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## Members in Internal Audit, May 1997

American Institute of Certified Public Accountants (AICPA)

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# Members in Internal Audit

May 1997

AICPA

## US and UK Views on the Accounting Trends

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*Robert Sweeting, Professor, Manchester School of Management, UMIST, UK;*  
*John Fisher, President, New Finance Associates, Newton Center, MA;*  
*John Morrow, Director, AICPA, NY*

Much is being written about "The New Finance" and its function. The AICPA and the Institute of Chartered Accountants of England and Wales have been actively involved in seeking out from their members and informed commentators their views on what the shape of accounting generally will look like in the year 2000 and beyond. Many organizations are undergoing major change because of the impact of delayering, shifts towards boundaryless businesses and closer integration with suppliers and customers. Because of supply chain networks, most types of businesses are involved. These are businesses where cost reduction, speed, flexibility and "delivery delight to customers" are seen to be essential.

Accountants everywhere are now required to add value and not merely to operate as bean counters. They are being exhorted to integrate and partner with colleagues in developing and leading new ideas and cannot be satisfied to be only followers. Inevitably, questions have been asked about how management control requirements can be balanced against the spin-offs from the different kinds of corporate innovations that are being put in place. An impetus for this questioning has been highlighted by recent well-publicized failings in corporate governance in the US and European-led businesses—not all of which businesses have survived intact. Accountants therefore walk a narrow line between moving with the times and ensuring what is in place supports financial integrity and viability.

### The Survey

What follows is the result of a survey amongst 74 US and 16 UK senior accountants based in a range of organizations: manufacturing and service, large and small, for-profit and not-for-profit. The data was collected by questionnaires completed by accountants in the US from a fax survey questionnaire of readers of the May 1996 AICPA *Financial Manager's Report* and in the UK from attending focus group meetings. The respondents were asked to give their views about how important they believed the suggested list of key emerging trends (see table on page F2) are, their agenda priority and their experience of them.

### Respondents' Feeling

The questionnaire provoked some respondents to express their general feelings:

*"Many of the trends are occurring simultaneously with some of the trends opposed to other ones. How it settles out over the next 2-3 years will be very important to progress in the finance function."*

*"The resources and training necessary to move to the 'leading edge' are prohibitive."*

*"Training on the trends issues is critical. Unfortunately, demands in the corporate environment have gotten so much, there is little time for training."*

*"I was surprised others were thinking just as we are about these issues."*

*"Some of the same demands on for-profit companies are appearing on the doorsteps of not-for-profit entities such as ours."*

*"Accounting and finance are some of the most heavily relied upon departments (in the business) for information, insights and innovation."*

Respondents also offered insights into  
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what they were doing to bring about change:

*“You are right on the mark with each trend you’ve listed. Our angle on solutions has been two-pronged. First, we’ve stopped doing a lot of recordkeeping and reporting deemed unnecessary. Second, for the work that remains, we’ve been leveraging people with technology to maximize productivity.”*

*“Of primary importance is to provide a stewardship function control and accountability of assets, income and expenses. Next in line is to provide strategic decision-making support. Then to provide measure-*

*ment statistics of value, risk and return.”*

**The Way Forward**

Our poll has suggested that there may be some differences in emphasis in handling the set of trends identified between US and UK accountants. To some extent these differences may be explained in terms of comfort with new technology and existing competencies. There was certainly little complacency that was observed in the poll findings. In fact, there were serious concerns about the need for substantially enhanced

and ongoing training required to handle a much changed job. However, there were questions about where the resources were going to come from to pay for this in terms of both money and time. All this points to a need, therefore, for better understanding, development and dissemination of improved mechanisms and processes to facilitate and effect the changes. The dangers of not doing this are immense, with people left to fumble along with half truths and misunderstanding—all of which will frustrate wider business improvement initiatives.

**US AND UK FINANCE MANAGERS RANKING OF ACCOUNTING TRENDS**

ACCOUNTING TRENDS	Importance	Agenda Priority	Implementation in my organization
The sudden emergence of truly global capital and investment markets, coupled with innovative and challenging financial schemes and business practices, places enormous pressures on finance to keep up in managing and measuring value risk and return	6	7*	2
An acute and growing demand on accountants to supply strategic decision support information as a crucial competitive weapon	2	2	4
Rapid acceptance of desktop and network information technology as both the enabler and driver of change	1	1	1
Fundamental and massive changes in how transaction processing, recordkeeping and basic financial reporting are accomplished	3	4	6
A greatly enhanced and expanding role of finance as overall business leaders and strategic business partners	4	5	3
Dramatic shifts in organization and human behavior systems towards flat management structures with informed thinking, empowered and accountable workers	5	3	5
Almost entirely different professional tools, skills, roles, people and behavior	7	6	8
Heightened anxiety and challenge about the crucial issues of accountability, control and governance	8	7*	7
	<b>Ranking 1=Highest</b>	<b>Ranking 1=Highest</b>	<b>Ranking 1=Highest</b>

\*Ranked The Same

**Book Review**

*Taking Charge of Change: 10 Principles for Managing People and Performance*, by Douglas K. Smith (Reading, MA: Addison-Wesley, 1996) 314 pages. \$25 hardcover.

*Leading Change*, by John P. Kotter (Boston: Harvard Business School Press, 1996) 224 pages. \$24.95.

Reviewed by Lution Hill  
Audit services manager, The Williams Companies, Tulsa, Oklahoma

*Change* is the theme of the 1990s. Change initiatives are commonplace—continuous improvement programs, process reengineering, enterprise transformation, strategic alliances, mergers and acquisitions—but success in actually changing an organization is not so common.

Internal auditors often encounter organizations undergoing change initiatives. Understandably, these organizations desire to postpone an audit until they get the new program in place. It is here that internal auditors can add value. Auditors can do more than point out control lapses that may result from the diversion of energy and attention to the change program. With the right tools, auditors can be part of the learning feedback loop that keeps a changing organization on track.

*Taking Charge of Change* is an in-depth study of how to transform an organization, with a focus on the human side of the equation. Smith makes use of high-profile examples to enliven and apply his 10 principles. *Leading Change* organizes Kotter’s previous works into a logical framework of eight steps that are necessary (though not sufficient) to change an organization emphasizing the importance of leadership.

**Principles for Achieving Change**

Smith approaches change as an “intensely personal experience.” To make an organization change, it is not enough to articulate strategy, draw up an organization chart, and train employees. Taking charge of change entails leading individuals through new behaviors and working relationships, building consensus among people to experience and accept change, and organizing the effort around the way work is done. Success depends on an unrelenting focus on people, performance, and changing behavior.

Smith’s principles apply to “broad-based, behavior-driven change”—a complete transformation of an organization. He warns that many organizational changes can and should be managed with the familiar strategy-reorganization-training approach. In contrast, broad-based change is called for only when four daunting conditions exist:

- The organization is faced with the need to

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continued from page F2—**Book Review**

- develop basic, new capabilities.
- Large numbers of existing people must learn new behaviors.
- The organization has no track record of success in making such changes.
- There is no broad-based understanding and sense of urgency.

### Focus on Performance

When undertaking broad-based change, the primary objective of behavior and skill change must be performance results—not on abstractions like strategy, organization charts, core competencies, or culture. Smith advises change agents to identify and enlist people in the organization who are ready to take responsibility for their own change. It is necessary to focus on the work they do, devise performance objectives for that work, and clarify how the work relates to the larger purpose.

### The Horizontal Organization

To focus on performance, people should be organized around the way the work gets done. Teams comprise a horizontal organization. Process owners coordinate the work of teams if a process is beyond the scope of a single team. Process owners facilitate work flows between teams and manage competing demands of different processes. This environment encourages multiple competencies of workers. The vertical organization encourages specialization. The horizontal organization should reward individual skill development and team performance, not just individual performance.

### The Individual Wheel of Change

In essence, change means getting individuals to move from their existing daily routine to a new daily routine. To guide this process, Smith offers the “Wheel of Change,” an iterative process of learning by doing. Change begins with understanding the need for it. Many change initiatives fail because they stop at this point, after a mass training effort and awareness campaign.

Understanding must be combined with a compelling desire to change. Individuals must be motivated by a personal stake in changing, enabled by the minimum capabilities to make the change, and guided by a plan of action. According to Smith, change cannot begin until the person has taken action—experienced the change in a performance context with specific and relevant

goals. Action must be followed by feedback and reinforcement. Then the cycle begins again. The change agent must work within this natural learning process and support people as they overcome reluctance at each stage.

### Courage, Vision and Coordination

Change requires leadership. Leadership requires courage—learning new skills, letting go of traditional authority and established decision-making processes, and putting one’s performance to the test. Leadership must not only be strategic, with a vision of the organization’s purpose (the “why”) and what an organization aspires to achieve (the “what”). It must be practical, with a vision of “how” change will occur and “how” it will affect individuals’ work. Finally, change requires a set of well-timed and harmonized initiatives. These initiatives should include a mix of top-down (strategic), bottom-up (performance, quality) and cross-functional (reengineering) efforts.

### Leading (Not Managing) Change

For Kotter, “managing change” is a contradiction in terms. The driving force behind the change process is “leadership, leadership, and still more leadership.” Managing means establishing order and predictability to meet stakeholder expectations. Leading means creating change. Management calls for effective planning and budgeting; leadership defines a vision and direction. Management demands skills in organizing and staffing; leadership requires words and deeds that align people with a common vision. Management means controlling and problem solving; leadership means motivating and inspiring people. Only leadership can overcome inertia, cause changes in behavior, and impact the culture of an organization.

### Kotter’s “Eight Stage Process of Creating Major Change”

Organizational transformations must go through eight stages in sequence (though at any given time an initiative may be undertaking two steps concurrently). To create change, a leader begins with:

- a sense of urgency that calls for action
- a guiding coalition of people with position, expertise, and credibility
- vision and strategy.

A leader builds momentum by:

- communicating the vision through words and action
- empowering people in the organization to take broad-based action
- creating and celebrating short-term wins.

The leader consolidates the gains by:

- aligning systems, structures, policies, people
- anchoring the new approach in the culture of the organization.

### Change as a Way of Organizational Life

Change is not a one-time undertaking. Instead, organizations must become adept at changing. Rarely will an organization be able to rest after a single change initiative. Adapting to change will be an ongoing challenge. Therefore, the successful organization will have structures that maximize customer responsiveness; numerous information systems and distributed data; and a culture that values empowerment, quick decision, openness and risk tolerance. This reality also requires a commitment to life-long learning for the leaders and the people in the organization.

### Summary

Change programs have a profound impact on the control environment and other aspects of an organization. These timely books provide credible criteria to use in organizing or reviewing a change program. Smith’s *Taking Charge* provides in-depth coverage of the issues, with an emphasis on the human side. He gets a great deal of information into his well written work and makes good use of examples. *Leading Change* is a quick read and is well organized and provides an overview of change as a process.

### Other Supplements Available

All supplements produced with the May issue of *The CPA Letter* are available via the Internet after May 15 and on the AICPA Fax Hotline.



[www.aicpa.org/pubs/cpaltr/index.htm](http://www.aicpa.org/pubs/cpaltr/index.htm)



201/938-3787; document no. 1550 large firms, 1551 medium firms, 1552 small firms, 1553 business & industry, 1554 finance & accounting, 1556 government, 1557 education, 1566 practice alert (ERISA audits).

## Software Asset Management: Why You Should Care About Software Piracy

From its introduction over 20 years ago, the PC has forever changed the way we do business. As a result of huge technology advances and a highly competitive market, technology costs have plummeted and a PC on every desktop is a reality.

In small businesses, where no prior computer technology existed, PCs have evolved from a collection of isolated workstations to an integrated PC network. In larger businesses, PC networks have replaced or supplemented existing mainframe or minicomputers. In all businesses, PCs, minicomputers and mainframes are becoming a part of the mother of all networks, the Internet.

This distributed computing model increases the benefits of technology by bringing information closer to the knowledge worker and end-user. At the same time, this decentralized approach is inherently more challenging for technology professionals to manage and often results in unknown and uncontrolled costs of ownership.

One factor that contributes to this uncontrolled cost is the lack of software standardization across the enterprise. Business PCs usually start their service life in an approved configuration but over time get modified through software upgrades and installation of non-approved user software. Eventually, no two PCs are alike.

Some of this is to be expected but lack of an enforced standard creates a support challenge for information system personnel and encourages end-user practices that are not in the best interest of the enterprise. Some of these practices include:

- decentralized software purchases
- copying company software for home use
- installing unauthorized software of unknown origins (that maybe infected with viruses)
- installing software on multiple workstations when only one license exists.

These practices increase support costs and lead to possible under or over licensing of software. By keeping track of software and licenses, you will be assured that you are paying for only the software you need. On the other hand, the cost may be more significant if you are under licensed.

### The Costs of Software Piracy

Each year, the software industry loses an estimated \$12.8 billion due to software piracy. The software industry takes this problem very seriously and has created the Business Software Alliance (BSA) and the Software Publishers Association (SPA) to police the illegal use of software. Both organizations have a toll-free number for whistle-blowers that is well publicized and get used a lot by disgruntled employees. Following are some recent examples of actions taken by the BSA that resulted in some hefty penalties:

- A \$325,000 penalty paid by Professional Service Industries Inc., a Chicago-area engineering consulting firm
- A \$175,000 penalty paid by Massachusetts-based Memotec Communications Corporation
- A \$160,000 penalty paid by Enterprise Products Company, a

petro-chemical company headquartered in Houston

- A \$97,500 penalty paid by Electronic Measurements, Inc., an engineering firm in Neptune, NJ
- A \$77,000 penalty paid by Ironstone Group, Inc., a real estate tax consulting firm headquartered in San Francisco.

Regardless of intent, if your company is using software that is not covered by a license, it is considered pirated software. The unauthorized use of software is frequently the action of careless and isolated individuals and usually does not reflect management policy. If caught, you or your company could be tried under both civil and criminal law.

### What Should You Do?

Your first responsibility as a software user is to purchase original programs only for your use. If you purchase software for business use, every computer at your place of business must have its own set of original software and the appropriate number of manuals. It is illegal to purchase a single set of original software to load onto more than one computer or to lend, copy or distribute software for any reason without the prior written consent of the software manufacturer. You should have the following procedures established for your organization:

- Prepare an annual analysis for your organization to determine what software is needed. As a general principle, the analysis should answer some basic questions: Is the organization using the most efficient and effective software to meet its needs? Is the staff satisfied with their current software packages? Are there other packages which would enable your staff to operate in a more proficient manner? Identify the appropriate software profile for each computer user by assessing whether departments or individual staff members need alternative or extra software packages. Network operators should consider purchasing a network metering package to restrict the number of users according to the number of licenses.
- Prepare an inventory of your current software with licenses and conduct periodic physical checks to determine compliance. Any illegal software discovered during the inspection should be deleted right away.
- Purchase licenses for enough copies of each program to meet your current needs. Budget for buying future software to keep up with your staff requirements.
- Demonstrate your organization's commitment to software management and use of legal software by adopting appropriate procedures. For example, appoint a software manager to ensure that all the software analysis and management functions are conducted efficiently; create and circulate an antipiracy policy to all employees; and communicate with all organization staff reiterating the organization's recognition of the concern about software management.

For further information, you can contact the following organizations that specifically address software management and piracy.

Business Software Alliance, 1150 18th St. NW, Suite 700, Washington, DC 20036, tel: 202/872-5500. Web site: [www.bsa.org](http://www.bsa.org).

Software Publishers Association, 1730 M St. NW, Suite 700, Washington, DC 20036-4510, tel: 202/452-1600, Fax-On-Demand Service: 800/637-6823. Web site: [www.spa.org](http://www.spa.org).