

Public Interest Newsletter

Summer 2016



“Placing the public interest above self-interest is the hallmark of a profession”... Eddie Stamp, 1983...

Special points of interest:

- * Letter from the Chair
- * 21st Annual Ethic Research Symposium
- * Annual Meeting
- * Editorial Columns
- * In Other News

A Letter from the Chair

Dear Public Interest Section Members,

As I complete my two years as Section Chair, I am grateful to all those who have made positive contributions to our section. While there are too many to list in this Chairs letter, I would like to thank the following people for their important service.

First, is **Amy Hageman**, our Chair-Elect. I have worked with Amy on a number of issues during my term and I know she will do a terrific job as Section Chair. Thanks Amy! I look forward to continuing to work with Amy as I take over as Section Secretary-Treasurer.

I would also like to thank the other officers for their valuable service to our section during the past two years. As noted below, many of these folks will continue serving our section in a variety of ways.

Mitch Stein (Secretary-Treasurer). Mitch will serve as Chair-Elect for the next two year term.

Charlie Cullinan – Vice Chair of Research. Charlie will serve as Council Representative for the next three years.

Anne Schnader – Vice Chair of Education. Anne will serve as Vice Chair of Research for the next term.

Mike Kraten – Vice Chair of International Membership. Mike will continue in this role for the next two year term. Mike has also served as the section’s Social Media Coordinator and the progress to date will bode well for the future.

Steve Mintz – Council Representative for the past three years.

All of these folks have made an important difference to our sections. I greatly appreciate all of their efforts.

Pamela Roush deserves special thanks for her role as *Accounting and the Public Interest* Editor. She has done an outstanding job with the journal, including assembling an Editorial Team that will contribute to the journal’s future success. Thanks Pamela!

During the past two years we were fortunate to have outstanding Annual Meeting Coordinators. During 2015 **Eric Lee** singlehandedly shouldered the Annual Meeting Coordinator duties and **Lois Mahoney** repeated that feat for this year’s Annual Meeting. Both did a great job and their important service is most appreciated.

We also benefitted from the great work of our Midyear Meeting Coordinators. **Matt Keane** and **Steve Perreault**, my dear colleagues from Providence



Patrick T. Kelly

**Chair of the Public Interest
Section, American Accounting
Association**

**Director, Ethics in Business
Education, Providence College
School of Business**

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College, did a super job as Co-Coordinator of the 2015 Midyear Meeting in Washington DC. This spring's successful Midyear Meeting in Winter Park, FL, was co-coordinated by **Lisa Baudot** and **Charlie Cullinan** with support from **Pamela Roush**. The University of Central Florida has continued to sponsor the Doctoral/New Faculty Consortiums at our Midyear Meeting, which have benefitted our new section members.

Kudos also go to the Public Interest Section Ethics Symposium Coordinators Amy Hageman, who served as Co-Coordinator with **Lucy Chen** for the 2015 Symposium, and **Charles Stanley**, who is serving as this year's Co-Coordinator with **Diane Roberts**. Last year's Symposium was wonderful and it appears this year's Symposium will be another great success.

Newsletter Editors/Webmasters **Lawrence Chui** and **Byron Pike** have continued to do an outstanding job with our newsletter and website. They are so great to work with and we have benefitted from their dedicated efforts. Thanks to you both!

The Public Interest Section is supported by a number of other representatives and Committees. These include our Regional Representatives (**Tara Shawver**, **Larita Killian**, **Byron Pike**, **Cassandra Rohland**, **Andy Felo**, **Marty Stuebs**, **John Thornton**, and **Mitch Stein**), the Accounting Exemplar Award Committee (Chaired by **John Thornton** with members **Tim Louwers**, **Sue Ravenscroft**, **Joan Lee**, and **Richard Baker**), the Officer Nominating Committee (also Chaired by **John Thornton**, with members **Lisa Baudot**, **Christine Earley**, **Amy Hageman**, **Cynthia Krom**, and **Vaughan Radcliffe**), and the *Accounting and the Public Interest* Nominating Committee (**Paul Williams**, **Brian Shapiro**, and **Cheryl McWatters**). The business of our Section does not get accomplished without the fine efforts of these individuals. I thank them for their important service.

Finally, I would like to thank the members of the AAA staff. They have all been very helpful in the past two years, but **David Boynton**, **Julie Smith David**, and **Peggy Turczyn** have been particularly supportive of our section and for that I am grateful.

While every section has its own particular challenges, the efforts and service of those listed above, along with many others who made such positive contributions to our section, make me really optimistic about the future. I look forward to the development of the Center for the Advancement of Accounting in the Public Interest, which I continue to think will benefit our Section. **Sue Ravenscroft** and I are serving on the Focus Group for this Center and will keep you advised of the future progress.

I hope to see many of you at the **Annual Meeting in New York**. Please try to attend our **Business Meeting at 4:00PM on Monday, August 8th**.

Respectfully,

Pat Kelly

PROVIDENCE COLLEGE
 **School of Business**

The 21st Annual Ethics Research Symposium, sponsored by the American Accounting Association's Professionalism and Ethics Committee and the Public Interest Section, will be held in New York on **August 7**. A reception is planned for **Saturday, August 6th at 6:30 p.m.**, so come out and meet new colleagues, greet old friends, and welcome doctoral students to our premier group of ethics researchers! Questions can be sent to **Diane Roberts**, University of San Francisco, robertsd@usfa.edu and **Charles Stanley**, Baylor University, charles_stanley@baylor.edu

Join us at the Annual Meeting!

NEW YORK 2016

CELEBRATION OF THE CENTURY

August 6 through August 10, 2016

Public Interest Section Business Meeting:
Monday, August 8: 4:00PM to 5:30PM

Editorial Columns



Prem Sikka

University of Essex, UK

On 23rd June 2016, 52% of the UK electorate voted to come out of the European Union (EU). Following the vote, the Prime Minister has resigned. The two main UK political parties, Conservative and Labour, are facing leadership elections and there is considerable uncertainty about the shape of future relationship with the EU.

The UK government will need to negotiate fresh trade deals with the EU and many other countries and this could take years. In the era of globalization, developing UK specific laws on money laundering, data protection, competition, financial services and consumer rights is not an easy matter. A pragmatic approach would be to retain the current laws and then modify them gradually. Such an approach poses ideological problems as the thrust of the arguments against remaining in the EU was that UK needs its own specific legislation.

After exiting the EU, the UK will no longer have to follow the EU Directives on accounting and company law, but many UK companies listed on the EU exchanges or trading in the EU will probably still need to comply with them. So the influence of the EU is unlikely to disappear.

Accounting for Brexit

The UK has adopted International (IFRS). After the EU exit, UK is but local scandals will increase this embolden other countries too?



EU attempts to restrain the sale of non-auditing services by auditors to audit clients. The exit may comfort the auditing industry, but international developments cannot be ignored as UK financial statements need to be acceptable in other countries.

Financial Reporting Standards likely to continue to use IFRSs pressures for variations. Might The UK has grudgingly accepted

On tax matters, the ruling Conservative Party has long sought to make UK a tax haven with low corporate tax rates and a soft enforcement regime. The current corporate tax rate is 20% and the government is already committed to reducing it to 17% as it seeks to compete with the Ireland rate of 12.5%. Such trends are likely to accelerate as the UK will seek to entice capital with low tax rates and special deals. Of course, any special deals can be construed as state-aid and may fall foul of international treaties and the post EU exit treaties which would give the UK access to European markets. Within the EU, the exit of the UK may be welcomed as it has frequently obstructed sanctions against tax havens and development of tax policies, such as the *Common Consolidated Corporate Tax Base (CCCTB)*, for combating profit shifting.

The EU exit has created new politics which many will be watching with considerable interest.



Steve Mintz

**Emeritus Professor from
Cal Poly San Luis
Obispo. Follow Steve's
blogs at
www.ethicsage.com**

We all know that financial statements should be prepared using GAAP. However, there is a growing trend of using non-GAAP measures that are said to better serve user interests and reflect true economic realities. An increasing number of companies are turning to non-GAAP measures. According to a recent study by Audit Analytics, just 29 companies in the S&P 500 index (5.7%) closed their books for 2015 exclusively using GAAP, a sharp decline from 25% in 2006. The majority of companies now disclose non-GAAP numbers alongside GAAP numbers creating confusion in the minds of the readers of financial reports.

A typical non-GAAP measurement is EBITDA. Another is reporting earnings with only recurring amounts so that non-recurring and/or unusual items are deleted from GAAP earnings. One joke making the rounds is the best number to report is EBE -- earnings before "expenses."

I've heard many arguments for using non-GAAP financial measures. A common one is these metrics provide better guidance for financial analysts who need future-oriented data. Another is they provide an addi-

tional tool for investors to use in understanding and evaluating ongoing operating results and trends similar to the way top management and the board of directors use such information. The problem is that without a commonly accepted definition of what non-GAAP numbers should include, the results may not be comparable and, without full disclosure, transparency would be lost.

Most users of the financial statements are incapable of transitioning from non-GAAP to GAAP numbers. One suggestion is to require a reconciliation from the reported non-GAAP numbers to GAAP amounts. This could be accomplished by having a schedule accompany every report of non-GAAP results.

Have GAAP Numbers Outlived their Usefulness?

GAAP

The SEC is cracking down on the use of non-standard financial reporting in earnings releases. As it studies the issue, some believe the SEC may require a reconciliation while

others say it may restrict the use of non-GAAP numbers and dictate specific disclosures. Either way the SEC must meet its burden to protect the investing public or be relegated to a back seat in insuring that the financial statements are accurate and reliable and assist user decision-making.

It is a worthwhile endeavor for the SEC to examine whether GAAP measurements are out of touch with what businesses need today to better manage results and whether investors would be better served with new kinds of forward-looking information. Like most issues, the devil is in the details.



As classroom instructors, we are all seeking ways to incorporate principles of Sustainability into our course work. But in an era of \$300 textbooks and \$200 learning supplements, are there any affordable resources that are available to supplement our lesson plans?

When confronting such a challenge, it is often wise to consider intellectual content that is published by national and global professional associations. Two organizations, in particular, offer online resources that are particularly useful for introducing accounting students to the field of Sustainability.

Michael Kraten
Providence College

One is the Integrated Reporting framework (see integratedreporting.org), a model that has been developed by the International Integrated Reporting Council (IIRC). This framework integrates concepts of Sustainability into business operations by defining six Capitals, which represent the six categories of resources that are utilized by organizations to produce their outputs and generate outcomes.

The six Capitals encompass the financial, manufactured, and intellectual resources that appear on an entity's financial statements, but that are (usually) not valued at their market, intrinsic, or enterprise values. They also encompass the human, social / relationship, and natural environmental resources that are never capitalized on balance sheets, but that nevertheless possess immense market, intrinsic, or enterprise values.

For freely available supplemental material, students may wish to view YouTube and Vimeo videos of Judge Professor Mervyn King, the Chairman of the IIRC (see, for instance, <https://vimeo.com/27407628>). Dr. King also appears in the United States at financial conferences from time to time, most recently at the Sustainability Investment Leadership (SILC) Conference in New York City in Spring 2016 (see silcny.com).

Sustainability: Instructional Resources

SUSTAINABILITY

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For a detailed application of the human capital construct, the Chartered Institute of Managerial Accountants (CIMA) has partnered with the Chartered Institute of Personnel and Development (CIPD) in the human resources profession to develop a framework entitled Valuing Your Talent (VYT). The framework (see valuingyourtalent.com) is organized around the four categories of organizational activity that reside at the heart of the Integrated Reporting framework: Inputs, Activities, Outputs, and Outcomes.

Although one can find supplemental readings in many online locations, it may be possible to focus entirely on the VYT web site for instructional applications regarding human capital. CIMA and CIPD have developed informational web pages, case studies, "white paper" research reports, videos, an interactive framework survey, and other materials that are suitable for classroom use.

Contemporary topics like Sustainability are often difficult to cover in accounting classes because relatively few textbooks (or other traditional instructional resources) are available to cover the course material, and because the costs of mandatory textbooks often eliminates any possibility of assigning additional expensive content.

Regrettably, for many contemporary topics, there is no pragmatic alternative option. Fortunately, though, the IIRC and CIMA have produced credible, timely, valuable, and free content about Sustainability for academic institutions and their students.

Disclosure: Michael Kraten appeared on two panels and delivered a slide presentation about Sustainability Risk at the 2016 SILC Conference. He is also a member of the Research Advisory Group of CIMA's VYT initiative.

Editorial Note: This column represents the AAA Public Interest Section's first-ever review of online instructional resources. It is designed to help the Section transition its member information activities from traditional formats to new online formats. Thus, it currently appears in this quarterly e-newsletter, and we plan to feature similar intellectual contributions in our forthcoming blog.

In Other News...

Theme Issue of the Journal of Information Systems-New and Innovative Sources of Research Data

The Journal of Information Systems (JIS) is the journal of the Accounting Information Systems (AIS) Section of the American Accounting Association (www.jisonline.com). JIS will publish a theme issue of JIS entitled "Sources of Data." Accounting and systems researchers have recently gained access to inexpensive and plentiful research data and participants through new outlets, including online labor markets and for-profit data aggregators. Services such as Amazon's Mechanical Turk allow for rapid collection of data, and there has been significant growth in the use of participants from online markets in accounting research. Researchers are also using massive datasets from sources such as corporate transaction archives, Google Search Analytics, weather records, social media and other external data. These big data sources require data management and analytical techniques not often employed in accounting research. This theme issue seeks papers that examine opportunities and risks created by the use of these new and emerging sources of data.

All research methods are welcome, including experimental, survey, case study, archival and literature review. The editors also welcome the submission of short papers that are appropriate for publication as a Research Note. In addition to research papers, the editors would be interested in publishing commentaries and calls for action on the issues raised in the theme issue. Please contact the theme issue editors for further information. Submissions should follow the JIS editorial guidelines at www.jisonline.com. Submissions for the special issue are due on **December 15, 2016**.

Earlier submission is encouraged. The co-editors of the theme issue are **Jake Rose**, Professor of Accounting, Victoria University of Wellington, Email: jake.rose@vuw.ac.nz and **Ania Rose**, Associate Professor, Victoria University of Wellington, Email: ania.rose@vuw.ac.nz. Further details are at <http://tinyurl.com/JIS-NewData>

2017 Critical Perspectives on Accounting



Université Laval / Main Conference: **July 3-5, 2017**

Emerging Scholars Colloquium: **July 2, 2017**

The Faculty of Business Administration of Laval University (FSA ULaval) is very proud to host The Critical Perspectives on Accounting Conference in July 2017. For more details, please visit: <http://www4.fsa.ulaval.ca/>

critical-perspectives-on-accounting-2017/

See you in New York!