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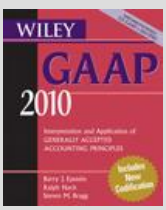

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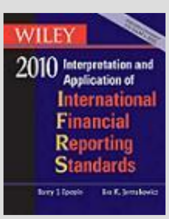

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A Corporate Governance Concern: Is the Accounting Department Staying Abreast of Changes?

By
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A confluence of changes in professional accounting and financial reporting standards is creating an environment ripe for potential financial misstatements, restatements and litigation. Just last year, the Financial Accounting Standards Board (FASB) launched the new Accounting Standards Codification (ASC). Over this same time period, many companies began to consider and adopt International Financial Reporting Standards (IFRS), as an alternative to U.S. GAAP. Both of these changes will have profound impacts on financial statement preparation and the conduct of independent audits. As a result, companies, accountants, and attorneys must be prepared for increased levels of scrutiny by regulators, corporate boards, and shareholders. Both private and public companies should, therefore, evaluate their accounting departments' preparation and capabilities relative to the following four areas, which is critical to ensuring the integrity of the entity's financial reporting process.

1. Is the accounting department comprised of suitably qualified personnel?

Ideally, an accounting department should be comprised of staff with varied years of experience and skill sets, whose diverse backgrounds enable them to make unique contributions to the team. The importance of hiring recent accounting graduates who may have little, or no, prior work experience should not be overlooked, inasmuch as this new generation of accountants is the first group to be exposed to and trained in the classroom on how to navigate ASC and apply IFRS. The more experienced accountants will also have to be "retro-fitted" with these skills, which necessitates strategies for overcoming inherent resistance to change. Incorporating newly trained talent into the mix is one strategy for achieving this.

2. Have accounting personnel been trained on how to utilize the Accounting Standards Codification (ASC)?

Accounting personnel involved in the preparation of GAAP financial statements should quickly be made proficient in accessing, cross-referencing, and researching accounting standards under the ASC. For example, when documenting a selection from among acceptable accounting policies, ASC, which has entirely superseded former GAAP guidance, must be referenced. Some accounting departments have already gone through the exercise of updating their working papers and financial statements to reference ASC, and others should do so now. Failure to address this can have repercussions: for instance, failure to properly reference ASC as support for financial reporting decisions could suggest that GAAP is not being properly applied (even if in substance there are no differences in the newly-designated rules), which could pose reputational and litigation risks for the company.

3. Have accounting personnel been trained on how to apply International Financial Reporting Standards (IFRS)?

It is imperative for accounting personnel at companies that are planning to or contemplating voluntary option of IFRS to be trained on how to properly apply IFRS. Over the last several years the FASB and the International Accounting Standards Board have jointly made progress on converging U.S. GAAP and IFRS. While there are now many similarities between these sets of standards, many differences still remain. A transition of this magnitude is likely to prove to be a challenge and could, for the inadequately prepared, easily result in misapplication of the new standards. The fact that IFRS provides more opportunity for the application of judgment (i.e., are less "rules-based" than U.S. GAAP) only adds to the risk for those not fully ready for this undertaking.

4. Is there an action plan to implement new accounting standards in a timely manner?

In general, accounting personnel should be notified about and trained in how to implement all new accounting standards in a timely manner. Many firms have a designated person, or a team, that is responsible for staying abreast of new accounting pronouncements and disseminating appropriate information. Often, useful alerts and detailed explanations may be provided by the company's outside accountants as a routine service to clients. Although these steps may previously have proven sufficient, audit committees should take overt steps to remain aware of impending changes in financial reporting standards, several of which are now approaching completion by the standard setters.

As companies gain familiarity with FASB's Accounting Standards Codification, and with IFRS, audit committees should ensure that the accounting departments of the companies on whose boards they serve are adequately staffed and resourced to cope with these present and looming changes to the financial reporting landscape. Doing so should be seen as central to the governance duties of the committee.

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