

ROLE OF CFO (Chief Financial Officer)

In Corporate Governance

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TRADITIONAL ROLE OF CHIEF ACCOUNTANT

The Chief Accountants used to perform several tasks which were preparing accounts, preparing budgets, operational reporting and interpreting, evaluating operating results, preparing income tax returns, establishing internal control procedures to safe-guard the companies assets.

TRANSITION FROM CHIEF ACCOUNTANT TO CHIEF FINANCIAL OFFICER

Due to increased governance requirement there arises a need to empower the chief accountant and to make him responsible by requiring him to sign the accounts. There comes the code of corporate governance, which makes the chief accountant powerful and more responsible. With the new role, Chief Accountant becomes Chief Financial Officer (CFO).

Appointment and Approval Requirement

The appointment, removal and remuneration terms and conditions of employment of the chief financial officer of a listed company shall be determined by the Chief Executive Officer with the approval of the Board of Directors.

Qualification Requirement

The qualification requirement is defined under the code of corporate governance that is the person appointed as the Chief Financial Officer must be

Member of recognized body of professional accountants or

A graduate from a recognized university or equivalent, having at least 5 years experience in handling financial and corporate affairs of a listed company.

Attending Board Meetings.

The Chief Financial Officer of a listed company is required to attend the meeting of the board of directors.

IMPLICATION OF NEW RESPONSIBILITIES

The new responsibilities apply to all Chief Financial Officers of Listed Companies, Insurance Companies, Banks and DFIs.

Mostly the CFO presents the financial position relating to the period which has been over, and the period which has to come that is the financial position attained and the financial projection i.e. where the organization will be.

Responsibilities towards Board of Directors

The Chief Financial Officer is required to furnish necessary and classified information to the board of directors along with his analysis and suggestions as the Chief Financial Officer attends the board meetings, any issue with financial implications is being discussed, the person likely to be most in command of these implication is on the spot and immediately available for questions.

In order to strengthen and formalize corporate decision-making process, significant issues are required to be placed for the information, consideration and decision of the boards of directors by the CFO. These are:

- Annual business planes, cash flow projection, forecasts and long term planes.
- Budgets include capital, manpower and overhead budgets along with variance analyses.
- Quarterly operating results of the company as a whole and in terms of its operating divisions or business segments.
- Details of joint ventures or collaboration agreements or agreements with distributors, agents, etc.
- Default in payment of principal and/or interest, including penalties on late payments and other dues, to a creditor, bank or financial institution, or default in payment of public deposit.
- Failure to recover material amounts of loans, advances, and deposits made by the company, including trade debts and inter-corporate finances.
- Significant public or product liability claims likely to be made against the company, including any adverse judgment or order made on the conduct of the company.

Responsibilities towards Shareholders

The Chief Financial Officer is required to provide all the necessary data to be presented in the “Director’s Report”. For this purpose Chief Financial Officer must ensure the following.

- The financial statement, prepared by the management of company, present fairly its states of affairs, the results of its operation, cash flows and changes in equities.
- Proper books of accounts of the company have been maintained
- Appropriate accounting policies have been consistently applied in preparation in financial statements and accounting estimates are based on reasonable and prudent judgment.

- International accounting standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the companies' ability to continue as going concern.
- There has been no material departure from the best practice of corporate governance as detailed in the listing regulations.

Internal And External Reporting

Chief Financial Officer now has extensive responsibilities for internal and external reporting. All the information required for decision-making by the Board of Directors and Chief Executive is processed and furnished by the Chief Financial Officer. Apart from this, external reporting requirement is fulfilled by Chief Financial Officer, the accounts and financial statements are signed by the Chief Financial Officer before they are sent to concerned authorities.

CCG requires that the listed companies submit their quarterly accounts to the shareholders within one month of the close of the first and third quarter of year of account.

The CCG does not prescribe the time for submitting half yearly accounts to the shareholders. Here we can refer to section 245 of companies ordinance 1984 for this purpose, which requires half yearly accounts to be submitted within two months of the close of first half. The CCG requires a limited review of half yearly accounts by external auditor.

Annual audited accounts are now required to be submitted within four months of the close of financial year.

The Securities and Exchange Commission of Pakistan is exercising strict vigilance to ensure compliance of 4th and 5th schedule of the Companies Ordinance, 1984 and timely submission of accounts by companies. It has recently imposed penalties on Directors of nine listed companies who failed to prepare and circulate the quarterly accounts. Furthermore, fines have been imposed on chief executives.

CONCLUSION

The performance of any organization is reflected by the financial statements. Any ambiguity if remains there, makes the reflection of the performance doubtful. Therefore, the role of CFO becomes very important as he controls the reflection of performance, which is reported to different authorities and the organization is assessed by them, and they must perform their job with professional competency and integrity, so that the financial statements give credible information to its users. The code of corporate governance provides the guidelines and opportunity to do this.