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BY STEPHEN BARLAS, LANCE THOMPSON, KATHY WILLIAMS

[NEWS]

IMA to Update Management Accounting Glossary | KATHY WILLIAMS

The Institute of Management Accountants (IMA®) has issued an exposure draft of a new Statement on Management Accounting (SMA) that is an update of the *Management Accounting Glossary* published in November 1990 as SMA 2A. As you know, the field of management accounting has experienced tremendous changes since the previous glossary was issued. New costing and production techniques have emerged, new technologies have been developed, and the business environment has become increasingly global. All of these developments have resulted in an expansion of the management accounting body of knowledge and the need for management accountants to have an updated set of terms that reflect the changes.

IMA wants your input on the exposure draft, *Management Accounting Glossary*, which you can find at www.imanet.org/sma_exposure_drafts.asp. Please review all the terms and then send your comments by e-mail to rlawson@imanet.org or by regular mail to the Director of Research, IMA, 10 Paragon Drive, Suite 1, Montvale, NJ 07645. Comments are due by December 15, 2008.

Addressing Current Risk

As companies continue to try to understand their business challenges and manage uncertainty, there are several steps they could take now to plan for and withstand future market disruptions, a new Financial Crisis Team established by Protiviti, a global business consulting and internal audit firm, says. Here are some of the team's recommendations:

- Undertake a detailed review of your financial condition with a focus on asset quality, liquidity, capital strength, and financing alternatives.
- Understand and evaluate the financial options available under various government programs and private sector alternatives.
- Stress test financial models, including resulting credit and market risk exposures.
- Undertake a review of the current risk management framework with a focus on processes for assessing credit and counterparty risk and liquidity risk.
- Conduct due diligence on underlying assets considered for disposition or acquisition.
- Explore strategic alternatives, including options for mergers, acquisitions, and restructuring.

For more information, visit www.protiviti.com/economiccrisis. ■

PCAOB PROPOSES NEW AUDITING STANDARDS ON RISK

The Public Company Accounting Oversight Board (PCAOB) is proposing seven new auditing standards related to the auditor's assessment of and responses to risk. The proposed standards would supersede the Board's interim auditing standards related to audit risk and materiality, audit planning and supervision, consideration of internal control in an audit of financial statements, audit evidence, and performing tests of accounts and disclosures before year end.

The Board says the standards would establish requirements and provide direction on audit procedures performed throughout the audit from the initial planning stages through the evaluation of the audit results in forming the opinions in the auditor's report. The seven proposed risk assessment standards are:

- *Audit Risk in an Audit of Financial Statements*

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

- *Audit Planning and Supervision*
- *Identifying and Assessing Risks of Material Misstatement*
- *The Auditor's Responses to the Risks of Material Misstatement*
- *Evaluating Audit Results*
- *Consideration of Materiality in Planning and Performing an Audit*
- *Audit Evidence*

The text of the proposed auditing standards and related amendments to PCAOB standards are available on the Board's website at www.pcaobus.org under Rulemaking Docket No. 026. Comments to the Board are due by February 18, 2009.

Notice of Termination

On May 12, 2008, the IMA Committee on Ethics voted to terminate the membership of the following individual for an ethics violation, as provided in Article II, Section 5 of the IMA Bylaws: Stewart L. Cloer, member #6003361. ■

We welcome all opinions on articles and departments published in *Strategic Finance*. E-mail correspondence to Kathy Williams at kwilliams@imanet.org.

[GOVERNMENT]

SEC Guidance on Fair Value Discounted

STEPHEN BARLAS, EDITOR

The financial crisis has elevated the issue of fair value accounting to a rarified political level, one that accounting issues are unaccustomed to achieving. The joint statement from the Securities & Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) issued on September 30 (www.fasb.org/news/2008-FairValue.pdf) was an attempt to give banks, investment companies, and others some latitude in valuing financial assets for which neither market prices nor observable transactions are available, but it was "guidance," not a "reform" of the FASB's Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements." In fact, many accounting mavens discounted that joint guidance as saying very little beyond what SFAS No. 157 already says about incorporating market risks into valuations of securities for which there is little or no market. One accountant noted, as others would certainly concur, that with regard to fair value and SFAS No. 157, the big issue coming up is application of the aforementioned guidance to nonfinancial assets acquired and liabilities assumed in a business combination. SFAS No. 141R, the FASB statement on business combinations, will require companies to follow SFAS No. 157 in determining the fair value of many more difficult-to-value assets and liabilities. For companies whose financial year is the calendar year, SFAS No. 141R will be effective for business combinations in which the acquisition date is on or after January 1, 2009.

The application of SFAS No. 157 is of interest not only to financial companies loaded down with mortgage-backed securities, but to all companies—industrial, retail, service, or otherwise—some of whom may hold, for example, deflated investments such as Lehman bonds. The Congressional bailout bill contained language on what the SEC ought to do with regard to fair value accounting. Separately, a letter to SEC Chairman Chris Cox from 65 members of Congress asked Cox replace "mark to market" with a form of "mark to value." That, of course, would be a major reform of SFAS No. 157. The September 30 FASB/SEC press release containing guidance mentioned the Valuation Resource Group (VRG), an advisory committee within the FASB that has been meeting for the past year with the aim of making recommendations on *changes* to SFAS No. 157, a process the FASB began in January 2007. The VRG's last meeting was on September 23, but it hasn't made any recommendations, nor has the FASB moved very far along on any of its internal revision projects, such as Proposed FASB Staff Position FAS 157-c, "Measuring Liabilities under FASB Statement No. 157" (FSP FAS 157-c). A staff proposal was issued on January 18, 2008. The comment period ended February 18, 2008. There was considerable pushback, mostly by accounting companies. At its April 9, 2008, meeting, the FASB then directed staff to make changes, but Ronald Maples, the staffer working on FSP FAS

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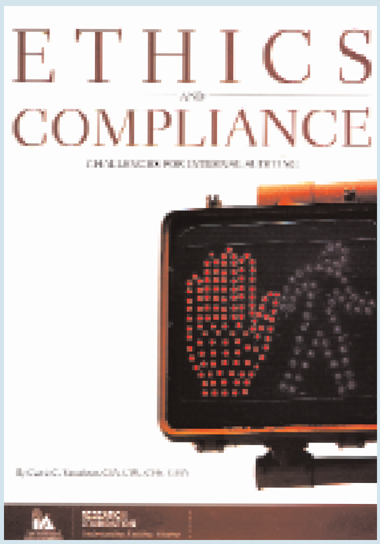
[BOOKS]

Ethical Corporate Governance

The topic of ethics and compliance has become an important issue in companies of all shapes and sizes and in all industries. It is critical for anyone involved in corporate governance, oversight, and even day-to-day to operations. As recent corporate scandals have demonstrated, a lapse in ethical conduct not only has the potential to cost a company and its investors millions—even billions—it can even send the most well-established and respected company to the brink of bankruptcy.



To prevent that, those involved with governance processes in particular must keep abreast of the recent developments affecting organizational ethics and compliance. That's why *Ethics and Compliance: Challenges for Internal Auditing*, written by Curtis C. Verschoor and published by the Institute of Internal Auditors (IIA), explains how ethics and compliance are vital to strengthening the governance process. [Disclosure: Verschoor also is the editor of the monthly ethics column for *Strategic Finance*.] With the increase of legislative and regulatory measures aimed at keeping organizations in line, this book identifies who is responsible for monitoring the ethical climate of the company, explains how this can be done effectively, and discusses how it all relates to the role of the internal audit function. *Ethics and Compliance* outlines the responsibilities for the internal auditor, audit committee members, corporate counsel, external auditors, and all executive management involved in governance and internal controls.

Other major topics covered include:

◆ Ethics and compliance as related to IIA's *International Standards for the Professional Practice of Internal Auditing*. Practitioners of internal auditing need to understand the necessity for complying with these standards in the performance of their duties.

◆ The interrelationships between ethics and compliance and internal control. COSO's (The Committee of Sponsoring Organizations of the Treadway Commission) guidance on internal control places considerable importance on ethics as part of the control environment.

◆ Statutory rules created by the 2002 Sarbanes-Oxley Act require an effective ethics and compliance program. Effective programs support good governance practices based on a strong ethical climate that benefits all stakeholders.

◆ Characteristics of effective ethics and compliance programs and the best practices for assessments. The ethical climate and other "soft" ethical controls are critical for complying with legal, regulatory, and stock exchange requirements.

◆ The value of an organization's code of conduct and confidential reporting process. The code of conduct serves as the core of an effective ethics and compliance program, while a confidential reporting system (a help/hotline) should be able to obtain truthful and complete information.

◆ A sample code of conduct from Google, Inc., a unique company with a diverse culture. The code is tailored to fit the personality, core values, and culture of the company and is used to clarify the important values that underlie its business practices.

Ethics and Compliance is a valuable learning tool that examines the latest challenges and practical solutions for internal auditors in their role as it relates to organizational governance. All personnel with increasing responsibilities for ethics and compliance (including audit committees, corporate counsel, and external auditors) will also benefit by improving their "best practice" knowledge.—*Lance A. Thompson, Thompson Management Consulting Services, LLC, lancephx@aol.com*

[GOV'T] *cont'd from p. 24*

157-c, says nothing has happened since April.

Pension Fee Disclosure Still at Issue

With the Bush administration's time in office coming to a rapid close, various federal agencies are hastening to complete rulemakings, including some controversial ones, such as the Labor Department's latest efforts to dictate enhanced pension fee disclosure by corporations. The Employee Benefits Security Administration (EBSA) put out a proposed rule in July that would require plan participants to be furnished with two general categories of information upon enrollment and at specified intervals thereafter: plan-related information and investment-related information. Plan-related information primarily encompasses administrative expenses of the plan, such as legal and accounting fees, and expenses related to the actions of a specific participant, such as a loan processing fee. As an example of investment-related information, the proposal provides for the disclosure of specific information regarding each designated investment option and that such information be disclosed in a form that facilitates comparisons of investments.

But Olena Berg Lacy, head of the EBSA during the Clinton administration and now a member of the board of directors of the Pension Rights Center, complained to a Senate committee in September that the Bush administration proposal falls short, arguing, "The regulation as proposed does not require sufficient explanation of either fees or investment choices." On the other hand, Randy Johnson, vice president at the U.S. Chamber of Commerce, was pleased the EBSA took into consideration many of the concerns American businesses voiced, especially where the EBSA said companies can aggregate fees rather than listing them on a service-by-service basis. He hopes the final rule pushes back the effective date of compliance, which the proposed rule set at January 1, 2009. ■