

ACCOUNTING

THE CFOs WEIGH IN ON REFORM

BusinessWeek's poll uncovers some surprising responses

The Enron Corp. debacle may forever change the way Corporate America deals with auditors, regulators, and investors. From blue chips like General Electric Co. and IBM Corp. to tech upstarts like PeopleSoft Inc., managers have been scrambling to improve their disclosure and ease investor doubts. Board members, fearful of ending up under the same glaring spotlight as Enron's complacent directors, are rethinking the ways they work with auditors. And everyone from Congress and the Securities & Exchange Commission to shareholder activists and the nation's big accounting firms are debating what changes are needed to restore confidence in Corporate America's books.

But will the suggested reforms—which range from new disciplinary boards and regular rotations for auditors to increased disclosure and stiffer penalties for financial malfeasance—actually work? And what do the financial managers, who will have to put any changes into place, think of them? To find out, *BusinessWeek* teamed up with Financial Executives International, a Morristown (N.J.) professional association, many of whose members are CFOs, controllers, and treasurers. FEI sent an e-mail survey to 3,222 members with senior positions in corporate finance and re-

ceived 355 responses during the week ended Feb. 15.

Like many Americans, a considerable number of respondents from the corporate finance trenches say reforms such as separating auditing and consulting are overdue. Although they pan the idea of letting stock exchanges appoint auditors, they echo public calls for more disclosure of off-balance-sheet debt. By a strong majority, respondents say it's time to get tough on financial miscreants—even to the point of jailing offenders. "Until we have harsher penalties, we're going to continue to have problems," says FEI Chief Executive Philip B. Livingston. "There has to be real prosecution."

The FEI scan represents a fair sample of Corporate America. Some 299 work for publicly traded companies, and 29% hail from outfits with over \$1 billion in annual sales. In all, 105 of the respondents work for companies in the Standard & Poor's 500.

These are the people who know how Corporate America keeps its books and how it works with its accounting firms. The respondents include 124 CFOs, 80 executive vice-presidents, senior vice-presidents, or vice-presidents for finance, and 95 controllers. Managers for banking and financial-services firms make up the largest set of respondents—just un-

der 10%—while some 7% work in the energy and utilities sectors. The rest work in more than 40 other industries.

So what did the poll show? Nearly half the managers, 166, say that Enron is not an isolated situation. It is merely the most extreme example of problematic financial reporting, some managers suggest. "I'm sure there are instances of other behavior that, while not identical, are parallel," frets Douglas J. Wetmore, CFO of International Flavors & Fragrances Inc. That's an impression shared by investigators: The scandal highlights "a number of problems which are common to more than one company," says Senator Carl Levin (D-Mich.), who chairs a subcommittee currently investigating Enron.

What safeguards do financial executives think will prevent more Enrons? Some 65% believe that federal legislation barring corporations from hiring their audit firms for nonaudit or nontax-related consulting work is a good idea. Consulting fees raise "the potential for impaired independence," argues Kate Asbec, Corning Inc. senior vice-president and controller. Already, the restriction has been voluntarily accepted by Enron's ex-auditor, Arthur Andersen, and other Big Five accounting firms. Meanwhile, bills proposed by Senator Richard J. Durbin (D-Ill.) and Representative Michael G. Oxley (R-Ohio) would halt the practice of consulting for audit clients.

Many—although hardly all—believe that better policing of auditors should also be a priority. Some 55% of the respondents say it would help, for instance, to set up a new regulatory organization. But many managers would like to see it independent of the Big Five and the industry's own professional organization, the American Institute of Certified Public Accountants. The AICPA favors a disciplinary board with a majority of public members that would also include industry representation.

Given how career prospects in the industry would be affected, it's surprising that many of the executives say they would happily eliminate the revolving door between auditing firms and client companies. "It would enhance the credi-

HARSHER PENALTIES—TO START WITH

During the week ended Feb. 15, *BusinessWeek* and Financial Executives International—a professional organization of financial managers—surveyed 3,222 members about post-Enron auditing reforms. Some 355 responded. Here are highlights from the poll:

How do you feel about these potential reforms:

- ▶ Government-mandated auditor rotation?

EXTREMELY HELPFUL	SOMEWHAT HELPFUL	MODERATELY HELPFUL	NOT VERY HELPFUL	NOT AT ALL HELPFUL
11%	12%	18%	27%	32%

- ▶ Legislation or regulation barring corporations from hiring their audit firms to do nonaudit and nontax-related consulting?

EXTREMELY HELPFUL	SOMEWHAT HELPFUL	MODERATELY HELPFUL	NOT VERY HELPFUL	NOT AT ALL HELPFUL
18%	24%	23%	24%	11%

- ▶ Creation of a new regulator, independent of the Big Five and the AICPA, to oversee audit quality assurance and discipline?

EXTREMELY HELPFUL	SOMEWHAT HELPFUL	MODERATELY HELPFUL	NOT VERY HELPFUL	NOT AT ALL HELPFUL
17%	18%	20%	19%	25%



Many execs want to eliminate the revolving door between auditing firms and client companies

peal than real benefit," says Allegheny Energy Inc. Controller Thomas J. Kloc. Others argue that such a measure would mean constantly reeducating new auditors and losing a great deal of valuable experience. "In both the early and late years of a firm's rotation, you just get poor service," says Ernst & Young International CEO James S. Turley.

Nonetheless, some reforms seem to be clear winners. Tougher discipline for officers, directors, and auditors who seriously fall down on the job won the backing of 88% of the managers. "When you willfully mislead the public, there should be stiff penalties," declares Wisconsin Energy Corp. Controller Stephen P. Dickson. Says Belo's Shelton: "There needs to be accountability." And some 75% support measures to protect whistle-blowers like Enron's Sherron S. Watkins.

Perhaps the biggest concern of many financial execs is that if reforms are too rapidly put into place, they could lead to changes that make their jobs tougher instead of truly improving corporate reporting. Bad policy could wind up "punishing the innocent" by overburdening companies with too much regulation, argues Allegheny Energy's Kloc. Adds Intuit Inc. CFO Greg Santora: "None of the proposals feel to me like they solve the problem." That may be, but some of them are likely to be adopted nonetheless.

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For full poll results, go to the Mar. 11 issue online at www.businessweek.com

bility of the profession," says Stephen E. Shelton, vice-president of internal audit for Belo Corp. of Dallas. Some 58% of the FEI managers favor imposing a two- to five-year waiting period during which auditors would be prohibited from moving to top jobs in their clients' offices.

That support seems to contradict many of the respondents' own behavior: Just over one-third had been partners or senior managers in major accounting firms themselves. At least 39 had moved directly from such posts to become controller or CFO at a client. Plenty of the managers believe the pro-

posed solution could create problems of its own. International Flavors CFO Wetmore, a former auditor for IFF, argues that such a rule would unfairly restrict a company's choices. "If I walked in front of a bus, maybe the person most suitable and knowledgeable and skilled at this point [to replace me] could be somebody from our audit firm."

Other reforms also inspire passionate nays. Some 59% of responding managers nix the idea of government-mandated auditor rotation, which would force auditing firms to change clients every few years. "It has more curb ap-

► Harsher penalties for executives, directors, and auditors who fail to properly discharge their responsibilities?

EXTREMELY HELPFUL	SOMEWHAT HELPFUL	MODERATELY HELPFUL	NOT VERY HELPFUL	NOT AT ALL HELPFUL
49%	23%	16%	6%	6%

► A two- to five-year waiting period during which time auditors may not accept senior positions with audit clients?

EXTREMELY HELPFUL	SOMEWHAT HELPFUL	MODERATELY HELPFUL	NOT VERY HELPFUL	NOT AT ALL HELPFUL
19%	19%	20%	18%	24%

► Increased disclosure of the major risks and assumptions built into financial statements, as proposed by the SEC?

EXTREMELY HELPFUL	SOMEWHAT HELPFUL	MODERATELY HELPFUL	NOT VERY HELPFUL	NOT AT ALL HELPFUL
37%	29%	21%	7%	6%