NEWS

Journal of Accountancy News Digest

■ For news from the AICPA and state societies, visit www.cpa2biz.com, which also offers online CPE, AICPA professional literature, practice management aids and links to state society Web sites.

AUDITING

■ SEC Chairman Christopher Cox highlighted the importance of communication between management and auditors during recent testimony before the House Committee on Small Business. "Managers and auditors *should* talk," he said. "And not just managers, but audit committees should have a healthy and ongoing dialogue with their auditors about the company's internal controls." He added that "no auditor independence rule, or any other rule or standard," bars such communication. To read the entire statement, visit www.sec.gov/news/testimony/2007/ts060507cc.htm.

BANKING

■ Several federal agencies issued final illustrations to help lending institutions implement the consumer protection portion of the *Interagency Guidance on Nontraditional Mortgage Product Risks* those agencies adopted in October 2006.

The guidance issued by the Federal Reserve, FDIC, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision outlines recommended practices to give consumers clear and balanced information about nontraditional mortgages before they choose a mortgage product or select a payment option for an existing mortgage. The illustrations include:

- Disclosures about interest-only and payment option mortgages.
- A chart that compares the required monthly payments of traditional fixed mortgages, five-year interest-only adjustable-rate mortgages (ARMs), and payment option ARMs and their effects on loan balances over the life of the loan.
- A table that could be included with any monthly statement for a payment option ARM providing information on the effects of various payment options on the loan balance.

The illustrations are not mandatory. Institutions may choose to use the illustrations, provide information based on the illustrations, or provide consumer information described in the guidance in an alternate format. The full text of the guidance is available at www.fdic.gov/news/news/press/2007/pr07044a.pdf.

■ The Federal Reserve Board approved a final rule to implement section 601 of the Financial Services Regulatory Relief Act of 2006, which eliminated several reporting and disclosure requirements for insider lending by insured depositary institutions. The Fed proposed eliminating the statutory requirements because federal banking agencies have not found them useful in monitoring insider lending or preventing insider abuse.

Regulation O, which governs insider lending, will continue to require depositary institutions and insiders to maintain sufficient information to enable examiners to monitor compliance with the regulations. Federal banking agencies will retain authority to collect information on insider lending.

The rule, which took effect July 2, is available at http://edocket.access.gpo.gov/2007/pdf/E7-10402.pdf.

COMPLIANCE

■ Research on material weaknesses among smaller public companies complying for the first time with Sarbanes-Oxley section 404 found that the highest number of missteps are related to accounting and disclosure controls.

A study by Lord & Benoit, a firm specializing in SOX compliance, identified what it described as the 10 leading material weaknesses among 148 companies with revenue of less than $100 million. Companies with effective internal controls were excluded from the study.

Nearly two-thirds of the companies with material weaknesses had issues linked to accounting and disclosure controls, including inadequate or inaccurate financial statement disclosures and departures from GAAP. Other leading problem areas included:

- Treasury
- Competency and training of accounting personnel
- Control environment
- Design of controls/lack of effective compensating controls
- Revenue recognition
- Financial closing process
- Inadequate account reconciliations
- Information technology
- Consolidations, mergers and intercompany accounts

EMPLOYEE BENEFITS

■ The AICPA issued three employee benefit plan technical practice aids (TPAs) to provide guidance for implementing FASB Staff Position AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans.*

The TPAs address the types of investments covered by the FASB staff position, financial statement presentation of investments in common collective trust funds and master trusts, and related disclosure requirements.

The TPAs are available at www.aicpa.org/download/acctstd/TIS6931.08.pdf.

FRAUD

■ Financial-statement fraud is typically a collaborative effort involving an average of seven people, according to a study conducted by the Institute for Fraud Prevention.

Study authors Robert Tillman and Michael Indergaard of St. John's University based their analysis on a sample collected by the Government Accountability Office of 834 companies that issued restatements between Jan. 1, 1997, and June 30, 2002. The study, *Control Overrides in Financial Statement Fraud,* found that 374 companies, or 45%, were accused of securities fraud and subject to shareholder suits, SEC enforcement action or both. In those cases, an average of seven individuals were implicated, including CEOs, CFOs, COOs, general counsel, directors and internal and external auditors.

The study can be found at www.TheIFP.org, under the "Research Grants" heading.

■ The White House Office of Management and Budget issued a memo requiring federal agencies to take new precautions to prevent breaches of personally identifiable information. The memo stresses the government should not unnecessarily collect or maintain personally identifiable information. Use of Social Security numbers should be strictly limited.

Federal employees will also be required to receive job-specific training on their responsibilities for safeguarding personally identifiable information and the consequences and accountability for violating these responsibilities.

The full memo issued by OMB Deputy Director for Management Clay Johnson is available at www.whitehouse.gov/omb/memoranda/fy2007/m07-16.pdf.

GOVERNMENT ACCOUNTING

■ FASAB's Accounting and Auditing Policy Committee issued an exposure draft of a new Federal Financial Accounting Technical Release, *Clarification of Standards Relating to Inter-Entity Cost.* The ED provides guidance to federal entities on three aspects of inter-entity costing outlined in SFFAS 30, *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts,* which becomes effective Sept. 30, 2008. They are: (1) guidance on costs that should be considered broad and general for all entities; (2) guidance on *Directness of Relationship to the entity's operations* as used in determining if a transaction should be considered material to the receiving entity; and (3) guidance on *Identifiability* as used in determining if a transaction should be considered material to the receiving entity.

The ED is available at www.fasab.gov/exposure.html or by calling 202-512-7350. Comments are requested by Aug. 6.

PRACTICE MANAGEMENT

■ Smaller CPA firms are gaining ground in the market for SEC audits, according to PCAOB Chairman Mark Olson in recent testimony before the House Committee on Small Business. "The Big Four firms have reduced their public company audit client base by more than 1,000 clients since Arthur Andersen's demise," said Olson. "In the same period...the next four have added more than 250 audit clients among them, and smaller firms have taken on more than 580 audit clients." He added that 10 U.S. firms and one non-U.S. firm now each audit more than 100 public companies, subjecting the firms to PCAOB annual inspections.

PROFESSIONAL ISSUES

■ The Financial Accounting Foundation, which oversees FASB and GASB, generated $41.6 million in revenue in 2006, according to the organization's annual report, a 7.5% increase from the previous year. Net assets were $57.5 million as of Dec. 31, 2006.

Revenue streams included FASB accounting support fees collected from approximately 8,800 registered companies. Those fees totaled $22.4 million, up from $20.2 million in 2005. Publication and subscription revenue climbed to $17.1 million, up from $14.1 million the previous year.

The foundation spent $25.8 million on salaries and benefits in 2006, a 6.2% increase from the previous year.

SMALL BUSINESS

■ The SEC in May proposed six measures to modernize and improve its capital-raising and reporting requirements for smaller companies. Many of the proposals address key recommendations made by the SEC's Advisory Committee on Smaller Public Companies. They include:

- A new system of securities regulation for smaller public companies that would make scaled regulation available to a much larger group of smaller public companies.
- Modified eligibility requirements so companies with a public float below $75 million can take advantage of the benefits of shelf registration.
- A new exemption from Securities Act registration requirements for sales of securities to a newly defined category of "qualified purchasers" in which limited advertising would be permitted.
- Shortened holding periods under Securities Act Rule 144 for restricted securities to reduce the cost of capital and to increase access to capital.
- New exemptions for compensatory employee stock options so Exchange Act registration requirements would not be triggered solely by a company's compensation decisions.
- Electronic filing of the form filed by companies making private or limited offerings to ease burdens for filers and make the information filed more readily available.

Comments on the proposals are due within 60 days of their publication in the *Federal Register*. Additional details about the proposals are available at www.sec.gov/news/press/2007/2007-102.htm.

FYI

■ Tony Fragnito, CPA, has been appointed CEO of XBRL International. In this newly created position, Fragnito will lead the organization's efforts to promote global adoption of XBRL and interactive data for business reporting. Fragnito comes to XBRL International from the Federation for American Societies for Experimental Biology in Bethesda, Md., where he was deputy director and CFO.

CORRECTION

■ The July article titled "A Risk-Based Approach to Journal Entry Testing" misstated the proper use of Excel's WEEKDAY function. By default, the function assigns the number 1 to Sunday, 2 to Monday, and so on, with Saturday being 7. Therefore the article should have said that identifying journal entries made on a weekend would entail filtering all WEEKDAY(Date_Field) values that are equal to 1 or 7. The *JofA* regrets the error. ❖