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Dear Members

Dear Members

This issue of BusIndNews has something for everyone – the latest from the SEC and PCAOB on SOX 404 for public companies, the launching of an important new committee for private companies, and a summary of issues on important topics for those of you in not-for-profits.

There is also an underlying international theme with two new offerings from IFAC, the International Federation of Accountants, and an article about the 100 Most Influential People in Finance which marked a shift this year to globalization as a major determinant for those making the list.

Picking up on the international theme, registration is now open for the [2007 International Financial Executive Forum](#) to be held in Montreal October 3-5. This unique high-level learning experience offers a rare opportunity to develop a network of peers at the international level. Also, the registration deadline is drawing near for the [AICPA/USC Executive Education program](#) to be held July 11- 13. This is another terrific learning experience with a slightly different flavor.

Finally, the Careers section carries a summary of a SmartPros analysis of CPA salaries highlighting the “CPA Difference.” As CPAs you make a difference in your workplace by adding value to your employer with the skills, training and experience that you bring to the challenges that you face. As this summary indicates, that added value that you bring with your CPA credential is rewarded in the workplace. Remember too, to mentor younger people in your organization and encourage them to pursue the CPA credential.

A key element of our mission at the AICPA is to help you maintain and develop the skills you need to continue to add the value that your employers expect from you.

Best regards,

John

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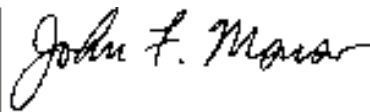
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John F. Morrow, CPA
AICPA Vice President
Business, Industry & Government

Top Stories

SEC Votes to Adopt Guidance for Management's Assessment of Internal Control

At their open meeting on May 23 the SEC voted to adopt interpretive guidance on management's assessment of internal control over financial reporting. In addition to the guidance the SEC also approved rules to require a single opinion on ICFR rather than the dual opinion currently required under Sarbanes-Oxley Sec 404.

Zoe-Vonna Palmrose, SEC Deputy Chief Accountant for Professional Practice, commented in the meeting that the two broad principles outlined in the exposure draft of the interpretive guidance have not changed:

1. Management should evaluate the design of the controls that it has implemented to determine whether they adequately address the risk that a material misstatement in the financial statements would not be prevented or detected in a timely manner.
2. Management's evaluation of evidence about the operation of its controls should be based on its assessment of risk.

Palmrose also outlined four major modifications that were made to the original proposed interpretive guidance as follows:

1. **Revisions to better align with the PCAOB proposed ICFR auditing standard** - Aligned the definition of material weakness and the related guidance for evaluating deficiencies.
2. **Clarification on entity-level controls and how they address financial reporting risks**- The discussion of entity-level controls in the interpretive guidance was expanded to place a greater emphasis in this area.
3. **Self-assessment, including ongoing monitoring activities** - The interpretive guidance was revised to clarify how the evidence obtained from these activities can vary.
4. **Enhanced guidance on fraud risk considerations**- The interpretive guidance was revised to explain that the risk of fraudulent financial reporting will exist in virtually all companies; the

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existence of a fraud risk does not mean that fraud occurred; and the risk of management override is something that virtually every company needs to consider.

Hopefully, this new guidance will live up to the expectations expressed in the following Q&A that was part of the pre-meeting exchange between the Commission and SEC staff:

- ***Speaking to the non-accelerated filer audience in plain-English, what are the inefficiencies that are being washed out? What was happening under the old system that the SEC didn't want to see happen and that won't be happening anymore?***

The first area where inefficiencies will be washed out is within the extent of testing of controls and the fact that controls, irrespective of their risk of failure, were tested all the same. The Staff recognizes that the risks associated with controls vary and the extent of testing will vary. In lower risk areas, what you are already doing can provide you with evidence. Secondly, there should be no more documentation for documentation-sake. Thirdly, the Staff recognizes that in smaller companies there is an element of daily interaction, so you do not need to go out and ask someone to tell you something that you already know and then duplicate it in some way.

More information on this is available on the [SEC website](#).

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PCAOB Approves AS5

In a similar open meeting on May 24 the PCAOB voted to adopt AS 5. Laura Phillips, PCAOB Deputy Chief Auditor, highlighted the noteworthy changes that were made to the original proposed internal control standard issued in December of 2006 as follows:

1. **Alignment of Key Terms and Concepts.** Revised AS5 aligns key terms and concepts with terms used in SEC rules and guidance — for example, material weakness, significant deficiency, and entity-level controls (as opposed to company-level controls).
2. **Top-Down Approach.** Revised AS5 allows auditors to tailor their top-down approach to the circumstances of individual companies by removing the requirement to specifically identify major classes

of transactions and significant processes before identifying relevant assertions.

3. **Entity-Level Controls.** Entity-level controls were emphasized in the proposed standard and to continue with this emphasis, revised AS5 includes a discussion of three broad categories of entity-level controls which vary in nature and precision, along with an explanation of how each category will affect tests of other controls. For example, entity-level controls that monitor the operation of other controls in a precise manner may reduce the need for testing of the underlying, process-level controls.
4. **Material Weaknesses.** Auditors should not scope audits to find deficiencies that, individually or when aggregated with other deficiencies, do not constitute material weaknesses. At the same time, the standard retains the requirements to evaluate all deficiencies that are identified and communicate both material weaknesses and significant deficiencies, in writing, to the audit committee.
5. **Walkthroughs.** The staff believed that in some instances the requirement of a walkthrough may have overshadowed the objective. Revised AS5 focuses on achieving certain objectives and the performance requirement is based on fulfilling those objectives. While a walkthrough will frequently be the best way to achieve that performance requirement, the auditor should not be focused on the mechanics but rather the objective.
6. **Scalability.** The section related to scaling the audit has been removed and this discussion has been spread throughout the revised AS5 in respective locations. AS5 still contains a list of attributes for smaller companies.
7. **Using the Work of Others.** Instead of adopting the proposed standard on considering and using the work of others, the Board [retained AU Section 322, The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements](#). Also, AS5 itself expressly permits auditors to use, in the internal control audit, testing and other internal control work of persons other than internal auditors.
8. **Fraud Risk and Anti-Fraud Controls.** A discussion of fraud risk and anti-fraud controls is provided at the beginning of the revised AS5 standard, to emphasize the importance of these matters in assessing risk.

Additional information is available on the [PCAOB website](#).

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Private Company Financial Reporting Committee to Address FIN 48

The newly-formed [Private Company Financial Reporting Committee](#) held its first meeting in Chicago in May and has already issued its first two comment letters on current FASB agenda items as they relate to private companies.

The PCFRC will also be taking a look at existing GAAP and has identified Fin 48 as its first priority project because of the immediate impact on private companies. Members of the Business and Industry Executive Committee will be participating as part of the PCFRC Resource Group and recently provided some high-level input to help the committee shape more in-depth and broad-based outreach on this topic.

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IFAC Launches Global Survey on the Financial Reporting Supply Chain

The International Federation of Accountants (IFAC) is inviting all participants in the financial reporting supply chain to complete a global survey designed to obtain information that could strengthen the financial reporting process. The survey, which may be completed through July 6, 2007, is part of an IFAC project designed to analyze the financial reporting supply chain and to develop recommendations to further improve the quality of financial reporting. It can be accessed online at <http://www.ifac.org/financialreportingsurvey>.

The survey which is part of a global initiative seeks views on corporate governance, financial reporting, and financial auditing and asks what actions those in the financial reporting supply chain think will further improve the quality of the financial reporting process. The survey will be complemented with a number of in-depth one-on-one interviews.

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IFAC Code of Conduct Guidance

The IFAC Professional Accountants in Business Committee has just published an International Good Practice Guidance Document, [Defining and Developing an Effective Code of Conduct for Organizations](#),

which is available as a free download at the link.

The Guidance outlines six principles for developing a values-based code to promote a culture that encourages integrity and ethical behavior and supports employees in “doing the right thing” by allowing them to make appropriate decisions. The appendices to the Guidance include a sample code of conduct and links to additional resources on ethics.

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New Standard on Business Valuation to be Released This Month

Later this month the AICPA Consulting Services Executive Committee will release a new standard: Statement on Standards for Valuation Services No. 1. This new standard will become effective on January 1, 2008. Two things members in business need to know about this new standard:

- It does not apply to you if you are performing a valuation as part of your regular employment in a company/organization. However, if you are performing a valuation *outside* your regular employment, then the Standard does apply to you.
- If you are engaging an outside CPA firm to perform a valuation for you, they will have to comply with the new Standard.

A copy of the standard will be posted at www.aicpa.org for your review, and you will hear more about this through the usual AICPA communication vehicles.

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Capital Allocation Processes: McKinsey finds a Mixed Bag of Findings

A recently published [McKinsey Quarterly Survey](#) focused on capital allocation processes in companies and found some interesting, albeit mixed results. The survey focused on four types of investments: acquisitions, “maintenance” investments needed to sustain business as usual, projects aimed at stimulating growth in existing businesses, and efforts aimed at innovation.

Generally speaking respondents indicated that they had reasonably

robust processes, and the right people involved, but indicated a tendency to be risk averse and to look at proposals individually rather than taking a portfolio perspective. The outcomes of investment decisions are one dimension of the “mixed results.” Corporate-level executives indicated that 17 percent of the capital invested by their companies went toward underperforming investments that should be terminated and that 16 percent of their investments were a mistake to have financed in the first place. The critique by business unit execs was even a bit harsher.

Perhaps of more concern from the perspective of a CPA in business in industry are the factors and dynamics that undermine thoughtful and thorough analysis. The article summary comments that “the less-than-ideal combination of optimism, risk aversion, and one-off decision making is perhaps exacerbated by the prominence of corporate politics. Respondents say that behind-the-scenes lobbying and logrolling—and sometimes outright deception—are fairly frequent and seem to inhibit constructive debate and dissent throughout the resource allocation process.”

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Emerging Issues for Not-for-Profit Organizations

As we go to press with this issue of *BusIndNews*, many of our members who work in not-for-profit organizations, or audit them, are attending the annual AICPA Not-for-Profit Conference in Washington DC, once again a sold-out event. The busy season for many NPOs with June 30 or July 31 year-ends is also rapidly approaching, making for a timely release by PriceWaterhouseCoopers of their annual [Summary of Emerging Issues for Not-for-Profit Organizations](#).

The Summary is a comprehensive collection of accounting and governance issues gleaned from PwC internal sources and external sources, including the AICPA, which are referenced in the executive summary. A few noteworthy A&A issues highlighted in the exec summary are:

- **SAS No. 112 – Communicating Internal Control Matters Identified in an Audit.** - This new SAS adopts a new definition for “control deficiency”, “significant deficiency” and “material weakness”. We have previously raised this concern to the attention of privately-held companies in *BusIndNews*. In addition to the expectation that the new definitions will lower the threshold for reporting control deficiencies, SAS No. 112 will cause more

internal-control-related findings to be reported to management and audit committees under OMB A-133 audits.

- **FASB No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.** – This pronouncement has been “fast-tracked” and becomes effective for the fiscal year ended June 30, 2007.
- **Government Accountability Office (GAO) “Yellow Book”** - Comprehensive changes issued by the GAO in January 2007 are covered in the regulatory compliance section of the Summary.

This year's Summary has a new section “Other Issues” that includes a Uniform Prudent Management of Institutional Funds Act that will impact organizations in states that adopt it. In addition, the executive summary touches on issues resulting from the legislative arena, such as the requirement for making Form 990-T available for public inspection, and the focus on executive compensation by Congress, encouraging all types of not-for-profit organizations to have robust policies and processes in place to approve, document

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Career Corner

Salary Survey Results: The CPA Difference

Earlier this year [SmartPros.com](#) conducted its annual salary survey and found that 41% of their respondents held a current CPA license, exclusively. Because of this large proportion they performed an analysis of the CPA-only respondents and produced a follow-up report which is available at the link. Some of the key findings most relevant to the CPA in business and industry include:

1. CPA-certified respondents who participated in the SmartPros Salary Survey reported an average salary of \$91,608. This is a 9 percent increase over what CPAs reported in [last year's](#) SmartPros Salary Survey (\$84,051).
2. CPAs in Public Accounting -- 42 percent of entrants -- reported an average salary of \$80,767. Those in Corporate Finance represented 38 percent of entrants and reported a significantly higher average of \$106,597.
3. By employer size, recipients who work for employers with 101-500 employees reported the highest average salary: \$111,369.

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The Year of the Global Finance Executive

Treasury and Risk Management magazine has released its list of the [100 Most Influential People in Finance](#). While a generally interesting list of people and categories, perhaps most notable about this year's list is the theme. According to the editors making the selection, for the first time since 2002, Sarbanes-Oxley and compliance was not the dominant force. The most influential factor or theme of this year's list is globalization.

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Roadmap for Aspiring CFOs

In an [Arjay Miller lecture](#) addressing Stanford MBA students, Autodesk CFO Al Castino argued that successful chief financial officers are also good politicians. Borrowing from a theme of the notable Stanford professor Jeffrey Pfeffer, Castino said that "it isn't enough to be a financial whiz... adept CFOs are able to convince people that their ideas are the right ones."

Castino also had some advice for aspiring CFOs:

- **Make sure you learn how to lead people.** Castino's predecessor at Autodesk knew just as much about finance, but he wasn't able to persuade company leaders and employees to change.
- **Focus on making reality better, not making it look better.** Investment bankers will try to sell you complex accounting formulas meant to mask problems, he said. Rather than wasting your time and money on window dressing, focus on fixing things.
- **Build a strong team.**
- **Be honest with employees and investors about what you're going to do.** Tell them your goals and be honest about the risks.
- **Share the credit for success.** If you do, people will want to be on your team.
- **Be suspicious.** The bigger the investment banking fees, the more suspicious you should be of the deal. Tech mergers often invite culture clash and conflict. Unlike banking products, software and hardware made by different companies are often incompatible, leading to unhappy marriages.
- **Look to the future.** Management must look at least five years ahead while executing "ruthlessly and constantly."
- **Be sure your financial strategy parallels and supports the business strategy.** The lines between divisions are blurring,

making it essential that they be on the same page.

- **Keep physically fit.** Physical fitness is important, so “don’t let your career take it away from you.” Physically fit people are more creative and engaged in their work.
- **Try your hand at running teams and building companies.** If you’re good at it, the money will come. Making big money is not much of a life goal. “I typically find rich people boring, to be honest,” he said.

The article summarizing the address, available at the link above, also summarizes Castino’s success in “practicing what he preaches.” In turning around Autodesk, Castino as part of a new executive team transformed the company from a passive “order taker” for its AutoCAD software product to a business with a significant presence in China that has allowed it to develop several new products and increase its sales and stock price dramatically in just five years.

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Tech Center

AICPA IT Center Offers Free Webinar – July 17 - 2pm ET

The AICPA [Information Technology Center](#) **Top Ten Technology Initiatives Web Seminar** for July will be open to non-section members and provide an overview of the benefits available and topics covered by the Section. Mark your calendars now and check the IT Center site at the link above for upcoming details.

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Learning Links

New! COSO Guidance for Smaller Public Companies Self-Study Video

In July 2006, COSO issued [Guidance for Smaller Public Companies Reporting](#) on Internal Control Over Financial Reporting to provide guidance to smaller company board members, senior management, other company staff and external auditors in cost-effectively applying *Internal Control — Integrated Framework* for assessing and reporting on the effectiveness of internal controls. This course will complete your understanding of the new COSO document.

Free Test Drive for New AICPA CPEExpress

The AICPA's popular online learning library has a new name and enhanced functionality.

A 30 day free trial of CPEExpress, formerly known as InfoBytes, is being offered to introduce the new features and appearance of the product. For more info click on

[CPEExpress](#) and register for your free trial.

Financial Training Decision-Makers: For information on in-house training and tools to manage professional development, go to [AICPA Learning](#) or call 1-800-634-6780, Option 1

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Conference Spotlight

Register Now! International Financial Executives Conference – Oct 3-5 Montreal

The agenda has been set, the brochure finalized and registration is now open for the [2007 International Financial Executive Leadership Forum](#).

This one-of-a kind forum features a terrific array of speakers and panelists and will be held at the [Intercontinental Hotel](#) in Montreal, Canada **October 3-5**. Sponsored by the AICPA, CMA Canada, and CIMA this conference offers senior executives and their high-performing staff members an opportunity to expand networks and knowledge beyond local borders.

Register today and mark your calendars to join an international group of colleagues in this exploration of business challenges and opportunities in our increasingly global economy.

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AICPA/USC Executive Education: Financial Executive Program – July 11-13

The AICPA in collaboration with the USC Marshall School of Business will once again be offering the executive education program designed last year for our members in business and industry. This is a terrific opportunity to have an intensive, interactive case-based learning

experience with a limited number of your peers on the campus of one of the premier business schools in the country. Register now on [AICPA Conferences](#) website.

Construction Industry Financial Executives Forum – July 24-25

This Forum has been designed especially with the unique perspective of the construction industry executive in mind. Take-aways from this conference include the latest trends and emerging issues for the construction industry, legal strategies for managing risks and avoiding “killer clauses” in construction contracts, implementation and evaluation strategies for minimizing risk related to labor law and employment practices, and other business critical topics.

[Register now](#) to attend this Forum at the four-diamond Omni Interlocken Resort in Colorado and take advantage of the \$100 AICPA member discount and the \$75 early-bird discount that has been extended through the end of June

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Book it Now – 2007 Controller’s Workshop in Las Vegas

One of the AICPA’s most popular sell-out events, the [Controllers Workshop West](#), will be held this year at Caesar’s Palace in Las Vegas on July 19-20. Controllers Workshop is uniquely designed to help you increase the contributions you make to your company’s strategic objectives and will once again this year be the forum for presenting our 2007 Hall of Fame awards. Click on the link to secure your spot.

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