

# IASCA Newsletter

May 2015 - Issue 6

**YOUR GATE TO ACCOUNTING, AUDITING AND CODE OF ETHICS**

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## In the General Assembly of the International Arab Society of Certified Accountants (Jordan)

*Abu-Ghazaleh: (IPSAS) to be Applied in Jordan and a Regional IPSAS Training to be Established Soon*



In his opening remarks, HE Dr. Talal Abu-Ghazaleh, Chairman of Board of IASCA, praised the role and performance of IASCA during 2014, professionalism of IASCA and its continuous efforts to facilitate, develop, finance and publish Arabic translation. In addition, he praised the advanced level of training courses held by IASCA which witnessed quality improvement covering all fields of accounting through the participation of trainees from all institutions, agencies and firms from all regions.

Mr. Salem Al-Ouri, Executive Director of IASCA, presented the contents of the annual report which involved the achievements of IASCA and its future plan for work and expansion, especially after adopting IPSAS by Jordan represented in the Ministry of Finance.

HE Dr. Talal Abu-Ghazaleh pointed out that compliance with IPSAS is deemed international professional requirement for which all governments of the world seek to adopt due to its significant role in improving quality and transparency of financial reporting for public sector, promoting confidence in closing financial statements, contribution to provision of financial data and information appropriate for taking proper decisions, and realizing the optimum use of governmental assets. As well, he expressed his pleasure in respect of the resolution of the Government of Jordan to adopt IPSAS. Meanwhile, he announced the intention of IASCA to establish a regional center for the purpose of training on IPSAS and helping the Arab countries to apply them.

# An Abundance of Resources to Fight Financial Reporting Fraud

by Cindy Fornelli, Executive Director, Center for Audit Quality



Financial reporting fraud is relatively rare, but it remains a serious challenge. Research from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) has indicated that the median cumulative monetary loss resulting from instances of this type of fraud is around \$12 million.[1]

The bad news: Financial reporting fraud, like most crimes, will always be a threat. The good news is that accountants and auditors, financial executives, boards of directors, and other key stakeholders across the financial reporting supply chain now have more resources and knowledge than ever to aid them in deterring and detecting fraud.

What's more, we know that careful and comprehensive application of resources makes a huge difference to detecting fraud at companies of all sizes.

## What Works in Fighting Fraud

Thanks to a wide array of research efforts in recent years, we have a very good grasp of both the factors that lead to financial reporting fraud and the steps necessary to address those

factors. One of the most important of these steps is for business leaders to build corporate cultures that systematically value acting ethically and doing the right thing. Such strong, ethical corporate cultures begin with executives setting the right "tone at the top," which in turn filters down to create a strong "mood in the middle" and "buzz at the bottom."

These efforts aren't just desirable in principle, they get results. A new report from the Ethics Research Center (ERC),[2] for example, finds that the "strength of a company's ethics culture and the effectiveness of its internal ethics and compliance (E&C) program are closely tied to workplace behavior." Indeed, according to ERC research, an alarming 62 percent of workers at large companies without effective E&C programs report observing misconduct. But at companies with effective E&C programs, that rate plunges to 33 percent. (Full disclosure: My organization, the Center for Audit Quality, sponsored the ERC report; ERC's research was independent.)

So what are the elements of a comprehensive E&C program? The ERC lists seven:

1. Written standards of ethical workplace conduct
2. Training on the standards
3. Company resources that provide advice about ethics issues
4. A means to report potential violations confidentially or anonymously
5. Performance evaluations of ethical conduct
6. Systems to discipline violators
7. A stated set of guiding values or principles

"Well-implemented ethics and compliance programs make a

difference, often a big difference," says the ERC report.

## Practical Resources for Implementation

Of course, building out the elements cited above requires substantial commitment, effort, and know-how. Happily, there are an abundance of resources offering practical suggestions.

As the ERC report itself shows, resources can come in the form of reports and white papers. One organization producing such reports is the Anti-Fraud Collaboration, a group that unites the Center for Audit Quality, Financial Executives International, The Institute of Internal Auditors, and the National Association of Corporate Directors.

In November 2014, the Anti-Fraud Collaboration released a publication—The Fraud-Resistant Organization: Tools, Traits, and Techniques to Detect and Deter Financial Reporting Fraud—offering a range of recommendations that are scalable to different stakeholders and organizations of different sizes. Drawing on a wide body of research and recent roundtable discussions, The Fraud Resistant Organization takes an action-oriented, global view.

Here are a few more noteworthy reports:

- ACFE's Report to the Nations On Occupational Fraud and Abuse
- EY's Global Fraud Survey
- Kroll's Fraud Report
- KPMG's Who Is the Typical Fraudster?

Another effort from the Anti-Fraud Collaboration is its series of case studies. These are a set of hypothetical fraud scenarios, which

are based on the Harvard Business School case method. Participants in case study teachings start with a set of facts about a fictional company dealing with a fraud. Guided by an instructor, they then discuss what could have been done to address the situation.

Last, but certainly not least, webcasts and other video material can be highly valuable resources. For its part, the Anti-Fraud Collaboration recently has produced a series of webcasts (all available for free on YouTube) in which experts from across financial reporting offer diverse perspectives and actionable tips.

- How Corporate Culture Can Breed Fraud (December 2013)
- Ethical Corporate Cultures (April 2014)
- Effective Whistleblower Programs (July 2014)
- Building a Fraud-Resistant Organization (January 2015)

#### Spread the Word

In the fight against financial fraud, an area in which financial regulators are reportedly increasing their focus, it is critical that all stakeholders gather and absorb insights from resources like these. Equally important is for all of us to convey that knowledge

and perspective to others. So read a report, peruse a case study, or watch a video—then share that resource with colleagues or your connections on LinkedIn and other social networks. Let's spread the word far and wide: financial fraud is a tough challenge, but we have many resources to help us address it.

A former Deputy Director of Investment Management at the SEC and Senior Vice-President at Bank of America, Cindy Fornelli has served as the Executive Director of the Center for Audit Quality since its establishment in 2007.

## The Representative of the International Arab Society of Certified Accountants (IASCA) in Palestine Visits the International Federation of Accountants (IFAC)

*The Representative of the International Arab Society of Certified Accountants (IASCA) in Palestine Visits the International Federation of Accountants (IFAC)*



Mr. Jamal Melhem, member of Board and representative of IASCA in Palestine, visited IFAC in its head office in the United States, New York State. He met the officials of IFAC and discussed the professional status in Palestine and the role IASCA in the development of accounting career in Palestine and the Arab region.

Reporting Standards (IFRSs), as well as the application of the International Accounting Standards (IASs) in the sector through the direct communication with decision makers in the Arab region and regional and international activities carried out by IASCA in order to introduce these standards and the significance of applying them.

The tasks carried out by IASCA, represented in the Chairman of Board of IASCA, Dr. Talal Abu-Ghazaleh, was reviewed with the concerned parties in the Arab world for the application of the International Financial

In addition to the role of IASCA in translating and publishing the professional publications issued by IFAC into Arabic, preparing the training materials and the importance of these publications, as well as providing them to the people interested were reviewed. Furthermore, this aims at providing non-English speaking professional with assistance to easily



understand the content of these materials, in addition to generalizing and publishing them in order to promote the career of auditing and accounting, facilitate application and use thereof, maintaining professional independence of accountants and auditors and ensure their security and safety.

The meeting also reviewed the efforts made by IASCA to conduct training courses and awareness workshops in cooperation with TAG-Org in Palestine and the Arab region on accounting career and its role in the development of countries' economies. The meeting also discussed continuity of cooperation in translating the training materials of IFRSs, as well as the possibility to conduct mutual events or conferences in the Arab region to realize the mutual goals of IASCA and IFAC.

Mr. Jamal Melhem discussed the action plan of the Palestinian Association of Certified Public Accountants (PACPA) which presents the extent of compliance of

PACPA with the Statements of Membership Obligations (SMO's) after being "Associate Member" in IFAC in November 2013 at the general assembly meeting of IFAC held in Seoul – South Korea, aiming at obtaining the full membership of IFAC.

IFAC is a global organization dedicated for serving and developing auditing and accounting profession worldwide. IFAC is comprised of over 177 members and associates in 130 countries worldwide.

IASCA was established on January 12, 1984 as a non-profit professional accounting association in London, UK. It was formally registered in Amman on February 24, 1994. IASCA is dedicated to the promotion of accounting, auditing and other globally related topics, as well as maintenance of professional independence of accountants, assurance of protection of them and application of professional supervision as means of promotion of accounting and auditing professions.

## How Islamic Finance Facilitates Green Investment

by Eli R. Khazzam, Editor-in-Chief, IFAC Global Knowledge Gateway

Today, many different societies have the same interests at heart. We seek to "green" the world. We seek to conserve resources. And we would like to invest in industries that will ultimately be beneficial to humanity. Many new industries aided by cutting-edge science and technology are helping businesses point in this direction. So too are some of the most basic principles of Islamic finance. How do they intersect and why is this significant for the world to consider?

In many Islamic nations, Sharia, which is the moral code of Islamic law, provides the legal framework for regulation of many aspects of public and private life. Islamic finance encompasses those aspects of Sharia pertaining to business and economics. In the broadest sense, individuals are expected to balance their needs with those of the community at large. This concept is put into practice in several ways.

First, within Islam there is a religious duty—an ethical duty, if you will—to invest in projects and enterprises that are moral and wholesome. This precludes investment in many types of businesses (e.g. gambling, pornography, alcohol, etc.) that promote crime and/or anti-social behavior.



Second, Muslims are encouraged to invest resources for the welfare of the community, especially the destitute. It is, therefore, expected that Islamic financial institutions provide special services to those in need. This does not exclusively mean providing charitable donations but also certain forms of profit-free loans.

Third, in the Qur'an, one is dissuaded from extravagance and waste, and importance is placed upon taking care of and being responsible to the environment. The Qur'an states "Eat and drink, but waste not by excess; Verily He loves not the excessive" (Qur'an:7:31) and "There is not an animal in the earth, nor a creature flying on two wings, but they are nations like you" (Qur'an 6:38).

How does Islamic finance translate these ideas into action? The key financial instrument is the sukuk, or Islamic bond. Green projects funded by sukuk include clean energy, mass transit, water conservation, forestry, and low-carbon technologies. These green



financing initiatives also include socially responsible investments designed to improve the lives of people and communities. They are also designed to encourage investors to move capital into companies that instill high governance standards for diversity, accountability, and transparency.

A recent report by the Malaysia International Islamic Financial Centre Community, *Islamic Finance: Ready to Finance a Greener World*, explored how initiatives in Islamic finance are driving sustainable, environmentally-friendly development around the world. As the World Bank and other institutions are pioneering green bond initiatives, Malaysia, one of the most active centers of Islamic finance, is taking the lead to provide a marketplace to fund similar green projects through sukuk.

The Islamic Development Bank (IsDB) is a key player in clean energy sector investments, investments that total approximately \$1 billion USD from 2010 to 2012, per Responding to Climate Change. Clean energy projects are also on the rise in Muslim-majority nations—the top five beneficiary countries of IsDB's renewable energy sector financing were Morocco, Pakistan, Egypt, Tunisia, and Syria.

In the Gulf region, The UAE is expected to issue the world's first Sharia-compliant bond aimed at financing green energy projects this year, possibly as early as next month, according to industry experts. The UAE is expected to issue the world's first Sharia-compliant bond aimed at financing green energy projects this year, possibly as early as next month, according to industry experts. The United Arab Emirates is expected to issue the first Sharia-compliant bond designed for financing green energy products in 2015, according to a recent report in *The National*. This initiative is anticipated to open up

the regional Gulf market and allow smaller corporations to pursue "green sukuk" as a means for financing their products and services.

Sukuk is also being used to address public health improvements. Last December, Reuters reported that the International Finance Facility for Immunization Co. will use the proceeds of its sukuk to finance projects for the Global Alliance for Vaccines and Immunization (GAVI). Since its founding in 2000, GAVI has financed immunization efforts in 73 countries, with half of its investments directed to 33 Muslim-majority countries, including Yemen, Mali, and Indonesia.

In the West, conscientious investment is moving along a similar course. Increasingly, investors have options for "green investing," "eco-investing," and "social investing." There are, however, fundamental differences. Sukuk are not intended to carry the same degree of risks and complexities as do Western financial instruments. Also, sukuk does not utilize the concept of interest as usury is forbidden by the Qur'an. Investors generally share greater risk and are more closely tied to the ownership and outcome of their investments. In Islamic finance, the acquisition of wealth is intended to arise from effort as opposed to chance or gambling. In this sense, it can be argued that the Western-style investor is further removed from both the enterprise and the development of their investment.

Despite these differences, the end-result—a greener, cleaner, and perhaps more humane world—is an important emerging incentive for both Islamic and Western-style finance. How we get there is still a matter of systemic design. The question that remains is which system will have greater impact on the other. Can the traditional, spiritual example of Islam motivate a more principle-driven model to emerge in the West?



# Abu-Ghazaleh Participates in the Ninth Annual Meeting Of the Gulf Cooperation Council Accounting and Auditing Organization (GCCAAO)

*Accounting and Auditing Profession: Global Developments and Professional Implications*



Under patronage of HE Zayed bin Rashid Al-Zayani, Minister of Industry and Commerce of the Kingdom of Bahrain and in participation of a number of prominent figures, and in cooperation with the Ministry of Industry and Commerce of the Kingdom of Bahrain and Bahrain Accountants Association (BAA), GCCAAO organized the ninth annual meeting under the title "Accounting and Auditing Profession: Global Developments and Professional Implications" during the period May 6-7, 2015 in the Kingdom of Bahrain, in which HE Dr. Talal Abu-Ghazaleh, Chairman of the International Arab Society of Certified Accountants (IASCA), participated.

This forum is held in its current session with growing interest in the role played by accounting and auditing profession in the safety and growth of GCC economies, promoting sustainable development, anti-corruption, realization of integrity, as well as enhancement of investment environment in GCC States. An elite of speakers participated in the forum at local, regional and international levels representing the International Federation of Accountants (IFAC), the World Bank, as well as professional agencies and associations, and universities from member States of GCCAAO.

During the Forum, HE Dr. Talal Abu-Ghazaleh pointed

out the importance of keeping up with global developments and enabling the profession to do the same especially in respect of the rapid development in the field of ICT. He indicated that the profession should take advantage of ICT revolution in order to improve itself.

The most significant recommendations of this forum were as follows:-

1. Enhancing scientific and research exchanges in the field of accounting amongst Arab and international universities, particularly the profession of accounting and auditing.
2. Encouraging academic and professional institutions to found educational and professional integration based on scientific research, transfer of skills, creation of distinctive competencies and consolidation of continuing education.
3. Keeping up with technological developments concerning disclosure and publishing financial statements especially according to (XBRL) due to the efficiency of this system in providing the necessary financial data. Worth mentioning that since 2006, IASCA has been translating this system into Arabic, in addition to publishing it on the website of the International Financial Reporting Standards Foundation (IFRSF).
4. Observing the requirements of Islamic financial institutions when preparing and developing the International Accounting Standards.



# The New Auditor's Report



The International Auditing and Assurance Standards Board's® (IAASB®) Auditor Reporting page is your source for tools and resources to promote awareness, understanding and effective implementation of the new and revised Auditor Reporting standards.

The new and revised Auditor Reporting standards are designed to enhance auditor's reports for investors and other users of financial statements.

## Why Change the Auditor's Report Now?

The auditor's report is the key deliverable communicating the results of the audit process. Investors and other financial statement users have asked for a more informative auditor's report—in particular for auditors to provide more relevant information to users. Research, public consultations, and stakeholder outreach, including global roundtables, indicate that enhanced auditor reporting is critical to influencing the perceived value of the financial statement audit.

## What's Changing?

- ISA 720 (Revised)
- ISA 700 (Revised)
- ISA 701 (New)
- ISA 570 (Revised)
- ISA 705 (Revised)
- ISA 706 (Revised)
- ISA 260 (Revised)

Conforming amendments to several other ISAs

## What are the Intended Benefits?

- Enhanced communication between auditors and investors, as well as those charged with corporate governance
- Increased user confidence in audit reports and financial statements
- Increased transparency, audit quality, and enhanced information value
- Increased attention by management and financial statement preparers to disclosures referencing the auditor's report
- Renewed auditor focus on matters to be reported that could result in an increase in professional skepticism
- Enhanced financial reporting in the public interest

## Effective Date

The new and revised Auditor Reporting standards are effective for audits of financial statements for periods ending on or after December 15, 2016.

## Effective Implementation is Key

Effective implementation is critical to the success of the new and revised Auditor Reporting standards. You--investors, regulators, audit oversight bodies, audit committees and others--have an important role in effecting the change you want to see in auditor reporting.

## Bad accounting breeds bad policies"

By: Hans Hoogervorst, IASB Chairman

The notion of stewardship is critical to the wellbeing of financial markets, because we live in a world where most people who work in financial services are working with other people's money. As a result, moral hazard is everywhere, as the financial crisis has amply demonstrated.



To read the article please [click here](#)

## FOR MORE INFORMATION

Tel: (0962-6) 5100900

Fax: (0962-6) 5100901

Or you may reach us electronically through our website:

[ascasociety.org](http://ascasociety.org)

And our emails:

[asca.jordan@iascasociety.org](mailto:asca.jordan@iascasociety.org)

[salouri@iascasociety.org](mailto:salouri@iascasociety.org)

[www.facebook.com/ASCAsociety](http://www.facebook.com/ASCAsociety)

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