



[NEWS]

New Accounting Watchdog?

Kathy Williams, Editor

LAST MONTH A GROUP OF ACCOUNTING PROFESSORS AND PROFESSIONALS— with the help of Ralph Nader's Citizen Works—formed the Association for Integrity in Accounting (AIA) "to restore and maintain the public's trust and confidence in accounting." It plans to focus on four main areas: watching the watchdogs, restoring professional independence, assuring corporate accountability and disclosure, and redeeming accounting education.

The mission of the Association is "to provide an independent forum to present and advance positions on a wide range of critical accounting and auditing issues, standards, and regulations affecting the accountability and integrity of the profession and the public interest in maintaining trust and confidence in accounting," says Linda Ruchala, an associate professor of accountancy at the University of Nebraska-Lincoln and a founding member of AIA.

One of the first things the group plans to do is reevaluate standards-setting and regulatory structures. It says its preliminary evaluation suggests eliminating the Financial Accounting Standards Board and requiring the Securities & Exchange Commission to live up to its original mandate for establishing financial reporting standards. "The evaluation and development of alternative structures for accomplishing fair and adequate financial reporting is our underlying top priority for the coming year," the group notes.

It also plans to visit auditor independence; promote an expanded concept of corporate accountability, which includes increased transparency for reporting stock options and derivatives and expanded environmental reporting; and call on educators to help accounting students think critically and independently "instead of memorizing technical and often flawed rule-based approaches." And it hopes to be able to open archival records of Enron and other companies involved in accounting scandals so they can figure out how to prevent such frauds in the future.

AIA founding members are John W. Argo, CPA and partner, Medical Business Consultants; Edward Blocher, professor at the University of North Carolina; David Crowther, professor at London Metropolitan University;

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NEW FASB PROJECTS

The Financial Accounting Standards Board recently added two projects to its agenda that will seek to improve the accounting and disclosures related to stock-based compensation and pension costs.

Among other issues, the project on stock-based compensation will address whether to require the cost of employee stock options to be treated as an expense. The Board says it is revisiting this issue because it thinks there should be one approach to recognizing these costs, and it is committed to working toward convergence of U.S. and international accounting standards.

Regarding pensions, the Board says it will address perceived deficiencies in current pension accounting by identifying ways to enhance disclosures about pension costs, plan assets, obligations, and funding requirements. ■

AIA plans to work **TOWARD** restoring **TRUST** in the accounting profession.

[GOVERNMENT]

Staffing the
SEC

Stephen Barlas, Editor

THE SECURITIES & EXCHANGE

Commission will soon be floating in new funds once Congress finally passes a fiscal 2003 budget for the agency. The appropriation will hit \$716 million, a 40% boost over the previous year, which reflects Congress's commitment to turning the agency from a pre-Enron lapdog into a post-Enron bulldog. But will the agency be able to put the money to good use quickly? That's the question. The SEC will be looking to fill 710 new positions, created to help it monitor compliance with the Sarbanes-Oxley law, which was responsible for a host of rule-makings, and subsequent new rules

(see below) over the past six months. The problem is that the SEC has to use civil service procedures to hire the new people, and those procedures are unwieldy and time consuming. The SEC needs accountants, and it needs them now. That imperative occasioned the Accountant, Compliance and Enforcement Staffing Act (H.R. 658) introduced in late February by Reps. Mike Oxley (R.-Ohio) and Richard Baker (R.-La.). Oxley is chairman of the House Financial Services Committee; Baker is chairman of the subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises. The bill

would give the Commission the authority to except accountants, economists, and securities compliance examiners from civil service hiring requirements.

Designation of
Financial Experts on
Audit Committees

Should there be someone on a board of directors who can read and understand a financial statement? Sarbanes-Oxley says "yes," and the SEC has just published a final rule clarifying what constitutes an "audit committee financial expert." Compa-

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BOOKS

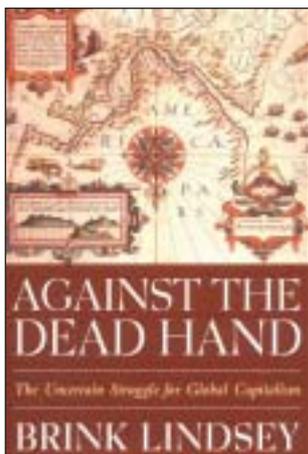
The Momentum of Globalization

* THE BUSINESS (AND POPULAR) PRESS IS FULL

of news articles every time the World Bank or World Trade Organizations meet. The press loves conflict. Images of protesters in opposition to high-level government and business leaders appeal to the public. But the press usually doesn't emphasize the fact that the protesters may be standing in front of and blocking economic and social progress. Fights and conflicts get viewers' attention. Serious discussions about economics on a multilateral basis cause the eyes of the typical reader/viewer to glaze over.

"Anti-globalization protesters fancy themselves the leaders of some new political movement, but they are really just the straggling rear-

guard of an old and failed one," writes Brink Lindsey, in his book, *Against the Dead Hand: The Uncertain Struggle for Global Capitalism*, published by John Wiley & Sons. He goes on to state, "the purpose of this book is to bring globalization to terms with its past."



The most interesting sections deal with Lindsey's analysis of Islamic fundamentalism. He views Osama bin Laden's totalitarianism as a political movement—a quest for economic power over the U.S.—rather than a religious movement. September 11 was simply an escalation of previous anti-

globalization protests to a horrific scale. In the long run, however, Lindsey

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nies initially feared that the definition was too narrow and that only accountants could qualify, which would make it hard for companies to find financial experts to sit on their audit committees. But the SEC came around to the view that business people with “experience performing in-depth analysis and evaluation of financial statements” were equally qualified. This expansion of the definition was meant so that people actively engaged in industries such as investment banking, venture capital investment, and professional financial analysts could get that designation. Many companies also balked at having to print the names of the audit committee financial experts in their annual reports, arguing that those people would become lightning rods for legal actions stemming from alleged corporate misdeeds and

would therefore refuse to serve on corporate boards. The SEC dealt with that potential problem by establishing a safe harbor, which says the audit committee financial expert will not be subject to a higher level of due diligence with respect to any portion of the registration statement as a result of his or her designation or identification as an audit committee financial expert. Sarbanes-Oxley doesn't require that an audit committee contain a financial expert, but if such a person isn't on the committee, the company's annual report must explain the absence.

SEC Rule on Retention of Documents

Because of Arthur Andersen's destruction of key Enron documents, Sarbanes-Oxley included a section mandating the kinds of documents an accounting firm must hang onto

after an audit is complete. There was a lot of head scratching over the proposed requirement that auditors hang onto documents that “cast doubt” on judgments made by the auditing company. This was aimed at preserving the misgivings of perhaps junior members of the auditing team who took issue with a position settled on by the senior auditor. But the “cast doubt” language was too unclear for too many. So the SEC got rid of it in the final rule and instead specified that auditors should keep “records that either support or contain significant information that is inconsistent with the auditor's final conclusions which would be relevant to an investigation of possible violations of the securities laws, Commission rules, or criminal laws and should be retained.” This would include documents that show “differences in professional judgment.” ■

[ETHICS] *cont'd from p. 18*

In *heroic management*, managers are important people, quite apart from others who develop products and deliver services. The higher “up” these managers go, the more important they become. At the “top,” the chief executive is the corporation. Strategy—clear, deliberate, and bold—emanates from the chief who takes the dramatic steps that drive up share price. Everyone else “implements.” To manage is to make decisions and allocate resources—including “human” resources. Managing means analyzing, often calculating. Rewards for increasing the share price go largely to the leader, the risk taker (who pays no penalty for drops in share price).

In *engaging management*, managers

are important to the extent that they help other people be important. An organization is an interacting network, not a vertical hierarchy. Effective leaders work throughout; they don't sit on top. Strategies—often initially modest and even obscure—emerge as the people who develop the products and deliver the services solve little problems that merge into new initiatives. Implementation can't be separated from formulation. Healthy change requires a respect for the old alongside recognition of the new. To manage is to bring out the energy that exists naturally within people. Managing thus means inspiring and engaging. Rewards for making the company a better place go to everyone, and they are significantly psychic.

The bulk of the article presents a

debunking of widespread benefits from economic self-interest and gives a number of historical examples of how a motivating leader achieved superior results through constructive engagement. In other words, this means acting ethically with guidance from a code of conduct that emphasizes consideration of the interests of a number of stakeholders.

Is the leadership style in your organization one of broad-based facilitation or one of top-down command and control? ■

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Herbert C. Knortz, President 1985-86

Herbert C. Knortz, 81, former president of the National Association of Accountants, now the Institute of Management Accountants, died at his home in Ridgefield, Conn., February 21, 2003, in a fire that destroyed his home.

Knortz retired from International Telephone and Telegraph (ITT) in 1986 as comptroller, executive vice president, and a member of the Board of Directors. He was known as the comptroller's comptroller with some 20,000 people reporting to him.

Beginning in 1951 he was very active in the Association, delivering speeches and publishing articles in *Management Accounting*. He was founding chairman of the Board of Regents of the Institute of Management Accounting, now the Institute of Certified Management Accountants. He also served as chairman of NAA's Committee on Professional Schools and Accreditation and the Committee on Academic Relations.

Knortz also was a member of the Financial Executives International and the American Institute of CPAs and a frequent contributor to the Financial Accounting Standards Board.

When he took office as president of NAA, Knortz told *Management Accounting* magazine, "I think I am more a man of words than I am a man of numbers even though I've made my living through the numbers." He demonstrated this facility and his extensive knowledge of accounting and finance in numerous speeches to industry groups. In light of the recent accounting and finance scandals, some of his observations seem prophetic. He wrote in the March 1975 issue of the magazine: "The failure to dispose of basic differences in concept, logical inconsistencies within the legislative framework, reports which inadequately present their primary data, and the attempt to substitute disclosure for sound principles have eroded the public's faith in the accounting discipline. That faith will not easily be restored, but the task cannot be avoided if the profession is to survive."

He also was prescient in a July 1985 article when he discussed another issue that is still plaguing accountants and financial analysts 18 years later: value. "I don't think we even agree that the objective is economic reality. We've been talking about historic cost when the world wants to know value. It wants to know what something is worth now." He added: "Our search should be for value not cost. The problem is how to establish in a credible, consistent, unsubjective way, various aspects of value that we would like to see." ■



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[BOOKS] *cont'd from p. 19*

believes that it won't succeed. There is no global appeal in fundamental Islam's renouncing modernity, and, therefore, Bin Laden and his friends can't take advantage of the "immense historical momentum of technological progress."

This is a thought-provoking book. Given the ever-increasing importance of world trade to more and more U.S. companies, it brings the direction of future progress into perspective.—*Alfred M. King, CMA, CFM*