



[NEWS]

FASB Wants Feedback on Codification | KATHY WILLIAMS

Last month the Financial Accounting Standards Board (FASB) launched the one-year verification phase of its *FASB Accounting Standards Codification*[™] (Codification). It is asking constituents to use the online Codification Research System for free to research accounting issues and then provide feedback on whether the content accurately reflects existing U.S. Generally Accepted Accounting Principles (GAAP) for nongovernmental entities. The Board says that the Codification content isn't approved as authoritative yet, so users need to verify any research results using their existing resources for the current literature that's in effect.

The Codification contains all accounting standards issued by a standards setter within levels A through D of the current U.S. GAAP hierarchy, including the FASB, the American Institute of Certified Public Accountants (AICPA), the Emerging Issues Task Force (EITF), and related literature. It reorganizes the "thousands of U.S. GAAP pronouncements into roughly 90 accounting topics and displays [them] using a consistent structure," the FASB says. After the verification period and after addressing any issues raised during this period, the Board is expected to formally approve the Codification as the single source of authoritative U.S. GAAP, other than guidance issued by the Securities & Exchange Commission (SEC).

The FASB says it expects the new structure and system to:

- ◆ Reduce the amount of time and effort required to solve an accounting research issue;
- ◆ Improve usability of the literature, which should mitigate the risk of non-compliance with standards;
- ◆ Provide real-time updates as new standards are released;
- ◆ Assist the Board with the research and convergence efforts required during the standards-setting process; and
- ◆ Become the authoritative source of literature for the completed XBRL (eXtensible Business Reporting Language) taxonomy.

To register to use the Codification, sign up at <http://asc.fasb.org>. The home page gives full instructions, including a suggested approach on how to use the system, a Notice to Constituents, what content is excluded from the system, and descriptions of special features. ■

RISK TRENDS FOR 2008

Companies are moving away from reactive risk management programs toward proactive programs that assess risk on an enterprise-wide basis, says BDO Consulting.

Integrated Worldwide Risk Management Plans. Companies with overseas operations will move toward a singular operational risk management plan that encompasses international audit and compliance programs for multiple locations. Operational and financial risk mitigation will become more process oriented than location oriented.

Move from Fraud Detection to Fraud Prevention. Companies will move from codes of conduct and whistleblower hotlines alone to fraud prevention programs such as fraud risk assessments, fraud education for employees and management, and background checks on new employees and employees promoted to positions of trust.

Leveraging ERP Software. Companies will automate risk management functions and elevate current enterprise resource planning (ERP) software to monitor risk in real time through the identification of anomalous transactions designed to prevent fraud and material errors.

More Privacy Protection. Companies will reassess their identity theft, credit card fraud, and privacy systems to meet regulatory and customer expectations as they seek to balance the organization's risk tolerance with the increasing costs and complexity of privacy protection. ■



[GOVERNMENT]

Reporting on Business in Terrorism-Linked Countries Redux | STEPHEN BARLAS, EDITOR

The Securities & Exchange Commission (SEC) is going back to the drawing board to determine how it should require companies to report their dealings in countries designated by the State Department as state sponsors of terrorism. That designation includes Cuba, Iran, North Korea, Sudan, and Syria. The Commission had developed a Web-based tool site that provided direct access to public companies' 2006 annual report disclosures concerning past, current, or anticipated business activities in or with one or more of these countries but shut it down on July 20, 2007. Companies didn't like the fact that their names popped up in searches even though their dealings with one of the five countries were innocuous, and investors complained the information obtained via searches was too dated. Now reinstatement is in the air. The concept release issued in late November raises a number of issues the SEC will be wrestling with. The most difficult thing to do would be to keep the Web tool updated. "Doing this would require a significant and indefinite commitment of agency personnel, with concomitant impacts on the SEC budget and on the other work of the Commission, particularly within the Division of Corporation Finance," the SEC said in the concept release.

Restatements a Big Issue with Advisory Committee

Talk of Congress providing some sort of "litigation relief" for companies and auditors has fallen by the wayside in the returning Democratic Congress, and a fallback position may be emerging: a "safe harbor" from financial restatements. Among other things at its January 11 meeting, the SEC Advisory Committee on Improvements to Financial Reporting backed limiting corporate financial restatements to meaningful mistakes. The Advisory Committee's audit process and compliance subcommittee, chaired by Mike Cook, made some preliminary recommendations on restatements in early November.

In a letter to the SEC Advisory Committee, Pascal

Desroches, chair of the Institute of Management Accountants' Financial Reporting Committee (FRC), suggested a "safe-harbor" protocol be developed that would protect well-intentioned preparers from regulatory or legal action or having to restate their financial statements when a prescribed process is appropriately followed and results in an accounting conclusion that has a reasonable basis.

Desroches, in his letter on behalf of the FRC, also suggested that all restatements be reviewed by the Office of the Chief Accountant before the Division of Corporation Finance requests that a registrant restate its financial statements. In addition, he suggested the Advisory Committee may want to look to the establishment of an "Accounting Court" where companies and auditors can seek to resolve disputes they have with the SEC over interpretations of the accounting rules.

The Investors Technical Advisory Committee (ITAC), which is appointed by the Financial Accounting Standards Board (FASB), says it could accept a safe harbor for companies who promptly report the "nature and magnitude" of an error to investors, its magnitude, whether a material weakness in internal controls exists, and some other things. If all that is done, then the ITAC might accept a safe harbor. But it wouldn't support a safe harbor for historical information that is factually incorrect, nor would ITAC support a safe harbor for judgments. "That would result in a check-the-box mentality with respect to judgments and negatively impact the professional judgment required in making such assessments. It should also be noted that many of the judgments that were made in many of the recent corporate scandals have been appropriately questioned. In addition, any safe harbor for judgments would have to take into effect that the judgments being made by preparers and auditors are those considered to be 'experts' within the SEC reporting system." The ITAC's comments were signed by Mike Gyure of FTN Midwest Securities and Marc Siegel of the RiskMetrics Group.

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[BOOKS]

Managing Strategy

While the title of Bob Paladino's *Five Key Principles of Corporate Performance Management* (CPM) was intriguing, I opened the book and began reading with a bit of skepticism. I was searching for the real story in the book. I wanted to see how the book measures up to the bold statements Paladino makes in Chapters 1 and 2 summarizing the goal of his book: "*Five Key Principles* provides practical executive and practitioner best practice examples on how to establish a new CPM Office to manage strategy using integrated CPM processes....Establishing a dedicated CPM Office led by an Officer who understands and will facilitate delivery of comprehensive, integrated solutions around the *Five Key Principles* will enable your enterprises to overcome these challenges. Organizations that deploy single tools or methods and move through different methods each year, using the 'initiative du jour' approach in an ad hoc manner, do so at their own peril."

Paladino succinctly presents his five key principles in Chapter 1. They are:

1. Establish and deploy a CPM Office and Officer
2. Refresh and communicate strategy
3. Cascade and manage strategy
4. Improve performance
5. Manage and leverage knowledge

In the next chapter, he addresses the barriers to implementing strategy and explains why companies often fail to implement strategy successfully. From his experience, he has identified four major types of barriers to implementation: vision, management, resources, and people. In addition, time is a critical element in implementing any CPM

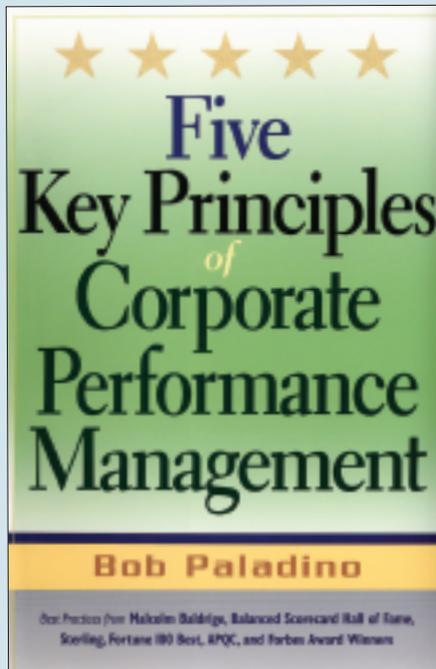
change, so Paladino discusses Charles Fine's concept of Clock Speed. He wraps up this enlightening chapter with a discussion of what he has identified as obstacles to CPM project and process success.

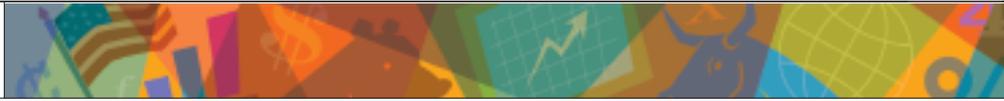
In Chapters 4 through 8, Paladino discusses each of the five key principles as they relate to case studies

from various industries. This is an effective approach to illustrate the practical uses of each principle. Each case study is replete with examples of how these companies utilized the CPM principles to integrate balanced scorecards, Lean management, Six Sigma, and other proven techniques into a comprehensive and coordinated program for organizational improvement. The CPM Office provides a central authority to unify the various tools, ensuring that performance management processes are congruent with the vision, mission, and values; fit the long-term strategies and short-term objectives; and are relevant and achievable.

The last chapter of the book provides an easy self-diagnostic approach and research resources for additional information on various performance improvement methods.

Paladino lives up to his commitment to his readers with his practical examples of organizations using the implementation of a CPM Office to integrate seemingly disparate performance management methodologies into a comprehensive and coordinated model for performance improvement. The challenge that organizations face is to take the first step by identifying the person to lead the CPM Office and facilitate the accomplishment of the other four principles.—Paul L. Shillam, CMA, CPA





[ADVOCACY]

IMA Begins Finance GRC Practice

BY LINDA DEVONISH-MILLS, CPA

Finance Governance, Risk, and Compliance (FGRC™) was one of the strategic initiatives the IMA® Board of Directors approved at its June 2007 Board meeting. Finance Governance, Risk, and Compliance is a unique complement to the growing and evolving area of GRC. FGRC is meant to provide resources, research, and professional development (including a certificate/diploma program) to help finance function personnel inside organizations produce correct, reliable, and relevant financial information for stakeholders. Ultimately, investor protections, a firm's cost of capital and valuation, and U.S. global competitiveness are impacted. While the label FGRC is new, it really is an extension of IMA's work over the past three years in producing primary research, thought-leader pieces, comment letters, webcasts, Congressional testimony, Securities & Exchange Commission (SEC) panel input, Statements on Management Accounting (SMAs) on topics such as Enterprise Risk Management, and major media interviews, such as with *The Wall Street Journal*.

Jeff Thomson, IMA's VP of research and applications development, and Tim Leech, consultant and managing director of the practice, are the thought leaders of

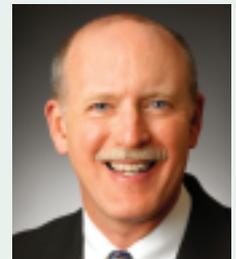
FGRC. During January, they prepared a draft discussion paper titled "Accounting Control Assessment Standards: The Missing Piece in the Restatement Puzzle," which will be issued this month. The paper shouldn't be viewed as a research study but as a thought-leader piece to discuss, debate, and research

what we believe is at the heart of the high number of financial restatements (more than one in 10 publicly traded companies issue material financial restatements): suboptimal internal control systems, the "missing piece in the restatement puzzle."

In remarks to the SEC panel on

Larry White Appointed to IFAC Accounting Board

Former IMA Chair Larry White, CMA, CFM, CPA, CGFM, has been appointed to serve on the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC). A Captain in the U.S. Coast Guard, Larry is the Commanding Officer of the U.S. Coast Guard Finance Center, where he leads 525 employees and contractors who operate the financial system and provide accounting support and financial reporting for the Coast Guard and Transportation Security Administration, as well as some agency-wide services to all departments of Homeland Security bureaus. An active long-time IMA member, Larry serves on IMA's Board of Directors. He was IMA Chair in 2004-05.



The IPSASB focuses on the accounting and financial reporting needs of national, regional, and local governments; related governmental agencies; and the constituencies they serve. It addresses these needs by issuing and promoting benchmark guidance and facilitating the exchange of information among accountants and those who work in the public sector or rely on its work. The objectives, scope of activities, and members of the Board can be found on IFAC's website at www.ifac.org/publicsector.

IMA's IFAC Advisory Committee helped identify IMA members to recommend for service on IFAC's various boards and committees. The search for IMA members to serve in this capacity is one of the Advisory Committee's strategies to help IMA maximize its membership in IFAC.

Please contact Linda Devonish-Mills for more information about Capt. Larry White's appointment or about IMA's IFAC Advisory Committee.

complexity in financial reporting last December, IMA President and CEO Paul Sharman explained: "In our opinion, the quality of financial information as measured by the number of restatements is impacted by two primary drivers. The first driver is the accounting standards themselves that prescribe how the accounting should be done, and the second driver is the underlying system of controls that ensure that the accounting is done right." Our assessment of various data sources so far (with more research required) leads us to be very concerned about the large number of cases where management, as mentioned in Section 404(a) of the Sarbanes-Oxley Act (SOX), and external auditors, as mentioned in SOX Section 404(b), attest to having an effective system of internal controls but subsequently issue a material restatement. In summary, the thought leaders of IMA's FGRC practice believe that there needs to be an intense, integrated focus on identifying, measuring, and regularly reporting "prediction error rates" of this type.

Again, the discussion paper draft will be issued for comment this month. Please contact Linda Devonish-Mills, IMA's director of professional advocacy, at lmills@iminet.org to obtain more information about IMA's FGRC.

[ADVOCACY]

IMA Forms New Small Business Committee

Small businesses are the backbone of the American economy, accounting for 60% to 80% of net new job growth each year. To address the needs of this important market segment, IMA has formed a new Small Business Financial and Regulatory Affairs Committee. The following IMA members have accepted an invitation to serve on the Committee:

- ◆ **I. Andre Alexander**, chief financial and operating officer, CFED, Washington, D.C.
- ◆ **Jeffrey H. Foster**, chief accounting officer, DuPont Fabros Technology, Washington, D.C.
- ◆ **Michael Glenn**, CFO and vice president, Birmingham Hide & Tallow Co., Inc., Birmingham, Ala.
- ◆ **Cindy Stark-Jones**, B.R. Jones Roofing Co., Stratham, N.H.
- ◆ **Oscar Lewis**, controller, Umbra Cuscinetti, Everett, Wash.
- ◆ **Mike Nwogugu**, senior vice president of Corporate Governance and Strategic Planning, Chamco Auto, Parsippany, N.J.
- ◆ **Marc Palker**, managing director, Madison Davis Professional Services, LLC, Babylon, N.Y.
- ◆ **F. Richard Ricketts**, director of finance, Snohomish County Workforce Development Council, Everett, Wash.
- ◆ **Mitch Roop**, consultant, Mitch Roop Inc., Tampa, Fla.
- ◆ **Jim Smith**, VP and CFO, Phonon Corporation, Simsbury, Conn.
- ◆ **J. Don Warren**, director of Master of Accountancy in Financial Accounting, Rutgers, New Brunswick, N.J.
- ◆ **Charna Watts**, controller, Soil Stabilization Products Company, Inc., Merced, Calif.

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[GOVERNMENT] *cont'd from p. 22*

TRIA Reauthorization

Congress got in under the wire when it renewed the Terrorism Risk Insurance Act (TRIA), which was set to expire on December 31. The renewal is for seven years. The original program, passed in response to the 9/11 attacks, provided a backstop for insurance companies when their payments for corporate property and casualty losses reached a certain level. The House initially tried to expand the program, forcing insurance companies to make coverage available for chemical, nuclear, and biological attacks and dropping the threshold over which the federal government stepped in from \$100 million to \$50 million. But the Senate, essentially held in thrall by Republicans, whose position was buttressed by veto threats from President Bush, refused to make the program more attractive, arguing that the federal government ought to get out of the terrorism risk insurance business completely. ■

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[ADVOCACY] *cont'd from p. 25*

The formation of the new Small Business Committee underscores IMA's commitment to members and owners of small businesses and their special needs. Linda Devonish-Mills will be the Committee's staff liaison. She is also the staff liaison for IMA's Financial Reporting Committee and will encourage collaboration between both committees, as appropriate.

The Committee's initial meeting is scheduled to take place next month. Please contact Linda Devonish-Mills at lmills@imanet.org for additional information about the new Committee. ■