

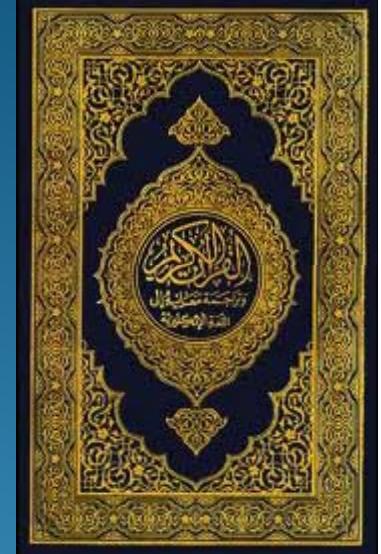
***Professional Ethics in Practice
– Alarming Trend***

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

وَلَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ وَتَذُنُّوا بِهَا إِلَى
الْحُكَّامِ لِيَأْكُلُوا فَرِيقًا مِّنْ أَمْوَالِ النَّاسِ بِالْإِثْمِ وَأَنْتُمْ تَعْلَمُونَ

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And do not eat up your property among yourselves for vanities, nor use it as bait for the judges, with intent that ye may eat up wrongfully and knowingly a little of (other) people's property.

(Surah Al-Baqarah – The Cow) 2:188.

And eat up not one another's property unjustly (in any illegal way, e.g., stealing, robbing, deceiving), nor give bribery to the rulers (judges before presenting your cases) that you may knowingly eat up a part of the property of others sinfully – Tafsir Ibn e Kathir.



Beloved Prophet SAW's Stance

Prophet (SAW) condemned corrupt practices when on one occasion he questioned his administrator regarding a property which he claimed to have received as a gift. The Prophet's position reinforced the religious and moral character of Islamic law and jurisprudence.



Today we will reflect on:

- ***Professional Ethics.***
- ***The Global Trend.***
- ***Corporate Frauds.***
- ***Causes of a Declining Trend.***
- ***Personal Aspiration.***
- ***How the Trend can be Improved.***
- ***Personality & Character.***
- ***Professional Values.***
- ***Role of the Stakeholders.***



Ethics

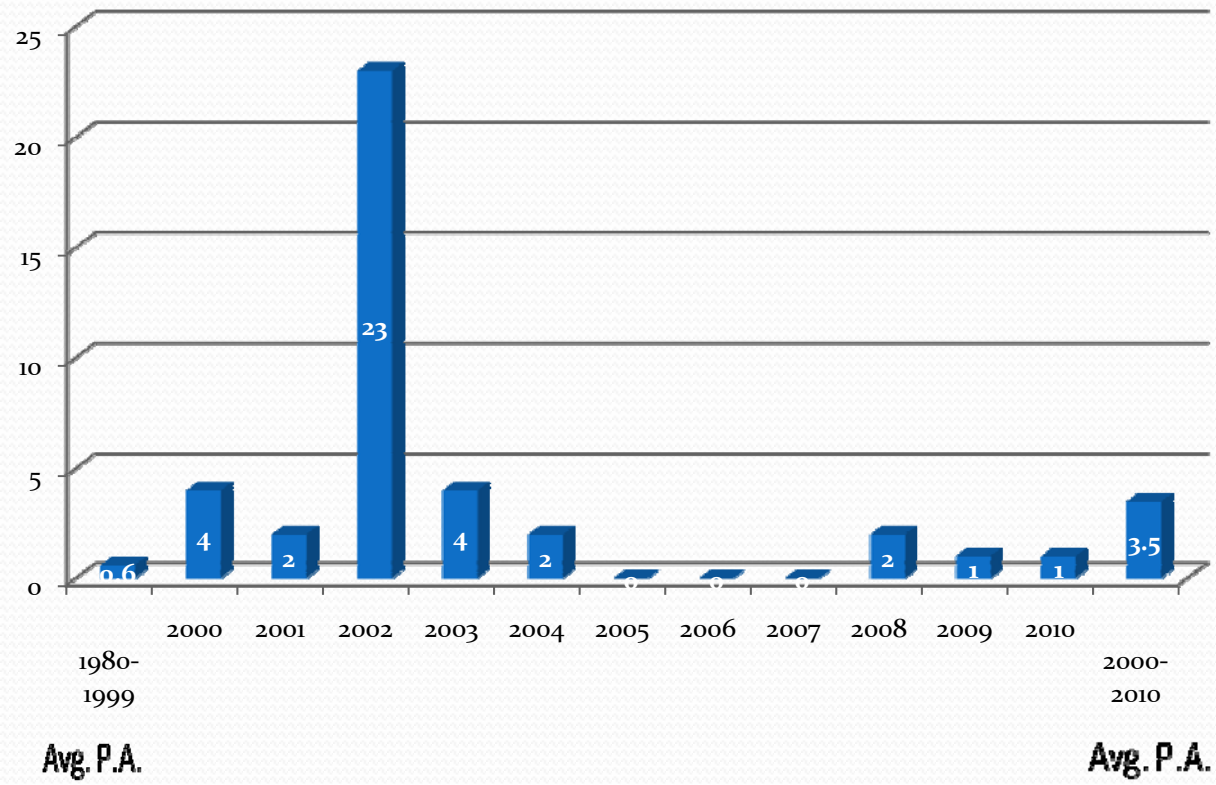
Ethics is about being of service and doing things that benefit the organization and community. It means acting in alignment with our moral compass, and upholding consistent values that guide us in our choices.

Professional Ethics

- *Professional ethics are standards or codes of conduct set by people in a specific Profession.*
- *It requires a top-down approach – Leaders to become Role Models.*
- *Treating Customers, Employees & even Competitors with Respect & Honesty.*

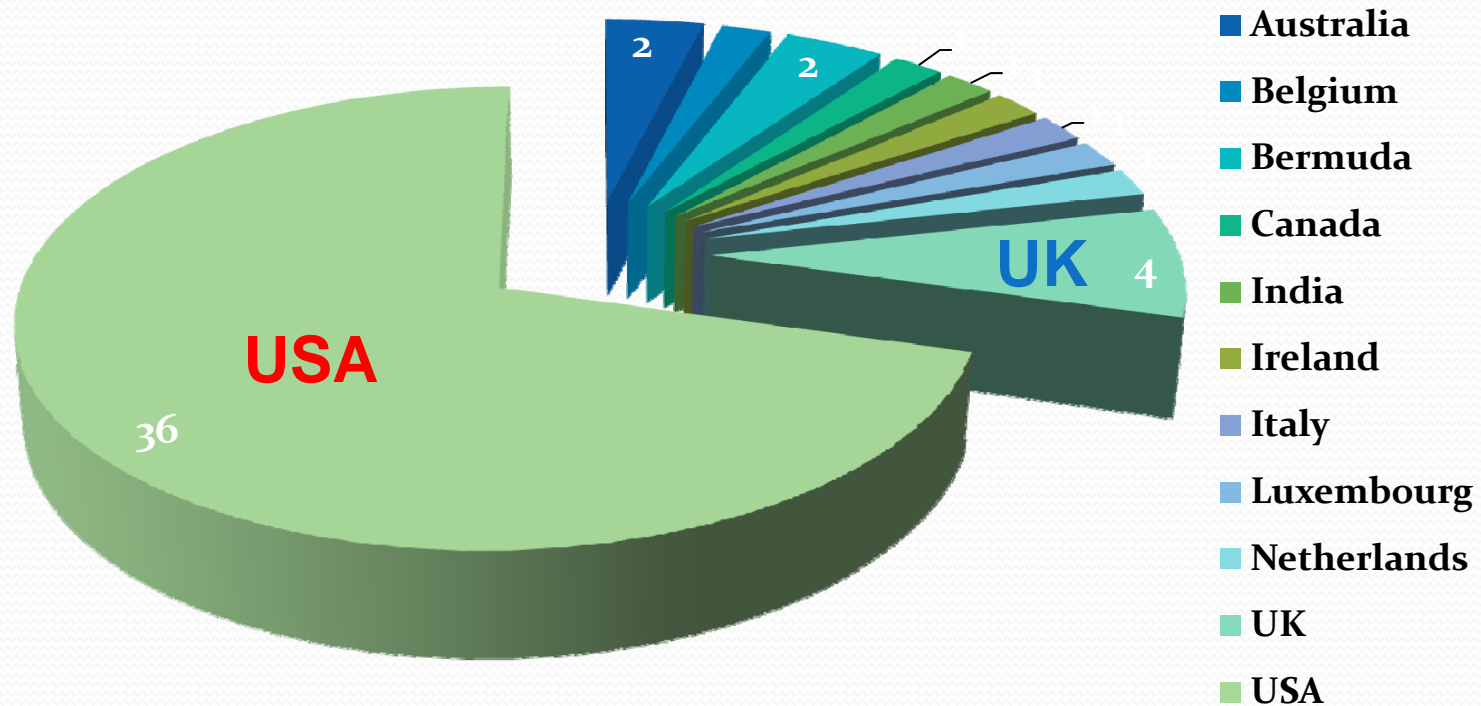


The Global Trend – Accounting Scandals



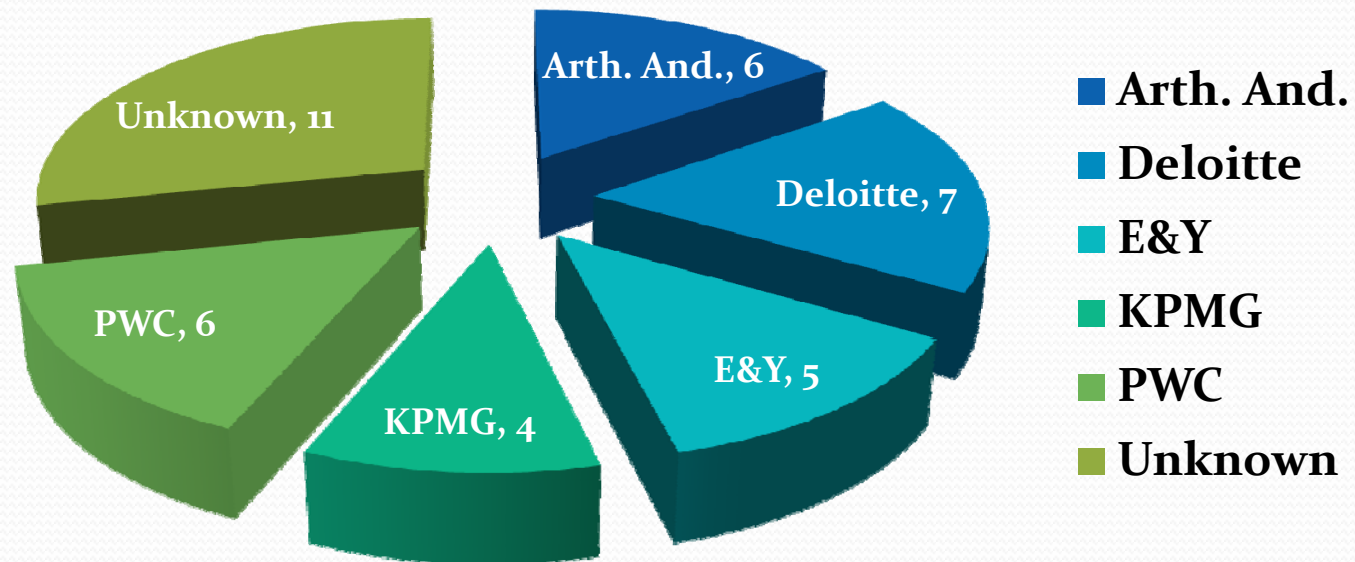
As reported by Wikipedia

The Global Trend - Countries



Accounting Scandals – 1980 - 2010

The Global Trend – Big Five



Accounting Scandals – 2000 - 2010

Major Scandals – 2000 – 2010

S. No.	Year	Corporate Entity	Country	Audit Firm	Scandal
1	2000	XEROX	USA	KPMG	Falsifying Financial results
2	2001	ENRON	USA	Arth. And.	Institutionalized, systematic & creatively planned Accounting Fraud
3	2002	AOL	USA	E&Y	Inflated Sales
4	2002	Bristol Myers Squibb (BMS)	USA	PWC	Inflated Revenues
5	2002	Freddie Mac	USA	N/A	Understated Earnings
6	2002	Halliburton	USA	Arth. And.	Improper booking of Cost Over-runs
7	2002	K-Mart	USA	PWC	Misleading Accounting Practices
8	2002	Merill Lynch	USA	Deloitte	Conflict of Interest
9	2002	Tyco International	Bermuda	PWC	Improper Accounting
10	2002	WORLD.COM	USA	Arth. And.	Overstated Cash Flows
11	2003	Nortel	Canada	Deloitte	Distribution of ill-advised Corporate Bonus to Top 43 Managers
12	2004	AIG	USA	PWC	Accounting of structured Financial deals
13	2009	Satyam Computer Services	India	PWC	Falsified Accounts
14	2010	Lehman Brothers	USA	E&Y	Failure to disclose Repo 105 transactions to Investors

Corporate Policy – Supporting Theft!!

Wal-Mart fires Heather Ravenstein, a customer service manager at a store in Wichita, Kan., for preventing a shoplifter from walking out with a \$600 computer. Though the thief let go of the PC after punching and kicking her, Ravenstein was terminated the next day, says Wal-Mart spokeswoman Anna Taylor, for “violating company policy as it pertains to how we treat people in our stores.”





Corporate Policy - Cheating!!

Documents from a lawsuit against Dell unsealed by a federal judge in November reveal that, after shipping nearly 12 million potentially defective computers equipped with faulty capacitors from 2003 to 2005, the company had provided its sales force with instructions that included pointers such as “Don’t bring this to customer’s attention proactively” and “Emphasize uncertainty.”



Big Names – Words VS Deeds!

Former CNN commentator Lou Dobbs, renowned for his outspoken criticism of “illegal aliens” and the “illegal employers” who knowingly hire them, is the subject of a yearlong investigation by The Nation, which finds that he has for years relied on undocumented Latino workers to maintain his 300-acre estate in New Jersey and a multimillion-dollar second home in West Palm Beach, Fla., and to attend to five European Warmblood show-jumping horses, typically valued at almost \$1 million each, that his daughter, Hillary, rides in equestrian competitions. Dobbs says that neither he nor his company has ever hired an illegal immigrant, and says it is not his responsibility to check the status of workers hired by his contractors.



CSR Talks VS Irresponsible Attitude

Two months and roughly 3 million barrels of spilled crude into the Deepwater Horizon oil rig disaster—and fresh off criticism for saying “I’d like my life back” after the accident had cost 11 workers —BP CEO Tony Hayward adds insult to injury by spending the day off the Isle of Wight aboard his \$270,000 Farr 52 racing yacht.

Stunned reactions to the sailing holiday from environmentalists, U.S. government officials, and Gulf Coast residents range from “insulting” to “the height of arrogance.”

Fraud in the HealthCare



The MMR Vaccine Fraud: A now-retracted British study that linked autism (life long brain disorder) to childhood vaccines was an "elaborate fraud" that has done long-lasting damage to public health, a leading medical publication reported (*Jan. 5, 2011*).

An investigation published by the British medical journal BMJ concludes the study's author, Dr. Andrew Wakefield, misrepresented or altered the medical histories of all 12 of the patients whose cases formed the basis of the 1998 study -- and that there was "no doubt" Wakefield was responsible.



Fraud in the Education Sector

In a recent Wall Street Journal article, Psychology professor Steven Davis says that cheating by high school students has increased from about 20 percent in the 1940's to 75 percent today.

“Students say cheating in high school is for grades, cheating in college is for a career.”



Foundation is highly important

If students lack Ethics in High School and College, then there should be little surprise that they lack ethics in their careers. Greed and over-reaching ambition often end in disastrous personal consequences.

Some Recent News Clips



- ***Citigroup managers face Fraud Charges in India:*** Indian Police registered a case against the CEO of Citigroup & other Board members over claims of Fraud at a local Indian branch (Jan. 6).
- ***Funds for Karachi uplift misused:*** Funds provided by the Asian Development Bank (ADB) under a technical assistance loan in 2006 were grossly misused, involving unauthorized expenditures (Jan. 6).
- ***Rs. 1 Billion Embezzlement surfaced in KW&SB:*** Funds collected from consumers for new connections not deposited in the KW&SB Accounts during past 6 – 7 years (Jan 17).

Corporate Frauds / Unethical Activities

- ***A Company acts fraudulently or unethically to gain unlawful advantage or benefit by harming or undermining the lawful interest of the government by indulging in (Economic Crime):***
 - ***Evading taxes***
 - ***Smuggling***
 - ***Mis-declarations***
 - ***Valuation frauds etc.***
- ***The company is a victim of the fraudulent activities perpetrated by its employees alone or with the connivance of outsiders or mainly by the outsiders possibly with information or tips passed on by any employee.***
- ***A group of people join hands in starting certain dubious investment or other quick money making scheme with the intent of cheating a targeted set of people or the public at large.***

KPMG India Fraud Survey Report – 2010

Population: 1,000 CEOs / CFOs / CIAs

- ***75% - Fraud in India is on the Rise.***
- ***54% - Fraud within their Industry is on the Rise.***
- ***45% - Fraud within their Organization increased.***
- ***81% - Financial Statements Fraud – a major issue.***
- ***63% - Desire to meet / exceed market expectation.***
- ***62% - Strict Disciplinary actions missing.***
- ***41% - Lack of Fraud Risk Management framework.***
- ***58% - Lack of proper use of Data Analytics.***
- ***75% - Frauds except IP perpetrated by Employees.***
- ***38% - Bribery an integral feature of Industry practice.***

KPMG India Fraud Survey Report – 2010

Higher Risk areas in the Future

- ***47% - Bribery & Corruption including kickbacks.***
- ***34% - Intellectual Property Fraud (counterfeiting / Piracy).***
- ***53% - E-Commerce & Computer related Frauds.***
- ***50% - Supply Chain Fraud (Procurement, Sales & Distribution).***

Causes of a Declining Trend



- ***Personality Grooming VS Character Building.***
- ***Tolerance of unethical behavior, Bribery & Corruption (esp., by Professionals).***
- ***Undue influence by Board members / Shareholders.***
- ***Lack of Corporate Governance in its True Spirit.***
- ***Lack of adequate Control Mechanism.***
- ***Lack of Independence of Internal Audit Teams.***
- ***Lack of Professional Courage & at time Integrity of External Auditors.***
- ***Ineffective Monitoring by Regulatory Bodies.***
- ***Remuneration / Rewards linked to Financial Performance.***



Personal Aspiration

- *Wealth*
- *Fame*
- *Knowledge*
- *Integrity*

How the Trend can be Improved



- ***Focus on Character Building.***
- ***Courageous / Principle-based behavior.***
- ***Implement Corporate Governance in true spirit.***
- ***Regular review / update of the Internal Controls.***
- ***Internal Audit Teams / CIA's reporting to the Audit Committee / BoD instead of CEO / MD.***
- ***External Auditors to keep Integrity / Professional Values above everything else.***
- ***Development of Regulatory Bodies.***

Personality & Character

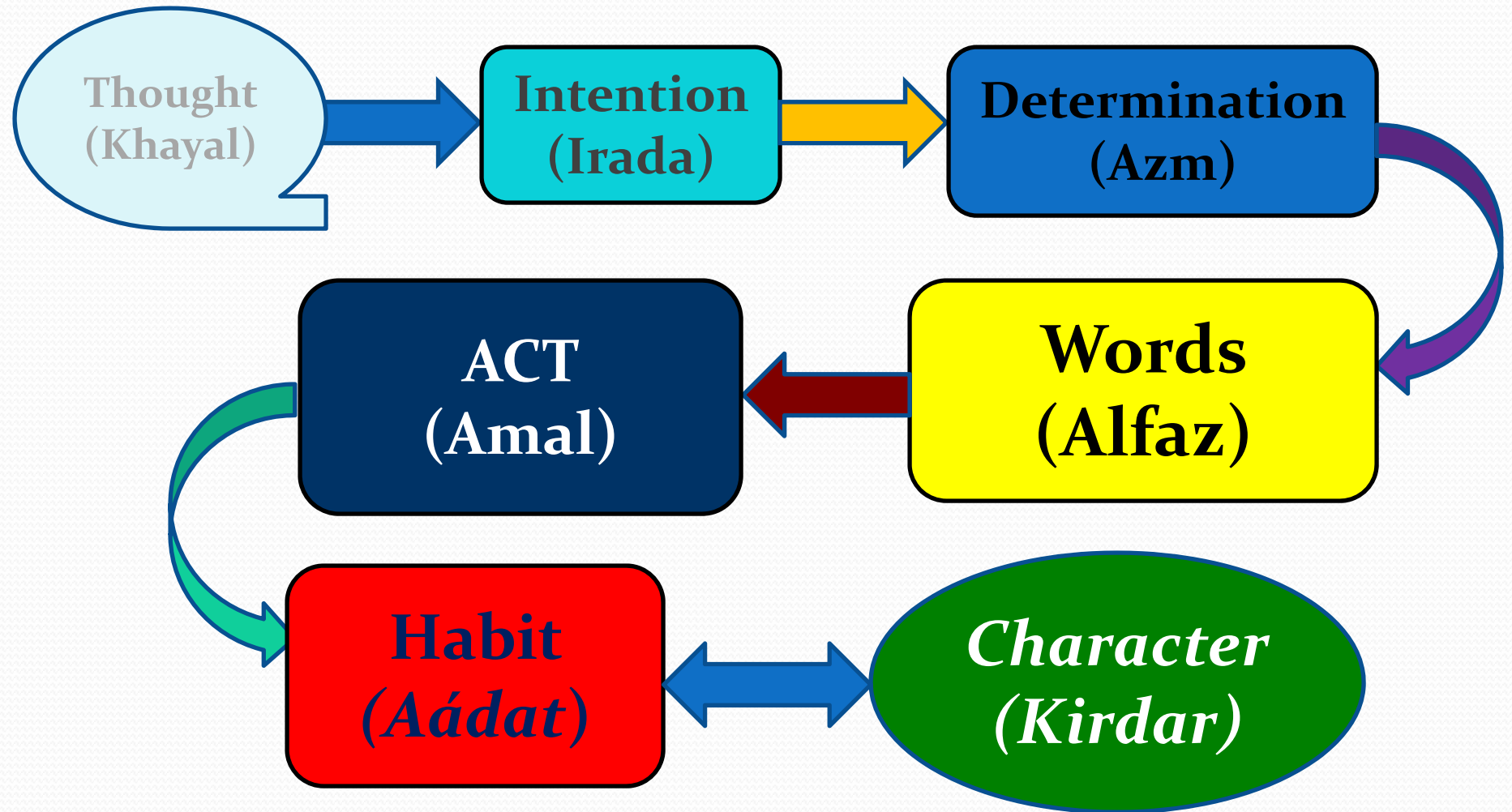
- ***A person's reaction to a particular situation reflects his / her personality.***
- ***Character has a much wider significance.***
- ***We normally see Great Personalities – Do all of such Personalities bear Excellent Character?***
- ***No! Some Personalities' Actions or Reactions are according to the situation.***
- ***This is Why, we come across News items exposing some Personalities of their wrongdoings / Scandals at some stage...***
- ***Character & Character Building is much more important than simply grooming Personalities..***



Pre-requisites of a Good Character

- *Trustworthiness*
 - *Being Honest*
 - *Fair in Dealings*
- *Truthfulness*
 - *No Lies*
 - *No mis-statements*
- *Keeping Promises*
 - *Be it Personal / Informal*
 - *Be it Official / Formal Agreements*

Character Building – Process





Professional Values

- *Honesty.*
- *Integrity.*
- *Keeping Promises.*
- *Reliability.*
- *Fairness.*
- *Caring.*
- *Respect for Others.*
- *Responsible Citizenship.*
- *Quest for Excellence.*
- *Accountability.*



Role of the Stakeholders

- ***Professionals to focus on Character & Integrity.***
- ***Board members / Shareholders to balance their approach in Profit Making / Material Gains vis-à-vis Responsibility / Good Corporate Citizenship.***
- ***Audit Firms to ensure Independent Reporting irrespective of their Vested interests.***
- ***Regulatory Bodies to keep public / social interest on top of their Agenda.***
- ***Society to change the approach of Ignorance / Tolerance when it comes to Accountability.***

Conclusion

An Excellent advice of the beloved Prophet SAW, if followed in our personal & professional lives, is an assurance to Ethical Approach / Practice:

"What is lawful is clear and what is unlawful is clear, but between them are certain doubtful things which many people do not recognize. He who guards against the doubtful things keeps his religion and his honor blameless, but he who falls into doubtful things falls into what is unlawful."



Thanks very much

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