



[NEWS]

## Corporate Scandals Bring More Rules Changes | KATHY WILLIAMS

The continuing corporate accounting and auditing scandals have encouraged standards setters and other rules-making bodies to reevaluate some of their current requirements and propose some new ones. The International Auditing and Assurance Standards Board (IAASB) and the Securities & Exchange Commission (SEC) are two of the latest to make some changes.

### IAASB Recommends Enhanced Auditor Requirements

The IAASB of the International Federation of Accountants (IFAC) has released an exposure draft that revises its current auditing standard regarding related parties. The proposed International Standard on Auditing (ISA) 550 (Revised), "Related Parties," would require an auditor "to obtain sufficient appropriate audit evidence about the accounting for, and disclosure of, related party relationships and transactions in the financial statements."

In addition to performing current specified procedures, the auditor would have to gain enough of an understanding of the nature and business rationale of an entity's related party relationships and transactions to be able to "identify, assess, and respond to the risks of material misstatements resulting from them." The IAASB also says the auditor would have to attempt to identify related party transactions and relationships that aren't identified or disclosed by management.

These new rules have come about because of the involvement of related parties such as directors, owners, and management in the continuing major corporate scandals and because the original ISA concentrates mainly on procedures and doesn't discuss the risks of material misstatements, the Board says.

You can view the exposure draft at [www.ifac.org/EDs](http://www.ifac.org/EDs) and then submit comments to [EDComments@ifac.org](mailto:EDComments@ifac.org) by April 30, 2006. You may also fax comments to the IAASB Technical Director at (212) 286-9570.

### SEC Wants to Amend Certain Disclosure Requirements

The SEC voted to publish for comment new rules regarding how public companies compensate their highest-paid executives and directors and additional matters. The proposed rules would amend disclosure requirements for executive and director compensation, related party transactions, director independence and other corporate governance matters, and security ownership of

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## ACCOUNTING IS STILL HOT

► The evidence continues to mount that accounting is still a hot career path and that both management accountants and public accountants are in demand.

The latest statistics regarding accounting as a growing college and university major come from DePaul University's School of Accountancy & Management Information Systems in Chicago. They have seen a 37% increase in undergraduates majoring in accounting from last year to this. Accountancy is now the third most popular undergraduate major after psychology and communications.

Ray Whittington, interim dean of DePaul's College of Commerce and director of its accountancy school, attributes the jump to the new accounting controls and auditing requirements mandated by the Sarbanes-Oxley Act (SOX). Many students say the trend is occurring because accounting offers career flexibility and is a good foundation for careers in all forms of business.

Tess Nyka, associate director of Career Services at DePaul, says that 130 accounting-related organizations are working with the center to recruit students this academic year. ■



## [GOVERNMENT]

# House Passes Pension Reform Bill

STEPHEN BARLAS, EDITOR

Now that the House passed its pension reform bill, H.R. 2830, and the Senate passed its version, S. 1783, the two bills will go to conference. They are similar in some respects but different in others. Both bills raise the premiums that companies pay to the quasi-public Pension Benefit Guaranty Corporation (PBGC), which picks up a portion of pensions when a company defaults. With its liabilities already exceeding its assets and the airline and auto industries in rocky condition, the PBGC's financial future looks even worse, raising concerns about the need for a congressional bailout, which would be politically unpalatable. Hence the need to both increase corporate funding and tighten pension funding rules, which both bills do to an extent. The big development, however, is that the Bush administration, in the person of Randal Quarles, Treasury under secretary for domestic finance, said that neither the House nor the Senate bill goes far enough to resolve PBGC funding problems, raising the specter of a presidential veto.

The Bush administration said neither pension reform bill goes far enough.

## SEC Delays New Filing Deadlines, Adds Category

You need a scorecard to keep up with the changes the SEC continues to make in filing deadlines for Form 10-K annual reports and Form 10-Q quarterly reports. The Commission began ordering changes in 2002, and it has been backing and filling ever since. The latest chapter opened in December when the Commission established a new category of company—a large accelerated filer—and modified deadlines for companies in the accelerated filer category. The new category is for companies with a public float of \$700 million or more; accelerated filers will have between \$75 million and \$700 million in public float. Large accelerated filers will be subject to a 60-day 10-K annual report deadline starting in fiscal years ending on or after December 15, 2006, and to a 75-day deadline until then. They will have a 40-day deadline for Form 10-Q, the same as the accelerated filers, who will have a 75-day 10-K deadline permanently (or until the SEC makes the next round of changes). So the SEC is shelving the idea of moving up deadlines to 60 and 35 days for accelerated filers.

## Cox Criticizes "Auditing Quadropoly"

SEC Chairman Chris Cox is starting to put a personal stamp on his emerging tenure. While business groups continue to complain about auditor charges for Sarbanes-Oxley Section 404 work, Cox suggested in a speech to the AICPA National Conference on Current SEC and PCAOB Developments in December that maybe the problem is that

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officers and directors. Disclosures in proxy statements, annual reports, and registration statements would be affected; most of the disclosures would have to be in "plain English"; and the rules would modify current reporting requirements of Form 8-K regarding compensation arrangements, the SEC said.

For example, regarding executive and director compensation, the numbers would be combined with narrative text so the actual compensation would be clear. This information would be organized in three broad categories: compensation over the last three years, holdings of outstanding equity-related interests received as compensation that are the source of future gains, and retirement plans and other post-employment payments and benefits.

Regarding related parties, there would be a disclosure requirement regarding policies and procedures for approving related party transactions and a slight expansion of the categories of related persons. Regarding director independence, the rules would require a disclosure of whether each director and director nominee is independent, a description of any relationships not disclosed that were considered when determining whether each director and director nominee is independent, and disclosure of any audit, nominating, and compensation committee members who aren't independent.

You can visit the SEC website at [www.sec.gov](http://www.sec.gov) to find the complete set of rules and how to comment on them. ■



[BOOKS]

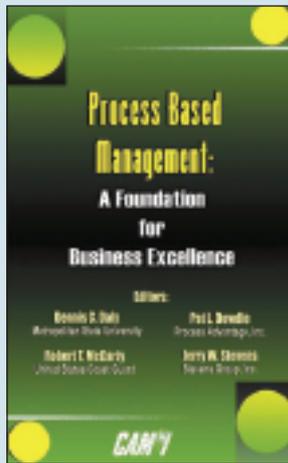
# Process Excellence

Process based management (PBM) is an approach to management rooted in the thinking that companies operate through cross-functional business processes that need to be managed in a way that optimizes performance and provides the best value to customers. In *Process Based Management: A Foundation for Business Excellence*, published by CAM-I, authors Dennis Daly, Patrick Dowdle, Robert McCarty, and Jerry Stevens have gone beyond writing another book about improving the management of processes. Their book is aimed at organizations that want to make process excellence and agility their core philosophy and strategy.

The authors begin their discussion in Chapters 2 and 3, titled "What is process based management?" and "The benefits of process based management," respectively, by presenting an excellent overview of the benefits of process based (as opposed to functionally based) management and providing examples, concise summaries, and excellent graphics to outline the benefits of improving an organization's focus on management by processes. Benefits of PBM include pushing customer focus inside operations and succeeding in implementing technology by putting process requirements firmly in the driver's seat.

The heart of the book is in the discussion of three models that define a path toward becoming a process based organization. The process based management loop (Figure 1) provides a framework for thinking, planning, taking action, and assessing progress. It presents a very clear picture of how the authors characterize a process based organization and will help you decide whether this strategy fits your organization.

The Discipline Model provides true insight into the reasons most management initiatives fail. It provides a simple visual model that drives home the point that this book is truly talking about management philosophy and strategy as opposed to a set of methods and tools. It addresses very



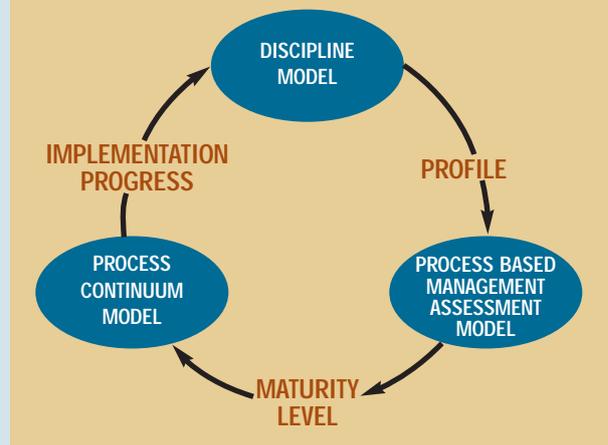
directly and credibly the reasons that managerial "Three Letter Acronyms" typically fail.

The Process Based Management Assessment Framework provides a comprehensive "mind map" of the actions an organization must take to adopt a process based philosophy and strategy throughout the organization. Initially, the descriptions of the actions struck me as somewhat vague and circular, but they are well supported by tangible case study examples where the assessment framework was field tested.

The Process Continuum Model articulates the levels of advancement toward achieving an organizational process based management philosophy. This section is thought provoking but lacks tangible credibility for the more advanced levels since the case studies don't include first-hand analysis of companies such as Dell, Southwest Airlines, and others that the book refers to frequently as best-practice process based management companies.

This book is of particular relevance for many management accountants. Accounting and financial operations are very process oriented; highly cross functional; suffer from multiple, often conflicting *continued on page 61*

Figure 1: Process Based Management Loop



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corporations had only four auditing firms they believe they can use. Cox didn't say expanding the universe of credible corporate auditors was the solution to minimizing Section 404 auditing costs, but it isn't difficult for an observer to connect the dots.

"If a quadropoly has emerged, it's fair to ask if that's because of the way the rules are written," Cox stated. He seemed to announce a review of those rules—although he didn't pose it that way. "This is a challenge that will require much study and careful thought," he concluded.

### Cox Promises Changes

Cox has also made it clear that he intends to simplify accounting rules, specifically with regard to executive compensation, a move his predecessor William Donaldson had promised to make until he either got sidetracked or was politically upended, depending on your view. A week after he appeared before the AICPA conference, Cox told the Economic Club, "When it comes to disclosure documents intended for investors, nothing is more complicated than the description of executive compensation. We aim to simplify it, and make it more meaningful." As noted on p. 21, the SEC is in the process of doing this.

### PCAOB Issues Report on AS2

No matter how hard Chris Cox or anyone else tries to change the discussion on Sarbanes-Oxley, that law's impact on auditing costs continues to come up as a popular topic of Washington discussion. Witness the Public Company Accounting Oversight Board (PCAOB) report at the end of November on implementation of Auditing Standard No. 2. That standard implements SOX Sec-

tions 103 and 404 by establishing a process for auditing a public company's internal control over financial reporting in conjunction with an audit of financial statements.

Based on its review of the work of some auditors, whom the PCAOB did not identify, the Board found a number of problems that in many cases involved auditors either ignoring or not understanding the Board's May 2005 guidance on AS2, which was meant to clear up the confusion that existed at the time. Apparently confusion still reigns and has resulted in auditing costs that are higher than they need to be. ■



[BOOKS] *cont'd from p. 23*

customer demands; and, in today's internal control and financial audit environment, demand the discipline and agility associated with exceptional process management. If your organization or your part of the organization has a heavy process component, whether in service or manufacturing, this book will provide new insights into the nature of your business and will offer a strong prescription for a process based management strategy.

The Process Based Management Program of CAM-I ([www.cam-i.org](http://www.cam-i.org)) is continuing its work in this area, and interested organizations can join the Consortium to engage in leading-edge research, benchmarking, and assessments with like-minded companies on the PBM journey. ■

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