



February 23, 2006— Issue #91

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DEAR MEMBERS

This is a tough time of year: winter doldrums, year-end financial statements and the annual audit for most of you out there. At the same time we read reports on the Enron trial and the pressure that many people were under to report favorable financial information. The message comes home once again that especially at this time of year, you may come under significant pressures that challenge your ethics. Over the years I've had contact with a good number of people that have been in this position and a statement I continually hear is "I didn't know what to do, or whom to talk to." Hopefully you will never be challenged in this way, but if you are, we created an ["Ethics Decision Tree for CPAs in Business & Industry"](#) to help walk you through a rationale series of steps to take to lead to a resolution, one way or another. This decision tree was developed several years ago by a task force of members as a way to help you through this stress. If you are challenged in this way, we hope you find this decision tree useful.

In recent issues we have directed your attention to the [XBRL Preparers Survey](#), assessing the needs of our members for both internal and external reporting, and to the [Independence Requirements Survey](#), which addresses independence requirements for compilation engagements. While these may not be "hot-button" issues for you, our colleagues responsible for the areas value highly the input they receive from our members in business and industry, so we would encourage you to take a minute and provide your feedback.

Best regards,

John F. Morrow, CPA
AICPA Vice President
The New Finance

TOP STORIES**SEC Staff Position Regarding Changes to the Statement of Cash Flows Relating to Discontinued Operations**

The SEC staff has advised us, and asked us to communicate, their views concerning classification of discontinued operations within the statement of cash flows. In Joel Levine's December speech at the AICPA Annual Conference on SEC and PCAOB Current Developments, Mr. Levine identified certain presentation formats considered to be inconsistent with Statement of Financial Accounting Standard No. 95, Statement of Cash Flows (SFAS 95). While the SEC staff believes issuers using any of those formats should revise their presentation through restating prior periods as correction of an error, the staff further advised us they will not object to issuers retrospectively modifying

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their presentation similar to a change in accounting method (without referring to the correction of an error). In reaching this position, the staff considered many factors, including the usefulness of information currently depicted in those presentations and the longstanding practice of a large population of issuers. Issuers who choose to retrospectively modify their presentation must provide enhanced disclosures such that readers are aware that the cash flow presentation has been modified.

For example, if the previous presentation was to have a single line at the bottom of the statement of cash flows containing the combined Operating, Investing and Financing cash flows of Discontinued Operations and the registrant's choice is to disclose such cash flows by expanding the previous one caption display, then the footnotes would need to clearly disclose the change, and the face of the cash flow statement should indicate the change by labeling either the column or the marginal heading as "revised" or "restated." However the SEC Staff has advised us that characterizing the modification as "reclassified" in the column or marginal heading would NOT be acceptable. An example appears below:

<p>Cash flows of discontinued operations (Revised - See note X) Operating cash flows Investing cash flows Financing cash flows Total (this caption is acceptable, but not required)</p>

If a registrant chooses to provide the disclosures of the cash flows pertaining to the discontinued operations by adding an additional line to each of the three categories of cash flows, that method would have the effect of changing the total for each such category. In that case, the marginal caption revision described above cannot be used and the column heading of each year must be labeled "Revised - See note X" or "Restated - See note X."

The SEC staff has stated that the footnote disclosure of the change must be specific and that it is not acceptable to assert that this change is already encompassed by the general policy note statement "Certain prior year amounts have been reclassified for comparative purposes to conform to current year presentation." The SEC Staff would expect the disclosure to more closely approximate "In 2005 the company has separately disclosed the operating, investing and financing portions of the cash flows attributable to its discontinued operations, which in prior periods were reported on a combined basis as a single amount."

Registrants would need to make these changes in the next periodic report filed subsequent to February 15, 2006. If the issue is discovered and corrected in a later interim or annual period, the SEC staff would expect the modification to be treated as a correction of an error, and would expect the prior filing(s) to be amended. The staff believes that misclassifications in the statement of cash flows that are caused by a misapplication of SFAS 95 are errors and therefore their conclusions in this issue would not affect other situations.

Other reminders: If an issuer presents on its balance sheet a single line for assets of the discontinued operations and it includes 'cash and cash equivalents' – the issuer should consider additional disclosures that may be necessary with respect to cash flows from discontinued operations depicted on the statement of cash flows.

Even though the alternative disclosure is similar to a change in accounting

method, no preferability letter is required in this circumstance.

If you have any questions regarding this position, please contact the SEC Division of Corporation Finance at (202) 551-3400.

Why the Economy is a Lot Stronger Than You Think

In our last issue we released the results of the [December 2005 Business and Industry Economic Outlook Survey](#). The cover story of the February 13 issue of [Business Week](#) available online at the link carrying the above title provides some interesting insights, exploring some of the work of a new generation of economists who are trying to get a grip on the “shadow economy” that is not being captured by conventional reporting measures.

Beginning with the argument that intangibles such as R&D, training and brand development are poorly tracked by today’s statistics, the article makes one argument that if you incorporate spending for intangibles into the picture that investment is actually rising as a share of the economy rather than falling.

Similarly, foreign trade statistics do not reflect the human capital brought in by skilled immigrants, nor do they reflect exports of knowledge from our economy. Factoring into trade statistics the investment in education and training that these workers bring with them, along with the exports of knowledge related to products designed in the US but manufactured overseas, results in an entirely different trade picture than the one being painted by current measures.

Finally, counter to the prevailing bleak view that the “the sky is falling’ because of the low personal savings rate in the US, the article points to the huge investment in education made in this country which is counted as current consumption in public data.

Hopefully, we are preparing our next generation of economists and accountants to grapple with these issues. In the meantime, while we intentionally incorporated some of these measures into our Business and Industry Economic Outlook Survey, inquiring specifically about brand spending, new product development and IT spending, we will continue to refine our questions to include investments in employee training and development and think about other ways to capture our knowledge economy.

Outsourcing Returns and Concerns

A recent [CFO.com](#) article highlights research that suggests that returns from outsourcing may be more difficult to realize than widely assumed, with one of the contributing factors being that many if not most companies inadvertently transfer knowledge capital to outsourcing companies along with tangible assets.

Further, under an accounting rule enacted in January 2004 by the International Accounting Standards Board, much of any cost savings could disappear, since companies would no longer be able to transfer any of their outsourced assets from their balance sheets to that of the service provider. That's because the contract would be considered a form of leasing, and the IASB rule won't allow assets financed by leases to be transferred for purposes of financial reporting. While this rule will not necessarily become US GAAP, efforts towards convergence should be considered in taking a strategic view.

Those of you thinking about outsourcing parts of your finance and accounting operations might find a research study by HR.com on the market and trends in outsourcing and offshoring to be of interest. Discussing some of the pros and cons as gleaned from a list of 14 top outsourcing providers, the article underscores the “critical yet often overlooked process in the outsourcing transaction” – governance. As compared with strict IT outsourcing, regulatory requirements around the finance and accounting business process operations create significant risks. These risks require more extensive governance organizations to manage day-to-day service delivery, problem analysis and risk management on a proactive and strategic basis.

IFRS Impacting Investment Decisions as SEC and EU Move Forward

In a [press release](#) issued on February 8, SEC Chairman Cox reaffirmed his commitment to the “roadmap” to eliminate, by 2009 at the latest, the SEC requirement for foreign private issuers to reconcile financial statements prepared in accordance with international financial reporting standards (IFRS) to US GAAP. A milestone in the roadmap will be reached in mid-2006, when many foreign issuers begin to file with the SEC IFRS-based financial statements that includes a reconciliation to US GAAP. In the second half of 2006, as noted in the roadmap, the SEC staff plans to begin carrying out an analysis of these financial statements and will confer with relevant parties about its analysis.

In a separate but related development, PwC released the results of a groundbreaking survey that reveals that conversion to IFRS is having a real impact on the way European fund managers perceive companies and consequently the investment decisions they make. The survey also reveals that more than half of fund managers interviewed believe that the IFRS information reported had directly influenced their investment decisions. To access the survey and the PwC analysis of some of the implications for US capital markets and US GAAP, click on the following link to [IFRS - The European Investors' View](#)

International Risks

BusinessFinance Mag.com recently featured an update by Aon on the risks posed by doing business in different parts of the world. Aon ranks the countries currently posing the greatest threat to U.S. supply chains, because of natural disasters, political instability, arbitrary regulatory actions, labor unrest and infrastructure failures, as follows:

- | | |
|--------------|---------------|
| 1. China | 6. Italy |
| 2. Venezuela | 7. Nigeria |
| 3. Mexico | 8. Canada |
| 4. India | 9. Japan |
| 5. Brazil | 10. Guatemala |

The article underscores the need to undertake systematic reviews of political and economic risks in the countries in which they seek to conduct business, to create practical supply chain alternatives, and to develop other risk-mitigation strategies to insulate the balance sheet from unanticipated financial shocks. The article also has a link to the [Aon Risk Map](#) created in conjunction with Oxford Analytica that provides deeper insights into risks around the world.

Management Accounting Guidelines

For those of you who face the challenge of evaluating risk associated with international operations, we are in the process of developing with our colleagues at CMA-Canada a Management Accounting Guideline - ***Integrating Social and Political Risk into Investment Decisions*** that will be available this Summer. This is one of a portfolio of MAGs in the risk arena. [Identifying, Managing and Measuring Organizational Risks](#) and [Business Continuity Management](#) are available from CPA2biz by clicking on the title links. ***The Reporting of Organizational Risks*** is in process for publication this Summer.

[Evaluating Performance in Information Technology](#), also available at CPA2biz, has been very well received. It has been presented at our Controller's Workshop and Tech conferences, and as a webinar to the AICPA [CITP](#) community. An article based on this IT MAG will be featured in next month's ***Journal of Accountancy***.

Additional titles in process for this year include ***Strategic Management of Information for Boards and Evaluating E-Commerce Initiatives and Measuring Returns on Internet Marketing Investments***, as well as one in the planning stages for outsourcing and offshoring, which we anticipate will have a focus on the finance function.

Side Effects of Sarbanes-Oxley Compliance

A recent [BusinessFinanceMag.com](#) article underscores two unintended side effects of the enormous resource focus on Sarbanes-Oxley compliance on internal audit functions. First, the more involved internal audit is in documenting and remediating controls, the less it can be involved in the assessment of their effectiveness. The consequence being less reliance placed on their work by external auditors and resulting higher fees.

Second, is the impact on internal audit's effectiveness in deterring fraud. A PwC economic crime survey cited by the article identifies the internal audit mechanism as the single-most effective crime deterrent mechanism. The survey also shows a 50 percent increase in the number of companies reporting financial losses caused by corporate fraud between 2003 and 2005 (to the tune of an estimated \$1.7 million per company), supporting the hypothesis that the compliance effort may be sapping internal audit's value as a fraud deterrent.

SEC Approves PCAOB Auditing Standard No. 4

On February 6 the SEC approved PCAOB AS No. 4 titled Reporting on Whether a Previously Reported Material Weakness Continues to Exist. This auditing standard is specifically to help companies that have had a report of material weakness on previously issued financial statements, to get a report from the auditor on whether the material weakness has been cured, without having to go through a full financial statement audit. This is important for companies that want to get out from under the cloud of an adverse internal control report. It is important to note that in its approval order, the SEC required that the PCAOB issue a clear and concise outline of the auditing steps outlined in the standard. For more information go to the [SEC](#) or [PCAOB](#) websites.

PCAOB Announces 2006 Dates for Small Business Forums

Beginning in November 2004, the PCAOB held Small Business Forums in 10

cities: which enabled PCAOB Board members and staff to meet with more than 1,000 representatives of small companies and small public accounting firms to discuss how PCAOB auditing standards and inspections would affect them. The feedback received from these forums assists the PCAOB in understanding and considering the unique needs of the small business community. The schedule of tentative 2006 Forum dates and locations is as follows:

San Antonio, Texas	May 2, 3
Seattle, Washington	June 21
Boston, Massachusetts	September 8
Philadelphia, Pennsylvania	October 16
New York, New York	November 7, 8
Chicago, Illinois	December 7

Attendees have the opportunity to earn continuing professional education credits. For more information go to [PCAOB Small Business Forum](#)

CAREER CORNER

SmartPros Salary Survey Results: CPAs, CFOs Report Top Salaries

Recently this space has been devoted to the initiative we are calling Stewards of the Profession, intended to foster mentoring and support of the accounting profession and the CPA credential among members in business and industry.

We have provided links to the [Computerized CPA Exam](#) website, and to the membership page of our [Financial Management Center](#) and touted the incredible value of the AICPA CPA Exam Candidate membership at \$35 per year for recent graduates who are preparing for the Exam. Last month we highlighted the AICPA's [Start Here Go Places](#) success in spurring interest among students in pursuing accounting as a college major.

While serving the public interest is a vital cornerstone of our profession, the financial consideration is a major factor in choosing an accounting career and the CPA designation. In this regard, the recent salary survey published by [SmartPros.com](#) is good news. The article contained the following table which supports the title and lead paragraph highlighting the value of the CPA credential.

Certification (entrants)	Average Salary
None	\$ 50,845
CPA only	84,051
MBA only	77,754
MBA + CPA	87,525
CMA only	63,863

Full details are available by clicking on the link to SmartPros.com above.

Are You a Strategic CFO?

If you don't find yourself where you would like to be in the salary data above you might want to consider the following barriers that many financial executives face in evolving to the level of "strategic CFO" as outlined in a recent article on [CFO.com](#):

- First is the lingering self-perception of being the "reporter"; some CFOs don't view themselves as a partner with the rest of the senior team.
- Another reason is the famous finance-chief personality — reserved, reactive, even passive in the strategic-planning process.
- Finally, many CFOs still tend to view their ultimate responsibility as fiduciary — saving company funds and reining in spending — rather than taking on the broader role of value creator.

The new model of CFO is that of team-player and value creator, imagining with the senior management team what the future of the company should be and translating that into action.

Our next issue will feature a summary of a special report prepared by Wharton School faculty discussing the changing role of the CFO, guiding key decisions in companies in light of the need to balance intense reporting requirements with strategic objectives.

TECH CENTER

Security Issues Continue to Dominate in AICPA Top Ten Technologies

For the fourth consecutive year, professionals who sit at the intersection of information technology and accounting have selected Information Security as the number one technology to watch in 2006, according to the results of the AICPA's 17th annual [Top Ten Technologies](#) survey. Four new technologies placed on this year's Top Ten list: Assurance and Compliance Applications which include SOX and internal control applications, IT Governance, Privacy Management, and Spyware Detection and Removal.

ISACA and AICPA Offer CITP Credential to CPAs with CISA

CPAs holding the Certified Information Systems Auditor (CISA) credential from the [Information Systems Audit and Control Association](#) (ISACA) are now [automatically eligible](#) to receive the Certified Information Technology Professional (CPA.CITP) designation from the AICPA (if they are Institute members), according to a new agreement between the two organizations.

AICPA Enters Into Marketing Agreement with XBRL Software Provider

To continue XBRL support and learning for members, the AICPA has entered into a marketing agreement with Rivet Software™. This agreement allows you to order Rivet's Dragon Tag™ and Dragon View™ via an AICPA-specific email address (aicpa@rivetsoftware.com).

As an AICPA member you receive a free support incident phone call valued at \$120 when you purchase Dragon Tag for \$295. You can also try Dragon Tag before you buy with a free, 30-day trial period. Dragon View is available in

“preview” format at no charge. Free trial versions are available at Rivet’s web site (www.rivetsoftware.com). When you are ready to order, please send an email to aicpa@rivetsoftware.com with your contact information.

New! Ask the Tech Expert Service

Rich Lanza has started an Ask the Expert service on the Store’s home page which allows you to direct specific questions to him at rlanza@cpa2biz.com.

LEARNING LINKS

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

UPCOMING WEBCASTS

SEC Quarterly Update Series 2006 -1st Quarter - March 15, 2006

Mark your calendar for the first in this series – details coming soon.

Financial Fraud & the FBI: Small Company Frauds

If you missed this interesting webcast in December focusing on fraud in smaller companies, check for the archive CD to be produced soon. Also, stay tuned for the sequel this Spring focusing on fraud in larger companies.

All webcast information can be accessed at [AICPA Learning](#).

CONFERENCES SPOTLIGHT

AICPA Controller’s Workshop – Two Offerings in 2006

Our Controller’s Workshop held in Las Vegas in July has been a sell-out for the past several years. Since it has been so well received we have decided to offer two Workshops this year.

The [2006 Spring Controller's Workshop](#) will cover most of the key topics included last July and will be held in Orlando March 22-24 at Disney’s Contemporary Resort. Click on the link above to download the brochure and register for this conference. Great quickie vacation with the kids!

If you are a regular at the Controller’s Workshop or the timing of this Spring Workshop does not work for you’re the [AICPA Controller's Workshop Conference 2006](#) will be held in Las Vegas at the Bellagio July 19-21, 2006. The agenda for this conference has been set and the brochure is being finalized as we go to press. Mark your calendars and register early to avoid being disappointed.

AICPA/Balanced Scorecard - Strengthening the Finance Function

This new program jointly-sponsored by AICPA and Palladium Institute (Balanced Scorecard Collaborative) will be held in the AICPA Boardroom April 10-11. This small forum intended specifically for CFOs, Controllers, and other finance professionals in business and industry will cover the increasing challenges and pressures of CFOs and their teams to deliver on strategic development and to equip their organizations with new and more impacting methodologies and tools to help drive those strategies. To register click, on the following link to the [AICPA/Balanced Scorecard Forum](#).

Construction Industry Executive Forum

This conference is a brand new forum for the construction industry focusing on a combination of topics for the owners, COOs and CFOs. This symposium being held at the **Hilton La Jolla Torrey Pines on July 20-21**, offers trending issues, more opportunity to network with peers and excellence of speakers in the industry. The session lengths also are a great way for allowing a more in-depth discussion of the various topics. For more details, click on [Construction Industry Exec Forum](#).

All Upcoming Conferences...

[AICPA 2006 Spring Controllers Workshop – 2nd Presentation due to Popular Demand!](#)

Lake Buena Vista, FL
3/22/2006 - 3/24/2006
Pre- and/or Post-Conference Optional Workshops

[AICPA/Balanced Scorecard - Strengthening Your Finance Department](#)

New York City, NY
4/10/2006 - 4/11/2006

[AICPA National Conference on Employee Benefit Plans](#)

Baltimore, MD
5/8/2006 - 5/10/2006

[AICPA National Banking School](#)

Charlottesville, VA
5/14/2006 - 5/19/2006

[TECH 2006: The AICPA Information Technology Conference](#)

Austin, TX
6/12/2006 - 6/14/2006

[AICPA National Not-For-Profit Industry Conference](#)

Washington, DC
6/15/2006 - 6/16/2006

[AICPA National Restaurants Conference](#)

Las Vegas, NV
6/26/2006 - 6/27/2006

[AICPA Controllers Workshop Conference 2006](#)

Las Vegas, NV
7/20/2006 - 7/21/2006

[Construction Industry Executive Forum](#)

San Diego, CA

7/20/2006 - 7/21/2006