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Members in Large Public Accounting Firms

February/March 2003

AICPA

FASB Amends Transition Guidance for Stock Options and Provides Improved Disclosures

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The Financial Accounting Standards Board has published Statement No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*, which amends FASB Statement No. 123, *Accounting for Stock-Based Compensation*. In response to a growing number of companies announcing plans to record expenses for the fair value of stock options, Statement No. 148 provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, Statement No. 148 amends the disclosure requirements of Statement No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation.

Under the provisions of Statement No. 123, companies that adopted the preferable, fair value-based method were required to apply that method prospectively for new stock option awards. This contributed to a “ramp-up” effect on stock-based compensation expense in the first few years following adoption, which caused concern for companies and investors because of the lack of consistency in reported results. To address that concern, Statement No. 148 provides two additional methods of transition that reflect an entity’s full complement of stock-based compensation expense immediately upon adoption, thereby eliminating the ramp-up effect.

Statement No. 148 also improves the clarity and prominence of disclosures about the pro forma effects of using the fair value-based method of accounting for stock-based compensation for all companies—regardless of the accounting method used—by requiring that the data be presented more prominently and in a more user-friendly format in the footnotes to the financial statements. In addition, the statement improves the timeliness of those

disclosures by requiring that this information be included in interim as well as annual financial statements. In the past, companies were required to make pro forma disclosures only in annual financial statements.

The transition guidance and annual disclosure provisions of Statement No. 148 are effective for fiscal years ending after Dec. 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after Dec. 15, 2002.

As previously reported, the FASB has solicited comments from its constituents relating to the accounting for stock-based compensation, including valuation of stock options, as part of its recently issued Invitation to Comment, *Accounting for Stock-Based Compensation: A Comparison of FASB Statement No. 123, Accounting for Stock-Based Compensation, and Its Related Interpretations, and IASB Proposed IFRS, Share-based Payment*. That Invitation to Comment explains the similarities of and differences between the proposed guidance on accounting for stock-based compensation included in the International Accounting Standards Board’s recently issued exposure draft and the FASB’s guidance under Statement No. 123.

After considering the responses to the Invitation to Comment, the board plans to make a decision in the latter part of the first quarter of 2003 about whether it should undertake a more comprehensive reconsideration of the accounting for stock options. As part of that process, the board may revisit its 1995 decision permitting companies to disclose the pro forma effects of the fair value-based method rather than requiring all companies to recognize the fair value of employee

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stock options as an expense in the income statement. Under the provisions of Statement No. 123 that remain unaffected by Statement No. 148, companies may either recognize expenses on a fair value-based method in the income statement or

disclose the pro forma effects of that method in the footnotes to the financial statements.

Copies of Statement No. 148 may be obtained by calling the FASB's order department or by placing an order at the

FASB's Web site:

 800/748-0659

 www.fasb.org

Resources and CPE on Fraud Prevention and Detection

- SAS No. 99: *Consideration of Fraud in a Financial Statement Audit* (No. 060701CPA02). Price: \$15 member/\$18.75 non-member.
- *Fraud Detection in a GAAS Audit—SAS No. 99 Implementation Guide* (No. 006613CPA02) provides detailed information, examples and best practices for implementing SAS No. 99. Price: \$68.80 member/\$86 non-member.
- **Fraud and the Financial Statement Audit: Auditor Responsibilities Under New SAS** (No. 731810CPA02, text; No. 181810CPA02, videocourse). Recognize how the new fraud standard differs from the prior standard and the effect on your audit experience. Prerequisite: None. Estimated CPE Credit: 8, text; 9, videocourse. Level: Intermediate. Format: Text or 120-min VHS tape/manual. Price: \$119.20 member/\$149 non-member, text; \$148.80/\$186, videocourse.
- **NEW—Fraud and the CPA** (No. 731730hsCPA02). This self-study course from the AICPA and the Association of Certified Fraud Examiners will help CPAs deepen their fraud knowledge, enhance professional skepticism and improve decision processes. Prerequisite: None. Estimated CPE Credit: 8. Level: Basic. Format: CD-ROM. Special introductory price: \$98.60 member/\$123.25 non-member.
- **AICPA reSOURCE: Accounting and Auditing**

now
available

Literature—ORS (No. ORS-XX). Available only through full subscription. Price: \$395 member/\$1,195 non-member.

- *The CPA's Handbook of Fraud and Commercial Crime Prevention* (No. 056504CPA02) is designed to help CPAs manage the risk of fraud. Price: \$180 member/\$225 non-member.
- **How Fraud Hurts You and Your Organization** is a free one-hour corporate governance training program developed by the AICPA and the Association of Certified Fraud Examiners. View the program from www.aicpa.org/antifraud. Or, order the CD from the Member Satisfaction Center (No. 056513HSCPA01; \$8 shipping & handling fee applies).

To order any of these products:

 888/777-7077

 www.cpa2biz.com

 memsat@aicpa.org

- The **Antifraud and Corporate Responsibility Resource Center** is a new online resource devoted to the prevention, detection and investigation of fraud.

 www.aicpa.org/antifraud

- **Management Antifraud Programs and Controls: Guidance to Help Prevent, Deter, and Detect Fraud.** This set of recommendations, developed by seven professional associations to help boards of directors, audit committees and management prevent and root out fraud, can be accessed at:

 www.aicpa.org/antifraud/management/

AMA 2003 Job Outlook Survey

Thirty-eight percent of managers and executives anticipate that their company's domestic workforce will increase next year, compared to 22% of those who expect to have fewer employees, American Management Association's 2003 Job Outlook Survey shows. Forty percent of those surveyed expect to maintain the same number of employees next year.

AMA surveyed its executive members and corporate customers in Nov. and Dec.

2002. Of the 376 respondents, most said that they anticipate their organizations will offer raises (90%), promotions (69%) and bonuses (68%) in 2003.

Of those organizations that expect to grow their U.S. workforce next year, 75% say they experienced or anticipated a greater demand for their products or services. According to respondents, there is an adequate (57%) or abundant (31%) supply of skilled workers in their fields from which to recruit.

Those organizations that anticipate reducing personnel cited organizational restructuring (44%) and a lower demand

for products or services (40%) as reasons. Other factors included improved staff utilization (39%), re-engineering of business processes (31%), automation or other new technology (22%), outsourcing or contracting (20%), transfer of work or production to other localities (13%), loss of government funding or contracts (12%) or results of a merger or acquisition (12%). While 15% of the organizations that responded will terminate product offerings next year, more than twice as many companies (39%) anticipate that there will be major new product developments.

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Information Security Leads 2003 Top Technologies List

technology

Information security is once again the number one issue for the American technology community, according to the results of the AICPA 2003 Top Technologies survey. It took the lead spot in the Institute's 2001 ranking and came in third place last year.

This year's list was one of exceptional change as six new items made their way into the final listing, including:

- Business information management.
- Application integration.
- Wireless technologies.
- Intrusion detection.
- Customer relationship management.
- Privacy.

While disaster recovery planning and remote connectivity held their own on the list, survey participants moved Web services up to the number four position from number eight in 2002.

A Major Issue

The Top Technologies list consists of areas destined to have a significant impact on business in the year ahead. "It should come as no surprise that information security is the top issue," said Roman Kepczyk, chair of the AICPA Information Technology Executive Committee and of the Top Technologies Task Force. "Information security always makes a significant showing on the list. We can expect it to be a major issue for the foreseeable future."

"We are very impressed with the number of issues making their first appearance on the Top Technologies list," said J. Louis Matherne, the AICPA Director—Business Assurance and Advisory Services. "The AICPA will continue to address the impact these issues have on our members, their clients and employers in our initiatives, including Trust Services, XBRL, privacy and the annual AICPA TECH Conference. They will also serve as a basis for providing education and information to our members in the Institute's Information Technology membership section."

The Top Techs

The AICPA Top Technologies for 2003 are:

Information security: The hardware, software, processes and procedures in place to protect an organization's information systems from internal and external threats. They include firewalls, anti-virus, password management, patches, locked facilities, Internet-protocol strategy and perimeter control.

Business information management: The process of capturing, indexing, storing, retrieving, searching and managing documents electronically, including knowledge and database management (XML, PDF and other formats). Business information management brings to fruition the promise of the "paperless office."

Application integration: The ability of different operating systems, applications and databases to "talk" to each other and for information to flow freely regardless of application, language or platform.

Web services: Applications that use the Internet as their infrastructure and access tool, including both Web-enabled and Web-

based applications. Examples include Java applications, Microsoft's .Net initiative and today's application service providers and business portals.

Disaster recovery planning: The development, monitoring and updating of the process by which organizations plan for business continuity in the event of a loss of business information resources due to impairments such as theft, virus infestation, weather damage, accidents or other malicious destruction.

Wireless technologies: The transfer of voice or data from one machine to another via the airwaves without physical connectivity. Examples include cellular, satellite, infrared, Bluetooth, wireless (WiFi), 3G and two-way paging.

Intrusion detection: Software or hardware solutions that list and track successful and unsuccessful login attempts on a network, such as Tripwire. Intrusion detection capabilities are being built into many of today's firewall applications.

Remote connectivity: Technology that allows a user to connect to a computer from a distant location outside of the office. Examples would include RAS (remote access services), WTS (Windows terminal server), Citrix, MangoMind and PCAnywhere.

Customer relationship management: Managing all customer touch points, including call center technologies, e-commerce, data warehousing and all other technologies used to facilitate communications with customers and prospects.


Privacy: Today, more and more personal information is being collected and converted to digital formats. This information must be protected from unauthorized use by those with access to it. Privacy is a business issue, as well as a technology issue, because of state, federal and international regulations.

A Valuable Resource

The 2003 survey had the largest participation ever, with 201 members of the AICPA and the Information Technology Alliance voting, including 142 CPAs holding the Institute's Certified Information Technology Professional (CITP) designation. The AICPA conducts the annual Top Technologies survey as a service to the 4,500 CPAs in its Information Technology membership section. The 2003 Top Technologies will be covered at the AICPA TECH Conference, scheduled for June 22–24 at the Bellagio in Las Vegas.

Write CPA Letter Articles, Receive CPE Credit

The CPA Letter public practice supplements encourage readers to share information and experiences through bylined articles on subjects of interest to your fellow practitioners. Moreover, if the topic fits our editorial calendar and your article is featured, you may claim continuing professional education credits for the time you spent preparing the article (in accordance with the *Joint AICPA/NASBA Statement on Standards for Continuing Professional Education*, revised as of Jan. 1, 2002). The first step is to submit article topic ideas for approval to:

 adennis20@aol.com



GASB 34 Resources Available to Help Preparers and Users of Financial Statements

As governments continue to plan for the implementation of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, the Governmental Accounting Standards Board has made available sources of information to address the needs of both preparers and users of financial statements. These resources are intended to provide help in understanding the requirements and impact of the new financial reporting model. The documents discussed below are available from the GASB order department or through the GASB Web site:

 800/748-0659

 www.gasb.org

Implementation Resources for Preparers

The GASB has approved two staff-authored Implementation Guides that cover frequently asked questions about Statement No. 34 and other model-related pronouncements. Both guides are written in a question-and-answer format and provide guidance for the implementation of the new basic financial statements and management’s discussion and analysis. Each guide includes cross-references and a topical index. Together, the two guides address Statements No. 33 through 38 and Interpretation 6. The guides feature questions about preparer materiality, management’s discussion and analysis, government-wide financial statements, fund financial statements, note disclosures, special-purpose governments, component units, public colleges and universities, non-exchange transactions and transition issues.

The first guide, *Guide to Implementation of GASB Statement 34* (issued in Apr. 2000), includes nearly 300 questions and answers, over 50 illustrative financial statement exhibits and 10 “how-to” exercises. The question-and-answer section of the guide addresses all aspects of Statement No. 34 and features dozens of questions about capital assets, depreciation and infrastructure, including the modified approach. Several questions and related illustrations provide guidance regarding alternatives that may be available to governments in meeting certain display or disclosure requirements.

The second guide, *Guide to Implementation of GASB Statement 34 and Related Pronouncements* (issued in Jan. 2002), is a companion to the first Statement No. 34 guide and contains over 170 additional questions and answers. In addition, it includes illustrative financial statement exhibits, a complete set of notes to the financial statements and detailed supporting worksheets.

Resources for Users of Financial Statements

In addition to guidance for preparers, GASB staff has published a series of guides for users of government financial statements:

- *What You Should Know about Your Local Government’s Finances: A Guide to Financial Statements* (order code GUG01).
- *What You Should Know about Your School District’s Finances: A Guide to Financial Statements* (order code GUG02).

- *An Analyst’s Guide to Government Financial Statements* (order code GUG03).

The User Guides were developed to assist users in understanding the financial statements that governments of all types will prepare once they have implemented Statement No. 34. They are designed to be accessible to all users, from the government finance novice to the long-time user, financial statement preparer or auditor. They focus on the value of information found in the statements and discuss how the information may be used to inform decision making. In addition, the guides are intended to be a resource for government finance officers and auditors who are seeking to understand how financial statement information is used or for those who are looking for help in explaining the new financial statements to their elected officials or clients.

For those who would prefer a summarized overview rather than the more thorough introduction to government financial statements presented in each of the three user guides, the GASB has published three quick guides:

- *The Quick Guide to Local Government Financial Statements* (order code GQG01).
- *The Quick Guide to School District Financial Statements* (order code GQG02).
- *The Quick Guide to State Government Financial Statements* (order code GQG03).

These guides describe in a brief and easy-to-read style the major features of the new financial statements that state and local governments are preparing under Statement No. 34 and may be useful to legislators, taxpayers, citizen groups and financial analysts.

GASB Web Site: One Comprehensive Resource

The GASB’s Web site, www.gasb.org, contains a wealth of information on implementation efforts and links to resources for governments and citizens, including training sessions and seminars, articles and publications about Statement No. 34, and electronic discussion groups and chat rooms. In addition, the Statement No. 34 section of the Web site provides links to the financial reports of many of the governments that have implemented the new reporting model.

Statement No. 34—A New AICPA Audit and Accounting Guide

In addition to the resources described above, the AICPA has issued a new audit and accounting guide, *Audits of State and Local Governments* (GASB 34 Edition). The GASB 34 guide addresses the audits of basic financial statements and consideration of required supplementary information and other supplementary information prepared in conformity with the new governmental financial reporting model required by Statement No. 34 and related pronouncements.

The electronic version of the guide is available on the CPA2Biz Web site.

 www.cpa2biz.com

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