires consideration of various voices including the concerns of the 'voiceless' stakeholders.



3. Factors affecting independence of Auditor

The ethics committee of International Federation of Accountants (IFAC) has issued in January, 2002, a new independence standard as a part of its code of ethics. Independence of auditor is considered as a crucial factor in determination of the quality of audit. The factors which can affect the independence are as under:

- Self interest
- Self review
- Advocacy
- Intimidation

A direct financial interest in a client would create a self-interest threat.

Preparation of the original data used to generate financial statements would create a self-review threat.

Acting as an advocate on behalf of an audit client in litigation would create an advocacy threat.

A member of the audit team having an immediate family member who is a director of the audit client would create a familiarity threat.

Threat of replacement of the auditor over a disagreement would create an intimidation threat.

Further certain activities which the auditor should refrain from undertaking are

- Authorising, executing or consummating a transaction on behalf of the client or having the authority to do so.
- Determining which recommendation should be implemented.
- Reporting, in a management role, to those charged with governance.
- Valuation of matters material to the financial statments which involve a significant degree of subjectivity.

4. SARBANES - OXLEY ACT (SOA) & PEER REVIEW

SOA came in the aftermath of the Worldcom and Enron debacle. This act requires CEOs/CFOs to swear infront of a notary that to the best of their knowledge, the latest annual reports, neither contain any untrue statement, nor do they omit any material fact. SOA has banned subsidised personal loans to top executives, it has also debarred external auditors from assuming the self defeating role of internal auditors. The audit firms have to rotate the audit partner and the auditor can no longer offer non-audit services to its clients. A 5 member board has been constituted to oversee the accounting profession which comes as a setback to the self regulation and independence of the auditors in general.

5. Perceptions and Shifting Paradigms of Consultancy

In India normally finance consultant especially in the development sector implies a Chartered Accountant. I would like to remind you all of the fundamental theme of The Institute of Chartered Accountants of India which is “Aiy Ewam Supteshu Jagriti” the meaning of this statement taken from Upanishads is that the one who is alert and awake even while sleeping.

This slogan is not meant to languish unnoticed on the logo and banners of The Institute of Chartered Accountants of India. It is something which a finance consultant should aspire for consistently i.e., trying to comprehend all the subtle nuances and implications of financial transactions.

When we talk about perceptions and common understanding, a feeling generally creeps in that we would be discussing something truistic and obvious. But the problem with the state of our civilisation and consequently the financial and legal structure is so complicated that it becomes very difficult to add simple notions.

In view of the radical changes in the financial environment the traditional Balance Sheet which we prepare at times seems to be a redundant and notional statement. For instances

- the market capitalisation of various software companies
- the astronomical prices of transfer of various companies
- the book value of various metropolitan properties
- non-reflection of human assets etc.

Such facts about our financial recording systems impose tremendous pressure on the finance consultants and more so in the development sector where we deal in the miseries of the mankind in general. Therefore it is of paramount importance on the part of finance consultant to possess the skills and understanding to take into account those factors of our existence which our traditional methods and reports fail to convey.

6. Going Beyond Accounts, Facts and Figures

I am reminded of a beautiful observation by an anonymous person “while we enjoyed the woods the view of the forest was lost”. In our obsession to maintain compliance and accountability at times we tend to waver away from the purpose and objectives for which we are working.

Few probable reasons of the inadequacies of our financial system as they exist today could be as follows:

- all our accounting norms and financial regulations are general in nature. We do not have any specialised development sector accounting or financial modes of operations
- we fail to account for the varying value of money in its downstream journey to the grassroots
- our existing financial systems fail to account for various enduring aspects of development
- above all, the world is changing at a radically fast pace and we have failed in evolving and attuning ourselves with the realities of the day

The World Development Report, 2001 issued by the World Bank cites various dimensions of poverty. It further stresses on the fact that if we do not understand the various causes and dimensions of poverty our eradication initiatives would not become effective. To understand the determinants of poverty and all its dimensions, one way is to think in terms of people's assets, the return and the volatility of return on these assets. The report classifies five kind of assets:

- Human Assets
- Natural Assets

- Physical Assets
- Financial Assets
- Social Assets

I am afraid how many of these assets find a reflection in our Books of Accounts inspite of the fact that they are the determining factors of livelihood of the underprivileged.

The report further states that the return on these assets to the poor depends not just on the behaviour of the market but also on the performance of the institutions of the state. The institutions of the state also includes NGOs and therefore all other concerned persons and agencies.

The managing director of Infosys Limited Mr. Narayanmurthy once observed that “all my assets walk away in the evening and my greatest nightmare is what if they do not come back in the morning”.

Hypothetically have we ever thought the consequences of such improbable possibilities. What if:

- all the persons of an organisation do not join the next morning .
- all the access to infrastructure such as road, flights, trains, electricity, water, telephone, social security are withdrawn from a particular organisation.
- all the associated organisations, the suppliers, the customers, the beneficiaries, the consultants etc., withdraw their co-operation.

Ironically in any or all of such eventualities our Income and Expenditure Account and Balance Sheet would not be affected or would be very marginally affected. In our financial existence we take a lot of things for granted. Therefore I believe that our systems are evolving and we have a lot to do to avoid cynicism of our posterity.

Our financial systems have their specific parameters and we have to perform within the structures. The instant discussions are not meant to initiate overnight changes but it is imperative to have an awareness of our shortcomings and myopic viewpoints. In the development sector when we address to the needs of the underprivileged we are dealing with flesh & blood, with sentiments & aspirations and we have to find some way between astute mind and benign heart.

7. Development Governance

The Adrian Cadbury Committee, United Kingdom, 1994 report on Corporate Governance defines the term governance as “Systems by which organisations are directed and controlled”.

In the light of the discussions we have made hitherto, I would like to discuss the governance code for NGOs keeping in view that idealistic talks and ground realities do not appreciate each other. But then we have to begin no matter how insignificant our steps are.

A system for ideal governance could include

- Transparent & effective Governing Body where accountability at the helm is determined.
- Efficient, competent and precise manpower
- Consistent efforts towards capacity building and evaluation of human resources
- Ensuring absolute independence of the auditor
- Stratified participation from the grassroot
- Evaluation in terms of the objectives achieved rather than the amount of funds utilised
- Development initiatives basically demand compassion and will, allowance should be made for factors which do not find a way to the books
- Financial planning should be on the basis of individual and circumstantial need and not on the basis of the principles of res judicata and universal formats applicable uniformly.
- Legal compliances keeping in view the hazards and protections embedded in the system
- Implementing systems which are essential though not legally mandatory.