

# Everybody's Talkin'



## **annual** ACCOUNTING SHOW

Sept. 21-23, 2011 • Ft. Lauderdale

**26<sup>th</sup> Annual Accounting Show  
September 21-23, 2011  
Ft. Lauderdale**

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1:40-2:30pm	<p><u><a href="#">SOX and Internal Controls for .....3</a></u>  <u><a href="#">Small Businesses</a></u>          J. Stephen Nouss, CPA</p>
2:30-4:50pm	<p><u><a href="#">IFRS for SMEs – The Arrival of Little GAAP .....19</a></u>          Mark E. Brechbill, CPA          Managing Director / Mark Brechbill CPAs</p>

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# ***SOX and Good Internal Controls for Small Businesses***

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*J. Stephen Nouss, CPA*

**J. Stephen Nouss, CPA**  
Practice Leader South Florida  
Jefferson Wells International

Steve is a former Partner with Grant Thornton LLP in the Business Advisory Services Group and had responsibility for Florida.

With 20 years plus experience in public accounting, the greater part of Steve's background includes serving as an auditor at a Big Four accounting firm for 17 years. Steve was Director of an Internal Audit function for a Fortune 500 company with international operations and has also been a Chief Financial Officer for a public company with international operations.

Steve brings extensive knowledge in internal audit service that includes financial, compliance, operational and personnel risk-based assessments along with Sarbanes-Oxley services and CFO consulting services. He has made numerous presentations and speeches regarding Corporate Governance and Sarbanes-Oxley to professional associations.

His experience spans over several industries including banking, manufacturing, real estate, transportation and logistics / distribution

**Education**

University of Florida, B.S. Business Administration

**Affiliations**

Florida Institute of Certified Public Accountants - Past President, Vice President of the University of Florida Athletic Association, Inc and Chairs the Audit Committee, American Institute of Certified Public Accountants - Council Member, and University of Florida National Alumni Association - Past President.

## Good Internal Controls For Small Business and SOX Update

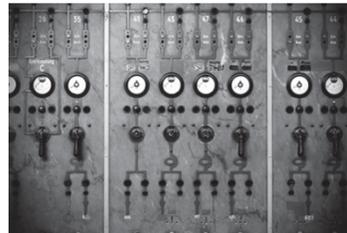
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J. Stephen Nouss  
September 22, 2011

## Objectives

- Internal Controls
- Fraud Factors
- Risks
- SEC
- SOX 404 Update
- SEC Whistleblower Program
- Committee of Sponsoring Organizations
- COSO Framework Internal Controls
- COSO Project to “Modernize” Internal Control – Integrated Framework
- Back to Basics Review



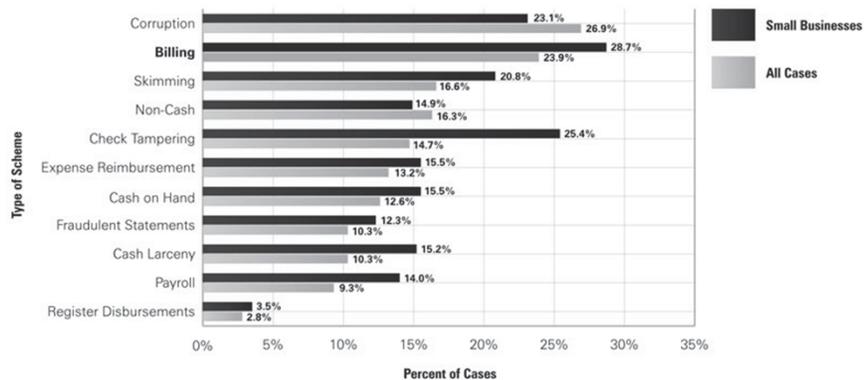
## Internal Control

- Process effected by an organization’s structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives.
- Means by which an organization’s resources are directed, monitored, and measured.
- Preventing and detecting fraud.
- Protecting the organization’s resources.
- Physical and intangible.



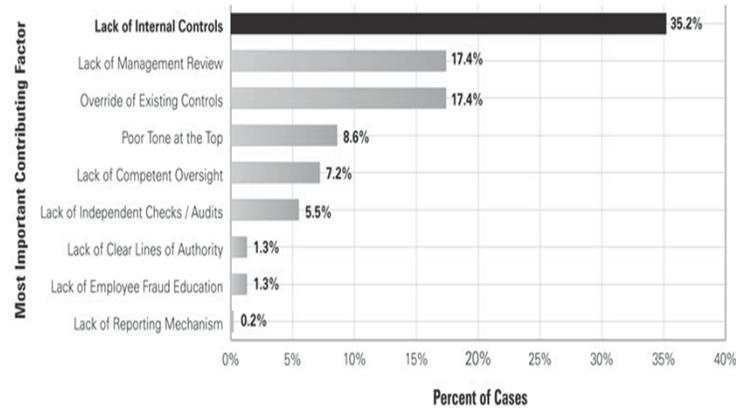
## Fraud Factors

**Methods of Fraud – Small Business vs. All Cases**



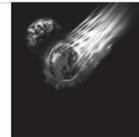
## Fraud Factors

### Primary Internal Control Weakness Observed



## The Universe of Risks

- **Every organization faces risks on three primary fronts:**
  - In their **environment** (e.g., competitors, governments, lenders, regulators, innovators, etc.)
  - In their **operations** (e.g., production quality, efficiency, information systems, employee capabilities and integrity, etc.)
  - In the **information** they use and/or publish that is critical for making decisions (e.g., production planning, product pricing, purchase commitments, budgeting, financial reporting, etc.)



## SOX 404 Update

### SOX 404 Exemption:

- Sec. 404(a) – Company's Management to assess the effectiveness of internal controls over financial reporting.
- Sec. 404(b) – Company's independent auditors to provide an attestation report on management's assessment of internal controls.



## SEC

# EXPANSION



**SEC**

**TEXAS A&M**



2010 Dodd-Frank Wall Street Reform and  
Consumer Protection Act

- Permanently exempt nonaccelerated filers from SOX Sec. 404(b).



## Not Completely Off The Hook

- Nonaccelerated filers must submit a management report on internal control effectiveness with their annual reports.



## SEC Whistleblower Program Effective August 12, 2011

- Mandated by Dodd-Frank
- Webpage at [www.sec.gov/whistleblower](http://www.sec.gov/whistleblower)
- Eligibility requirements
- Directions on how to submit a tip or complaint
- Instructions on how to apply for an award
- Provide original information about a violation of the federal securities
- Successful enforcement
- Monetary sanctions exceeding \$1 million
- Awards are to be between 10% and 30%



## Let The Fun Begin...

- SEC has already received an uptick in quality tips
- 4,000 employees at the SEC
- 35,000 entities
- Anti-retaliation provisions
- Foreign Corrupt Practices Act
- U.S. based plaintiffs' lawyers are ramping up



## Moderate The Dodd-Frank Whistleblower Provisions

- Whistleblower Improvement Act of 2011
- Prerequisite to receiving a whistleblower bounty
- Employee must first report the matter to his or her employer
- Mandate internal compliance reporting



## Committee of Sponsoring Organizations



## The COSO Internal Control - Integrated Framework

The original COSO *Internal Control – Integrated Framework* started out as a tool to help organizations ensure that they had procedures in place to consistently achieve their objectives in the following categories:

- Effectiveness and efficiency of **operations**
- Reliability of **financial reporting**
- **Compliance** with applicable laws and regulations



## COSO Control Environment



- **Integrity and Ethical Values**
  - Sound integrity and ethical values, particularly of top management, are developed and understood and set the standard of conduct for financial reporting.
- **Board of Directors**
  - The board of directors understands and exercises oversight responsibility related to financial reporting and related internal control.
- **Management's Philosophy and Operating Style**
  - Management's philosophy and operating style support achieving effective internal control over financial reporting.

## COSO Control Environment, cont'd.



- **Organizational Structure**
  - The company's organizational structure supports effective internal control over financial reporting.
- **Financial Reporting Competencies**
  - The company retains individuals competent in financial reporting and related oversight roles.
- **Authority and Responsibility**
  - Management and employees are assigned appropriate levels of authority and responsibility to facilitate effective internal control over financial reporting.
- **Human Resources**
  - Human resource policies and practices are designed and implemented to facilitate effective internal control over financial reporting.

## COSO Risk Assessment

- **Financial Reporting Objectives**
  - Management specifies financial reporting objectives with sufficient clarity and criteria to enable the identification of risks to reliable financial reporting.
- **Financial Reporting Risks**
  - The company identifies and analyzes risks to the achievement of financial reporting objectives as a basis for determining how the risks should be managed.
- **Fraud Risk**
  - The potential for material misstatement due to fraud is explicitly considered in assessing risks to the achievement of financial reporting objectives.



## COSO Control Activities

- **Integration with Risk Assessment**
  - Actions are taken to address risks to the achievement of financial reporting objectives.
- **Selection and Development of Control Activities**
  - Control activities are selected and developed considering their cost and their potential effectiveness in mitigating risks to the achievement of financial reporting objectives.
- **Policies and Procedures**
  - Policies related to reliable financial reporting are established and communicated throughout the company, with corresponding procedures resulting in management directives being carried out.
- **Information Technology**
  - Information technology controls, where applicable, are designed and implemented to support the achievement of financial reporting objectives.



## COSO Information and Communication

- **Financial Reporting Information**
  - Pertinent information is identified, captured, used at all levels of the company, and distributed in a form and timeframe that supports the achievement of financial reporting objectives.
- **Internal Control Information**
  - Information used to execute other control components is identified, captured, and distributed in a form and timeframe that enables personnel to carry out their internal control responsibilities.
- **Internal Communication**
  - Communications enable and support understanding and execution of internal control objectives, processes, and individual responsibilities at all levels of the organization.
- **External Communication**
  - Matters affecting the achievement of financial reporting objectives are communicated with outside parties.

## Monitoring

- **Ongoing and Separate Evaluations**
  - Ongoing and/or separate evaluations enable management to determine whether internal control over financial reporting is present and functioning.
- **Reporting Deficiencies**
  - Internal control deficiencies are identified and communicated in a timely manner to those parties responsible for taking corrective action, and to management and the board as appropriate.



## COSO Project to Modernize Internal Control – Integrated Framework November 11, 2010

- Initiative is expected to make the existing framework and related evaluation tools more relevant in the increasingly complex business environment so that organizations worldwide can better design, implement, and assess internal control.



## COSO Companion Document – March 2011

- Specifically related to the external financial reporting objective.
- Provide relevant approaches and examples.
- Supersede the 2006 Guidance on Internal Controls over Financial Reporting – Guidance for Smaller Public Companies (ICFR).
- Financial reporting for compliance with SOX 404.



## Areas Expected To Be Updated

- IT in business operations
- Expanding the financial reporting objective
- Management reporting
- External reporting
- Key governance principles
- Linkages between Internal Control and Enterprise Risk Management
- Expanding the discussion on risk management
- Reflecting changes in business models
- Broader impact of fraud in the business environment
- Incorporating core aspects – 2006 Framework and 2009 Guidance on Monitoring



## COSO Advisory Council

- Industry practitioners
- Academia
- Government agencies
- Non-profit organizations
- Observers: SEC, FDIC, GAO, PCAOB and IFAC



## COSO Project Team Input

- Advisory council quarterly meetings.
- Survey (COSO Web Survey Link): input, interpret, improved, more current and unnecessary.
- Feedback to COSO website or via email.
- Updated framework will be issued for public comment.



## COSO Project Time Line

- Survey closes ~ September 1, 2011
- Issued for public comment ~ early 2012
- Projected publication ~ mid 2012



## Back to Basics Review

### **Key Areas:**



- Revenue Cycle: follow the cash
- Purchasing Cycle: 3 way match, approved vendor master file
- Payroll Cycle: match HR file information to paycheck, hand out paychecks
- Inventory: physical counts
- Cash: bank reconciliations
- Fixed Assets: count the big stuff; computers, servers, equipment
- Financial Close Process: report(s), users, budget / actual / prior period analysis
- One simple check & balance for all key areas; review / approval

## Back to Basics Review

### **Controls Approach:**



- Automated controls vs. manual controls
- Preventative controls vs. detective controls
- Confirm IT general controls: physical / logical access, super user, etc.
- Review “key” IT application controls
- Corporate governance structure: tone @ the top, management overrides, etc.
- Manual controls w/ detective approach; weak combination
- Centralized process vs. decentralized process
- Cost / benefit analysis
- Internal audit function: outsourced based

## Back To Basics Review

### **Key Attributes to Address:**

- Exists / Occurred
- Authorized
- Complete / Completed
- Accurate / Verified
- Recorded
- Reviewed
- Approved



## Contact information

**Steve Nouss**  
**Senior Vice President - Finance,**  
**Accounting & Operations**  
**Republic Metals Corporation**  
**Cell 954.254.0222**  
**S.Nouss@republicmetalscorp.com**



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***IFRS for SMEs –  
The Arrival of Little GAAP***

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*Mark E. Brechbill, CPA*

# Mark Brechbill, CPA

## Mark Brechbill, Certified Public Accountants

Mark Brechbill is the founder of Mark Brechbill, Certified Public Accountants, a large, local CPA firm serving small to mid-sized businesses in Stuart and on the Treasure Coast. The firm provides a wide range of services, including tax, audit, financial planning, business planning, and employee leasing brokerage services to businesses and individuals. Mark concentrates most of his time in the firm's business and tax consulting practice, assisting with business formation and organization, purchases and sales, and reorganizations. He also sponsors and hosts a series of call-in radio programs entitled "**Treasure Coast Solutions**" that answers listeners' questions pertaining to business, financial planning, real estate, construction and community activities.

Prior to founding the firm in 1994, Mark spent over thirteen years in the banking industry, serving as Chief Operating Officer of a community bank and CFO of a \$600 million regional bank. He began his career in public accounting with Arthur Andersen & Co., in Chicago, Illinois, working in the firm's banking division. He also worked with McGladrey, Hansen, Dunn & Company, (now McGladrey & Pullen), in their Peoria, Illinois office. Mark has a Bachelor of Business degree in accounting from Western Illinois University, is licensed as a CPA in Florida, and is a member of the FICPA and AICPA. Additionally, as with most CPAs, he is active in a number of civic and community programs (primarily as Treasurer).

## IFRS for SMEs

.The “Little GAAP” we’ve been waiting for?

## Getting Up On My Soapbox!!

- Opportunity for CPAs to take back their profession
- Regulatory overload has scared many from the profession, or at least financial statement work
- The users of the small business financial statements have a hard time keeping up with the complexity of US GAAP, leading to misunderstandings
- FASB has become irrelevant to many if not most CPAs
- We have become a profession of rules, rather than principles and professional judgment

## Why Does This Apply To Me?

- May 18, 2008 – Amelia Island, FL
  - AICPA Governing Council recognized IASB as a standard-setter under Rules 202 and 203 of the AICPA Code of Conduct
  - IFRS becomes GAAP (although as it relates to international accounting and reporting principles)
    - There does not appear to be any prohibition against the use of IFRS or IFRS for SMEs in financial statements prepared by US companies for international distribution, even if they are never distributed internationally and are only used domestically.
- Now that IFRS for SMEs is GAAP, it opens up reporting for smaller companies to a simpler method of accounting and reporting that will still satisfy the banks and others that require GAAP over OCBOA

## Why Do I Care?

- Principles based, not Rules based
- Qualitative, not Quantitative
- The complete set of standards is 230 pages long, from Preface through Glossary
  - Does not rely on other authoritative sources (self contained)
  - Current Codification is over 25,000 pages
  - Full IFRS is about 2,300 pages
- IFRS for SMEs objective is to provide information
  - That is useful for economic decision-making
  - By a broad range of users
  - Who are not in a position to demand reports tailored to meet their particular information needs

## What is a SME?



## Small and Medium-sized Entities

- Do not have public accountability
  - Its debt and equity instruments are not traded in a public market
  - It's not in the process of issuing such instruments for trading in a public market
  - It does not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses such as
    - Banks, credit unions and insurance companies
    - Securities broker/dealers, mutual funds and investment banks
- Publish general purpose financial statements for external users such as
  - Owners not involved in managing the business
  - Existing and potential creditors
  - Credit rating agencies

## IFRS for SMEs is Based on Concepts and Pervasive Principles

- Qualitative Characteristics:
  - Understandability
    - Presented in a way that makes it comprehensible by users who have a reasonable knowledge of business and accounting and a willingness to study the information with reasonable diligence
    - Does not allow relevant info to be omitted on grounds it might be too hard to understand
  - Relevance to decision-making needs of users
    - Relevant when capable of influencing the economic decisions of users
  - Materiality
  - Reliability
    - Free from material error and bias and represents faithfully that which it purports to represent or could reasonably be expected to represent
  - Substance over form
    - Transactions and other events should be accounted for and presented in accordance with their substance and not merely their legal form

## IFRS for SMEs is Based on Concepts and Pervasive Principles (Continued)

- Qualitative Characteristics (Continued):
  - Prudence
    - Prudence is conservatism not biased towards understatement of assets or income, nor overstatement of liabilities or expenses
  - Completeness
    - Complete within the bounds of materiality and cost
  - Comparability
    - Over time and also between entities
  - Timeliness
    - Providing the information within the decision time frame
    - Management may need to balance the merits of timely reporting vs. reliable information within the users' needs to make decisions
  - Balance between benefit and cost
    - Substantially a judgmental process

## IFRS for SMEs is Based on Concepts and Pervasive Principles (Continued)

- Financial Position (Balance Sheet)
  - Relationship of assets, liabilities and equity as of a specific date
    - Asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow *to the entity*
      - Right of ownership is not essential, but rather who controls the benefits that are expected to come from the asset
    - Liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits
      - May be a legal obligation or
      - Constructive obligation
        - Established pattern of past practice, published policy, or current statement that the entity will accept responsibility
        - Creates valid expectation on the part of other parties that it will discharge those responsibilities
  - Equity is what is left

## IFRS for SMEs is Based on Concepts and Pervasive Principles (Continued)

- Performance (Income Statement)
  - Relationship of income and expenses during a reporting period
    - Can prepare a single financial statement (statement of comprehensive income) or two (an income statement and a statement of comprehensive income)
      - If you don't have any items of comprehensive income you can prepare one statement and the only items of comprehensive income for IFRS for SMEs are:
        - Foreign currency gains and losses
        - Actuarial gains and losses
        - Changes in fair value of hedging instruments
    - The recognition of income and expenses results directly from the recognition and measurement of assets and liabilities
  - Income
    - Revenue
    - Gains
  - Expenses
    - Expenses that arise in the ordinary course of business
    - Losses
  - It must be probable that the benefit will flow to the entity
    - Probability is more-likely-than-not (greater than 50%)
    - Probability for US GAAP is 80% or more in this case

## IFRS for SMEs is Based on Concepts and Pervasive Principles (Continued)

- Measurement of Assets, Liabilities, Income and Expenses
  - Historical cost
    - Amortized historical cost is the historical cost of an asset or liability plus or minus that portion of its historical cost previously recognized as expense or income
      - IFRS for SMEs is all cost based with a few exceptions
        - Publicly traded equity securities
        - Derivatives, CMOs, etc
        - Investments in associates
        - Investment property (although with an option to convert to historical cost)
        - Agricultural assets
  - Fair value
  - Impairment

## IFRS for SMEs is Based on Concepts and Pervasive Principles (Continued)

- Pervasive Recognition and Measurement Principles
  - IFRS for SMEs generally derived from IASB's *Framework for the Preparation and Presentation of Financial Statements* and from full IFRS
    - But, it does not refer back to full IFRS, nor does it require or allow that full IFRS be used
    - If IFRS for SMEs does not address the transaction, management should use its judgment to develop a policy that results in information that is
      - Relevant
      - Reliable
    - In making that judgment, management is encouraged to look first to similar transactions within IFRS for SMEs
    - Then to the Concepts and Pervasive Principles outlined here
    - Management may look to full IFRS for guidance, but is not required to
    - US GAAP or any other accounting literature is not authoritative

## IFRS for SMEs is Based on Concepts and Pervasive Principles (Continued)

- Recognition in the Financial Statements
  - Contingent assets
    - Not recognized unless the flow of future economic benefits to the entity is virtually certain
  - Contingent liabilities
    - Either a possible but uncertain obligation or a present obligation that is not recognized because it fails to meet one or both of the following conditions
      - It is probable that the entity will be required to transfer resources embodying economic benefits in settlement
      - The settlement amount can be measured reliably
    - An entity shall not recognize a contingent liability as a liability, except for contingent liabilities of an acquiree in a business combination
    - Contingent liabilities that meet the two conditions above are not contingent liabilities, but “Provisions” and are booked
      - Basically the same as SFAS 5

## Financial Statement Presentation

- IFRS for SMEs is Presumed to Achieve a Fair Presentation in the Financial Statements
  - May require additional disclosure
  - If used for entities with public accountability IFRS for SMEs does not result in fair presentation
- Complete Set of Financial Statements
  - Balance Sheet
  - Statement of Revenues, Expenses and Changes in Fund Balance
  - Statement of Cash Flows
  - Notes to Financial Statements
    - All statements and notes would be comparative

## Conclusion

- Questions
- Thank you
- Contact info:
  - Mark Brechbill
  - Telephone: (772) 220-3380 ext 13
  - Email: [mbrechbill@markbrechbill.com](mailto:mbrechbill@markbrechbill.com)

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(MEMBER NAME) can be reached by telephone at (PHONE NUMBER), or via e-mail at  
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###