

## Nominating Committee Announces Slate

On June 25, 2010, the NASBA Nominating Committee met in Seattle, WA, and selected the following individuals as their nominees for Directors-at-Large, Regional Directors and Nominating Committee, as reported by Nominating Committee Chair, Thomas J. Sadler (WA):

### Directors-at-Large (three-year terms)

- Donald H. Burkett (Delegate – SC)
- Harry O. Parsons (Delegate – NV)
- Gaylen R. Hansen (Delegate – CO)

### Regional Directors (one-year terms)

- Middle Atlantic – Miley (Bucky) W. Glover (Delegate – NC)
- Great Lakes – Kim L. Tredinnick (Delegate – WI)
- Southwest – Janice L. Gray (Delegate – OK)
- Southeast – Kenneth R. Odom (Delegate – AL)
- Mountain – Karen F. Turner (Delegate – CO)
- Central – Telford (Ted) A. Lodden (Delegate – IA)
- Pacific – Laurie J. Tish (Delegate – WA)
- Northeast – Jefferson (Jeff) M. Chickering (Delegate – NH)

As announced in March, the Committee selected Mark P. Harris (Delegate – LA) as their Vice Chair nominee, who will accede to the office of NASBA Chair 2011-12 should he be elected by the member Boards at the Annual Business Meeting, on October 26, 2010.

Nominations may also be made by any five member Boards if filed with NASBA Chair Billy M. Atkinson at least 10 days prior to the Annual Business

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## Committees Ask Boards for Input

State Boards were asked to begin studying several proposals unveiled at the 2010 NASBA Regional Meetings, held June 9-11 in Charleston, SC, and June 23-25 in Seattle, WA, and to send their comments to the committees that initiated those proposals. The State Board Relevance and Effectiveness Committee, led by Carlos Johnson (OK), released their rationale and model legislation for a semi-independent Accountancy Board, and the Ethics and Strategic Professional Issues Committee, led by Gaylen Hansen (CO), distributed their proposed uniform definition of independence, as well as a draft rule related to performing audits or attest engagements below cost. Material distributed at the 2010 Regional Meetings can be found on the NASBA Web site, [www.nasba.org](http://www.nasba.org), in the “Meetings” section.

“It has become apparent the degree of independence of a state board affects its efficiency,” said Ellis Dunkum (VA), chair of the subcommittee which drafted the rationale for the semi-independent Board project. “NASBA believes the State Boards need a high degree of autonomy with the authority to do what they need to do,” he told the breakout sessions. Ray Johnson (OR) presented model legislation for establishing a semi-independent Board based on the provisions in place in Texas and North Carolina, along with a chart showing where the Uniform Accountancy Act addresses the issues raised in the paper. These documents developed by the committee can assist Boards that are facing consolidation or Sunset Review, as well as others that are looking for a way to take more control of their responsibilities and funds, Committee Chair Johnson explained.

At the Ethics Committee’s breakout session, Ray Johnson said they had concluded: “In principle, there is a presumption that performing an audit, or other attest services, below cost poses a significant threat to independence, due care, and compliance with professional standards.” The Committee has asked Boards to review the draft rule and let them know if changes are required. Comments on the Ethics Committee’s proposed definition of “independence” were requested by Kent J. Bailey (OR) during his breakout presentation. ♦

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## Attorneys Answer Liability Questions

The current professional liability environment -- and how it may change as standards evolve -- was discussed in Charleston by NASBA legal counsel Noel L. Allen, and Michael R. Young, of Willkie Farr & Gallagher, and in Seattle by Mr. Allen and Scott A. Kallander, of Moss Adams. Should International Financial Reporting Standards (IFRS) be adopted, the panelists agreed that the accountant's use of professional judgment would need to be proved if challenged.

"The conventional wisdom begins with recognition that we will move from a rules-based to a principles-based system," Mr. Young observed. He pointed out that a firm cannot be assured of protection from liability even if they do technically comply with rules, as the Lehman case recently showed. "If you make a good faith judgment call, that can be very hard to second guess. Liability concerns should not be an impediment to IFRS, but the SEC needs to get on board to the extent that they are not in the business of second guessing judgment calls. .... They have to allow judgments to be made even if they disagree."

"The challenge will be to prove a good faith judgment call," Mr. Allen said. He noted there are already more than 20 cases in the United States involving IFRS. "It will be the courts who decide and the better ones have turned to GAAP." Although it is much easier to bring a case to the State Boards based on rules, he pointed out that very few cases are brought to the Boards purely on GAAP issues. Should IFRS be adopted, "The Boards will have to bring in more experts," he stated.

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## Establishing Education Pathways

Over the years there have been many efforts to change accounting education, but they have not been ongoing, observed Bruce K. Behn, chairman of the AICPA/American Accounting Association's new "Pathways Commission." He told the Eastern and Western Regional Meetings: "Those were one-time events, but this commission is going to continue." The Commission is to be launched at the AAA Annual Meeting in San Francisco on August 3, 2010, with the first full meeting to be held in October and recommendations from the Commission in December 2011.

Compared to other professions, the accounting profession has some "disconnects" with its education, Professor Behn observed. "We have a disconnect between what our practice does and what our research does." The Commission is going to have "supply chains" to provide input from many organizations, including colleges, corporations, regional firms, high schools, State Boards, and others. There will be three supply chains involving approximately 30 people and will address issues in a cross-functional way. "We are looking to make a difference," Professor Behn said. ♦

"If principles-based accounting is going to work, then it has to be accomplished with the evolution of the reporting culture," Mr. Young said. "You have to focus on the objective of the principle and you are drawn to the underlying substance."

"Each new rule brings a new loophole, but principles-based accounting will not be a panacea and it will need a culture of ethics to make it work," Mr. Allen said. "In a principles-based system, you are going to leave more to the judgment of juries without clarity. For regulators, you are going to have a tougher time citing where the individual should have known it was a violation."

Asked when a licensee should bring an attorney to a Board hearing, Messrs. Allen and Kallander agreed that an attorney can be helpful. "The good attorneys can control their clients and educate them in the process," Mr. Kallander said. "The bad ones polarize the process as they are drawing lines in the sand. The vast majority of these cases are resolved by consent."

Dan Sweetwood, executive director of the Nebraska Board, asked if a Board should wait until litigation is concluded before the Board starts its own proceedings. Mr. Kallander responded: "How a case looks at the beginning may be very different from what it looks like at the end. A better approach is seeing where things end." ♦

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## Boards Urged to Oversee Peer Review

The Boards "may have dropped the ball in making sure the peer review process is working properly," NASBA Compliance Assurance Committee Chair Kenneth R. Odom (AL) told the Eastern Regional Meeting. At the Western Regional Meeting, Committee member Edwin G. Jolicouer (WA) noted, "There is no outside independent oversight of the National Peer Review Committee. We think it could be tweaked and improved." Alicia J. Foster (MD) and Robert G. Zurich (OH), both former State Board members, have been appointed to the NPRC, Mr. Odom reported.

Less than 20 Boards now have peer review oversight committees, although Chapter 3 of the AICPA's Peer Review Manual outlines how a Board can set up such a committee. Roughly 10,000 firms are being reviewed each year, and some 92 percent of them over the last three years received an "unmodified" report, Mr. Odom said.

"If you had to justify the peer review system to the media in your state, I think you would be hard pressed to convince the public that you are providing oversight and you are confident that the system is working as it should," Mr. Odom said. "You would be telling people that you are relying on someone else for this." He urged all Boards to establish oversight in their states.

Mr. Jolicouer, who presented the Compliance Assurance Committee's update two weeks after Mr. Odom did, said the Committee had met with AICPA staff and he was able to report progress on oversight of the NPRC is being made. He encouraged the Boards to make sure their system is working: "Trust but verify," he said. ♦

# President's Memo

## More Than Eight Feet

Many of you heard Professor Bruce Behn, CPA, Ph.D., Ergan Professor of Business, University of Tennessee, speak at either the Eastern or Western Regional Meetings. His comments on the developing plans for the study of accounting education (the Pathways Commission) were insightful, interesting and ambitious. But the comment which really caught my attention was Professor Behn's recollection of a statement made by Norman R. Augustine, former president and CEO of Lockheed Martin and a co-author of "Rising Above the Gathering Storm: Energizing and Employing America for a Brighter Economic Future." In discussing funding for education, Mr. Augustine seemed shocked that accounting education receives little from government and institutional grants and gifts while the fields of math and science comparatively receive much, much more. Mr. Augustine remarked that, "Accounting education should be able to get funding more easily than math and science: You have a better argument than we did — because you are responsible for the quality of life."



David A. Costello, CPA

Being "responsible for the quality of life" is a heavy and onerous charge, but that assertion does make the point. As relates to the economic and financial health of the nation and its people, accounting (asset/liability valuation and related financial reporting) and the trustworthiness of its professionals are integral and critical components. It seems to me that quality of life issues as impacted by the economy, and CPAs who measure and opine on economic outcomes are directly related to the client's three "Ts."

- **Truth** - Do I believe my CPA and rely on what he or she says and writes?
- **Trust** - Do I have confidence and faith in the reliability of my CPA? The accounting profession?
- **Transparency** - Does my CPA have any hidden agenda? What is my CPA not telling me, showing me? Is my CPA fully disclosing to me all relevant information? Does my CPA deliberately and needlessly complicate standards, financial reporting and explanations?

I believe we CPAs have been blessed with a superior privilege in the economic and financial arenas. We have exclusivity of practice no other professional enjoys, and all we need to do to maintain that privilege is to be true to the license we've been granted, to conduct ourselves both competently and ethically. And by a vast majority — maybe it's 99+% of the CPAs — we do.

Among my favorite cartoons is Charles Schulz's *Peanuts*. One of his classic cartoons has Linus (blanket always with him) and Lucy reflecting on life. Lucy says, "I'm getting so I don't trust anybody."

Astonished, Linus replies, "You don't even trust me?"

"I trust you about as far as you can throw that blanket," says Lucy.

To which Linus responds, "My sister trusts me eight feet."

NASBA's 501c(3) organization, the NASBA Center for the Public Trust (CPT), endeavors to showcase CPAs and others who are trustworthy, those who can be trusted not only "eight feet" but in everything they do, say and write.

CPT has completed a successful pilot program of ethics awareness through a student chapter of CPT at Lipscomb University in Nashville. The emphasis in that program, and other student chapters being planned, is on the fourth "E"—Ethics. We remind the students that the huge scandals and improprieties involving CPAs had little, if anything, to do with the individuals' education, ability to pass the CPA exam or experience, but everything to do with ethics — right doing and right being.

If we CPAs truly are integral in quality of life issues — and I agree we are — then it seems to me we should get more serious about putting our time and resources into what we say we believe. We're doing that as NASBA through the Center for the Public Trust and we invite you to join us. CPAs need more than "eight feet" of trust.

*Ad astra  
Per aspera*

A handwritten signature in black ink that reads "David A. Costello". The signature is written in a cursive, flowing style.

— David A. Costello, CPA  
President and CEO

## BRP Constructing Models

By the end of this year, the FAF/AICPA/NASBA Blue Ribbon Panel (BRP) on Standard Setting for Private Companies is expected to make some recommendations to change the status quo, Panel Chair Rick Anderson told the Western Regional Meeting. “I would be shocked if the end result is a recommendation for no change,” he told the NASBA audience. At the July 19, 2010 meeting the Panel will discuss model approaches, narrow those down to 2-4 alternatives for further discussion at the September meeting, and then come up with a proposed solution in December.

“The mission of the BRP is to address how accounting standards can best meet the needs of users of U.S. Company financial statements,” Mr. Anderson stated. “This is not a new topic: It has been addressed at least 10 times in 37 years, five times in a very formal way.” Mr. Anderson said earlier efforts had been CPA-driven, but this time the panel is composed of others, with users of private company financial statements being the focus of this effort. NASBA and the State Boards are represented on the Panel by Chair Billy Atkinson (TX).

Mr. Atkinson, describing the BRP project at the Eastern Regional, said he will be discussing the Panel’s work with NASBA’s Regulatory Response Committee and its Ethics and Strategic Professional Issues Committee through the next few months. He will be asking them to be his sounding board for the Panel’s proposed ideas.

An update on the BRP’s progress will be presented at the NASBA Annual Meeting. ♦



2010 Regional Meeting participants attend opening session.

## Exam Developments Reviewed

How NASBA, the AICPA and Prometric are working together to build a continually improving examination process was discussed at the Eastern and Western Regional Meetings. Walter Davenport (NC), chairman of NASBA’s CPA Licensing Examination Committee (CLEC), reported that through NASBA’s proposed Guam Customer Service Center, candidates will be able to have up to 16 hours of customer service daily, thanks to the time zone difference with the Nashville headquarters. He also stressed that State Boards need to give added consideration to submitting the names of nominees for the Board of Examiners (BOE), as the new examination contract calls for more State Board representatives on the BOE.

AICPA President Robert Harris said, “We look forward to the next 15 years [the duration of the new contract] to continue to build the examination into something we are continuing to be proud of.” He told the Western Regional Meeting: “We look forward to strong State Boards,” and he voiced his appreciation for the relationship AICPA and NASBA have developed.

NASBA Senior Vice President and COO Ken Bishop stated, “We are pleased with the contract we signed on March 4. We were able to achieve all of the terms and conditions the State Boards wanted in the domestic contract including having a majority of members of the BOE and at least half of the BOE’s Executive Committee with State Board experience.” The process for completing a contract for administering the Uniform CPA Examination internationally has proved to be “more complex” than originally anticipated, Mr. Bishop said, “but we are anticipating having a contract signed by late summer.” He stressed, “We want to make sure the U.S. credential remains strong.”

Douglas Warren (TN), BOE chairman, said CBT-e, the next phase of the evolution of the examination, will be launched on January 1, 2011. It will include shorter “task-based simulations,” moving all essays into BEC, shortening Auditing by 30 minutes while lengthening BEC by 30 minutes, and a new calculator, improved spreadsheets and a new research item type.

Several State Boards have questioned why IFRS will be included in the new examination when it has not been adopted by the SEC. Mr. Warren said the content of the examination is not based on SEC actions, but rather reflects entry-level practice. The inclusion of IFRS resulted from a practice analysis done two years ago, which showed that IFRS is being used by entry-level CPAs. He showed attendees a college textbook that he had just purchased in the University of Charleston bookstore which included material on IFRS as a demonstration that IFRS is being addressed in the curriculum. He stated that BOE representatives would be willing to come to a State Board’s meeting to discuss the inclusion of IFRS on the examination. Ken Clark, chair of the Content Committee, told the Western Regional: “I don’t think the SEC Road Map matters. IFRS is here and it is being used in this country for different types of activities.”

Prometric continues to carefully monitor its examination sites, Prometric’s Kim Farace and Victor Carter-Bey told the Regional Meetings. Patterns remain the same: Candidates come in more frequently at the beginning and end of each testing window. Ms. Farace advised: “Tell your candidates to test in the middle of the window because it is less busy.” Mr. Carter-Bey stated: “We realize CPA is a world-class license and we take our mission seriously to protect the CPA exam.” ♦

## Hansen Charts Progress of International Standards

The Securities and Exchange Commission has made it “crystal clear” that they will not consider a switch to International Financial Reporting Standards (IFRS) until the differences between U.S. Generally Accepted Accounting Principles and IFRS are worked out, Gaylen Hansen (CO), chair of the NASBA Ethics and Strategic Professional Issues Committee, told the Regional Meetings. The SEC has not stated it is committed to IFRS, and its Work Plan calls for the potential adoption of IFRS no earlier than “approximately 2015 or 2016,” Mr. Hansen underscored. “There is no provision for early adoption at all in the SEC’s new Work Plan.” The detailed PowerPoint Mr. Hansen prepared for his presentation can be found on [www.nasba.org](http://www.nasba.org) in the “Meetings” section.

There has been some high-level convergence, Mr. Hansen noted, but GAAP is “just much more mature.” He advised the meetings’ participants to watch how the FASB and IASB resolve the issue of fair value “because that may tell the tale of where we are going.” Mr. Hansen said his biggest issue with IFRS is the independence of the IASB, its funding and governance. “Right now the IASB is financed by the large accounting firms and companies and its independence and governance needs to be

looked at,” he said. Over the next 18 months there will be “huge changes” to GAAP and IFRS, Mr. Hansen predicted.

International Ethics Standards and International Auditing Standards are not part of IFRS, Mr. Hansen stressed. International Ethics Standards are set by the International Ethics Standards Board for Accountants (IESBA), operating under the International Federation of Accountants (IFAC) and no government body. Many of the laws in the United States presently exceed the requirements of the IESBA so they would not apply here, he noted.

As for the International Standards for Auditing (ISA), set by the International Auditing and Assurance Standards Board (the IAASB) under the auspices of IFAC, Mr. Hansen said the Public Company Accounting Oversight Board is continuing to set auditing standards in the U.S. The ISAs are designed to be proportionate to the size, level of complexity and nature of the entity. There is a two-year moratorium on new ISAs.

In July NASBA was notified it has been approved as a member organization of the IAASB and IESBA Consultative Advisory Groups and Mr. Hansen has been approved as NASBA’s representative to those bodies. ♦

## Nominating Committee Announces Slate

(Continued from page 1)

Meeting. No nominations from the floor will be recognized. A majority vote of the designated voting representatives of the member Boards attending the Annual Meeting shall constitute an election provided a quorum is present.

Under the provisions of NASBA’s Bylaws, at the 2010 Annual Meeting, Michael T. Daggett (Associate – AZ) will accede to the office of NASBA Chair and Mr. Atkinson (Associate – TX) will accede to the office of Past Chair. Continuing to serve for the balance of their unexpired terms: Directors-at-Large (third year of a three-year term) – Richard Isserman (Delegate – NY), Theodore Long, Jr. (Associate – OH) and Kathleen J. Smith (Associate – NE); Directors-at-Large (second year of a three-year term) – Walter C. Davenport (Associate – NC), Mark P. Harris (Delegate – LA) and

Carlos E. Johnson (Delegate – OK). Should Mr. Harris be elected Vice Chair, the Board of Directors will select an individual to fill the remaining two years of his term.

At the 2010 Regional Meetings, half of the Nominating Committee’s members and alternate members were selected by four Regions, in accordance with Article VII Section 3 of the Bylaws, with the other half having been selected at the 2009 Regional Meetings. The newly elected members to the 2010-2012 Nominating Committee are: Southeast – Lisa M. Stickel (TN) member, Charles H. Calhoun (FL) alternate; Middle Atlantic – Bobby R. Creech (SC) member, Tyrone Dickerson (VA) alternate; Pacific – Ed Jolicour (WA) member, Robert Petersen (CA) alternate; and Central – Marianne Mickelson (IA) member, Douglas W. Skiles (NE) alternate. ♦



(L to R) Will Pugh, Joe Cote and Harold Hein chat.



Listening to a Western Regional Meeting speaker



Chair Bill Atkinson shares a joke.

## Supreme Court Decides PCAOB Case

The U.S. Supreme Court rendered its decision on June 28 on the case brought by the Free Enterprise Fund and Beckstead and Watts, LLP, against the Public Company Accounting Oversight Board (PCAOB). In a five-to-four decision, the Court affirmed in part the Court of Appeal's decision, reversed it in part and remanded it. The Court agreed that the PCAOB's "dual for-cause limitations on the removal of Board members contravene the Constitution's separation of powers," but saw those provisions as severable from the remainder of the Sarbanes-Oxley Act, which created the Board. The majority held that the Act remains "fully operative as a law." NASBA had filed an amicus brief on the PCAOB's behalf (see *sbr* 1/2010) and promptly sent out a press release praising the Supreme Court's decision.

"With this cloud of uncertainty lifted, the PCAOB can devote more of its attention to independently protecting the public at the federal level, while NASBA's State Boards of Accountancy continue to do so at the state level," NASBA President David A. Costello remarked. He explained that the ruling was a substantial victory for the PCAOB, as there had been fears the Court might have called for large-scale adjustments to the way the PCAOB operates.

The case was brought by Beckstead and Watts, a Nevada accounting firm that had received a critical firm inspection report from the PCAOB, which was beginning a formal investigation. The firm, a member of the Free Enterprise Fund, sued the PCAOB and its members seeking a declaratory judgment that the Board is unconstitutional and an injunction preventing the Board from exercising its powers. Chief Justice John G. Roberts, in the majority opinion of the Court pointed out, "petitioners object to the Board's existence, not to any of its auditing standards."

Chief Justice Roberts wrote: "The only issue in this case is whether Congress may deprive the President of adequate control

# NASBA

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over the Board, which is the regulator of first resort and primary law enforcement authority for a vital sector of our economy. We hold that it cannot." The other three challenges raised by the petitioners were ruled to have no merit and the Court ruled the petitioners "are not entitled to broad injunctive relief against the Board's continued operations." ♦

## State Board Report

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