streetwise

BY STEPHEN BARLAS, PAUL SHILLAM, KATHY WILLIAMS

[NEWS]

Companies Still Struggle with Enterprise Risk

KATHY WILLIAMS

Although companies are embracing the concept of enterprise risk management (ERM), recognizing its value, many still struggle with implementation issues, particularly making sure all employees are trained to assess, manage, and prevent it. Nevertheless, financial executives say they are better prepared for risk this year than last year.

These are just a couple of the findings from the 2006 Oversight Systems Financial Executive Report on Risk Management that was released recently. Fifty-eight percent of the 230 financial executives responding to the survey said their company has an ERM approach and philosophy where interactions among risk types are considered. An issue, though, is that only 41% have an agreed on and widely communicated definition of risk, and only 33% say their company has trained senior management and business line managers to assess the probability of risk.

Yet on the subject of preparedness:

- 85% of the financial executives say they are prepared for financial reporting risk, up from 78% in 2005;
- 84% feel prepared for credit/market risk, up from 68% last year;
- 80% feel prepared for compliance risk, up from 59% last year;
- 77% say they are prepared for strategic risk, up from 54% last year;
- 58% feel prepared for human capital/labor risk, up from 56% in 2005.

Who is actually responsible for overseeing and managing risk? Respondents said it's the CFO (44%), the CEO (20%), and the chief risk officer/VP of risk (8%). They also noted that risk management is working its way into Sarbanes-Oxley Act (SOX) compliance. For instance, 30% said their internal controls audits, as required by SOX, employed more of a risk-based approach to evaluating control effectiveness, but 33% said it was about the same as last year.

When the financial executives were asked if their company used technology in its risk management efforts, 31% said it is used to identify existing risk, 29% said it has no role in risk management, 24% said technology is used to identify existing risk and project future risk, and 16% added it is used to reduce risk as well as identify existing risk and project future risk.

For a look at the complete results, go to www.oversightsystems.com/survey. Other recent surveys on SOX and on fraud are also available there. ■

FASB TO RECONSIDER LEASE ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) has added a project to its agenda to reconsider the current accounting standards for leases. The Board says "the goal of the project is to ensure that investors and other financial statement users are provided useful, transparent, and complete information about leasing transactions in the financial statements." It will conduct the project jointly with the International Accounting Standards Board (IASB).

Before making the decision, the Board said it talked with its constituents, including the Financial Accounting Standards

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ILLUSTRATION: ADOBE

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Advisory Council (FASAC), the User Advisory Council (UAC), and the staff of the Securities & Exchange Commission (SEC). Many said the Board should undertake such a project, and the SEC already had suggested this as part of its June 2005 report to Congress on off-balance-sheet arrangements as required by SOX.

The current U.S. accounting standard for leases is Statement of Financial Accounting Standards (SFAS) No. 13, "Accounting for Leases," which was published in 1976. Since then, lease arrangements have evolved considerably, and the standards are outdated, the Board noted. It added that "Today, leasing arrangements can vary from simple rentals of equipment to complex, tax-motivated arrangements involving real estate and other types of assets. Moreover, the current accounting standards in this area are complex and rules based, which makes it possible to structure transactions to achieve desired accounting outcomes."

The first major milestone for the project will be a preliminary views document, which the FASB and the IASB plan to issue for comment in 2008. ■

[GOVERNMENT]

Senate Committee Chairman Blesses FASB Draft

STEPHEN BARLAS, EDITOR

As the Financial Accounting Standards Board (FASB) begins taking into account the comments it received on its Phase 1 Proposal on accounting guidance for retiree healthcare, pensions, and other employer-sponsored post-retirement benefits, it received some critical backing for the essence of the proposal from Sen. Richard Shelby (R.-Ala.), chairman of the Senate Banking Committee. Shelby gave his thumbs up at hearings on June 14 where Robert Herz, chairman of the FASB, explained that the Board is now in the process of addressing key issues raised by constituents. Those issues include consideration of (1) potential implementation costs, (2) the appropriate measurement date for the employer's assets and benefit obligations, (3) the appropriate effective date and transition, and (4) the appropriate guidance for not-for-profit organizations. "This accounting change would make financial statements more accurate, complete, and reliable," Shelby said at a hearing on the topic. The FASB's "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" was issued March 31, 2006.

The Phase 1 Proposal would require employers to recognize the overfunded or underfunded status of their postretirement benefit plans in their balance sheets. Thus, for defined benefit pension plans, the amount of the projected benefit obligation (PBO) would be compared to the value of the related plan assets. If the PBO exceeds the plan assets, the difference would be reported as a liability (underfunded) on the employer's balance sheet. Conversely, if the value of the plan assets exceeds the PBO, the difference would be reported as an asset (overfunded) on the employer's balance sheet.

More Complaints about U.S. Corporate Taxes

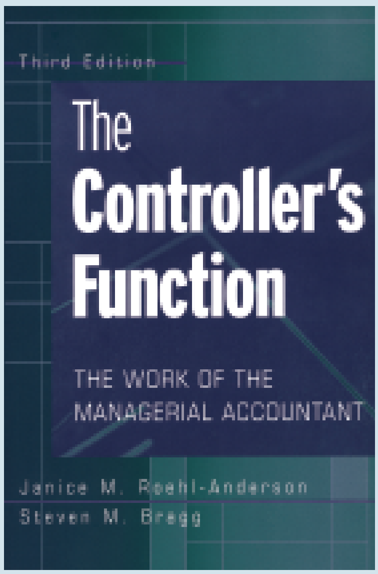
Craig Barrett, chairman of the board of Intel Corporation, kept up the drumbeat from corporate America about how the difference between high U.S. corporate taxes and lower foreign taxes is having a negative impact on the U.S. economy. That "tax gap" is why so many U.S. companies are building new facilities abroad, Barrett told the House Ways & Means Committee on June 22. To close the gap, Barrett pressed for such things as a corporate rate reduction, an investment tax credit (ITC), full expensing of a factory in year one (or expensing plus a write-off of an additional percentage above and beyond the facility's cost), or a combination of these items. He also mentioned the expiration of the research and development (R&D) tax credit at the end of 2005. It hasn't been extended yet; Congress is dithering now—as it has in the past—before temporarily extending the tax credit one more time. Barrett wants the credit made permanent and extended to "as many companies as possible performing U.S. research." ■

[BOOKS]

A Resource for Controllers

Janice M. Roehl-Anderson and Steven M. Bragg begin the third edition of their book, *The Controller's Function: The Work of the Managerial Accountant*, with the bold statement that it is the "complete operations reference manual for the corporate controller." Having recently been hired as a new controller for an organization and well aware of the multitude of duties and responsibilities that a controller has, I was a bit skeptical and wanted to put the statement to the test.

The authors define the controller's function as that of a manager—planning, organizing, directing, measuring, and financial and process analysis are all part of a controller's duties. I learned it as planning, organizing, directing, controlling, coordinating, and communicating, so at least here we agreed.



The chapter on internal control proved to be quite helpful as I considered the situations in my new position. Roehl-Anderson and Bragg started with the basics: authorization, recording, safeguarding, reconciliations, and valuation. Then they stepped through the major balance sheet and revenue recognition areas with specific, practical steps to be used in ensuring that controls are adequate. I appreciated the thorough treatment given the importance of internal control in today's business environment.

As I read through the book, I found tidbits of practical information that I have not seen in other controller's guides or handbooks. One example was with respect to leases wherein they remind the reader that in a capital lease (with no transfer of ownership) the lessee must depreciate the asset using the lease term or useful life, whichever is shorter. I had a circumstance where this applied, and it was helpful to find corroboration to support the accounting treatment of the lease.

The chapters on operational accounting and closing procedures are chock full of ideas for operating the accounting department and improving the monthly closing routines. Some of the ideas include create a training program, clear out excess documentation, and schedule the department. In the chapter on closing procedures, they say to clear out the junk—"throw out the trash so you can have a better look at what is left." I've wanted to do this many times but thought that everything should be retained. I decided that not everything was worth keeping and implemented their recommendation. That was only Step 1 in implementing the quick close.

Finally, the authors include an appendix that contains the "New Controller's Checklist." Whether you are a new or existing controller, it is worth spending some time going through this checklist to review the accounting department's priorities to ensure that key areas are being addressed.

The book's overall strength lies in the breadth of topics covered. It serves to stimulate thinking about the various responsibilities of the controller. While the book covers a wide range of topics, it can't delve too deeply into the details and technical aspects of all the topics. One of the items I wished for at the end of each chapter was a bibliography where I could go find more detail on some of the topics covered.

The Controller's Function is a good resource for controllers and other accounting/finance professionals. It brings to the forefront the issues that controllers face on a routine basis. It has practical and helpful information for the new or existing controller. Despite my initial skepticism, the authors won me over. Their casual writing style is fine by me, and I recommend this book be added to your financial library.—*Paul L. Shillam*