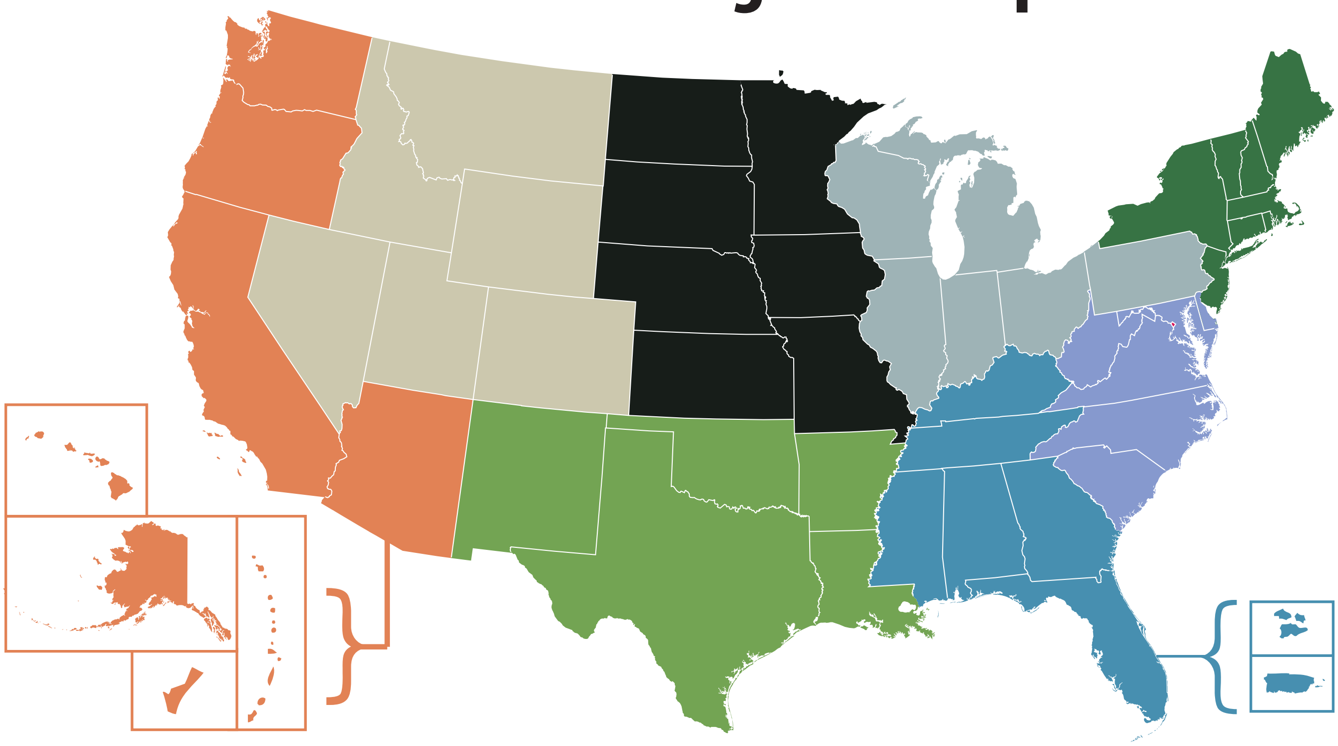
NASBA Regional Map



PACIFIC

Alaska
Arizona
California
CNMI
Guam
Hawaii
Oregon
Washington

MOUNTAIN

Colorado
Idaho
Montana
Nevada
Utah
Wyoming

SOUTHWEST

Arkansas
Louisiana
New Mexico
Oklahoma
Texas

CENTRAL

Iowa
Kansas
Minnesota
Missouri
Nebraska
North Dakota
South Dakota

GREAT LAKES

Illinois
Indiana
Michigan
Ohio
Pennsylvania
Wisconsin

SOUTHEAST

Alabama
Florida
Georgia
Kentucky
Mississippi
Puerto Rico
Tennessee
Virgin Islands

MIDDLE ATLANTIC

Delaware
District of Columbia
Maryland
North Carolina
South Carolina
Virginia
West Virginia

NORTHEAST

Connecticut
Maine
Massachusetts
New Hampshire
New Jersey
New York
Rhode Island
Vermont

Private Company Council

Billy M. Atkinson & Diane M. Rubin - PCC

June 6 & 27, 2013

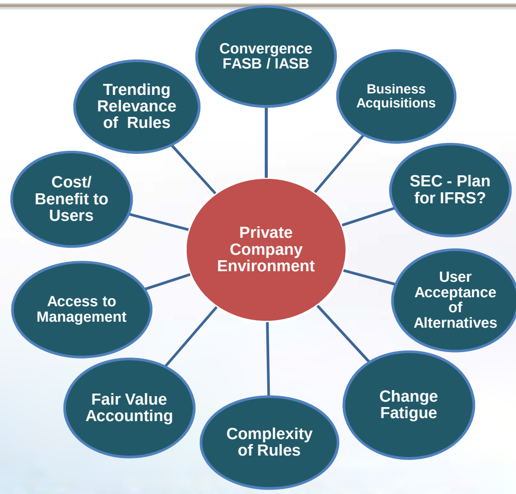
The views expressed in this presentation are of the presenter.
Official positions of the PCC and the FASB are reached only after extensive due process & deliberations.

FAF FINANCIAL ACCOUNTING FOUNDATION
FASB FINANCIAL ACCOUNTING STANDARDS BOARD
GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

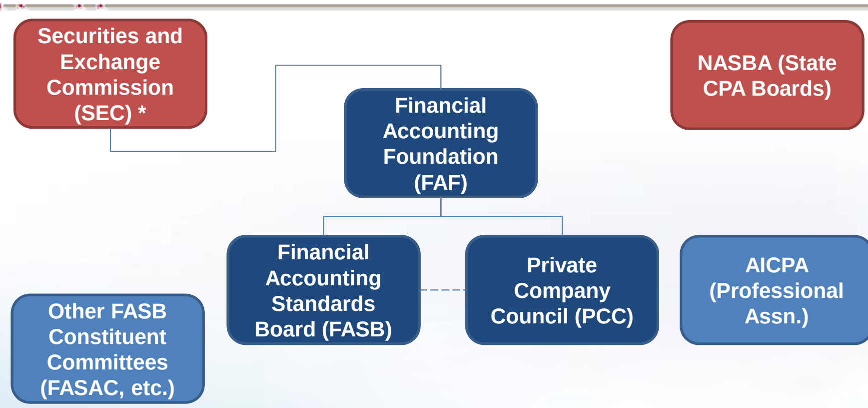
What We Will Discuss Today

- **Perspective on the FASB**
- **What is the Private Company Council?**
- **PCC activities to date**
- **Summary**

Landscape Private Company Reporting Issues & Stress



U.S. Standard Setter – Public & Private



(*) In addition to the accounting and reporting rules set by the FASB for all US companies, US public companies must also adhere to the regulations established directly by the SEC.

FASB Organization

FASB Chairman & Board

- **Director** Planning & Support
- **Technical Director** Standards Projects

73-member Staff

- Research Director
- Assistant Technical Directors
- Senior Investor Liaisons
- Project Managers & Staff
- Practice Fellows
- Postgraduate Technical Assistants
- XBRL Specialists & Staff
- Support Staff

FASB: Standards (Work Products)

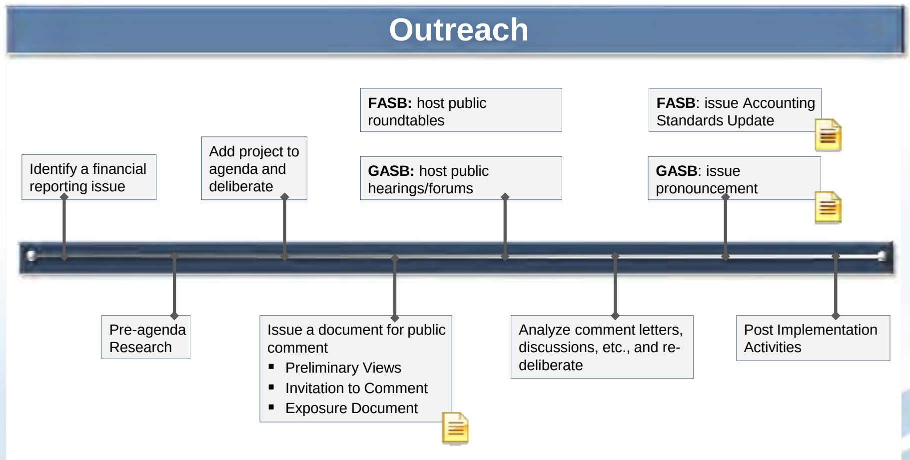
FASB Accounting Standards Codification™

- Authoritative U.S. GAAP

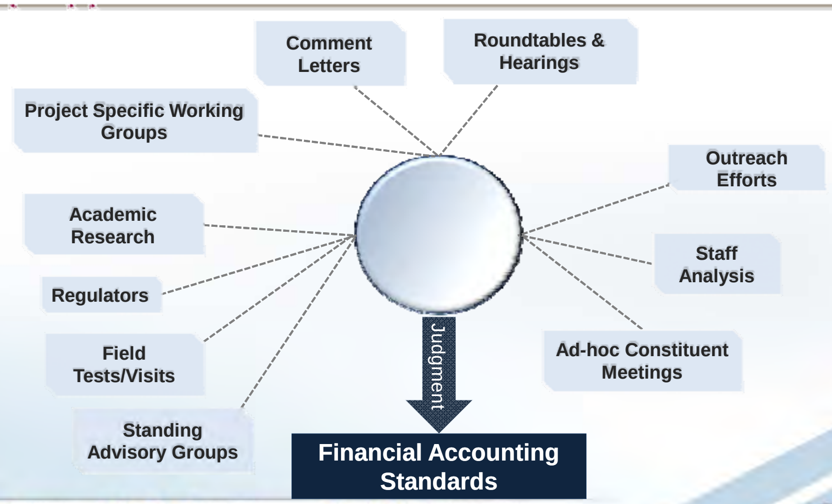
Accounting Standards Update (ASU)

- *Authoritative* when adopted
- How & why Codification amended

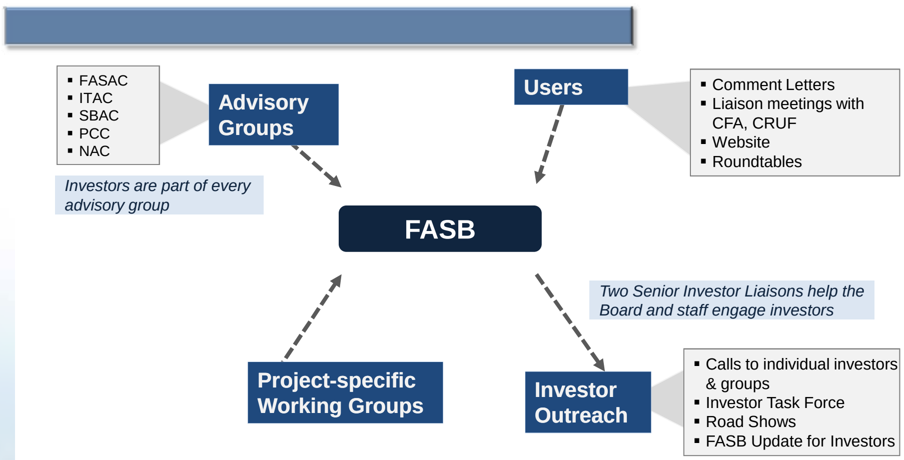
FASB-GASB: Standard Setting Process



Broad Participation



FASB: Engaging Users



Emerging Issues Task Force

Mission: assist FASB through the timely identification, discussion, and resolution of financial accounting issues within the framework of existing authoritative literature

Chaired by FASB Technical Director

Observers (AcSEC, SEC, IFRIC)

Agenda established by FASB Chair

Private Company Council

Established by FAF on May 30, 2012; overseen by FAF

to improve accounting standard-setting process for private companies

Identifies, deliberates & votes on proposed alternatives within existing U.S. GAAP for private companies

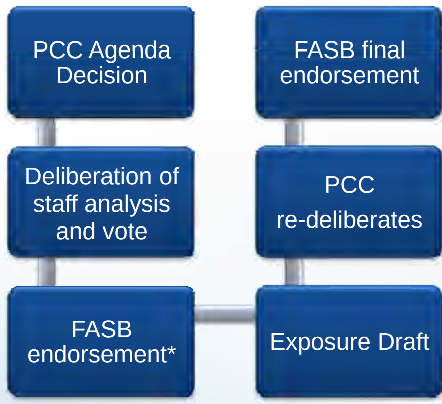
- Based on agreed-on criteria w/FASB (PCDMF)
- Subject to FASB endorsement and public due process

Primary private company advisory body to FASB on active FASB projects

PCC Proposed Agenda Process

1. Identification of potential GAAP alternatives
2. Pre-agenda research on potential modification
3. Staff analysis based on Private Company Decision Making Framework
4. PCC vote on agenda topics (Super-majority)

PCC Standard-Setting Process



* If the FASB does not endorse a PCC recommendation, the FASB must provide written notification and outline changes to the PCC which would result in endorsement.

Endorsement Process and Voting

- ***PCC uses agreed upon criteria to identify, deliberate and vote on GAAP alternatives***
  - ***Two-thirds (supermajority) vote required***
- ***FASB endorsement process for PCC recommendations by simple majority***
- ***FASB expected to act within 60 days***

Private Company Council

If FASB endorses…	If FASB does not endorse…
Public comment/due process	FASB provides PCC chair with written notice
PCC redeliberates & votes (supermajority)	FASB outlines changes that could result in endorsement
FASB makes final endorsement (simple majority)	
FASB issues Accounting Standards Update (ASU)	

Interacting with the FASB

- *Endorsement process*
- *FASB liaison*
- *FASB staff support, agenda research and outreach*
- *FASB attendance at PCC meetings*

PC Decision-Making Framework

Tool for the PCC and the FASB

ID & provide alternatives within U.S. GAAP in 5 areas based on differential factors (types of users, access to management, etc.)

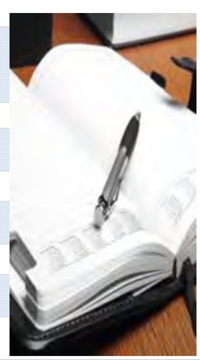
1) **Recognition and Measurement**
2) **Display (Presentation)**
3) **Disclosures**
4) **Effective Date**
5) **Transition Method**

Apply to PCC look-back projects and to ongoing FASB projects

1st PCC Meeting – December 6, 2012

PCC decided on four areas for pre-agenda research

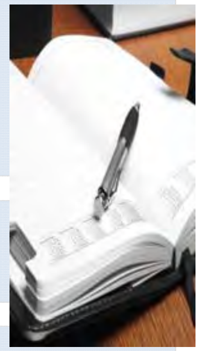
- **Various intangible assets (other than goodwill) acquired in business combinations**
- **Variable Interest Entities (VIEs)**
- **"Plain vanilla" interest rate swaps**
- **Uncertain Tax Positions (FIN 48)**



2nd PCC Meeting – February 12, 2013

PCC adds three formal agenda items

- VIEs (focus on related party arrangements)
- Certain "plain vanilla" interest rate swaps (while continuing research on others)
- Various intangible assets acquired in business combinations (including goodwill and its amortization & impairment)



Items for pre-agenda research

- Stock-based compensation
- Development stage enterprises

Expose PCDMF for public comment for 90 days

2nd PCC Meeting – February 12, 2013

PCC Discussions on current FASB projects

- Definition of a nonpublic entity
- Going Concern
- Revenue recognition transition
- EITF's recognition of pushdown in certain circumstances

Fate of Accounting For Uncertain Tax Positions

- Members didn't identify specific practice issues that require immediate attention
- Desire to continue to solicit feedback from stakeholders

Continued staff research on interest rate swaps with one or more counterparty or lending arrangement

3rd PCC Meeting – May 7, 2013

PCC Issue 1 - *Accounting for Identifiable Intangible Assets in a Business Combination and Subsequent Accounting for Goodwill*

- Relief from separately recognizing certain intangible assets acquired in a business combination
- Allowing for the amortization of goodwill and a simplified goodwill impairment model

PCC Issue 3 - *Accounting for Receive-Variable, Pay-Fixed Interest Rate Swaps (would NOT apply to financial institutions)*

- Allowing two simpler approaches to accounting for certain types of interest rate swaps when a private company intends to economically convert the interest rate on its debt.

3rd PCC Meeting – May 7, 2013

Next Steps

- **PCC Issue 2** - *Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements*
- **Preagenda item** - Stock-based compensation
- **Preagenda item** - Development stage enterprises

Potential PCC Topics

Feedback on Potential PCC Topics

- Future Roundtables/Town Hall Meetings
- Stakeholder Concerns & Input

Accounting Topics for Consideration

Summary

- PCC is <u>Integrated</u> into the FASB Diligence Process
- PCC has identified & is in pursuit of <u>*initial significant issues*</u>
- PCC is now seeking relevant issues <u>input</u> from Private Stakeholders
- Routine Roundtables & Town Hall Events are now being planned

Questions?

Why Change the Definition of Attest

Susan S. Coffey, CPA, CGMA
AICPA Senior Vice President

Background

Attest services, as defined in the Uniform Accountancy Act (UAA), are unique among those services provided by CPAs, due to the fact that they are the services that may only be provided by licensed CPAs who are operating within a licensed CPA firm. The rationale for this policy, as affirmed by the AICPA Council in 1997, is that, "these services are the most publicly sensitive because the public and other third parties rely on the licensee's report …." That is why it is critical to the public interest that attest functions are performed solely by licensed CPAs.

CPAs must meet the stringent requirements of licensure, including meeting rigorous educational requirements, passing the Uniform CPA Examination, and fulfilling an experience requirement. They must also adhere to a strict code of ethics, comply with professional standards of practice and meet on-going continuing professional development and education requirements. They are required to perform attest services within a firm that has an appropriately designed quality control system, and the design of and compliance with that quality control system is subject to a rigorous, independent quality-monitoring program. Furthermore, CPAs face a high level of regulatory oversight at the state level, and, in certain instances, the federal level. All of these extensive requirements ensure that CPAs bring a unique, high-caliber skillset to the marketplace for these services. The public can both understand and trust the skillset that CPAs bring to their provision of services.

In contrast, there is a very real set of risks to the public interest associated with non-CPAs issuing reports utilizing AICPA standards and language conventionally used by CPAs. Implicit in the issuance of such reports is an assumption about the aforementioned competence, experience, organizational protocols and processes, quality and government oversight. Many other market participants do not have these public protections or guarantees. It is quite possible for the public (or other end-users of a report) to be confused or misled when using a report issued by a non-CPA who, by use of standard report language, suggests AICPA standards were applied.

Due to these compelling public protection reasons, both the profession and its regulators have worked closely with lawmakers, over the past several decades, to instill a targeted but appropriate definition of attest into state laws around the country.

The UAA, the profession's model state accountancy act, incorporates this limited but important restriction as a core tenet of the scope of regulation of the profession. The UAA's current definition of attest lists these services as:

> **(1) any audit or other engagement to be performed in accordance with the Statements on Auditing Standards (SAS);**

(2) any review of a financial statement to be performed in accordance with the Statements on Standards for Accounting and Review Services (SSARS);

(3) any examination of prospective financial information to be performed in accordance with the Statements on Standards for Attestation Engagements (SSAE); and

(4) any engagement to be performed in accordance with the standards of the PCAOB.

Evolution of Attest Services

Despite the carefully targeted focus in the UAA, the scope of what is covered by the definition of attest can change unintentionally through a change in the referenced standards. Indeed, that is exactly what happened relatively recently when SAS 70, *Reporting on Controls at a Service Organization*, was rewritten and reissued as SSAE 16. This change moved *Reporting on Controls at a Service Organization* ***out*** of the covered services under the UAA's definition of attest, since only examinations of prospective financial information are currently covered services under SSAEs.

Some states have sought to address the SAS 70 to SSAE 16 matter via rulemaking, but profession leaders understood this was a stop-gap solution, at best, and there needed to be a comprehensive review of which services are appropriate to be contained in the UAA's definition of attest. In addition, any future move of a SAS to SSAE could create similar uncertainty. This situation has raised the question of whether other SSAE engagements should be incorporated into the definition of attest, or if another change or set of changes to the UAA could more appropriately address the scope of services that best protects the public interest.

More importantly, there is a larger need to revisit the matter. Historically, attest/assurance services have been generally limited to audits and reviews of historical financial statements on the basis of an audit performed in accordance with SAS or a review performed in accordance with SSARS. However, CPAs increasingly have been requested to provide, and have been providing, attestation services on representations other than historical financial statements. The marketplace and needs of clients have been changing. In responding to these needs, CPAs have been able to apply the basic concepts underlying audit and review to these assurance services. Consequently, the main objective of the AICPA in promulgating the attestation standards (i.e., SSAEs) and the related interpretive guidance has been to provide a general framework for, and set appropriate boundaries around, the attest function. As such, the standards and interpretative guidance (a) provide useful and necessary guidance to CPAs engaged to perform new and evolving attest services, and (b) guide AICPA standard-setting bodies in establishing, if deemed necessary, future standards for such services.

Given the scope of these attestation services, it raises a legitimate public policy question as to whether a non-CPA can appropriately apply AICPA standards in providing these services. Because the attestation standards are a natural extension of the ten generally accepted auditing standards, they similarly require the need for technical competence, independence in fact and appearance, objectivity and integrity, due professional care, adequate planning and supervision, sufficient evidence, appropriate reporting, and the application of professional judgment, all of which are unique hallmarks of a CPA. Such standards apply to a growing array of attest services, and have been developed to be responsive to a changing environment and the demands of society.

June 2013

Uniform Accountancy Act Update: Definition of Attest and Firm Mobility

NASBA Regional Meetings
2013 June

Definition of Attest

Current UAA Definition of "Attest"

- Audit/other engagement under Statements on Auditing Standards (SAS)
- Review of financial statement under Statements on Standards for Accounting and Review Services (SSARS)
- Examination of prospective financial information under Statements on Standards for Attestation Engagements (SSAE)
- Any engagement under PCAOB standards

Important exclusions =

- *Compilations under SSARS*
- *All other SSAE engagements*

Changing Landscape of Assurance/Attestation

- Generally limited to audits and reviews of historical financial statements

→

- Reports on representations other than historical financial statements

Examples of Emerging Services Not Covered

- Exam/review on sustainability reports
- Exam/AUP on XBRL tagged data
- Exam on internal control
- Exam on system reliability

Activities to Support Changing Landscape

- **Attestation standards**
  - ASB Clarity project
- **Guidance for assurance service performance**
  - SOC
  - XBRL
- **Training and tools, including “how tos” and certificate programs**
- **State legislation/regulation = Change in UAA**

Protecting the Public is Paramount

- Misleading and confusing for non-CPAs to issue reports in accordance with AICPA standards
- Implies CPA licensure and certain level of regulation/government oversight
- Implies CPA competence/integrity levels

Delay = More Potential Harm

Place the public at further risk from service providers less qualified than CPAs

Allow non-CPA use of AICPA standards in a manner that implies CPA qualifications

Increase market confusion

UAA Definition of “Attest”

CURRENT DEFINITION	PROPOSED DEFINITION
Audit/engagements under SAS	No Change
Reviews under SSARS	No Change
Audits/engagements under PCAOB	No Change
Examinations of prospective financial information under SSAE	Examinations, reviews and agreed-upon procedures under SSAE

Expanded UAA Definition of “Attest”

- **Continues to exclude compilations**
- **Applies to performance by licensed CPAs practicing in licensed CPA firms**
  - Unlawful for a non-CPA to report on the service
- **Preserves existing *individual* mobility efforts**
- **Coordinates with *firm* mobility efforts when state is ready**

Other Elements to be Considered

- Unlicensed firms that already perform these services (including affiliates)
- Timing of state legislative sessions
- Risk and work level associated with any legislative effort
- State priorities

Firm Mobility

The "Concept" of Firm Mobility

- First discussed during the individual CPA mobility initiative
- Preserve "No notice, No fee, No escape"
- Exempts out-of-state firms from notification and fee requirements when providing attest services ("no notice, no fee")
- Ensures firms are subject to accountancy laws and regulations in both states ("no escape")
- Requires firm license for physical presence

Benefits/Challenges

Benefits:

- Eliminates paperwork & compliance complications
- Consistent with commitment to promoting ease of cross-border practice
- Considers model already in existence in some states
- Maintains strong regulatory oversight in mobility states as well as home states

Challenges:

- Revenue impact to state boards
- State budget environments
- State legislative priorities
- Perception of state board oversight activities

Next Steps

- Exposure Draft to be voted for public comment
- UAA Committee consideration of ED comments
- Vote on final UAA language by AICPA/NASBA boards
- Final UAA issued
- State legislative/regulatory action

Changes in Ethics

2013 NASBA Regional Meetings

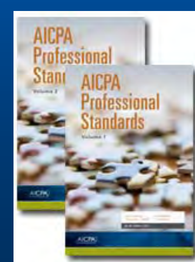
Dr. Raymond Johnson, CPA- East
John F. Dailey, Jr., CPA- West

Recent Changes in Ethics

- AICPA Ethics Codification Project
- Revision of ET 101-3, Non-attest Services
- "Holding Out" as a CPA
- Requests for Client Records
- Subordination of Judgment
- Partner Equivalents
- Client Affiliates

Changes in Ethics

AICPA Ethics Codification Project



Project Objective

- Create user friendly, intuitively arranged Code
- Physically different – Separate parts
  - Part 1: Members in public practice
  - Part 2: Members in business
  - Part 3: All Other Members
- Revise without making significant changes to existing requirements and restrictions
  - Clarity through better drafting conventions
  - Substantive changes will follow due process

Project Objective

- Incorporate conceptual framework approach
  - Incorporate threats and safeguards
  - Conceptual framework only applies when no guidance in Code exists
  - Cannot be used to override existing requirements
- Incorporate references to division's nonauthoritative guidance
- On-line Codification with enhanced functionality

www.aicpa.org/InterestAreas/ProfessionalEthics/Community/Pages/aicpa-ethics-codification-project.aspx

Your State's Code of Professional Conduct?

- Does it stand by itself?
- How does it mirror the AICPA Code of Professional Conduct?
- How much does it refer to the AICPA Code of Professional Conduct?
- Does it refer to the AICPA Code of Professional Conduct as of a given date?

State Board Awareness

- State Board Advisory Group
  - Daniel Sweetwood (Exec Director, NE)
  - Edith Steele (Former Exec Director, OK)
  - Kent Bailey (Former Member, OR Board)
  - Mark Crocker (Executive Director, TN Board)
  - Rona Shor Cherno (Member, NY Board)
  - Susan Harris (Exec Director, MS)

State Board Awareness

- The Codification Project provides an excellent opportunity for State Boards to review their regulations relative to the Code
  - Does your Board make reference to the Code in its regulations?
  - Some State Board’s regulations may be out of date compared to the Code

Project Timing

- Currently in "Phase Three" which consists of:
  - Exposed For Comment (April 15, 2013)
  - Approval (First Q 2014)
  - Release (TBD)

AICPA Ethics Codification Project

Substantive Changes

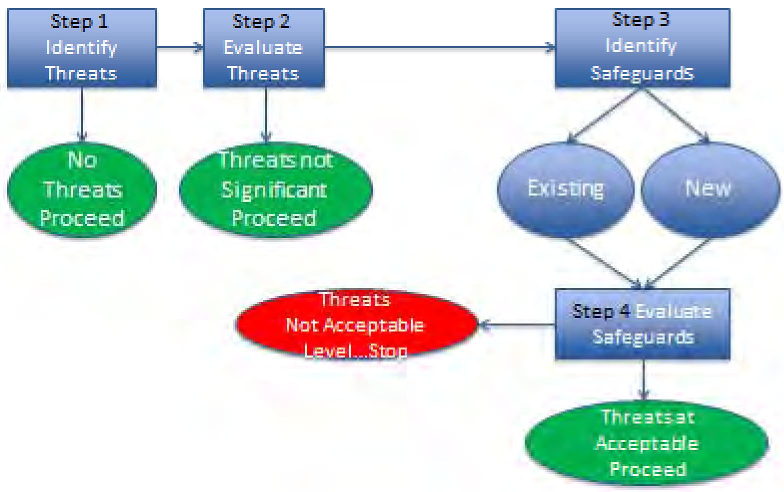
Incorporate Conceptual Frameworks

- Two New Frameworks
  - Conceptual Framework for Members in the Practice of Public Accounting
  - Conceptual Framework for Members in Business
- Applied when no guidance on a particular relationship or circumstance
- It is considered a violation of applicable rule if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level

What is a Conceptual Framework?

- When there is nothing on point in the Code
  - Old Thinking
    - Relationship or circumstance must be permitted
  - Revised Thinking
    - Apply the conceptual framework
- Requires professional judgment (risk based)
  - Reasonable Third Party
    - For example, if the situation involves a staff person often an effective safeguard is:
      - The staff's removal from the engagement
      - Additional review of the staff’s work

Steps of the Conceptual Framework



Substantive Changes Report

- AICPA has released a report entitled

<u>Proposed Substantive Changes</u>

<u>AICPA Codification Project</u>

- A copy is included in your materials

Mapping Document…excerpt

AICPA Ethics Codification Mapping As of January 15, 2013

#	Existing Citation	Title In Code	New Citation	Title In Code
162	ET Section 191.186-.187	Service on Board of Directors of Federated Fund-Raising Organization	1.110.010.01 j	Conflicts of Interest
166	ET Section 191.198-.199	Member Providing Services for Company Executives	1.110.010.01 k	Conflicts of Interest
170	ET Section 191.220-.221	Member is Connected With an Entity That has a Loan to or From a Client	1.110.010.01 l	Conflicts of Interest
159	ET Section 191.170-.171	Bank Director	1.110.020	Director Positions
174	ET Section 191.226-.227	Acceptance or Offering of Gifts or Entertainment	1.120.010	Offering or Accepting Gifts or Entertainment
132	ET Section 102.02	Knowing misrepresentations in the preparation of financial statements or records	1.130.010	Knowing Misrepresentations in the Preparation of Financial Statements or Records

Changes in Ethics

Non-attest Services

Revisions to Nonattest Services Interpretation

- Period of Impairment
  - Independence not impaired if member performed prohibited nonattest services during the period covered by the F/S if performed before entity became an attest client and certain other criteria are met
- Activities Related to Attest Services
  - Clarified certain communications during an attest engagement are not nonattest services
- Management Responsibilities
  - Replaced the term “management functions”
  - “General Activities” section →“Management Responsibilities”
  - Incorporates guidance from IFAC IESBA Code
- Effective August 31, 2012

Revisions to Nonattest Services Interpretation

- Outside Scope of Attest Service: Financial Statement Preparation and Cash to Accrual Conversions
  - Considered a nonattest service (i.e., outside scope of attest service)
  - Must apply the general requirements
  - Consistent with GAO Independence Standards
  - Revisions to SSARS pending exposure
  - Effective for engagements covering periods beginning on or after December 15, 2014

Revisions to Nonattest Services Interpretation

- Internal Audit Services
  - Clarifies the impact performing ongoing and separate evaluations have on independence.
    - Ongoing evaluations would impair independence
  - Direct user to the COSO Internal Control – Integrated Framework
  - Effective for engagements covering periods beginning on or after December 15, 2013

Changes in Ethics

“Holding Out” as a CPA

Deletion of "Holding Out" Requirement

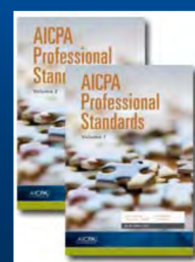
- Task force chaired by NASBA Chairman Gaylen Hansen, former PEEC member
- Delete "holding out" as CPA requirement from definitions of "practice of public accounting" and "professional services"
  - Members should be held to the Code regardless if holding out as CPAs
- Definition of professional services broadened to provide examples of additional services

Deletion of "Holding Out" Requirement

- Practice of public accounting → public practice
- Definition of public practice = professional services provided to client
- Effective May 30, 2013

Changes in Ethics

Requests for Client Records



Response to Requests by Clients for Records

- Highlights State Boards may be more restrictive
  - Unpaid fees from client
- Client provided records
  - Must always return
- Member prepared records
  - Must return if relate to completed/issued work product unless unpaid fees

Response to Requests by Clients for Records

- Member's Work Product
  - Should provide unless unpaid fees or work product incomplete
- Member's Working Papers
  - Property of member

Changes in Ethics

Subordination of Judgment

Subordination of Judgment

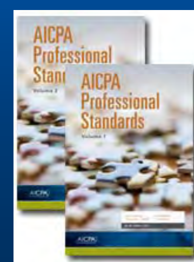
- Provides guidance when member and supervisor have difference of opinion relating to application of professional standards, or applicable laws/regulations
- If member concludes supervisor's position results in material misrepresentation of fact or violation of laws, should discuss concerns with supervisor
  - If difference of opinion not resolved, should discuss concerns with appropriate higher level(s) of management
  - Consider documenting facts & discussions held
  - Consider seeking legal guidance
  - Consider continuing relationship with entity if no action taken

Subordination of Judgment

- Approved by PEEC at its May 2014 meeting
- Effective the last day of the month published in the Journal of Accountancy

Changes in Ethics

Partner Equivalents



Partner Equivalents

- Capture members who act in a partner capacity with respect to attest engagements but are not partners
  - Authority to bind firm with respect to attest engagement without partner approval
  - Ultimate responsibility for attest engagement
    - Authority to issue or authorize others to issue an attest report without partner approval
    - Authority to sign or affix the firm’s name to an attest report
  - Only applies for purposes of Independence rule
    - Not to be used for ownership purposes

Partner Equivalents

- Subject to same independence rules as partners
- Effective for engagements covering periods beginning on or after December 15, 2014

Changes in Ethics

Client Affiliates

Client Affiliates

- Provides guidance on which entities are affiliates of a client and subject to independence rules
- Certain exceptions apply
- Affiliates of a financial statement attest client include a:
  - Entity that client can control
  - Entity in which client has material direct financial interest and significant influence over entity
  - Entity that controls client when client is material
  - Entity with material direct financial interest in client and significant influence over client

Client Affiliates

- Affiliates of a financial statement attest client include a (cont'd):
  - Sister entity if client and sister entity material to parent
  - Trustee of trust client
  - Sponsor of benefit plan client
  - Benefit plan sponsored by client
- Effective January 1, 2014

Why do changes in the AICPA Code of Professional Conduct Matter to State Boards of Accountancy?

Any Questions?

Excerpt from

EXPOSURE DRAFT

AICPA PROFESSIONAL ETHICS DIVISION

PROPOSED REVISED

AICPA CODE OF PROFESSIONAL CONDUCT

April 15, 2013

Prepared by the AICPA Professional Ethics Executive Committee for comments from persons interested in independence, behavioral, and technical standards matters.

Substantive Changes
Another important goal of the restructured Code was to retain the substance of the existing AICPA ethics standards. While the PEEC believes this was achieved, during the process some areas were identified as needing revision. Accordingly, the following are the areas where the PEEC believes substantive changes were made to the Code that qualify as "standard-setting".

Conceptual Framework
As explained above, the PEEC added two conceptual framework interpretations to the Code, one for members in business (AICPA, *Professional Standards*, ET section 2.000.010) one for members in ~~the~~ public practice ~~of public accounting~~ (AICPA, *Professional Standards*, ET section 1.000.010).

To ensure the use of the conceptual framework interpretations, the PEEC incorporated new interpretations under each rule (e.g., AICPA, *Professional Standards*, ET section 1.100.005 and 2.100.005) that requires application of the appropriate conceptual framework when there is no guidance to address a particular relationship or circumstance. These interpretations conclude that the member would be in violation of the respective rule if the member cannot demonstrate that safeguards were applied which eliminated or reduced significant threats to an acceptable level.

Self-Review Threat
When recasting the definition of self-review threat in the Conceptual Framework for Independence (AICPA, *Professional Standards*, ET section 1.210.010.16) the PEEC noted that this threat would also be present for judgments made or work performed by an individual currently with the firm who was previously associated with the client. Accordingly, the definition of a self-review threat was expanded to cover this scenario.

The definition of the self-review threat reads as follows in the extant Code of Professional Conduct (AICPA, Professional Standards, paragraph .13 of ET section 100-1):

> .13 *Self-review threat*—Members reviewing as part of an attest engagement evidence that results from their own, or their firm's, nonattest work such as, preparing source documents used to generate the client's financial statements

The definition of the self-review threat was revised to read as follows in this exposure draft (AICPA, *Professional Standards*, ET section 1.201.010.16):

> .16 **Self-review threat.** The threat that a *member* will not appropriately evaluate the results of a previous judgment made, or service performed or supervised by the *member* or an individual in the *member's firm*, and that the *member* will rely on that service in forming a judgment as part of an *attest engagement*. Certain self-review threats, such as preparing *source documents* used to generate the *attest client's financial statements* [ET 1.295.120], pose such a significant self-review threat that no *safeguards* can eliminate or reduce the threats to an acceptable level.

Ethical Conflicts
The nonauthoritative Guide for Complying with Rules 102-505 contains a discussion about ethical conflict resolution. The PEEC believed this was important and as such included the discussion in both Part 1 and Part 2 (AICPA, *Professional Standards*, ET section 1.000.020 and 2.000.020, respectively.)

Attest Client
Since members do not need to be independent of all clients, when redrafting the independence content, the PEEC decided the term "attest client" not "client" should be used so the guidance was not misapplied. Accordingly, the PEEC developed a definition for the term "attest client" (AICPA, *Professional Standards*, ET section 0.400.03) and incorporated it where appropriate.

Director Positions
Extant ethics ruling no. 85, Bank director (ET section 191.170–.171) provides guidance on when a member in public practice serves as a director of a bank. When recasting this guidance, the PEEC believed it was appropriate for the guidance to be presented more broadly so that it would apply when a member in public practice also serves as a director of any entity. Accordingly, the Director Position interpretation under the Integrity and Objectivity rule (AICPA, *Professional Standards*, ET section 1.110.020) and the Disclosing Client Information in Director Positions interpretation under the Confidential Client Information rule (AICPA, *Professional Standards*, ET section 1.700.080) were so revised.

Tax Power of Attorney & Prospective Clients Confidential Information
Over the years the ethics hotline staff has received a number of inquiries. One frequently asked question is whether independence would be impaired if a member had power of attorney for an attest client that was limited to tax matters. Another frequently asked question is if a member may disclose confidential information from a prospective client without consent.

With respect to having a tax power of attorney, it was concluded that such would not impair independence provided the *General Requirements For Performing Nonattest Services* of extant Interpretation 101-3 Performance of Nonattest Services were applied and the client makes all decisions. With respect to prospective clients, it was concluded that disclosure without consent would be a violation of the Acts Discreditable rule.

PEEC believes members would find it helpful if these conclusions were added to the Tax Services interpretation under the Independence rule (AICPA, *Professional Standards*, ET section 1.295.160) and the Use of Confidential Information From Nonclient Sources interpretation under the Acts Discreditable rule (AICPA, *Professional Standards*, ET section 1.400.240).

False, Misleading or Deceptive Acts
In August 2011, while approving a new interpretation (Interpretation 501-10 - *False, Misleading or Deceptive acts in Promoting or Marketing Professional Services*

) that is applicable to members in business, the PEEC agreed that this guidance should be applied by all members. As such, the PEEC agreed the *False, Misleading or Deceptive acts in Promoting or Marketing Professional Services* interpretation under the Acts Discreditable rule (AICPA, *Professional Standards*, ET sections 1.400.090 and 3.400.090) should be added to Parts 1 and 3 of the restructured Code as a new interpretation. The language used in these two new interpretations is consistent with the language used in the redraft of Interpretation 501-10 which is found in Part 2 at 2.400.090.

Billing for a Subcontractor's Services
Extant ethics ruling 186 *Billing for Subcontractor's Services* (ET section 591.371–.372) concludes that when a member contracts with a computer-hardware maintenance servicer to provide support for a client's computer operations, any increase in fee charged by the member would not be considered a commission. When recasting this guidance the PEEC believed it was appropriate for the guidance to be presented more broadly so that it would apply when billing for *any* subcontractor's services not just for a subcontractor that provides computer-hardware maintenance. Accordingly, the *Billing for a Subcontractor's Services* interpretation under the Commissions and Referral Fee rule (AICPA, *Professional Standards*, ET section 1.520.070) was so revised.

Attest Engagement Performed with Former Partner
Extant ethics ruling 136 *Audit with Former Partner* (ET section 591.271–.272) concludes that an audit report should be presented on plain paper when a firm consisting of one certified and one non-certified partner has been dissolved and the two individuals retain the audit to service together. When recasting this guidance the PEEC believed it was appropriate for the guidance to be presented more broadly so that it would not only apply to audits. Accordingly, the *Attest Engagement Performed with Former Partner* interpretation under the Form of Organization and Name rule (AICPA, *Professional Standards*, ET section 1.810.040) was so revised.

Use of AICPA Awarded Designation
Extant ethics ruling 183 *Use of the AICPA Personal Financial Specialist Designation* (ET section 591.365–.366) concludes that using the PFS designation on a firm's letterhead and marketing material was permissible provided all partners or shareholders of the firm have the designation and that an individual who holds the designation may use it after their name. When recasting this guidance the PEEC believed it was appropriate for the guidance to be presented more broadly so that it would apply not only to the PFS designation but to any AICPA-awarded designation. Accordingly, the *Use of AICPA-Awarded Designation* interpretation under the Advertising and Other Forms of Solicitation rule (AICPA, *Professional Standards*, ET section 1.600.030) was so revised.

Loans & Lending Institutions

The definition of a loan was clarified to better align with the FASB Master Glossary definitions of debt and loan. Under the revised definition, loans continue to be considered as contractual obligations where the borrower expects to pay and the lender has the right to receive money on demand or on a fixed or determinable date regardless of whether the loan includes a stated or *implied* rate of return to the lender. However, this definition would exclude debt securities held by an investor since debt securities are covered by the "financial interests" definition. Following is a marked version of how the extant definition of a "loan" was revised in this exposure draft. Additions appear in ***bold italic*** and deletions are ~~stricken~~

> Loan. A loan is a ***contractual obligation to pay or right to receive money on demand or on a fixed or determinable date and includes a stated or implied rate of return to the lender. For purposes of this definition loans*** ~~financial transaction~~, the characteristics of which generally include, but are not limited to, an agreement that provides for repayment terms and a rate of interest. A loan include~~s~~, ***among other things,*** ~~but is not limited to,~~ a guarantee of a loan, a letter of credit, a line of credit, or a loan commitment. ***However, for purposes of this definition a loan would not include debt securities (which are considered a financial interest) or lease arrangement.***

Given the clarifications made to the definition of a "loan," the Committee decided that to change the definition "financial institution" to the term, "lending institution." Many users had felt that the prior term, financial institution, was limited to a bank or similar depository institution since they make loans to the general public. Therefore, this term was revised to clarify that a lending institution is any entity that makes loans as part of its normal operations, such as banks, thrifts, credit unions, retailers that issue credit cards, or finance companies. Following is a marked version of how the extant definition of "financial institution" was revised to "lending institution" in this exposure draft. Additions appear in ***bold italic*** and deletions are ~~stricken~~.

> ~~Financial~~ ***Lending*** Institution. A ~~financial~~***lending*** institution is ~~considered to be~~ an entity that, as part of its normal business operations, makes loans. ~~or extends credit to the general public.~~ ***The definition of a lendin institution is not meant to include an organization which might schedule payment for services for a client over a period of time. Examples of entities that*** ~~In addition, for automobile leases addressed under interpretation 101-5, Loans From Financial Institution Clients [ET section 101.07], an entity~~ would be considered a ~~financial~~ ***lending*** institution ***are banks, credit unions, certain retailers, insurance and finance companies. For example, for automobile leases addressed by the Loans and Leases With Lendin Institutions interpretation of the Independence rule (AICPA, Professional Standards, ET section 1.260.020), an entity would be considered a lending institution*** if it leases automobiles ***as part of its normal business operations*** ~~to the general public~~.

Blind Trusts
The extant Financial Relationships interpretation (ET section 101.17) provides the guidelines for determining when a trust and its underlying investments should be considered a financial interest of a covered member. The interpretation then applied the guidelines to a blind trust example.

When redrafting the Trust portion of the interpretation, the Committee decided it would be more effective if the interpretation only contained the guidelines and not the blind trust example. The Committee noted that members reading the example might not realize that this is just one way in which a blind trust might be structured and as such, moved the example into a nonauthoritative FAQ. To ensure readers are aware of the FAQ a reference to the FAQ was added at the end of the Trust Investment interpretation (1.245.020).

The blind trust example deleted from the Financial Relationships interpretation is as follows:

> *In a blind trust, the grantor is also the beneficiary, but does not supervise or participate in the trust's investment decisions during the term of the trust. However, the investments will ultimately revert to the grantor, and the grantor usually retains the right to amend or revoke the trust. Therefore, both the blind trust and the underlying investments held in a blind trust are considered to be direct financial interests of the covered member.*

The FAQ reads as follows:

> Blind Trusts
> ***Question.*** A covered member creates a blind trust and transfers assets into the blind trust. The covered member will not supervise or participate in the trust's investment decisions during the term of the trust. Will the trust and the underlying assets be considered the covered member's direct financial interests?
>
> ***Answer.*** Although the covered member will not supervise or participate in the trust's investments decisions during the term of the trust, the trust and the underlying investments will be considered the covered member's direct financial interest if: (1) the covered member retains the right to amend or revoke the trust, or (2) the underlying trust investments will ultimately revert to the covered member as the grantor of the trust. See the Trust Investments section of the *Financial Relationships* interpretation (AICPA, *Professional Standards*, par. 17 of ET section 101) for other rights and responsibilities that would cause a trust and the underlying investments to be considered direct financial interests of a covered member. [December 2012]

Legal Heads Up – 5 Top Cases This Year
2013 NASBA Regional Meetings
Noel L. Allen, Legal Counsel, NASBA

I. Introduction

Following are five key cases dealing directly with accountancy regulation or indirectly involving state boards of accountancy in the past twelve months. One of these cases involves the National Association of Boards of Pharmacy, but the decision has potential implications for NASBA and state accountancy boards as well. Another case chronicles a battle over false advertising between the two major tax preparation companies – H&R Block and Intuit, the maker of TurboTax. The presentations at the Regional Meetings will more narrowly focus upon just four cases, prioritized on the basis of intervening developments. In addition to these five cases, one other case with potentially sweeping implications is currently pending in the U.S. Court of Appeals for the Fourth Circuit. If the Court issues its opinion in that case before the Regional Meetings, that case will be substituted as one of the "top cases" of the year.

Reminder: These are limited summaries. Every case involves not only particular facts but also unique statutes and rules. Some of these cases are "unpublished" and under some rules of court may be of limited authority or citation value. Additionally, some of these cases are subject to further appeal. Indeed, at least one of the cases is still in litigation at the lower court level. Finally, these summaries often represent an outsider's view of a case that one of the other attorneys at this conference actually handled. So, when in doubt, please presume that the interpretation offered by the handling attorney is much more likely the correct one.

II. Case Summaries

> ***Dakshinamoorthy v. National Ass'n of Boards of Pharmacy***, 475 Fed. Appx. 548 (6th Cir. 2012) [unpublished]. National Association of Boards of Pharmacy and its executive director were statutorily immune under Michigan law for actions related to test score invalidation.

A candidate sitting for the North American Pharmacist Licensure Examination sued the National Association of Boards of Pharmacy (NABP) and its executive director after the association invalidated his score. NABP received a tip from the candidate's brother-in-law that someone other than the candidate may have taken the exam in his name. In addition, the passing score was much higher than the score received by the candidate in two previous failing attempts. After temporarily suspending the candidate's license, the Michigan Pharmacy Board reinstated his license, finding that the NABP's score invalidation "was based upon mere speculation and conjecture." In spite of the pharmacy board's ruling, the NABP affirmed the invalidation of the candidate's score.

The candidate filed a complaint alleging claims of negligence, libel, defamation, intentional infliction of emotional distress, and breach of contract. The federal district court held that "[i]n this case all of NABP and [the executive director]'s actions that form the basis of Plaintiff's complaint were done pursuant to the contract between the Michigan Board of Pharmacy and

NABP to provide for licensure testing for pharmacists in the State of Michigan. Thus, the state has extended immunity to any party taking actions with regard to a pharmacist's licensing. On this basis alone, Defendants are entitled to summary judgment."

The Sixth Circuit Court of Appeals affirmed the federal district court's determination that the NABP and its executive director were statutorily immune under Michigan law. The court of appeals noted that Mich. Comp. Laws § 333.16244 provides immunity from civil or criminal liability to "[a] person . . . acting in good faith who makes a report; assists in originating, investigating, or preparing a report; or assists a board or task force, a disciplinary subcommittee, a hearings examiner, the committee, or the department in carrying out its duties under [Article 15 of Michigan's Compiled Laws]." Further, persons acting pursuant to Section 333.16244 are "presumed to have acted in good faith." Article 15 of the Michigan statutes includes all activities involving the Board and pharmacist licensing. The actions of the NABP and its executive director were taken to assist the pharmacy board in carrying out its duties. Because the candidate failed to rebut the presumption of good faith afforded the NABP and executive director, they were immune under Michigan law.

> ***Estep v. Board of Accountancy***, No. N11A-09-012 PLA, 2012 Del. Super. LEXIS 481 (Super. Ct. Del. Oct. 2, 2012) [unpublished]. Accountant's attempts to bring his advertising and website into compliance with the Delaware Board's statutes, rules, and a suspension order were not sufficient to avoid revocation of his license.

Following a proceeding before the Delaware Board on the Unauthorized Practice of Law, the Delaware Supreme Court issued a cease and desist order requiring Estep to stop the unauthorized practice of law related to estate planning services that he offered to his accounting clients. Estep was subsequently found to have violated the cease and desist order by "concoct[ing] a contemptuous scheme whereby he direct[ed] a non-Delaware lawyer, as his agent, to draft legal documents in contravention of a Supreme Court Order." The matter subsequently came before the Delaware Board of Accountancy on a complaint from the attorney general, and the Board determined that the state had proved its allegations against Estep in relation to the unauthorized practice of law. Further, the Board held that Estep violated the AICPA Code by self-dealing and misrepresentations. It suspended his license to practice accounting for 12 months and imposed a 24 month probationary period plus a $2,000 fine for his "flagrant" violations. The Board's order also specifically stated any violation of the terms of his probation could result in further disciplinary proceedings and sanctions, including revocation of his license. Estep did not appeal the order.

Delaware's Attorney General filed another complaint against Estep with the Board a year later. It alleged a failure to comply with the terms of his previous suspension order and operating an accounting firm without proper licensure. This second proceeding before the Board was based in part on Estep's continued advertising of his accounting services in the Yellowbook and on the content of his firm's website. The evidence showed that although Estep did request some changes in the Yellowbook advertisement, they were not sufficient to comply with the suspension order. Estep maintained that these were "mere technical violations" and that he had made an effort to change his advertisements to comply with the suspension. The Board deemed Estep's attempts to comply with the suspension order "sloppy and a serious lack of due diligence." It revoked Estep's accounting license for public protection purposes, and Estep appealed.

The court examined the evidence regarding Estep's efforts to bring his Yellowbook advertisement and website into compliance with the Board's order. Estep argued that others should take the blame for his failure to ensure his advertisements complied. The court noted that Estep had approved the proof of the Yellowbook advertisement, and the proof did not indicate that the term "Public Accountants" was to be removed. Likewise, the court noted that Estep requested some changes to his website but neglected to ensure that the changes brought the website into compliance. He continued to use the abbreviation "P.A." after his name on the website, and thereby represented himself as a public accountant. The court found that there was substantial evidence to support the Board's determination. The accountant's advertisements and his website did not comply with the applicable statutes, Board rules, or prior suspension order. Estep's claim that he attempted to have the advertisements and website corrected lacked merit. The court concluded, "[i]f Estep was incapable of handling the simple task of complying with the clear terms of the Licensing Statute, Board Rules, and Suspension Order, the Board was justified in questioning his ability to handle complicated accounting matters requiring attention to detail and compliance with accounting principles." The Board's decision revoking Estep's accounting license was affirmed.

> ***H&R Block Eastern Enterprises, Inc. v. Intuit, Inc***., No. 13-0072-CV-W-FJG (W.D. Mo. Mar. 11, 2013) [unpublished]. H&R Block was not entitled to a preliminary injunction enjoining its number one rival, TurboTax, from making false advertising claims about the expertise of its tax preparers.

H&R Block brought suit against Intuit, maker of TurboTax software, alleging violations of the Lanham Act (false advertising and trademark infringement) and common law unfair competition. At the heart of the dispute were two TurboTax television commercials that poked fun at the expertise of H&R Block tax preparers. The commercials also claimed that "[a]t TurboTax, you only get answers from CPAs, EAs, or tax attorneys – all real tax experts." In addition, the commercials touted that more Americans entrusted their federal taxes to TurboTax the previous year "than H&R Block stores and all other major tax stores combined." On January 29, 2010, the U.S. District Court for the Western District of Missouri denied H&R Block's motion for a temporary restraining order.

Addressing H&R Block's motion for preliminary injunction, the court focused solely on the false advertising claim since H&R Block indicated that the likelihood of its success on the merits of its other claims for trademark infringement and unfair competition would depend on the same reasoning as that for its false advertising claims. The court first clarified that the TurboTax advertisements never expressly claimed that H&R Block's tax professionals were not experts. Instead, the ads stated that major tax stores' advertisements seeking tax preparers indicated that no previous tax experience was necessary for employment. A disclaimer was also included in the advertisements to the effect that education and experience of the tax store preparers varied and the major tax store preparers were trained to meet minimum IRS competency requirements. However, the observed that "training [was] not the same thing as experience." It was not false or misleading, said the court, for TurboTax to truthfully state that customers who have their taxes prepared at a major tax store could have their taxes prepared by someone who had no prior work experience in tax preparation.

Also, Intuit's representation in the advertisements that TurboTax customers would "only get answers from CPAs, EAs, or tax attorneys – all real tax experts" was supported by testimony to that effect. Indeed, the court noted of the 215 employees who provided Intuit with CVs, 100 percent of them had prior tax experience, with the average number of years of tax experience being over 14 years before being hired by Intuit. Thus, this was not false or misleading advertising.

As to the statement in the advertising at issue that consumers who used TurboTax would have their questions answered only by a CPA, enrolled agent, or tax attorney, the court noted that the statement did not appear to be false. According to testimony, all TurboTax employees who answered tax questions since January 2011 were CPAs, EAs, or tax attorneys. Although certain categories of questions might be answered by persons were not tax preparation experts (i.e., questions about the software), questions regarding taxes were routed to one of the tax advisors. The court also recognized that the representation in TurboTax advertisements that "[m]ore Americans trusted their federal taxes to TurboTax last year than H&R Block stores and all other major tax stores combined" was literally true. The motion for a preliminary injunction was again denied.

> ***Hartzman v. N.C. State Board of Certified Public Accountant Examiners***, No. 12 CPA 08588 (N.C. Office of Admin. Hearings Nov. 15, 2012) [unpublished]. N.C. Board and Office of Administrative Hearings had no subject matter jurisdiction over CPE sponsor's petition appealing his termination as a Board-approved CPE sponsor.

Hartzman, who was not a CPA, was approved by the North Carolina Board as a "pre-approved" continuing professional education (CPE) sponsor. Under N.C.'s Rules, licensees could satisfy their CPE requirements by taking courses from any provider, but courses from pre-approved sponsors were presumptively valid CPE credits. Under the Rules, pre-approved sponsors complied with qualitative and record keeping mandates, and signed CPE Sponsor Agreements to that effect. Hartzman signed such an Agreement on behalf of his company, Think Professional Education, Inc. Based upon complaints the Board received from CPAs who had taken Hartzman's CPE course, and pursuant to an audit of one of Hartzman's classes, the Board terminated the CPE Sponsor Agreement. Grounds for the termination were cited as deficiencies in course materials, an attendee's difficulty in obtaining a certificate of completion, failure to provide advance copies of course and promotional materials to the Board, and the course auditor's report. Hartzman requested a contested case hearing regarding the termination, but also challenged certain Board members for alleged bias. Upon recommendation of legal counsel, the Board voted to refer the matter to the Office of Administrative Hearings (OAH).

Once the OAH accepted the referral, the Board moved to dismiss Hartzman's request for a Hearing. The Board contended that Hartzman had no statutory or constitutional right to a hearing over termination of sponsor agreement. The Board also argued that the CPE rules and the Sponsor Agreement itself provided that non-compliance would result in termination. As a result, the petitioners were not "persons aggrieved" under the N.C. Administrative Procedure Act

(NCAPA) because they held no property interest in the Sponsor Agreement. Rather than a due process right, the Sponsor Agreement was more akin to an ordinary commercial contract. Under N.C. case law, "procedural injury, standing alone, cannot form the basis for aggrieved status under the NCAPA." Additionally, the Board argued that because no contested case existed, OAH had no subject matter jurisdiction over the matter. The administrative law judge agreed and dismissed the matter, finding that the Board and OAH lacked subject matter jurisdiction.

> ***Plude v. Adams***, No. 3:12CV69, 2013 U.S. Dist. LEXIS 32916 (D. Conn. Mar. 11, 2013). Malicious prosecution, due process, and defamation claims brought by a licensee against the Connecticut Board, its executive director, chair, and attorney were dismissed.

Two persons associated with a gas company filed a complaint about Plude with the Connecticut Board. The allegations were investigated by the Board's attorney, who recommended that Plude be charged with violation of the code of professional ethics. The Board sought revocation of Plude's license, but the charges against him were eventually dismissed. Plude subsequently filed suit against the Board, its executive director, chair, and attorney. His claims against the defendants included malicious prosecution, due process violations, and common law defamation. All of the defendants filed a motion to dismiss.

As to the claims against the attorney, the court first addressed the malicious prosecution claim under 42 U.S.C. § 1983 and common law. The court noted that there was no allegation by Plude that he had ever suffered a deprivation of liberty consistent with a seizure by either the local police department or federal law enforcement. He also failed to plead any facts that could establish the elements of malicious prosecution under Connecticut law, which is required to prove a section 1983 claim. Although Plude alleged that the attorney "inserted herself" in a criminal investigation by local police and repeatedly contacted an assistant U.S. attorney, he did not show that the attorney was the determining factor in the commencement of his prosecution for health insurance fraud. Also, the attorney's contact with the federal prosecutor did not result in any charges or indictment by a grand jury. In addition, Plude's Fourteenth Amendment due process claim failed because he did not identify any protected property or liberty interest that the Board interfered with as the result of the attorney's actions. Indeed, the Board never actually revoked or suspended his CPA license; it had dropped all charges against him. Finally, the defamation claim against the attorney failed because it was barred by the statute of limitations.

The malicious prosecution claims against the Board's executive director were also dismissed. As with the claims against the attorney, there were no allegations that Plude ever suffered a deprivation of liberty consistent with a seizure. There were also no facts pled that could show malicious prosecution claim under state law. The allegations merely showed that the executive director decided to bring an administrative proceeding against Plude; he did not initiate any criminal proceedings.

The claim against the Board chair was common law defamation in relation to accuracy of information posted on the Board's website. In particular, Plude alleged that the chair was responsible for ensuring that information posted on the Board's website was accurate. In this case, the posted material was minutes of a Board meeting, wherein the action taken against him was recorded and there was a reference to Plude as a threat to the public's fiscal health, fiscal safety, and fiscal welfare. Plude also alleged that the Board voted to amend the minutes to remove the injurious material, but the chair refused to remove the original minutes from the website. After examining the Board's "quasi-judicial functions," the court cited the Connecticut Supreme Court's holding in *Rioux v. Barry*, where the court declared: "[w]e consistently have held that absolute immunity bars defamation claims that arise from statements made in the course of judicial or quasi-judicial hearings." Because the allegedly defamatory statements were made in the course of a quasi-judicial hearing, any claim for defamation was barred by absolute immunity.

Finally, Plude brought claims against the Board for violation of his procedural and substantive due process rights. Plude argued that his due process claim was a "stigma plus" claim. The court explained that to prevail on a "stigma plus" claim, it was necessary for a plaintiff to show "'(1) the utterance of a statement about him or her sufficiently derogatory to injure his or her reputation, that is capable of being proved false, and that he or she claims is false,' and (2) a material state-imposed burden or state-imposed alteration of the plaintiff's status or rights." Here, Plude did not allege the required additional "state-imposed burden" necessary to properly plead the "stigma plus" doctrine. Plude only alleged that he continued to suffer harm as a result of the posting of the Board minutes identifying him as a danger to the public and a criminal. There were no allegations that the Board revoked or suspended his license. Because he did not allege a material state-imposed burden or state-imposed alteration of his status or right, there was no allegation of a "plus" sufficient to state a "stigma plus" claim. Plude's substantive due process claim also failed because the court considered it as duplicative of his "stigma plus" claim.

ARSC UPDATE

NASBA 2013 REGIONAL MEETINGS

Chas J. McElroy, CPA – Western
Michael L. Brand, CPA - Eastern

Session Objectives

- Discuss the SSARSs Clarity Project and expected significant differences with extant SSARSs
- Discuss Compilation Exposure Draft to be released in June 2013
- Questions regarding compilation and review engagement issues

SSARSs Clarity Project and Proposed Changes to 101-3 and SSARSs

Clarity Project Goals

- Address concerns over length and complexity of standards
- Make standards easier to read, understand and implement
- Lead to enhancements in engagement quality

Clarity

- Similar to the ASB's clarity project
- All audit, review, compilation and attest literature will be in the same format

Clarity

- SSARS will not be converged with international standards
  - Compilation engagements are not compatible
  - ARSC determined to converge review standard with AU-C section 930, *Interim Financial Information*

Compilation Exposure Draft

Compilations and Nonattest Services

- PEEC amended 101-3 to clarify that independence would not be impaired if a CPA designs or maintains internal controls for an attest client
  - Management must still accept responsibility for internal control
- With this confusion removed, PEEC further amended 101-3 to clarify that preparation of financial statements is a nonattest service
  - Subject to general requirements of 101-3
  - Consistent with new Yellow Book independence standards
- Effective for engagements covering periods beginning on or after December 15, 2014

ARSC Reaction to PEEC

- Because PEEC has defined preparation as a non attest service, compilation, review and auditing standards all need to be revised to state that preparation or drafting is not part of the attest service, but rather a non attest service.
- Remove independence from compilation standard
  - By definition compilation becomes a non attest service
- Create a non attest compilation/preparation standard that puts requirements around what a CPA needs to do when preparing financial statements

Compilation Exposure Draft

- **Independence Related Matters:**
  a) Since compilation is a nonattest service independence (or lack thereof) is never required to be reported.
  b) Reporting is required when an accountant has a direct or material indirect financial interest in a client.
  c) Reporting is required when an accountant receives a contingent fee, commission, or referral fee.
  d) Accountant has OPTION of disclosing independence (or lack thereof)
  e) b and c above can be disclosed as is or simply "I (we) are not independent with XYZ Company."
  f) If independence **and** reasons are disclosed **all** reasons must be disclosed.

Compilation Exposure Draft

- **An Accountants Report is required when:**
  - a) The accountant is engaged or decides to report
  - b) Financial statements contain departures from applicable framework and such departures are not disclosed in notes
  - c) There is not an appropriate legend on financial statements indicating no assurance is provided by a CPA
  - d) Accountant has a direct or material indirect financial interest (public interest)
  - e) Account works for a contingent fee for a client (Rule 302)
  - f) Accountant receives a commission or referral fee and third party will use financial statements (Rule 503)

Compilation Exposure Draft

- **An Accountants Report is not required even if statements will go to third parties:**
  - If appropriate disclosure of applicable reporting framework is on each financial statement, and
  - An appropriate legend indicating no assurance is provided is on each financial statement
  - Legend example:
    - No CPA provides any assurance on these financial statements.
    - These financial statements have not been audited or reviewed and no CPA provides any assurance on them.

Compilation Exposure Draft

- **Reasons ARSC supports legend for financial statements with third party use**
  - Compilation is a preparation service
  - Compilation is a nonattest service
  - Compilation service gives no assurance
  - Modernizes standard for cloud bookkeeping and financial statement assistance
  - Removes question in practice for years of submission
  - Eliminates SSARS 8 question of financial statements going to third parties
  - All departures from applicable framework have to be disclosed (unlike SSARS 8)
  - CPAs and clients can use judgment as to whether to use legend or report (unless report is required)
  - Will not change the peer review requirement

Compilation Exposure Draft

Example report:

The accompanying financial statements of XYZ Company as of and for the years ended December 31, 20X2 and 20X1 are the responsibility of management of XYZ Company. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by Accounting and Review Services Committee of the American Institute of Certified Public Accountants. **Such standards require me (us) to be objective in the performance of the engagement but do not require me (us) to determine whether I am (we are) independent.** I (we) did not audit or review the financial statements nor did I (we) perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not provide any form of assurance on these financial statements.

Compilation Exposure Draft

- **Questions ARSC is asking in exposure draft:**
  1. The ARSC asks for specific feedback as to whether respondents are supportive of the repositioning of the compilation engagement as a nonattest service.
  2. The ARSC asks for specific feedback as to whether respondents are supportive of the proposed requirement that each page of the compiled financial statements include a statement or legend that no CPA provides any assurance on the financial statements or the accountant would be required to issue a report as a result of the compilation engagement.
  3. The ARSC asks for specific feedback as to whether respondents are supportive of the proposal that would permit the accountant to not report on financial statements that omit substantially all disclosures provided that the financial statements include, within the statement or legend regarding the nonassurance element of the compilation engagement, a statement that the financial statements omit substantially all disclosures.

Compilation Exposure Draft

- **Questions ARSC is asking in exposure draft: (cont.)**
  4. The ARSC asks for specific feedback as to whether respondents are supportive of the proposed reporting requirements.
  5. The ARSC asks for specific feedback as to whether respondents are supportive of the revised applicability of the compilation engagement.
  6. The ARSC asks for specific feedback as to whether respondents are supportive of the requirement that the engagement letter or other suitable form of written communication be signed by (*a*) the accountant or the accountant's firm and (*b*) management.
  7. The ARSC asks for specific feedback as to whether respondents are supportive of the proposed effective date including whether early implementation should be permitted.

SSARSs Clarity Project: Proposed Review SSARSs

Review Exposure Draft

- Changes to the review standard are not significant
- Exposure period has ended and comment letters are all available on the AICPA website
- ARSC will go through the comment letters for the proposed review standard in August

Next Steps

- **August ARSC Meeting**
  - Go through comment letters on proposed review standard
  - Work on drafts of clarified SSARS framework and prospective reporting issues
- **November ARSC Meeting**
  - Vote out final clarified review standard
  - Review comment letters and vote out clarified compilation standard

Questions?

ACCREDITATION SOURCES, FEDERAL FUNDING & ON-LINE PROGRAMS

NASBA REGIONAL BREAKOUT SESSIONS
SUMMER 2013
NASBA EDUCATION COMMITTEE

ACCREDITATION

Means of self-regulation and peer review adopted by the educational community.

Strengthens and sustains higher education quality and integrity, thus

Instills public confidence and minimizing the scope of external control.

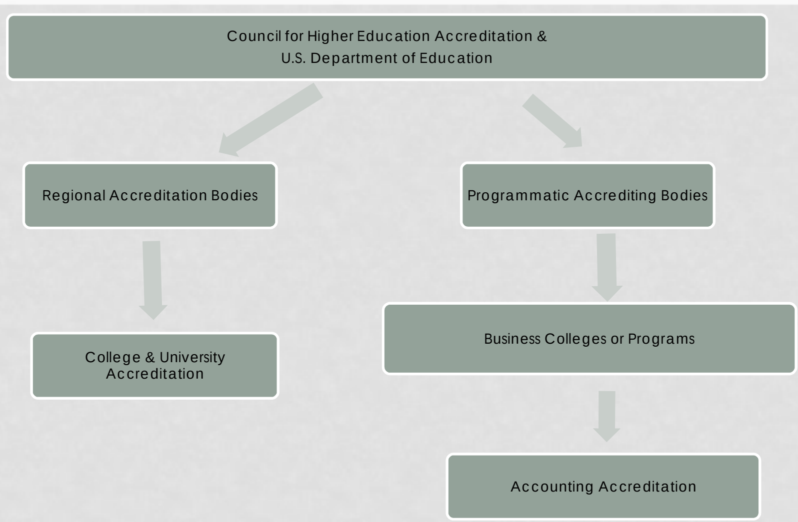
Measures the concern for freedom and quality in higher education and commitment to excellence.

Source: Middle States Commission on Higher Education

ADVANTAGES

- External Validation
- Required Continuous Improvement
- Qualified Faculty
- Learned Students
- Recruiters Confidence
- Regulators Confidence

ACCREDITATION FLOW CHART



REGIONAL ACCREDITING BODIES

1. Middle States Commission on Higher Education
2. New England Association of Schools and Colleges, Commission on Institutions of Higher Education
3. North Central Association of Colleges and Schools, The Higher Learning Commission
4. Northwest Commission on Colleges and Universities
5. Southern Association of Colleges and Schools, Commission on Colleges
6. Western Association of Schools and Colleges, Accrediting Commission for Senior Colleges and Universities

REGIONAL EVALUATION CRITERIA

- Clearly Defined Mission and Goals
- Strong Strategic Planning
- Integrity
- Institutional Leadership
- Curriculum
- Adequate Resources
  - Financial
  - Qualified Faculty
  - Physical
- Student Services
  - Admission
  - Retention
  - Assessment of learning

PROGRAMMATIC ACCREDITING BODIES

- The Association to Advance Collegiate Schools of Business (AACSB)
- Association of Collegiate Business Schools and Programs (ACSBSP)
- International Assembly for Collegiate Business Education (IACBE)
- European Quality Improvement System (Equis)

PROGRAMMATIC EVALUATION CRITERIA

- Strategic Management
- Participants or Stakeholders
  - Students
  - Faculty
  - Staff
  - Outside participants
- Learning and Assessment
  - Curriculum
  - Teaching

UAA MODEL RULES CONCERNING ACCREDITATION

- Level 1 Accreditation
  - University, business program and accounting program are all separately accredited. (Regional and Programmatic Accreditation)
- Level 2 Accreditation
  - University and business program are separately accredited. (Regional and Programmatic Accreditation)
- Level 3 Accreditation
  - University is accredited (Regional Accreditation)
- Level 4 Accreditation
  - No accreditation by Board recognized organizations

ONLINE LEARNING (DISTANCE LEARNING)

- A program for which all the required coursework for program completion is able to be completed via distance education courses that incorporate Internet-based learning technologies.

Source: U.S. Dept of Education, U.S. News and World Report

ONLINE EDUCATION TRENDS

- Fully online degree programs nearly doubled from 10 years ago
- 62.4% of colleges and universities offered full online programs in 2012, compared with 34.5% in 2002

Source: 2013 Babson Survey Research Group

U.S. NEWS – 2013 BEST ONLINE MASTER'S PROGRAMS IN BUSINESS EVALUATION / RANKINGS

Criteria / Ranking Indicators

Student Engagement (28%)

Admission Selectivity (25%)

Peer Reputation (25%)

Faculty Credentials & Training (11%)

Student Services & Technology (11%)

BEST ONLINE GRADUATE BUSINESS PROGRAMS (TOP 10)

1. Washington State University
2. Arizona State University (Carey)
3. Indiana University—Bloomington (Kelley)
4. University of Florida (Hough)
5. California State University—Fullerton (Mihaylo)
6. Central Michigan University
7. Auburn University
8. University of Connecticut
9. University of Texas—Dallas
10. University of Tennessee—Martin

BE AWARE

- Diploma Mills
  - Claim accreditation
  - Little attendance required
  - Short time to earn degree
  - Experience degrees
  - Very low, very high or flat fees
  - No campus location
  - No or abbreviated list of faculty & their credentials
  - Name similar to well-known university or college
  - Foreign university
  - Advertise through Internet pop-ups

Source: Better Business Bureau & CHEA

BOARDS OF ACCOUNTANCY ISSUES

- Program evaluation issues
- Course(s) acceptance
- Free On-line courses
- ?
- ?

UAA Issues

June 2013
NASBA Regional Meetings

Upcoming Exposure Drafts

- Revised Definition of "Attest"
- Firm Mobility

“Attest”

Adding to existing definition.

- Written to require minimum change to other sections of the UAA.

The public should not be confused: A service that is offered according to AICPA standards should be offered by a CPA.

Questions?

Firm Mobility

- If you are going to change the Accountancy Act, consider embracing firm mobility at the same time.
- If a firm has an office in your state, it will still be required to register.
- Two proposals: If your state changes the definition of “attest” as proposed, it does not necessarily have to adopt firm mobility now.
- Questions?

Still Under Discussion

- What is an inactive CPA allowed to do?
- When must client records be returned?
- Can a CPA whistleblow without being in conflict with professional standards?
- Other issues that you would recommend for the UAA Committee to consider.

Respond to Exposure Drafts

- The forthcoming Exposure Drafts are asking for input from the State Boards. The UAA Committee believes these proposals should become part of the UAA and Model Rules, but what does your Board think? The comment period will be at least 90 days long. If you agree, do not agree, or want to suggest improvements, let us hear from your Board.

EXPOSURE DRAFT

PROPOSED STATEMENT ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

COMPILATION ENGAGEMENTS

(To supersede paragraphs 1.05–.06 and 2.01–.64 of Statement on Standards for Accounting and Review Services [SSARS] No. 19,* Compilation and Review Engagements *[AICPA,* Professional Standards, paragraphs .05-.06 of *AR sec. 60 and* AR sec. *80]; SSARS No. 13,* Compilation of Specified Elements, Accounts, or Items of a Financial Statement, *as amended [AR sec. 110]; SSARS No. 3,* Compilation Reports on Financial Statements Included in Certain Prescribed Forms, *as amended [AR sec. 300]; and SSARS No. 6,* Reporting on Personal Financial Statements Included in Written Personal Financial Plans *[AR sec. 600].)

June 3, 2013

Comments are requested by October 4, 2013

Prepared by the AICPA Accounting and Review Services Committee for comment from persons interested in compilation and reporting issues.

Comments should be addressed to Mike Glynn at mglynn@aicpa.org.

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to the proposed Statement on Standards for Accounting and Review Services (SSARS) *Compilation Engagements*. The proposed SSARS would supersede

- paragraphs 1.05–.06 and 2.01–.64 of SSARS No. 19, *Compilation and Review Engagements* (AICPA, *Professional Standards*, paragraphs .05-.06 of AR sec. 60 and AR sec. 80);
- SSARS No. 13, *Compilation of Specified Elements, Accounts, or Items of a Financial Statement*, as amended (AICPA, *Professional Standards,* AR sec. 110);
- SSARS No. 3, *Compilation Reports on Financial Statements Included in Certain Prescribed Forms*, as amended (AICPA, *Professional Standards*, AR sec. 300); and
- SSARS No. 6, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans* (AICPA, *Professional Standards*, AR sec. 600).

The accompanying proposed SSARS applies the Accounting and Review Services Committee's (ARSC's) clarity drafting conventions. However, it should not be considered simply a clarity redraft of the extant SSARS as it represents a significant repositioning of the compilation service that differs from extant standards in several important aspects. Those aspects are discussed within this document.

The proposed SSARS would result in AR section 80, *Compilation Engagements* in the codified SSARSs.

Background

Clarity

ARSC has concluded that it would be in the public interest to have all of the professional literature for audits, reviews, and compilations drafted using the same conventions and therefore has substantially utilized the clarity drafting conventions utilized by the Auditing Standards Board (ASB) in its clarity project. The resulting clarified compilation and review standards will be easier to read, understand, and apply.

The proposed SSARSs have been drafted in accordance with ARSC's clarity drafting conventions, which include the following:

- Establishing objectives for each clarified AR section
- Including a definitions section, where relevant, in each clarified AR section
- Separating requirements from application and other explanatory material
- Numbering application and other explanatory material paragraphs using an A- prefix and presenting them in a separate section that follows the requirements section

- Using formatting techniques, such as bulleted lists, to enhance readability

Convergence

Although the ASB used, where applicable, the corresponding International Standards on Auditing as a base when drafting each clarified auditing standard, the ARSC has not considered convergence with International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements* as the objective of ISRS 4410 is not compatible with the proposed SSARS.

Effective Date

The proposed SSARS would be effective for compilations of financial statements for fiscal years (and interim periods within those years) beginning on or after December 15, 2014. Early implementation would be permitted.

Changes From Existing Standards

The following represents what ARSC believes would be the most significant changes to extant SSARSs if the proposed SSARS *Compilation Engagements* is issued as final a SSARS.

Compilation as a nonattest engagement

The AICPA Professional Ethics Executive Committee (PEEC) has revised Ethics Interpretation 101-3 "Nonattest Services." Among the revisions is a clarification that financial statement preparation is considered outside of the scope of the attest engagement and therefore, constitutes a nonattest service. ARSC is supportive of this clarification and notes that it is in harmony with how the 2011 edition of *Government Auditing Standards* (the Yellow Book) treats the preparation of financial statements. The clarification is also consistent with the views of practitioners who believe that the preparation of financial statements is a responsibility of management and an essential part of an entity's system of internal control.

Because the PEEC has clarified that financial statement preparation is a nonattest service in all circumstances, the ARSC is proposing to reposition the compilation service as a nonattest service to conform to the PEEC's definition. As preparation and reading of financial statements is the substance of a compilation of financial statements, the ARSC believes that it is reacting appropriately to the PEEC's clarification.

In order to effect the repositioning of the compilation engagement as a nonattest service, the ARSC proposes to remove the independence reporting requirement from the SSARSs. This, while an accountant would not be precluded from disclosing independence status, the accountant would no longer be required to disclose when independence is impaired, except as required by the AICPA Code of Professional Conduct. Not being required to disclose independence status would be consistent with other nonattest services such as bookkeeping and tax preparation. The repositioning of the compilation engagement as a nonattest service would align the SSARS with certain state laws and would remove any misunderstanding around attest vs. assurance services.

In addition, the ARSC is mindful of the potential for confusion with the terms *compile* and *prepare*. Therefore, the ARSC is proposing to clarify the situation by specifically stating that the two terms are synonymous. Accordingly, a compilation engagement is a preparation service.

Specific question to respondents
Q1. The ARSC asks for specific feedback as to whether respondents are supportive of the repositioning of the compilation engagement as a nonattest service.

Statement or legend on each page of the financial statements

In order to be transparent to users of compiled financial statements and therefore in the public interest, the ARSC proposes that each page of the compiled financial statements include a statement or legend that no CPA provides any assurance on the financial statements. If management agrees to include an appropriate statement or legend on each page of the compiled financial statements, the accountant would not be required to issue a report because an appropriate statement or legend communicates substantially the same lack of assurance as a compilation report. If management does not agree to include that statement or legend, in order that users of the financial statements are not misled by the accountant's involvement with the financial statements, the accountant would be required to issue a report as a result of the compilation engagement. Examples of an adequate statement or legend on each page of the financial statements include:

- No CPA provides any assurance on these financial statements
- These financial statements have not been audited or reviewed and no CPA provides any assurance on them

The accountant would be required to consider the adequacy of the statement or legend that management includes on the financial statements.

If the accountant does not issue a compilation report, the accountant's name is not required to be included in the financial statements or any document that contains the financial statements.

Specific question to respondents
Q2. The ARSC asks for specific feedback as to whether respondents are supportive of the proposed requirement that each page of the compiled financial statements include a statement or legend that no CPA provides any assurance on the financial statements or the accountant would be required to issue a report as a result of the compilation engagement.

Effect on Engagements to Compile Financial Statements That Omit Substantially All Disclosures
Nothing in the proposed SSARS would restrict the accountant's ability to compile financial statements that omit substantially all disclosures required by the applicable financial reporting framework. As with current standards, the accountant may compile such financial statements

provided that the omission of substantially all disclosures is not, to the accountant's knowledge, undertaken with the intention of misleading users of such financial statements.

The proposed SSARS provides additional flexibility to accountants by allowing management to disclose, within the statement or legend regarding the nonassurance element of the compilation engagement or in the financial statement titles, that the financial statements omit substantially all disclosures required by the applicable financial reporting framework. For example, the statement or legend may read "No CPA provides any assurance on these financial statements. These financial statements omit substantially all disclosures required by accounting principles generally accepted in the United States of America." If management chooses to disclose departures from the applicable financial reporting framework in the title to the financial statements, such title may read "Balance Sheet – Substantially All Disclosures Required by GAAP Are Omitted." If the accountant determines that the disclosure is acceptable, the accountant is not required to issue a report on the financial statements as potential users of the compiled financial statements are put on notice regarding the limitations of the financial statements by the disclosure.

In accordance with the proposed SSARS, the accountant may still report on financial statements that omit substantially all disclosures by including a separate paragraph that explains that the financial statements omit substantially all disclosures required by the applicable financial reporting framework; that if the omitted disclosures were included in the financial statements, that they might influence the user's conclusions about the entity's financial position, results of operations, and cash flows; and that accordingly, the financial statements are not designed for those who are not informed of such matters.

Specific question to respondents
Q3. The ARSC asks for specific feedback as to whether respondents are supportive of the proposal that would permit the accountant to not report on financial statements that omit substantially all disclosures provided that the financial statements include, within the statement or legend regarding the nonassurance element of the compilation engagement, a statement that the financial statements omit substantially all disclosures.

Reporting

If an accountant's report is to be issued, the ARSC proposes that the accountant's compilation report would be reconfigured so as to look significantly different from an audit or review report. The ARSC believes that if the report looks significantly different it would help users in understanding that the accountant has not obtained any assurance and does not provide any assurance on the financial statements.

The ARSC proposes that an accountant would be required to report when:

a. The accountant is engaged, or decides, to report on the financial statements;
b. The accountant has a direct or material indirect financial interest in the entity;
c. The accountant or the accountant's firm:
    i. Performs for a contingent fee any professional services for, or receives such a fee from the entity, or

ii. Receives a commission or referral fee for services from the entity,

and the accountant expects, or reasonably might expect, that a third party will use the financial statements that the accountant prepared;

d. The entity's financial statements contain known departures from the applicable financial reporting framework including omission of substantially all disclosures required by the applicable financial reporting framework and such departures are not disclosed in the financial statements; or
e. The entity does not include an indication on each page of the financial statements that no CPA provides any assurance on the financial statements.

It should be noted that while the SSARS would specify when an accountant is required to report, there is nothing in the proposed standard that would preclude the accountant from reporting if he or she decided to do so.

The significant change in the proposed SSARS is that any differentiation between financial statements for general use and financial statements that are not expected to be used by a third party (commonly referred to as management use only financial statements or SSARS 8 financial statements) has been eliminated. Accordingly, the proposed SSARS would potentially extend the nonreporting option that is currently afforded to compilations of financial statements that are not expected to be used by a third party to all compiled financial statements.

As stated previously, the proposed SSARS would require a report when the financial statements contain known departures from the applicable financial reporting framework and such departures are not disclosed in the financial statements. The disclosure could be in a note to the financial statements, in the statement or legend to the financial statements indicating that no CPA provides any assurance on the financial statements, or in the title to the financial statements.

The ARSC also proposes to require a report when the accountant has a direct or material indirect financial interest in the client, as defined by the AICPA Code of Professional Conduct. The accountant would be required to disclose such financial interest in the report. The ARSC believes that such disclosure is in the public interest. Examples of the disclosure the accountant may make include:

- I am (We are) not independent with respect to XYZ Company.
- I (We) have a direct financial interest in XYZ Company.

Finally, the ARSC proposes to require a report when the accountant or the accountant's firm

a. performs for a contingent fee any professional services for, or receives such a fee from the entity, or
b. receives a commission or referral fee for services from the entity,

and the accountant expects, or reasonably might expect, that a third party will use the financial statements that the accountant prepared.

Such requirement complies with Rule 302, Contingent fees and Rule 503, Commissions and referral fees, of the AICPA Code of Professional Conduct (paragraph .01 of ET section 302 and paragraph .01 of ET section 503) which require the accountant to disclose the lack of independence in the circumstances described in those sections.

Specific question to respondents
Q4. The ARSC asks for specific feedback as to whether respondents are supportive of the proposed reporting requirements.

Applicability of the proposed SSARS

The ARSC proposes in paragraph 1 of the proposed SSARS that the standard would address the accountant's responsibilities when the accountant:

a. Is engaged by management to prepare financial statements;
b. Intends to issue or is required by the standard to issue a compilation report; or
c. Agrees to be associated (as defined for the purposes of the standard) with financial statements

In contrast, the extant SSARSs requires an accountant to comply with the provisions of AR section 80, *Compilation of Financial Statements*, whenever the accountant is engaged to report on compiled financial statements or *submits* (defined in paragraph .04 of AR section 60 as presenting to management financial statements that the accountant has prepared) financial statements to a client or to third parties.

The standard would not apply when the accountant issues an audit or review report on financial statements that the accountant has prepared.

Specific question to respondents
Q5. The ARSC asks for specific feedback as to whether respondents are supportive of the revised applicability of the compilation engagement.

Requirement to Obtain a Signed Engagement Letter or Other Suitable Form of Written Communication

Although extant AR section 80 requires that the accountant document the understanding with management regarding the services to be performed for compilation engagements through a written communication with management, extant AR section 80 does not require that the written understanding be signed by either the accountant or management.

Paragraph 11 of the proposed SSARS *Compilation Engagements* requires that the engagement letter or other suitable form of written communication be signed by (*a*) the accountant or the accountant's firm and (*b*) management.

Specific question to respondents

Q6. The ARSC asks for specific feedback as to whether respondents are supportive of the requirement that the engagement letter or other suitable form of written communication be signed by (*a*) the accountant or the accountant's firm and (*b*) management.

Effective Date

The ARSC proposes that the SSARS would be effective for compilations of financial statements for fiscal years (and interim periods within those years) beginning on or after December 15, 2014. Early implementation would be permitted.

This would mean that the standard would not be required to be applied to engagements to compile financial statements for the year ended December 31, 2014. Likewise, it would not be required to be applied to engagements to compile financial statements for the years ended March 31, 2015; June 30, 2015; or September 30, 2015 or any other period that begins prior to December 15, 2014.

The standard would also not be required to be applied to any interim periods with those fiscal years that began prior to December 15, 2014. For example, if an accountant is engaged to compile the financial statements for each of the months ended July 31, 2014 – May 31, 2015 and the annual financial statements for the year ended June 30, 2015 – even though the months ended January – May 31, 2015 all began after December 15, 2014, those compilations may be performed in accordance with extant SSARSs.

The proposed SSARS would be required to be applied for compilations of financial statements for the year ended December 31, 2015.

However, the ARSC has determined that early implementation should be permitted. Therefore accountants can apply the proposed SSARS immediately upon issuance.

The proposed effective date is consistent with the effective date of the revision to Interpretation 101-3 that clarifies that financial statement preparation is a nonattest service. That revision is effective for engagements covering periods beginning on or after December 15, 2014.

Specific question to respondents
Q7. The ARSC asks for specific feedback as to whether respondents are supportive of the proposed effective date including whether early implementation should be permitted.

Guide for Respondents

ARSC is seeking comments on the seven specific questions (Q1-Q7) posed in the Changes From Existing Standards section of this document. Please clearly indicate the question that you are responding to in your comment letter.

Additionally, the ARSC requests comments on specific paragraphs in the proposed SSARS. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for ARSC to be made aware of this view, as well.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after October 4, 2013, for 1 year. Responses should be sent to Mike Glynn at mglynn@aicpa.org and should be received by October 4, 2013.

Comment Period

The comment period for this exposure draft ends on October 4, 2013.

Accounting and Review Services Committee (ARSC)

(2012–2013)

Michael L. Brand, *Chair*
Joseph S. Beck
Mike Fleming
Jay H. Goldberg
Janice L. Gray
Angie J. Moss
Carl G. Peterson
Thad Scott

ARSC Clarity Task Force

(2012–2013)

Charles J. McElroy, *Chair*
Michael L. Brand

AICPA Staff

Charles E. Landes
Vice President
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Michael P. Glynn
Senior Technical Manager
Audit and Attest Standards
Staff Liaison—Accounting and Review Services Committee

Richard I. Miller
Special Counsel

PROPOSED STATEMENT ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES

COMPILATION ENGAGEMENTS

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Proposed Statement on Standards for Accounting and Review Services *Compilation Engagements*

Introduction

Scope of This Proposed Statement on Standards for Accounting and Review Services

1. This proposed Statement on Standards for Accounting and Review Services (SSARS) addresses the accountant's responsibilities when the accountant:

a. is engaged by management to prepare financial statements;

b. intends to issue or is required by this standard to issue a compilation report; or

c. agrees to be associated (as defined for purposes of this standard) with financial statements.

This proposed SSARS may also be applied, adapted as necessary in the circumstances, to other historical or prospective financial information. For purposes of this standard, the terms *prepare* and *compile* are used interchangeably and are intended to mean the same thing. (Ref: par. A1-A2)

2. This proposed SSARS does not apply to

- The preparation of financial statements when the accountant has issued an auditor's report or an accountant's review report on the financial statements
- The preparation of tax returns or other data prepared solely for submission to taxing authorities
- Personal financial statements that are prepared for inclusion in written personal financial plans prepared by the accountant
- Financial statements prepared in conjunction with litigation services that involve pending or potential legal or regulatory proceedings (Ref: par. A3)

The Compilation Engagement

3. A compilation engagement does not require the accountant to be independent of the entity; accordingly, a compilation does not come under the definition of an attest engagement. In addition, a compilation engagement does not require the accountant to verify the accuracy or completeness of the information provided by management, or to otherwise gather evidence to express an opinion or a conclusion on the financial statements. (Ref: par. A4)

4. Management is ultimately responsible for the financial statements in accordance with the applicable financial reporting framework and for designing, implementing, and maintaining internal control relevant to the preparation of the financial statements. (Ref: par. A5)

Effective Date

5. This proposed SSARS is effective for compilations of financial statements for fiscal years (and interim periods within those years) beginning on or after December 15, 2014. Early implementation is permitted.

Objective

6. The accountant's objective in a compilation engagement is to apply accounting and financial reporting expertise to the preparation and presentation of financial statements based on information provided by management without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with the applicable financial reporting framework.

Definitions

7. For purposes of SSARSs, the following terms have the meanings attributed as follows:

Applicable financial reporting framework. The financial reporting framework adopted by management and, when appropriate, those charged with governance in the preparation and fair presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

Association with financial statements. An accountant is associated with financial statements when the accountant permits the use of the accountant's name in a document or written communication containing such financial statements and the accountant did not issue an audit or review report on such financial statements.

Generally accepted accounting principles (GAAP). Reference to *generally accepted accounting principles* in SSARSs means generally accepted accounting principles promulgated by bodies designated by Council of the AICPA pursuant to Rule 202 and Rule 203 of the AICPA Code of Professional Conduct.

Management. The person(s) with executive responsibility for the conduct of the entity's operations. For some entities, management includes some or all of those charged with governance, for example, executive members of a governance board or an owner-manager.

Misstatement. A difference between the amount, classification, presentation, or disclosure of a reported financial item in the financial statements and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from fraud or error.

Special purpose framework. A financial reporting framework other than GAAP that is one of the following bases of accounting:

a. **Cash basis**. A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).

b. **Tax basis**. A basis of accounting that the entity uses to file its tax return.

c. **Regulatory basis**. A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission).

d. **Contractual basis**. A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the accountant.

e. **Other basis.** A basis of accounting that utilizes a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statement.

All of the preceding bases of accounting, with the exception of the contractual basis, are commonly referred to as *other comprehensive bases of accounting*.

Those charged with governance. The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. Those charged with governance may include management personnel, for example, executive members of a governance board or an owner manager.

Requirements

Ethical Requirements

8. The accountant must comply with the AICPA Code of Professional Conduct in the performance of the compilation engagement. (Ref: par. A6)

Professional Judgment

9. The accountant should exercise professional judgment in conducting the engagement. (Ref: par. A7-A9)

Engagement Acceptance

10. The accountant should not accept an engagement subject to this standard unless the accountant has agreed the terms of the engagement with management and recorded those terms in an engagement letter or other suitable form of written agreement. The engagement letter or other suitable form of written communication should include: (Ref: par. A10-A11 and A17)

(a) Identification of the applicable financial reporting framework including whether the financial statements will omit substantially all disclosures required by the applicable financial reporting framework; (Ref: par. A12)

(b) The objective, scope, and limitations of the engagement;

(c) The responsibilities of the accountant, including the requirement to perform the engagement in accordance with SSARSs and to comply with relevant ethical requirements;

(d) The responsibilities of management for: (Ref: par. A13–A14)

- (i) The financial statements in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial statements and the intended users;
- (ii) The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements
- (iii) Preventing and detecting fraud
- (iv) Ensuring that the entity compiles with the laws and regulations applicable to its activities
- (v) Making all financial records and related information available to the accountant
- (vi) The accuracy and completeness of the records, documents, explanations and other information, including significant judgments, provided by management for the compilation engagement;

(e) That either:

- management will include a clear statement on each page of the financial statements that indicates that no CPA provides any assurance on the financial statements; or (Ref: par. A15)
- the accountant will issue a report as a result of the compilation engagement

11. The engagement letter or other suitable form of written communication should be signed by *a.* the accountant or the accountant's firm and

b. management. (Ref: par. A16)

The Accountant's Knowledge and Understanding of the Entity's Financial Reporting Framework

12. The accountant should obtain an understanding of the applicable financial reporting framework intended to be used in the preparation of the financial statements and the significant accounting policies adopted by management. (Ref: par. A18)

Preparing the Financial Statements

13. The accountant should prepare the financial statements using the records, documents, explanations, and other information provided by management.

14. If, during the preparation of financial statements, the accountant assists management with significant judgments regarding amounts or disclosures to be reflected in the financial statements, the accountant should discuss those judgments with management so that management understands the significant judgments reflected in financial statements and accepts responsibility for those judgments. (Ref: par. A19)

Completing the Compilation Engagement

15. The accountant should read the financial statements in light of the accountant's understanding of the applicable financial reporting framework and the significant accounting policies adopted by management.

16. When management has agreed to include an indication on the financial statements with respect to the accountant's involvement with the financial statements, the accountant should consider the adequacy of that statement. (Ref: par. A15)

17. If, in the course of the engagement, the accountant becomes aware that the records, documents, explanations or other information, including significant judgments, provided by management are incomplete, inaccurate or otherwise unsatisfactory, the accountant should bring that to the attention of management and request additional or corrected information.

18. If the accountant becomes aware during the course of the engagement that:

a. The financial statements do not adequately refer to or describe the applicable financial reporting framework (Ref: par. A20);

b. Revisions to the financial statements are required for the financial statements to be in accordance with the applicable financial reporting framework; or *c.* The financial statements are otherwise misleading, (Ref: par. A21-A22)

the accountant should propose the appropriate revisions to management.

19. The accountant should withdraw from the engagement and inform management and those charged with governance of the reasons for withdrawing if (Ref: par. A23-A24)

- The accountant is unable to complete the engagement because management has failed to provide records, documents, explanations, or other information, including significant judgments, as requested, or

- Management does not make appropriate revisions that are proposed by the accountant and does not disclose such departures in the notes to the financial statements and the accountant determines to not disclose such departures in the accountant's report.

The Accountant's Report

20. The accountant should issue a compilation report when:

a. The accountant is engaged, or decides, to report on the financial statements; (Ref: par. A25)
b. The accountant has a direct or material indirect financial interest in the client; or
c. The accountant or the accountant's firm:
   i. performs for a contingent fee any professional services for, or receives such a fee from the entity, or
   ii. receives a commission or referral fee for services from the entity,

   and the accountant expects, or reasonably might expect, that a third party will use the financial statements that the accountant prepared.
d. The entity's financial statements contain known departures from the applicable financial reporting framework, including omission of substantially all disclosures required by the applicable financial reporting framework, and such departures are not disclosed in the financial statements; (Ref: par. A26)
e. The entity does not include an indication on each page of the financial statements that no CPA provides any assurance on the financial statements;

21. If required by paragraph 20, the accountant's written report should (Ref: par. A27 and A33):

a. identify the entity whose financial statements have been prepared

b. specify the date or period covered by the financial statements

c. include a statement that management (owners) is (are) responsible for the financial statements *d.* include a statement that the accountant performed the compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by Accounting and Review Services Committee of the American Institute of Certified Public Accountants

e. include a statement that such standards require the accountant to be objective in the performance of the engagement but do not require the accountant to be independent of the entity (Ref: par. A28)

f. include a statement that the accountant did not audit or review the financial statements nor did the accountant perform any procedures to verify the accuracy or completeness of the information provided by management and accordingly does not provide any assurance on the financial statements

g. include a disclosure if if the accountant has a direct or material indirect financial interest in the entity (Ref: par. A29)

h. if the situation described in paragraph 20c applies, include a statement that the accountant is not independent (Ref: par. A30)

i. if the accountant includes a statement that the accountant is not independent and chooses to disclose a description about the reasons the accountant's independence is impaired, include all of the reasons in the description

j. include the signature of the accountant or the accountant's firm (Ref: par. A31)

k. include the city and state where the accountant practices (Ref: par. A32)

l. include the date of the report, which should be the date that the accountant has completed the procedures required by this proposed SSARS

Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework

22. The accountant should not prepare financial statements that omit substantially all disclosures required by the applicable financial reporting framework unless the omission of substantially all disclosures is not, to the accountant's knowledge, undertaken with the intention of misleading those who might reasonably be expected to use such financial statements.

23. If financial statements that omit substantially all the disclosures required by the applicable financial reporting framework, do not include a disclosure stating that substantially all disclosures required by the applicable financial reporting framework are omitted, in accordance with paragraph 20d, the accountant is required to report on such financial statements. When reporting on such financial statements, in addition to the requirements in paragraph 21, the accountant should include a separate paragraph in the report that includes the following elements: (Ref: par. A26 and A34-A35)

a. A statement that management has elected to omit substantially all the disclosures (and the statement of cash flows, if applicable) required by the applicable financial reporting framework (or ordinarily included in the financial statements if the financial statements are prepared in accordance with a special purpose framework)

b. A statement that if the omitted disclosures (and statement of cash flows, if applicable) were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows (or equivalent for presentations other than accounting principles generally accepted in the United States of America)

c. A statement that, accordingly, the financial statements are not designed for those who are not informed about such matters

24. The omission of one or more notes, when substantially all other disclosures are presented, should be treated in a compilation report like any other departure from the applicable financial reporting framework, and the nature of the departure and its effects, if known, should be disclosed in accordance with paragraphs 25–29.

Reporting Other Known Departures From the Applicable Financial Reporting Framework

25. When the accountant becomes aware of a departure from the applicable financial reporting framework (including inadequate disclosure) that is material to the financial statements and the financial statements are not revised or the departure is not disclosed in the notes to the financial statements, the accountant should modify the standard report to disclose the departure.

26. The effects of the departure on the financial statements should be disclosed if such effects have been determined by management or are known to the accountant as the result of the accountant's procedures. (Ref: par. A36)

27. If the effects of the departure have not been determined by management or are not known to the accountant as a result of the accountant’s procedures, the accountant is not required to determine the effects of a departure; however, in such circumstances the accountant should state in the report that such determination has not been made.

28. If the accountant believes that modification of the standard report is not adequate to indicate the deficiencies in the financial statements as a whole, the accountant should withdraw from the engagement and provide no further services with respect to those financial statements. (Ref: par. A24)

29. The accountant should not modify the standard report to include a statement that the financial statements are not in conformity with the applicable financial reporting framework because such a statement would be tantamount to expressing an adverse opinion on the financial statements as a whole. Such an opinion can be expressed only in the context of an audit engagement.

Documentation in a Compilation Engagement

30. The accountant should prepare documentation in connection with each compilation engagement in sufficient detail to provide a clear understanding of the work performed which, at a minimum, includes the following: (Ref: par. A37) *a.* The engagement letter or other suitable form of written documentation with management, as described in paragraphs 10–12;

b. A copy of the financial statements that the accountant prepared; and

c. A copy of the accountant's report, if applicable.

Association with Financial Statements That Have Not Been Prepared By the Accountant

31. When an accountant is associated with financial statements as defined in SSARSs, the accountant should comply with the requirements of paragraphs 8-9 and perform the procedures in paragraphs 15-16.

32. If, in the course of reading the financial statements in accordance with paragraph 15, the accountant becomes aware of material inconsistencies between the financial statements and the other information in the document containing the financial statements, the accountant should request that management revise the financial statements or the other information, as appropriate.

33. If management does not include an indication on the financial statements with respect to the accountant's involvement with the financial statements, the accountant should issue a disclaimer report on the financial statements. (Ref: par. A15 and A38)

Application and Other Explanatory Material

Scope of This Proposed Statement on Standards for Accounting and Review Services (Ref: par. 1-2 and 8)

A1. It is often unclear whether an accountant is engaged to prepare financial statements or to perform accounting services. In determining whether an accountant has been engaged to prepare financial statements, an accountant needs to apply professional judgment to all the facts and circumstances. Considerations such as who printed the financial statements or the location at which an accountant's services were performed (for example, at the client's location or the accountant's location) are generally not factors in determining whether the accountant was engaged to prepare financial statements.

A2. Examples of other historical or prospective financial information that the accountant may be engaged by management to prepare or on which the accountant decides to issue a compilation report include the following:

- Specified elements, accounts, or items of a financial statement such as schedules of rentals, royalties, profit participation, or provision for income taxes
- Supplementary information
- Required supplementary information
- Pro forma financial information

- Prospective financial information, including budgets, forecasts, or projections

A3. Financial statements are prepared in conjunction with litigation services that involve pending or potential legal or regulatory proceedings when the:

a. Service consists of being an expert witness

b. Service consists of being a "trier of fact" or acting on behalf of one

c. Accountant's work under the rules of the proceedings is subject to detailed analysis and challenge

d. Accountant is engaged by an attorney to do work that will be protected by the attorney's work product privilege, and such work is not intended to be used for other purposes.

The Compilation Engagement (Ref: par. 3-4)

A4. Paragraph .01 of ET section 92 *Definitions* of the AICPA Code of Professional Conduct defines an attest engagement as an engagement that requires independence as defined in AICPA *Professional Standards.* Interpretation 101-3 Nonattest Services of Rule 101 *Independence* of the AICPA Code of Professional Conduct addresses the accountant's considerations with respect to independence when performing nonattest services for attest clients.

A5. If an accountant is not in public practice as defined by the AICPA Code of Professional Conduct,[1] the issuance of a report in accordance with this proposed SSARS would be inappropriate; however, the following is an example of a communication that the accountant may use:

The accompanying balance sheet of Company X as of December 31, 20XX, and the related statements of income and cash flows for the year then ended have been prepared by [*name of accountant*], CPA. I have prepared such financial statements in my capacity [*describe capacity, for example, as a director*] of Company X.

Ethical Requirements (Ref: par. 8)

A6. The following sections of the Code may be relevant to accountant's preparation of financial statements:

[1] Paragraph .30 of ET section 92, *Definitions*

- Section 101 – Independence
- Section 102 – Integrity and Objectivity
- Section 201 – General Standards
- Section 203 – Accounting Principles
- Section 301 – Confidential Client Information
- Section 302 – Contingent Fees
- Section 501 – Acts Discreditable

Professional Judgment (Ref: par. 9)

A7. Professional judgment is essential to the proper conduct of a compilation engagement. This is because interpretation of relevant ethical requirements and the requirements of this SSARS require the application of relevant knowledge and experience to the facts and circumstances of the engagement. Professional judgment is necessary, in particular, when the engagement involves assisting management of the entity regarding decisions about:

- The acceptability of the financial reporting framework that is to be used to prepare and present the financial statements of the entity, in view of the intended use of the financial statements and the intended users thereof.
- The application of the applicable financial reporting framework, including:
  - Selection of appropriate accounting policies in accordance with that framework;
  - Development of accounting estimates needed for the financial statements to be prepared and presented in accordance with that framework; and
  - Preparation of financial statements in accordance with the applicable financial reporting framework.

The accountant's assistance to management is always provided on the basis that management or those charged with governance, as appropriate, understand the significant judgments that are reflected in the financial statements, and accept responsibility for those judgments.

A8. Professional judgment involves the application of relevant training, knowledge and experience, within the context provided by this SSARS and accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the compilation engagement.

A9. The exercise of professional judgment in individual engagements is based on the facts and circumstances that are known to the accountant up to the date of the completion of the compilation engagement in accordance with this SSARS, including:

- Knowledge acquired from performance of other engagements undertaken for the entity, where applicable (for example, taxation services).

- The accountant's understanding of the entity's business and operations and of the application of the applicable financial reporting framework in the industry in which the entity operates.
- The extent to which the preparation of the financial statements requires the exercise of management judgment.

Engagement Acceptance (Ref: par. 10)

A10. The understanding with management regarding the services to be performed for compilation engagements is required by paragraph 10 to be in an engagement letter or other suitable form of written agreement, and, accordingly, a verbal understanding is insufficient. An engagement letter is the most common and usually the most convenient method for documenting the understanding with management regarding the services to be performed for compilation engagements. A formal contract is another suitable form of written communication.

A11. Both management and the accountant have an interest in documenting the agreed-upon terms of the compilation engagement before the commencement of the engagement to help avoid misunderstandings with respect to the engagement. For example, it reduces the risk that management may inappropriately rely on or expect the accountant to protect management against certain risks or to perform certain functions, including those that are management's responsibility.

A12. The decision about the financial reporting framework that management adopts for the financial statements is made in the context of the intended use of the financial statements and the requirements of any applicable law or regulation.

A13. In accordance with this proposed SSARS, the accountant is required to obtain the agreement of management on management's responsibilities in relation to both the financial statements and the compilation engagement as a condition precedent to accepting the engagement. In smaller entities, management may not be well-informed about what those responsibilities are, including those arising in applicable law or regulation. In order to obtain management's agreement on an informed basis, the accountant may find it necessary to discuss those responsibilities with management in advance of seeking management's agreement on its responsibilities.

A14. The accountant is entitled to rely on management to provide all relevant information for the compilation engagement on an accurate, complete and timely basis. The form of the information provided by management for the purpose of the engagement will vary in different engagement circumstances. In broad terms, it will comprise records, documents, explanations and other information relevant to the preparation of the financial statements in accordance with the applicable financial reporting framework. The information provided may include, for example, information about management assumptions, intentions or plans underlying development of accounting estimates needed to prepare the financial statements in accordance with the applicable financial reporting framework.

Indication on the financial statements regarding the accountant's involvement with the financial statements (Ref: par. 10, 16 and 33)

A15. In the absence of an accountant's report, the clear indication on the financial statements is intended to avoid misunderstanding on the part of users with respect to the accountant's involvement with the financial statements. The indication is made at management's discretion and the accountant or the accountant's firm's name may not be included. The accountant is concerned that the indication is not misleading. Examples of an adequate statement on each page of the financial statements include:

- No CPA provides any assurance on these financial statements.
- These financial statements have not been audited or reviewed and no CPA provides any assurance on them

A16. In some entities other parties, such as those charged with governance, may be the appropriate parties to sign the engagement letter or other suitable form of written communication.

A17. An illustration of an engagement letter for a compilation engagement is presented in exhibit A, "Illustrative Engagement Letter."

The Accountant's Knowledge and Understanding of the Entity's Financial Reporting Framework (Ref: par. 12)

A18. The requirement that the accountant obtain an understanding of the applicable financial reporting framework intended to be used in the preparation of the financial statements and the significant accounting policies adopted by management does not prevent the accountant from accepting a compilation engagement for an entity in an industry in which the accountant has no previous experience. The accountant may obtain such understanding, for example, by consulting AICPA guides, industry publications, financial statements of other entities in the industry, textbooks and periodicals, appropriate continuing professional education, or individuals knowledgeable about the industry.

Preparing the Financial Statements (Ref: par. 14)

A19. In the preparation of financial statements, the accountant may provide assistance to management with significant judgments for example, the accountant may advise management on alternative accounting policies that are significant to the financial statements or help management with significant judgments regarding material accounting estimates.

Completing the Compilation Engagement (Ref: par. 18-19, 23, and 28)

A20. The financial statements may adequately refer to or describe the applicable financial reporting framework via the financial statement titles, in the notes to the financial statements, or in the statement or legend to the financial statements indicating that no CPA provides any assurance on the financial statements.

A21. Financial statements may be misleading, for example, if the applicable financial reporting framework includes the premise that the financial statements are prepared on the going concern basis and undisclosed uncertainties exist regarding the entity's ability to continue as a going concern. If the accountant becomes aware that uncertainties exist regarding the entity's ability to continue as a going concern, the accountant may, as appropriate, suggest a more appropriate presentation in accordance with the applicable financial reporting framework, or appropriate disclosures concerning the entity's ability to continue as a going concern, in order to be in compliance with that framework, and to avoid the financial statements being misleading.

A22. Disclosure of items, such as an uncertainty, is not required in financial statements in which substantially all the disclosures required by the applicable financial reporting framework are omitted.

A23. In circumstances addressed by the requirements of this proposed SSARS where withdrawal from the engagement is necessary, the responsibility to inform management and those charged with governance of the reasons for withdrawing provides an opportunity to explain the accountant's ethical obligations.

A24. In making a determination as to whether and how to withdraw from an engagement, the accountant may wish to consult with legal counsel.

The Accountant's Report (Ref: par. 20-21 and 23)

A25. The accountant may issue a report on financial statements that the accountant prepared even if not so engaged. The accountant may determine, for example, that a report would reduce the likelihood that a user of the financial statements may inappropriately infer an unintended level of reliance on the financial information.

A26. Management may disclose departures from the applicable financial reporting framework in the notes to the financial statements, in the statement or legend to the financial statements indicating that no CPA provides any assurance on the financial statements, or in the title to the financial statements. If management chooses to disclose departures from the applicable financial reporting framework in the statement or legend to the financial statements indicating that no CPA provides any assurance on the financial statements, such legend may read "No CPA provides any assurance on these financial statements. These financial statements omit substantially all disclosures required by accounting principles generally accepted in the United States of America." or "No CPA provides any assurance on these financial statements. Management has elected to present land at appraised value which is a departure from accounting principles generally accepted in the United States of America." If management chooses to disclose departures from the applicable financial reporting framework in the title to the financial statements, such title may read "Balance Sheet – Substantially All Disclosures Required by GAAP Are Omitted." or "Balance Sheet – Land Presented at Appraised Value Which is a Departure From GAAP."

A27. The accountant's written report may become unattached from the financial statements. To minimize the possibility that a user of the financial statements may infer an unintended level of reliance on the financial statements, the accountant may consider including a reference on each page of the financial statements to the accountant's written report. An example of a reference to the accountant's written report included on each page of the financial statements is "See Accountant's Report" or "See Accountant's Compilation Report."

A28. The accountant may disclose the accountant's independence status, including a description about the reasons that the accountant's independence is impaired.

A29. Examples of the disclosure the accountant may make to comply with the requirement in paragraph 20g include:

- I am (We are) not independent with respect to XYZ Company.
- I (We) have a direct financial interest in XYZ Company.

A30. An example of the statement the accountant may make to comply with the requirement in paragraph 20h is "I am (we are) not independent with respect to XYZ Company because during the year ended December 31, 20X1, I (we) performed a professional service for a contingent fee".

A31. The signature of the accountant or the accountant's firm may be manual, printed or digital, as appropriate.

A32. The city and state where the accountant practices may be indicated on letterhead that contains the issuing office's city and state.

A33. Illustrations of accountant's compilation reports are presented in exhibit B, "Illustrative Accountant's Compilation Reports."

Financial Statements That Omit Substantially All the Disclosures Required by the Applicable Financial Reporting Framework (Ref: par. 23)

A34. When management elects to include disclosures about only a few matters in the notes to the financial statements, such disclosures may be labeled "Selected Information-Substantially All Disclosures Required by [*the applicable financial reporting framework*] Are Not Included."

A35. An illustration of an accountant's compilation report on financial statements that omit substantially all disclosures required by the applicable financial reporting framework is presented in exhibit B, "Illustrative Accountant's Compilation Reports."

Reporting Other Known Departures From the Applicable Financial Reporting Framework (Ref: par. 26 and 28)

A36. An illustration of an accountant's compilation report on financial statements that contain known departures from the applicable financial reporting framework that are not disclosed in the notes to the financial statements is presented in illustration 3 to exhibit B, "Illustrative Accountant's Compilation Reports."

Documentation in a Compilation Engagement (Ref: par. 30)

A37. The documentation may be available in hard copy or electronic copy.

Association with Financial Statements That Have Not Been Prepared By the Accountant (Ref: par. 33)

A38. An example of a disclaimer report that the accountant may use is as follows:

> The accompanying financial statements of XYZ Company as of and for the year ended December 31, 20XX were not reviewed, or audited by me (us) and, accordingly, I (we) do not provide any form of assurance on them.

A39.

Exhibit A—Illustrative Engagement Letter (Ref: par. A17)

The following is an example of an engagement letter for an engagement to prepare financial statements prepared in accordance with accounting principles generally accepted in the United States of America. This engagement letter is not authoritative but is intended as an illustration that may be used in conjunction with the considerations outlined in Statements on Standards for Accounting and Review Services. The engagement letter will vary according to individual requirements and circumstances and is drafted to refer to the preparation of financial statements for a single reporting period. The accountant may seek legal advice about whether a proposed letter is suitable.

To the appropriate representative of management of ABC Company:[2]

You[3] have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended[, and the related notes to the financial statements]. *If the accountant is engaged to prepare financial statements that omit substantially all disclosures, the following may be added: These financial statements will not include notes, other than a note describing the basis of accounting as set out in this engagement letter.* We are pleased to confirm our acceptance and our understanding of this compilation engagement by means of this letter.

Our Responsibilities

The objective of our compilation engagement is to apply accounting and financial reporting expertise in the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided by you. We will conduct our compilation engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants and comply with the AICPA's Code of Professional Conduct, including ethical principles of integrity, objectivity, professional competence, and due care. SSARSs require us to be objective in the performance of the engagement but do not require us to be independent of ABC Company.

Since a compilation engagement is not an assurance engagement, we are not required to and will not verify the accuracy or completeness of the information you will provide to us for the compilation engagement, or otherwise to gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion or a conclusion on the financial statements.

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[2] The addresses and references in the engagement letter would be those that are appropriate in the circumstances of the compilation engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons. See paragraph A12.

[3] Throughout this engagement letter, references to *you, we, us, management,* and *accountant* would be used or amended as appropriate in the circumstances.

Our engagement cannot be relied upon to disclose any financial statement misstatements including those caused by errors or fraud, or to disclose noncompliance with laws and regulations.

Your Responsibilities

The compilation engagement to be performed is conducted on the basis that you acknowledge and understand that our role is the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. You have the following overall responsibilities that are fundamental to our undertaking the compilation engagement in accordance with SSARSs

(a) The financial statements in accordance with accounting principles generally accepted in the United States of America;

(b) The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements;

(c) The prevention and detection of fraud;

(d) To ensure that the entity complies with the laws and regulations applicable to its activities

(e) To make all financial records and related information available to us; and

(f) The accuracy and completeness of the records, documents, explanations and other information, including significant judgments, you provide to us for the compilation engagement.

[*If the accountant does not expect to issue a report, include the following:*

You agree that the financial statements will clearly indicate that no CPA provides any assurance on them]

[*If the accountant expects to issue a report, include the following:*

Our Report

As part of our engagement, we will issue a report which will state that we have prepared the financial statements and that financial statements are your responsibility. The report will also state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion or provide any assurance on them.]

[*Other relevant information*]

Our fees for these services . . . .

[*The accountant may include language such as the following regarding limitation of or other arrangements regarding the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):*

You agree to hold us harmless and to release, indemnify, and defend, us from any liability or costs, including attorney's fees, resulting from management's knowing misrepresentations to us.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein, and our respective responsibilities.

Sincerely yours,

____

[*Signature of accountant or accountant's firm*]

Acknowledged and agreed on behalf of ABC Company by:

____

[*Signed*]

[*Name and title*]

____

[*Date*]

A40.

Exhibit B—Illustrations of Accountant's Compilation Reports on Financial Statements (Ref: par. A33 - A35)

Illustration 1—An Accountant's Compilation Report on Comparative Financial Statements When the Accountant Has Prepared the Financial Statements for Both Periods and the Applicable Financial Reporting Framework and Any Known Departures From the Applicable Financial Statements are Disclosed in the Financial Statements

Illustration 2—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America and Management Has Elected to Omit Substantially All Disclosures Required by Accounting Principles Generally Accepted in the United States of America (the applicable financial reporting framework is evident from the titles of the financial statements)

Illustration 3 —An Accountant's Compilation Report on Comparative Financial Statements and Known Departures From Accounting Principles Generally Accepted in the United States of America are Not Disclosed in the Notes to the Financial Statements

Illustration 1—An Accountant's Compilation Report on Comparative Financial Statements When the Accountant Has Prepared the Financial Statements for Both Periods and the Applicable Financial Reporting Framework and Any Known Departures From the Applicable Financial Statements are Disclosed in the Financial Statements

The accompanying financial statements of XYZ Company as of and for the years ended December 31, 20X2 and 20X1 are the responsibility of management of XYZ Company. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Such standards require me (us) to be objective in the performance of the engagement but do not require me (us) to be independent of XYZ Company. I (we) did not audit or review the financial statements nor did I (we) perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not provide any form of assurance on these financial statements.

[*Signature of accounting firm or accountant, as appropriate*]

[*Accountant's city and state*]

[*Date of the accountant's report*]

Illustration 2—An Accountant's Compilation Report on Comparative Financial Statements Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America and Management Has Elected to Omit Substantially All Disclosures Required by Accounting Principles Generally Accepted in the United States of America (the applicable financial reporting framework is evident from the titles of the financial statements)

The accompanying financial statements of XYZ Company as of and for the years ended December 31, 20X2 and 20X1 are the responsibility of management of XYZ Company. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Such standards require me (us) to be objective in the performance of the engagement but do not require me (us) to be independent of XYZ Company. I (we) did not audit or review the financial statements nor did I (we) perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not provide any form of assurance on these financial statements.

Management has elected to omit substantially all of the disclosures (and the statement of cash flows, if applicable) required by accounting principles generally accepted in the United States of America. If the omitted disclosures (and the statement of cash flows, if applicable) were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

[*Signature of accounting firm or accountant, as appropriate*]

[*Accountant's city and state*]

[*Date of the accountant's report*]

Illustration 3 —An Accountant's Compilation Report on Comparative Financial Statements and Known Departures From Accounting Principles Generally Accepted in the United States of America are Not Disclosed in the Notes to the Financial Statements

The accompanying financial statements of XYZ Company as of and for the years ended December 31, 20X2 and 20X1 are the responsibility of management of XYZ Company. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Such standards require me (us) to be objective in the performance of the engagement but do not require me (us) to be independent of XYZ Company. I (we) did not audit or review the financial statements nor did I (we) perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not provide any form of assurance on these financial statements.

Accounting principles generally accepted in the United States of America require that land be stated at cost. Management has informed me (us) that XYZ Company has stated its land at appraised value and that, if accounting principles generally accepted in the

United States of America had been followed, the land account and stockholders' equity would have been decreased by $500,000.

[*Signature of accounting firm or accountant, as appropriate*]

[*Accountant's city and state*]

[*Date of the accountant's report*]

Trusted

Resource for Regulation and Professional Services.

International Candidates

What the Statistics Reveal

International Trending

- **Growth in International**
  - Impact to Jurisdictions
  - Impact from Jurisdictions
  - Impact of International Test Centers
- **Performance**
  - Education, Age, Examination
  - Path of Least Resistance and Habit
- **Looking Ahead**
  - Change in Board Rules
  - Growth in China
  - Resurgence of Japan Growth

NASBA INTERNATIONAL EVALUATION SERVICES

Standard Data

Rank	Country (Home)	Candidates (2012)	Sections (2012)	3-yr Growth Candidates	3-yr Growth Sections	Average Score	Average Pass Rate
1	Japan	2,237	6,367	(12.9%)	(13.9%)	66.1	34.1%
2	Korea, Republic of	1,350	4,843	(20.3%)	(24.4%)	67.2	38.9%
3	China	741	1,698	394.0%	377.9%	70.4	43.1%
4	Canada	595	973	(42.1%)	(46.3%)	70.1	49.3%
5	United Arab Emirates	522	1,000	222.2%	209.1%	64.6	31.7%
6	India	397	616	(32.0%)	(25.7%)	66.9	36.5%
7	Egypt	293	608	89.0%	83.6%	68.5	43.6%
8	Taiwan	260	430	3.2%	(0.1%)	69.1	40.5%
9	Saudi Arabia	238	481	114.4%	86.2%	67.1	39.3%
10	Lebanon	201	308	99.0%	69.1%	66.0	39.6%
11	Bahrain	198	337	122.5%	65.5%	65.8	28.5%
12	Hong Kong	186	239	(15.5%)	(5.0%)	70.7	54.4%
13	Kuwait	163	236	98.8%	75.0%	66.4	36.9%
14	Bahamas	157	226	(3.7%)	(15.2%)	68.4	41.2%
15	Jordan	149	219	132.8%	105.6%	65.7	26.5%

The Uniform CPA Examination continued its international presence. In 2012:

8,503 candidates from **101** countries other than the U.S. sat for **24,549** sections

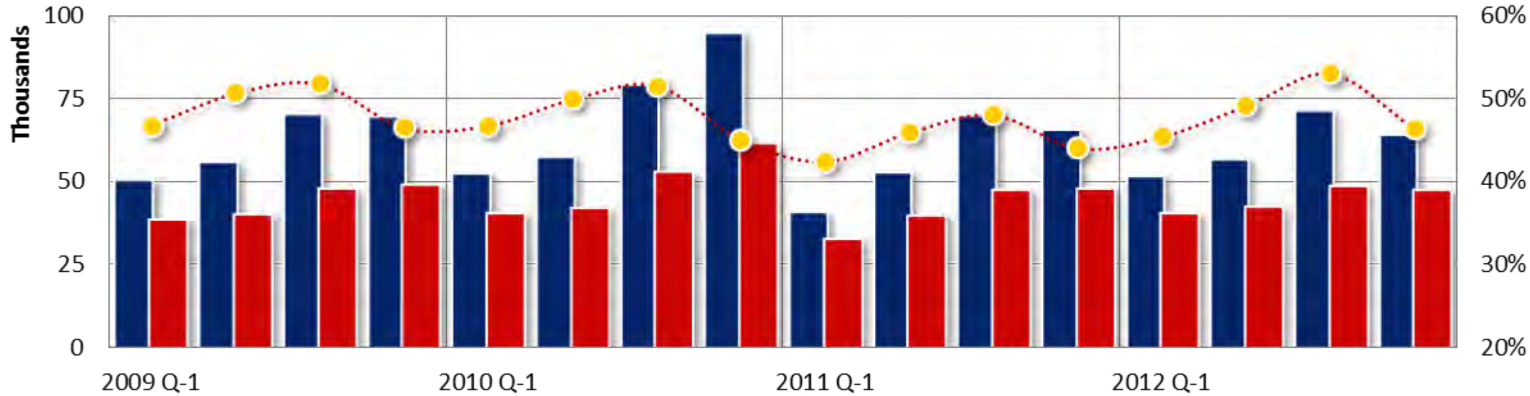
Of those

40.4% were Women and **11.2%** had earned a Masters Degree

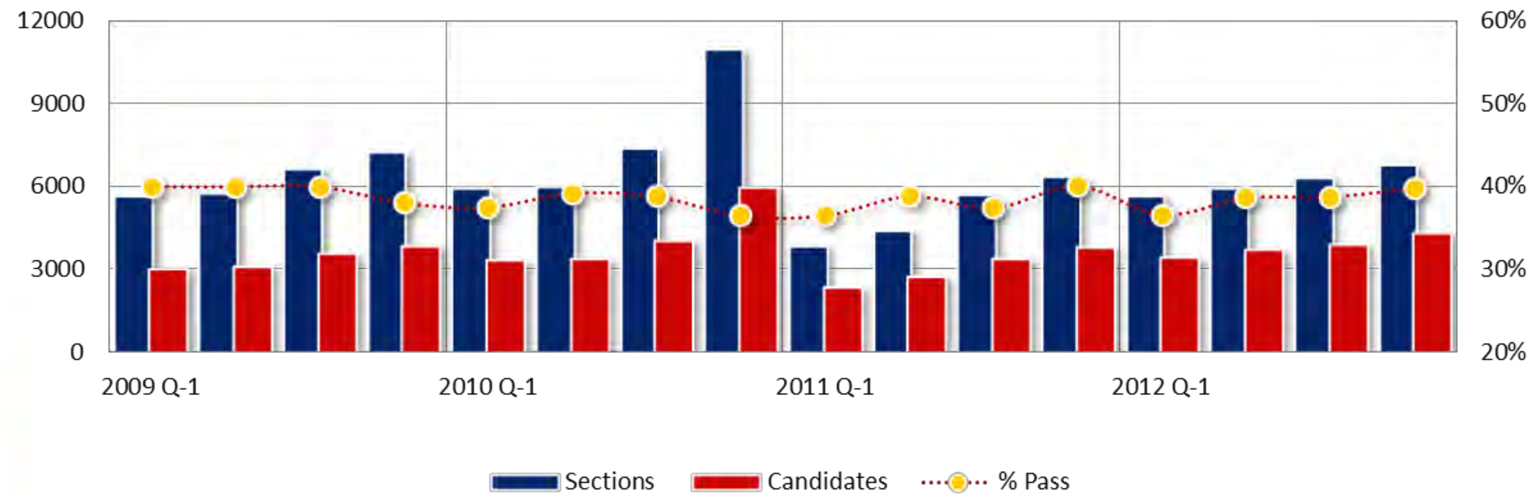
NASBA INTERNATIONAL EVALUATION SERVICES

International

Examination Trending: All Candidates

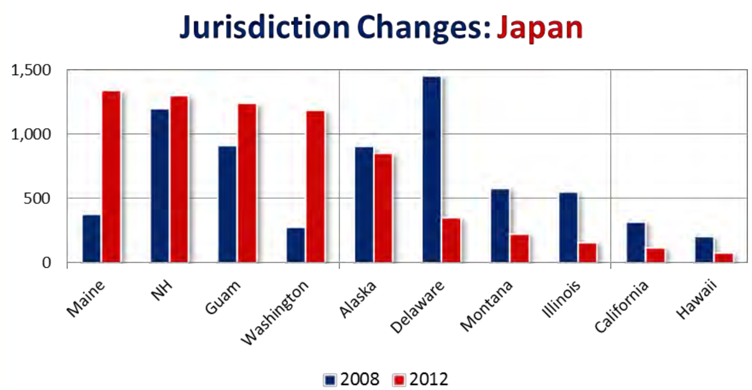


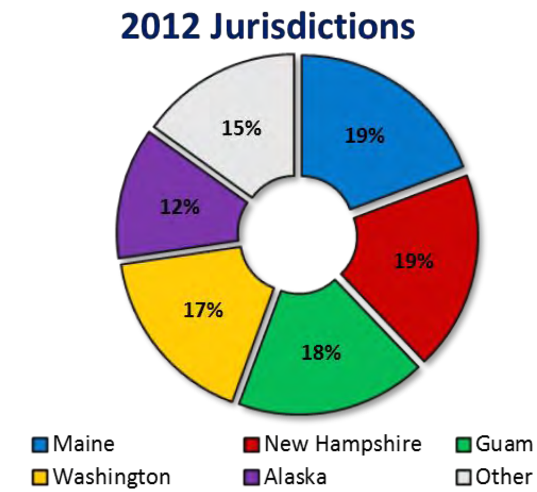
Examination Trending: International

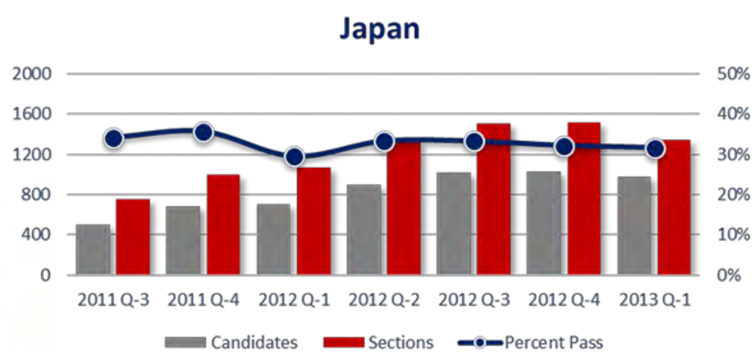


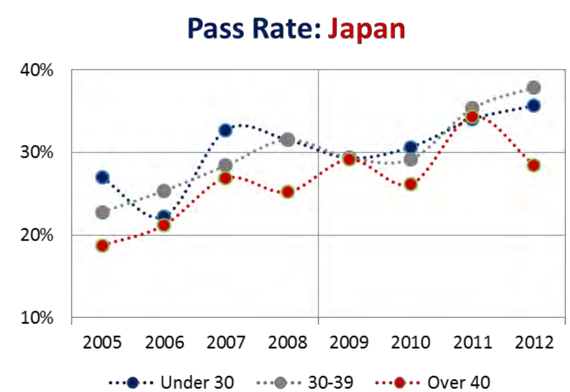
Jurisdiction

Japanese Candidates



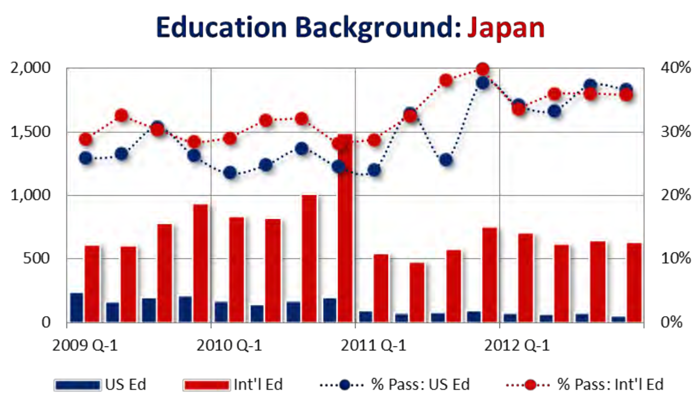


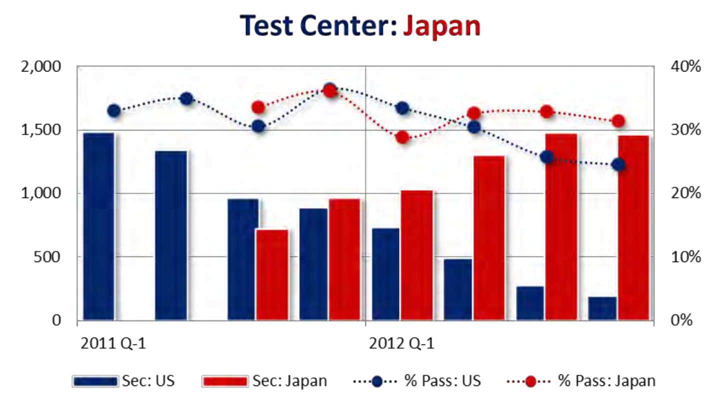


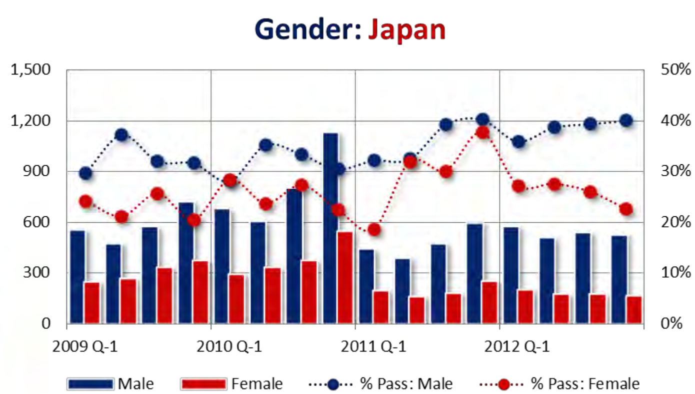


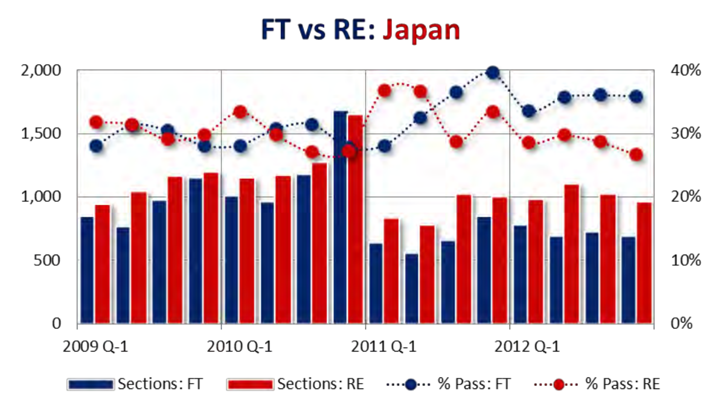
NASBA INTERNATIONAL EVALUATION SERVICES

Japanese Candidates





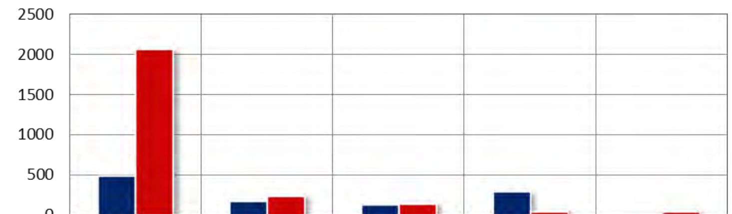




NASBA INTERNATIONAL EVALUATION SERVICES

Middle East Candidates

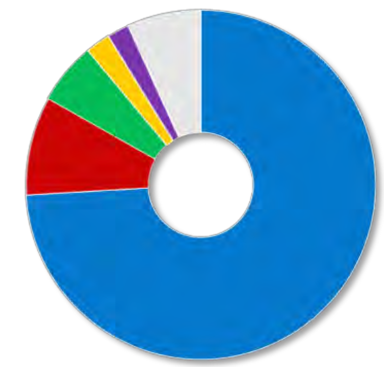
Jurisdiction Changes: Middle East



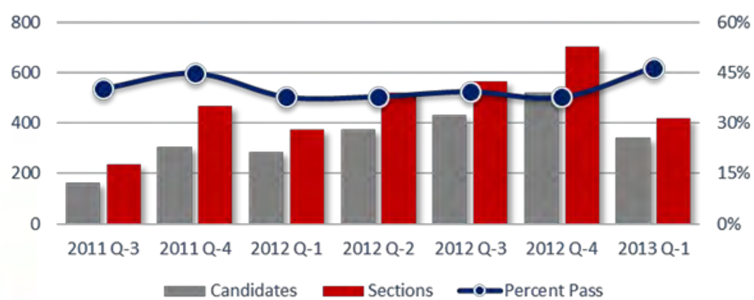
	New Hampshire	Colorado	Delaware	California	Guam
2008	497	190	145	302	6
2012	2062	254	159	63	58

2008 2012

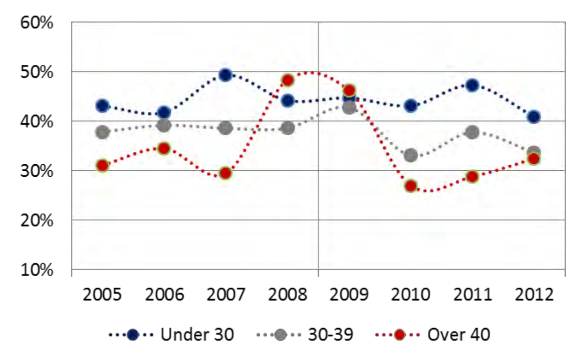
2012 Jurisdictions



U.A.E



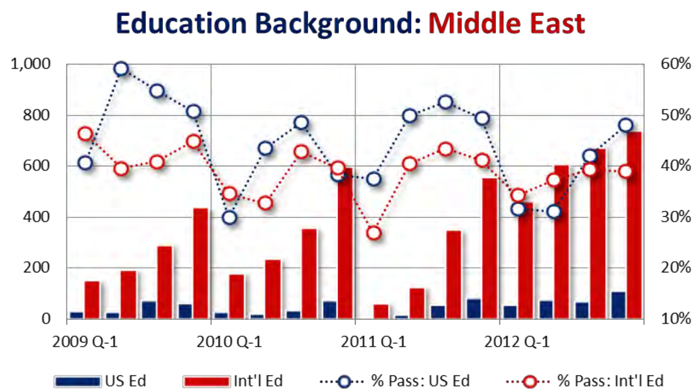
Pass Rate: Middle East

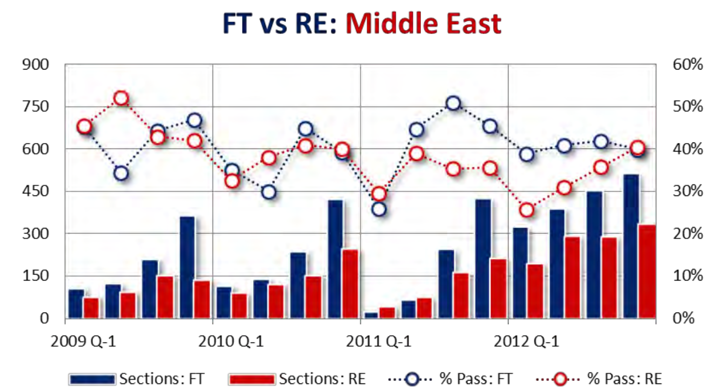


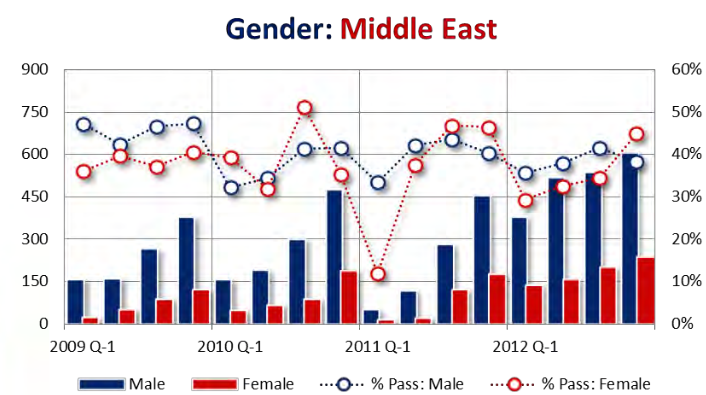
NASBA INTERNATIONAL EVALUATION SERVICES

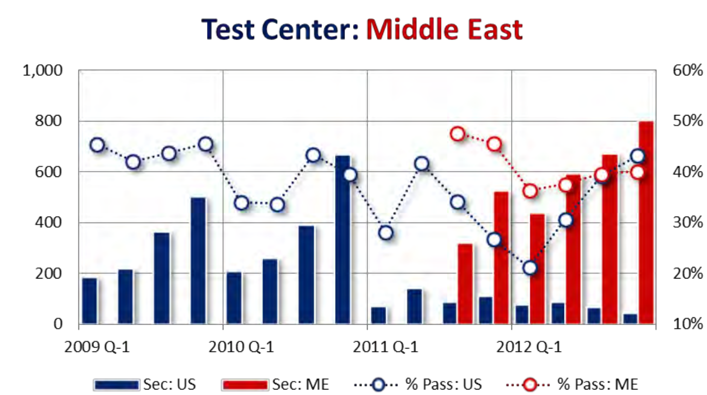
General Trends

Middle East Candidates









NASBA INTERNATIONAL EVALUATION SERVICES

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Questions & Next Steps

The Influence of Professional Integrity and Client Advocacy on Reporting Decisions

John Hasseldine
University of New Hampshire

NASBA 2013 Western and Eastern Regional Meeting

PAUL COLLEGE
PETER T. PAUL COLLEGE OF BUSINESS AND ECONOMICS

Advocacy vs. Integrity

- The Code of Professional Conduct (AICPA 2010) applies to all AICPA members
- The Code emphasizes the importance of a member's integrity as "it is the quality from which the public trust derives and is a benchmark against which a member must ultimately test all decisions" (AICPA Code of Conduct, Section 54- Article III)
- The AICPA Code also allows a member to act as a client advocate in "support of the client's position on accounting or financial reporting issues, either within the firm or outside the firm with standard setters, regulators, or others" (AICPA Rule 102-6)

Advocacy vs. Integrity

- Prior research on confirmation bias in financial accounting decision making has documented the tendency for some professionals to exhibit pro-client tendencies when client preferences are made explicit
- In contrast, other researchers, in the absence of strong client preferences, have found that experienced professionals tend to report conservative, income-decreasing outcomes
- What effect do the profession's standards for Advocacy and Integrity have?

Advocacy vs. Integrity

Implications for:

- Standard-setters
- Accountants with competing standards
- Professors engaging students in applied ethical decision making

- The AACSB now requires that students study ethics as a part of their business degree at an AACSB-accredited institution

Codes of Conduct

- Corporate level analysis provides conflicting results:
  - No effect on ethical decision making
  - Codes can be effective, but congruence between stated and enacted values is necessary
- Herron and Gilbertson (2004) compared the effects of principles-based and rules-based Code excerpts on auditor independence assessment. Effect seen when categorizing participants by DIT score
- A code can enhance or limit auditors’ ethical sensitivities

Client Advocacy

- Auditors can be influenced by client preferences and tend to permit aggressive reporting by favorably interpreting vague facts and standards
- Similar observations have been made for tax practitioners
- Attitude toward advocacy is positively correlated with favorable recommendations
- Correlation is often small, or, as in Kadous and Magro 2001; Barrick et al. 2004, nonexistent

Combined Counterbalancing Standards

- Contrasting examples draw attention to the relevant components of the underlying principle. Anderson et al. (1990) assert that comparisons are effective because they heighten attention to unique attributes. Implication is that the presentation of countervailing concepts increases comprehension
- Researchers have found that decision makers will use the information that is most readily available
- When given an ambiguous context with unclear technical guidance, exposure to both standards should lead to a neutral response that is not overly pro-client or overly conservative for the facts at hand

Context of Pilot Study

Two decision contexts. Participants are told that the technical guidance is unclear, and then they are asked to decide whether all of the high salary of the president of a company should be deducted as compensation or treated as a dividend.

- One case has scant facts to misinterpret, leaving lack of technical guidance as the source of ambiguity.
- The other case has additional details, requiring more effort to decipher their relevance. Magro (2005) labeled this type of increase in number of components to consider as “task complexity.”

Contextual Information

- Cuccia et al (1995) and Johnson (1993) find that incremental information is likely to be over weighted as confirmatory evidence of a preferred position.
- When decision makers in a financial reporting context have a propensity toward conservative reporting, that propensity should be more conservative in a high context case than in a low context case.

Contextual Information

- In discussing motivated reasoning, Kunda (1990) warns that a participant's motivation may reach its boundary if additional information could be viewed by third-parties as evidence against a targeted position
- The additional constraint from the high contextual information case is expected to dampen the pro-client tendency for the group that had been driven by the advocacy prime

Method – Within Subjects

- Two ambiguous cases differing in contextual information
  - Low contextual information: Shortened version of Johnson (1993) Whether a payment should be deducted as compensation for services provided or not deducted because it is a return of capital to a shareholder.
  - High contextual information: Additional details (adapted from Johnson (1993) and Pinsker (2009)…Family-owned corporation, person elected president after spouse's death, job descriptions, guidance on criteria for deduction (as compensation) and not deducting (if it is treated as a dividend or return of capital).
- Seven-point scale (-3: definitely do not deduct, to +3: definitely deduct)

Method – Between Subjects

- Control
- Integrity
  - "Integrity requires a member to be, among other things, honest, and candid … Service and the public trust should not be subordinated to personal gain and advantage. Integrity can accommodate the inadvertent error and the honest difference of opinion; it cannot accommodate deceit or subordination of principle."
- Advocacy
  - "A member or a member's firm may be requested by a client … to act as an advocate in support of the client's position on accounting or financial reporting issues, either within the firm or outside the firm with standard setters, regulators, or others."
- Advocacy and Integrity
  - Combined Treatment

TABLE 1
Descriptive Statistics for Demographics, Assessments of AICPA Code Excerpts

Age	Mean (SD) = 21.57 (1.94)
Gender	Percent Male/Female = 60.0/40.0
Favorability of Rule 102-6(2) (Advocacy)*	Mean (SD) = 5.04 (1.25)
Favorability of Section 54-Article III (Integrity)*	Mean (SD) = 3.36 (1.33)
Relative Influence*	Mean (SD) = 4.83 (1.55)

Hypothesis 1

Financial reporting decisions for ambiguous contexts will be conservative when subjects are not exposed to the professional standards for integrity or advocacy.
Test: One-sample t-test comparing mean response in the Control group to zero:

Context	Control Mean (SD)	t(df)	p	H1
Low	1.09 (1.54)	3.396 (22)	.002	Supported
High	1.09 (1.89)	2.772 (22)	.006	Supported

Hypothesis 2

Financial reporting decisions made by subjects exposed to a prime for professional integrity will not differ from those made by subjects without any exposure to the professional standards.

Test: ANCOVA comparing reporting decisions in the Control and Integrity groups:

Context	Control Mean (SD)	Integrity Mean (SD)	F (df)	p	H2
Low	1.09 (1.54)	0.77 (1.51)	.255 (1,44)	.616	Supported
High	1.09 (1.89)	0.86 (1.64)	.007 (1,44)	.935	Supported

Hypothesis 3

Subjects exposed to a prime for client advocacy will make less conservative financial reporting decisions than those without any exposure to the professional standards.

Test: ANCOVA comparing reporting decisions in the Control and Advocacy groups:

Context	Control Mean (SD)	Advocacy Mean (SD)	F (df)	P	H3
Low	1.09 (1.54)	0.30 (1.69)	2.928 (1,45)	.047	Supported
High	1.09 (1.89)	1.09 (1.86)	0.034 (1,45)	.854	Not Supported

Hypothesis 4

Subjects exposed to a prime for both client advocacy and integrity will make less conservative financial reporting decisions than those without any exposure to the professional standards.
Test: ANCOVA comparing reporting decisions in the Control and Advocacy & Integrity (A & I) groups:

Context	Control Mean (SD)	A & I Mean (SD)	F (df)	p	H4
Low	1.09 (1.54)	0.09 (1.69)	6.150 (1,66)	.008	Supported
High	1.09 (1.89)	-0.02 (2.05)	4.120 (1,66)	.024	Supported

Hypothesis 5

Subjects exposed to a prime for client advocacy will make less conservative decisions in a low context case than in a high context case.
Test: Paired samples t-test comparing the reporting decision in the low contextual information case to that in the high contextual information case.

Group	Low Context Mean (SD)	High Context Mean (SD)	t(df)	p	H5
Advocacy	0.30 (1.69)	1.09 (1.86)	2.313 (22)	.015	Supported

Conclusion

- This project examines the latent conflict between accountants complying with professional ethics standards and acting as advocates for their clients on ambiguous issues
- Current data collection uses similar experimental method with CPA participants to answer a tax case
- Pilot (with students) incorporates two audit cases with equally unclear outcomes but differing in the level of contextual information

Conclusion

- Student participants are conservative in their reporting decisions
- When participants are exposed to AICPA Rule 102-6 allowing client advocacy, they indicate a less conservative position, but only when the level of contextual information is low
- For participants exposed to Section 54 requiring integrity, the responses are as conservative as those without access to the professional standards

Conclusion

- Simultaneous presentation of both standards results in a neutral position reflecting neither conservative nor pro-client tendencies – robust across changes in the level of contextual information

- Results consistent with the psychology literature on availability, and the literature on cognitive development (which asserts the importance of comparative distinctions for more effective mental processing)

- Professional decision making could be enhanced by a global professional standard that recognizes the need to jointly consider the right to be a client advocate while maintaining the professional standard for integrity

Conclusion

- Ethical guidelines will become increasingly important as the profession adopts more principles-based standards.

- This research should benefit educators by highlighting the fact that accounting majors should study the professional codes and that fundamental standards are not emphasized in isolation of other potentially countervailing standards.

- Caveats:
  - Simplification of a real-world setting
  - Comparability of student responses to those of practitioners

Best Practices in the Delivery of Online Accounting Education: An Evaluation of Learning Analytics

Mark Myring, Ph.D.
Jennifer P. Bott, Ph.D., SPHR
Richard Edwards, Ph.D.

BALL STATE UNIVERSITY

Presentation Outline

- Purpose of grant
- Overview of Ball State and students
- Online education
- Learning analytics development and implementation
- Student outcomes
- Questions

BALL STATE UNIVERSITY

Ball State University and Students

- Students are primarily traditional students; many are first generation college students.
- BSU admissions standards are moderately selective.
- Miller College of Business and Department of Accounting both hold AACSB accreditation.
- Committed to providing high quality education.

BALL STATE UNIVERSITY

Online Accounting Education

- Online education continues to grow quickly.
- As of 2010:
  - 10% growth rate for online enrollments.
  - 2% growth rate for general college student population.
- As of 2012:
  - 14% of college students were enrolled in a fully online program.
  - 31% took at least one online course.

BALL STATE UNIVERSITY

Online Accounting Education

- Online delivery of accounting courses is becoming more common among accredited colleges of business.
- Research investigating the relative effectiveness of online versus face-to-face delivery is limited.

BALL STATE UNIVERSITY

The Role of Learning Analytics

- Learning analytics creates a personalized learning environment for students, increased student learning outcomes, and provides data to help target problem areas for online learners.
- The data-driven decision-making possibilities of learning analytics makes it a strong fit for quantitatively-based courses such as accounting.

BALL STATE UNIVERSITY

Components of Learning Analytics

- Pretest – based on knowledge that should have already been mastered.
- Assessment of pretest results.
- Identification of additional activities designed to mitigate weaknesses identified in pretest.
- Assignment of new course material.

BALL STATE UNIVERSITY

Development Process

- Software was developed with assistance of BSU's Integrated Learning Institute (ilearn).
- Two modules were developed: depreciation and long-term debt.

BALL STATE UNIVERSITY

Implementation and Result

- Modules were used in classes in the spring 2013 semester.

- Student feedback was positive.

- Further analysis will be conducted to determine the effect affect of the modules on student performance.

BALL STATE UNIVERSITY.

NASBA
Regional
Meetings

Global Accountancy Education Recognition Study 2012

Executive Summary

The first ever systematic and detailed comparison of existing bilateral and multilateral recognition of qualifications of accountants and auditors in selected countries and regions around the world.

Professor Dr Gert H. Karreman
Professor Belverd E. Needles Ph.D., CPA, CMA
NASBA Regional Meetings 2013

Abstract

International mobility of accountants and auditors and the recognition of their qualifications are of global interest. Qualification requirements in most cases are different between countries, but increasingly they are based on International Education Standards (IES) and other applicable regulation. In order to support international cooperation the Global Accountancy Education Recognition study (GAER 2012) provides a comparison of the recognition of qualifications of accountants and auditors in selected countries around the world.

The principle of substantial equivalence is considered for professional and general education, practical experience and licensing. A benchmarking methodology is made available that is based on the core competences and capabilities of accountancy education and training. A conceptual framework is presented that can be used to promote recognition of qualifications and as a result international mobility of accountants and auditors.

The GAER study provides a first ever systematic and detailed comparison of existing bilateral and multilateral recognition of qualifications of accountants and auditors in selected countries and regions around the world. The use of a conceptual model for accountancy education makes it possible to identify the major elements that have to be considered in recognition agreements: general and university education; professional accountancy education and training; and final assessment of professional competence. The GAER 2012 study gives special attention to the specific roles of standard setters, government agencies, accreditation boards and professional associations in the recognition of professional qualifications for accountants and auditors.

Research Team

Professor Dr Gert H. Karreman, principal investigator
Professor Belverd E. Needles Ph.D., CPA, CMA, principal researcher

Gert Karreman is Visiting Professor, School of Accountancy, Driehaus College of Business, DePaul University. As principal investigator he is responsible for the international comparison of qualification arrangements between selected countries, the design of the benchmarking methodology and the presentation of results.

Bel Needles is Wicklander Fellow in Business Ethics and Ernst & Young Distinguished Professor of Accounting, School of Accountancy, Driehaus College of Business, DePaul University. As principal researcher he has shared responsibility for the research study, its relevance and applicability, and for the presentation of results.

Research support, A.M. Verweij, LL.M., Leiden University

Global Accountancy Education Recognition Study 2012
Executive Summary

The Executive Summary is divided in the four sections of the GAER 2012 Global Accountancy Education Recognition study research report.

- *Section 1: Research Objectives and Method*
- *Section 2: Analysis of Characteristics of Professional Qualifications*
- *Section 3: Substantial Equivalence between Qualifications*
- *Section 4: Overall Conclusions*

Section 1: Research Objectives and Method

The GAER 2012 research study is made possible by a grant from the National Association of State Boards of Accountancy (NASBA). The study is conducted by Professor Dr Gert H. Karreman as principal investigator and Professor Belverd E. Needles Ph.D., CPA, CMA as principal researcher. Research support is given by A.M. Verweij, LL.M. The objectives of the research study are included in the research grant agreement between NASBA and Professor Dr Gert H. Karreman.

GAER 2012 is placed in the context of the global development of the qualification, education and training of accountants and auditors in alignment with the revised IAESB[1] International Education Standards and other applicable requirements. Its overall objective is to support international cooperation and mobility through providing an understanding of recognition requirements and achievements for the qualifications and experience requirements of accountants and auditors. Standard setters, oversight regulators, issuers and users of financial reports all rely on the professional competences and capabilities of accountants and auditors. At present mostly mutual recognition of qualifications is relevant for the international mobility of individual accountants and auditors. However, in multinational accountancy organizations international mobility does not depend on recognition alone. Clarifying existing recognition systems will also promote mutual understanding as a basis for international cooperation.

Specific research questions are considered as basis for a benchmarking methodology for the recognition of accountant and auditor qualifications between countries:

> RQ 1 – What are the elements of a competency framework for accountants and auditors?
> RQ 2 – How can the use of a competency framework promote recognition of qualifications and contribute to international mobility of accountants and auditors?
> RQ 3 – Is it possible to move from mutual recognition between countries to a more general approach of international recognition?
> RQ 4 – Are these general elements of education, identified and evaluated through GAER 2012, conducive to benchmarking; thereby simplifying comparative analyses by regulators seeking mutual recognition?

The research methodology for GAER 2012 can be identified as theoretical modelling with the use of classification criteria for accountancy education. For individual countries recognition of qualifications will be identified and compared with the relative adoption and implementation of IES; cultural, legal and economic background will be

[1] IAESB International Accounting Education Standards Board

considered as key influences. GAER 2012 builds on and extends previous research in the area of global accountancy education.

GAE 2002 “Impact of Globalisation on Accountancy Education” [Karreman, 2002] (Leiden University)
GAEB 2005 “Global Accounting Education Benchmarking” [Phelps, Karreman, 2005] (USAID)
GAE 2007 “Trends in Global Accounting Education” [Karreman, 2007] (Leiden University)
ADI 2011 “Measuring Country-level Accountancy Performance and Achievement” [Phelps, 2011]
GAE 2012 “Dynamics of Global Accountancy Education” [Karreman, 2013] (Tilburg University)

All studies were conducted in an international network of participating experts and institutes. The GAE studies concentrated on accountancy education with its elements of general and professional education, practical experience and qualification. The ADI study covered the global financial infrastructure with accountancy education as one of its pillars.

A GAER 2012 core model of accountancy education provides the background for the comparative analysis of accountancy education in the countries that are included in the recognition study. It can be used for the comparison of accountancy education systems in various parts of the world. A simplified version is included in the Executive Summary.

Country Characteristics	**Accountancy Education**	**International Developments**
Differences between countries	Core elements	Codification
• Cultural background • Legal system • Economic position • Higher education	• Professional qualification • Final examination • Professional education • Practical experience • General education	• Standards • Guidelines • Directives

The model places the core elements of accountancy education in the context of country characteristics and international influences. It illustrates a major challenge for the international recognition of professional qualifications of accountants and auditors. Accountancy education is part of the system of higher education in a country with requirements that can be difficult to combine with international standards for professional qualifications. The major objective for the GAER 2012 study is the design of a benchmarking methodology that can be used to compare and evaluate professional qualifications of accountants and auditors.

Section 2: Analysis of Characteristics of Professional Qualifications

Recognition of the qualifications of accountants and auditors between countries at present largely depends on national regulation. This makes it a challenge to find an objective and transparent method to establish substantial equivalence between qualifications as a basis for mutual recognition agreements. The method that is followed in this study starts with a competency framework for accountants and auditors that is based on the International Education Standards and comparable international regulation. Together the IES cover all elements of accountancy education.

Accountancy Education	Standards and Implementation Guidance
Conceptual Framework	IAESB Framework for IES
Pre-Qualification	
Entry Requirements	IES 1 – Entry Requirements Professional Accountancy Education
Knowledge, Skills and Attitudes	IES 2 – Content of Professional Accountancy Education
	IES 3 – Professional Skills & General Education
	IES 4 – Professional Values, Ethics & Attitudes
Practical Experience	IES 5 – Practical Experience Requirements
Assessment	IES 6 – Assessment of Professional Capabilities & Competence
Post-Qualification	
Life-Long Learning	IES 7 – Continuing Professional Development
Specialization	IES 8 – Competence Requirements for Audit Professionals

In the GAER 2012 study four Competency Pillars are distinguished to facilitate comparison between qualifications. The competency pillars combine the requirements of the IES in major topics for accountancy education.

Competency Pillars	
Personal Development	University Entrance & Exit Level (IES 1 and IES 2)
	Professional Skills & General Education (IES 3)
	Professional Values, Ethics & Attitudes (IES 4)
Professional Accountancy Education	Accountancy, Finance & Related Knowledge (IES 2)
	Organizational & Business Knowledge (IES 2)
	Information Technology (IES 2)
Professional Development	Practical Experience Requirements (IES 5)
	Assessment of Professional Capabilities & Competence (IES 6)
	Continuing Professional Development (IES 7)
Competence for Auditors Professionals	Advanced Professional Knowledge (IES 8)
	Advanced Professional Skills, Values, Ethics & Attitudes (IES 8)
	Advanced Practical Experience, Assessment & CPD (IES 8)

The competency elements are the basis for the comparison of professional qualifications of accountants and auditors and for the design of the benchmarking methodology. Equivalences between competency elements in different countries and regions are identified that can be used to further develop recognition and promote cooperation based on understanding of achieved capabilities. The GAER research methodology is intended to assist policy makers in addressing recognition of qualifications of accountants and auditors between countries.

Characteristics of accountancy education can be used to identify differences between qualifications. They are based on an overview used by IFAC for its compliance program for member bodies[2].

Characteristics of Accountancy Education	
Certification Requirements	Professional accountancy education
	Practical experience
	Final assessment
	Continuing professional development
Providers	Professional accountancy organisations
	Universities and education institutes
	Government
Responsibility	Government
	Government with the accountancy profession
	Professional accountancy organisations
	Universities
Licensing	Academic study
	Practical experience
	Licensing examination
	Continuing professional development and/or re-examination

A recognition framework can be used for comparison between countries that already have, or want to establish mutual recognition agreements (MRAs). To identify the elements of the recognition framework approaches to recognition by stakeholders have been considered. Pronouncements of standard setters in regard to accountancy education are important for recognition of qualifications. In the report attention is given to IFAC Statements of Membership Obligations in particular in regard to accountancy education, to IAESB International Education Standards, to the European Audit Directive and its requirements for auditor qualifications, and to the IAASB International Standard on Auditing 600 and its requirements for auditor competence. Different approaches to recognition by the National Association of State Boards of Accountancy (NASBA), the Common Content Initiative (CCI), and the Global Accounting Alliance (GAA) are also considered.

Characteristics of qualifications of accountants and auditors that are relevant for the establishment of substantial equivalence between professional qualifications are discussed in the last part of Section 2 of the report. To advance international comparability five steps of the comparison process are discussed.

- *Step 1, Country Information*: General background information about a country can help to understand the position of a country and the relevance of mutual recognition agreements at a certain time. The data themselves are not used as criteria for recognition.

- *Step 2, Accountancy Profession*: Normally when an MRA is established this is based on consideration of substantial equivalence between qualifications. As accountants and auditors function as members of professional organizations, it is important to consider the quality of the profession. A proxy for this is full or associate IFAC membership of a Professional Accountancy Organization (PAO), compliance with

[2] IFAC, Membership & Compliance Program, www.ifac.org/about-ifac/membership

IFAC Statements of Membership Obligations (SMOs), regional and global affiliations, and MRAs that already exist. The information in Step 2 is intended as a general benchmark when an MRA is considered.

- *Step 3, Characteristics of Accountancy Education*: Before achieved quality of accountancy education can be considered, it is necessary to understand the system of accountancy education in a country. Consideration is given to certification requirements, providers, responsibility, and licensing. The information in Step 3 not only helps to understand accountancy education in a country, it also gives insight in existing systems of quality control, whether these are professional, academic or a mixture. The issue of quality control is considered to be extremely important for the establishment of MRAs, although it is hardly mentioned as part of the IES.

- *Step 4, Compliance with International Education Standards*: The IES prescribe standards of good practice for accountancy education. Officially they only apply to those elements of accountancy education for which a PAO is directly responsible. Between countries this can range from overall responsibility to no responsibility at all. For benchmarking purposes this approach is too limited. The quality of professional qualifications should be evaluated for the country, irrespective of who are the providers. For that reason in the GAER 2012 study the IES are used as benchmarks on a country level. To facilitate overall analysis the IES have been combined in four competency pillars.

- *Step 5, Specific Requirements*: The characteristics in Step 1 through 4 have general relevance for the establishment of substantial equivalence between professional qualifications of accountants and auditors. Nevertheless the GAER 2012 analysis shows that there are major differences between the actual criteria that are used by the institutions that are responsible for the qualifications. As a result specific requirements that have to be met when establishing a MRA should be considered. The benchmarking methodology in Section 3 is based as far as possible on international standards. This often will not be possible when country specific requirements are considered.

Section 3: Substantial Equivalence between Qualifications

A benchmarking methodology is developed in the study that can be used to establish substantial equivalence between professional qualifications of accountants and auditors. The benchmarking methodology follows the five steps from Section 2. General principles for the benchmarking methodology have been considered.

- Principle 1: MRAs are the responsibility of standard setters and requirements are different from country to country.
- Principle 2: International standards can be useful benchmarks to establish substantial equivalence.
- Principle 3: Establishment of a general benchmarking methodology will promote comparison of bilateral results between countries.
- Principle 4: The benchmarking methodology needs to be flexible to allow stakeholders to set their own priorities.

The overall process of considering substantial equivalence can be represented in an iterative flow diagram that is repeated for each module of the benchmarking methodology.

Going through the benchmarking process should answer five essential questions when establishing substantial equivalence between qualifications as a basis for a MRA:

- Is the country background acceptable for establishment of substantial equivalence?
- Is the status of the accountancy profession acceptable for establishment of substantial equivalence between qualifications?
- Are the characteristics of accountancy education acceptable for establishment of substantial equivalence?

- Is compliance with IES acceptable for establishment of substantial equivalence?
- Finally, is compliance with specific requirements of the host organization acceptable for establishment of substantial equivalence?

In the second part of Section 3 countries and qualifications in the GAER 2012 sample are compared in order to identify similarities and differences. The data for the comparison come from public sources. The objective of the comparison is to test the methodology, not to actually establish substantial equivalence between qualifications. If two institutions consider a MRA between their qualifications self-assessment by the applicant body and review by the recognition body are necessary to establish the facts that lead to the conclusion that substantial equivalence is achieved. This is a bilateral process in which each body is responsible for the self-assessment of its own qualification and for the review of the qualification of the other body. One of the purposes of the GAER 2012 study is to illustrate that use of a standard methodology by both parties can be mutually beneficial and will facilitate comparison with other qualifications. A list of countries, professional accountancy organizations, and professional qualifications is presented on the final page of the Executive Summary.

The analysis in Section 3 covers 21 professional accountancy organizations with 21 qualifications of accountants and auditors, in 16 countries. Some key findings are summarized here. For a more detailed comparison of qualifications reverence is made to the full report that will be made available to NASBA.

- *Country Information*: Countries have been considered from six regions, Asia & Pacific, Europe, Latin America, North America, and Sub Saharan Africa. Six countries in the sample have a common law system, eight have a civil law system, and two have a mixed legal system. In general common law countries have a more professional focus on accountancy education, whereas civil law countries have a more academic focus on accountancy education. The one major exception to this observation is the USA. According to the World Economic Forum classification[3] there is an overrepresentation of innovation driven and higher level efficiency driven countries.

- *Accountancy Profession*: All professional accountancy organizations are full member of IFAC and have to adhere to IFAC Statements of Membership Obligations. This is a relevant proxy for achieved quality if the PAO is directly responsible for the subjects covered in the separate SMOs. For accountancy education this is an important consideration as some PAOs have full responsibility for the qualification of their members, others have partial responsibility, and some have no responsibility at all. This distinction is discussed under the next bullet point. Regional and global affiliations can be relevant for recognition purposes but only if specific requirements are in place. Three examples are mentioned here. The European Union 8th Directive sets standards for auditor qualifications and is important for recognition and practice rights inside the EU. The Global Accounting Alliance requires its member bodies to comply with high professional standards for the PAO and its qualification. The GAA actively promotes MRAs between its members. The Common content Initiative in the EU sets accountancy education standards beyond IES and EU requirements. Interestingly it has not yet actively promoted MRAs that go beyond EU recognition. Finally two observations are made on existing MRAs for PAOs in the countries that have been considered. First, the vast majority of MRAs exists in English speaking, common law countries. Second, many PAOs in that group are connected to others in the group. However all MRAs are treated as strictly bilateral and there is no evidence of a more international approach.

- *Characteristics of Accountancy Education*: Almost all PAOs in the sample have mandatory programs of professional accountancy education, practical experience requirements, final assessment of professional capabilities and CPD. The one area with major differences is that of academic requirements. In general these are mandatory in civil law countries but not always in common law countries. As cooperation between universities and professional institutes increases, providers of accountancy education mostly

[3] WEF, (2012), *The Global Competitiveness Report 2012-2013*

come from both sides. There are only a few cases in which only universities, or only PAOs provide accountancy education. Certainly when CPD is included in the analysis cooperation with sharing of expertise is the usual situation. Government agencies do not play a role as providers of accountancy education. However, governments and government agencies play an important and increasing role when responsibility for qualification requirements is considered. In most countries there is a shared responsibility between the government or government agencies, and the profession. This can be official and based on regulation, but also a result of practical cooperation. In the GAER 2012 sample there are no qualifications for which universities have sole responsibility.

- *Compliance with International Education Standards*: In most countries compliance with IES is not mandatory. However, for most qualifications the IES are regularly considered, either every year or every two years. This is not true for all countries. Obviously the use of IES in a country as benchmarks for accountancy education influences the result of the benchmarking exercise as countries can base their qualifications on other standards. An important example is the USA in which country the Uniform Accounting Act is the standard to observe. The GAER 2012 study confirms the conclusion in the GAE 2012 report [Karreman, 2013] that "the IES can play an important role in achieving comparability of professional qualifications, education and training of accountants and auditors". However it also confirms that "for the consideration of results due attention should be given to the influence of country characteristics". At the very least there is a willingness in many countries to use the IES as benchmarks to achieve comparability of qualifications.

Specific requirements are not mentioned here as they are the responsibility of standard setters in a country and depend on local circumstances. As such specific requirements cannot be benchmarked against international standards and are not included in the benchmarking methodology.

Section 4: Overall Conclusions

The overall conclusions in Section 4 are based on a comparison of the results of the study with the research questions in Section 1. Basis for the summary here in the Executive Summary is the trial use of the benchmarking methodology for the professional qualifications of accountants and auditors that are included in the GAER 2012 sample.

> RQ 1 –The elements of a competency framework for accountants and auditors have been identified.
> RQ 2 – The resulting competency framework is the basis for a benchmarking methodology that can promote recognition of qualifications and contribute to international mobility of accountants and auditors.
> RQ 3 – It is possible to move from mutual recognition between countries to a more general approach of international recognition if standard setters accept International Education Standards and other applicable international regulation as basis for the comparison of qualifications.
> RQ 4 – The general elements of education, identified and evaluated through GAER 2012 are conducive to benchmarking; thereby simplifying comparative analyses by regulators seeking mutual recognition.

The conclusions are the responsibility of the researchers. It is important to note the limits of the GAER 2012 study. The study shows that comparison of professional qualifications of accountants and auditors for the establishment of MRAs can be based for a significant part on international standards. Whether this actually happens is the responsibility of standard setters and as such outside the scope of GAER 2012.

Potential areas for future use of the GAER 2012 benchmarking methodology can be identified, for example:

- Evaluate the accountancy education component of present MRAs.
- Identify candidates for new MRAs.
- Review MRA recognition criteria.
- Develop more standard evaluation of professional qualifications.

The researchers express the hope that their efforts will prove to be useful for the development of international cooperation in general and for recognition of qualifications in particular.

Country	Professional Accountancy Organization
Australia	Certified Public Accountants Australia (CPA Australia) Certified Public Accountant (CPA)
Australia	Institute of Chartered Accountants of Australia (ICAA) Chartered Accountant (CA)
Brazil	Conselho Federal de Contabilidade (CFC) Accountant
Canada	Canadian Institute of Chartered Accountants (CICA) Chartered Accountant (CA)
Czech Republic	Chamber of Auditors of the Czech Republic (CACR) Auditor
France	Compagnie National des Commissaires aux Comptes (CNCC) Commissair aux Comptes
France	Ordre des Experts-Comptables (OEC) Expert-Comptables
Germany	Institut der Wirtschaftsprüfer in Deutschland (IDW) Wirtschaftsprüfer
Hong Kong	Hong Kong Institute of Certified Public Accountants (HKICPA) Certified Public Accountant (CPA)
India	Institute of Chartered Accountants of India (ICAI) Chartered Accountant (CA)
Japan	Japanese Institute of Certified Public Accountants (JICPA) Certified Public Accountant (CPA)
Mexico	Instituto Mexicana de Contadores Publicos (IMCP) Contador Publicos
Netherlands	Nederlandse Beroepsorganisatie van Accountants (NBA) Registeraccountant (RA)
New Zealand	New Zealand Institute of Chartered Accountants (NZICA) Chartered Accountant (CA)
South Africa	South African Institute of Chartered Accountants (SAICA) Chartered Accountant (CA)
Turkey	Expert Accountants Association of Turkey (EAAT) Expert Accountant
Turkey	Union of Chambers of Certified Public Accountants of Turkey (TURMOB) Certified Public Accountant (CPA)
United Kingdom	Association of Chartered Certified Accountants (ACCA) Chartered Certified Accountant (ACCA)
United Kingdom	Institute of Chartered Accountants in England and Wales (ICAEW) Fellow Chartered Accountant (FCA)
United Kingdom	Institute of Chartered Accountants of Scotland (ICAS) Chartered Accountant (CA)
USA	American Institute of Certified Public Accountants (AICPA) Certified Public Accountant (CPA)

Board of Examiners (BOE) Update

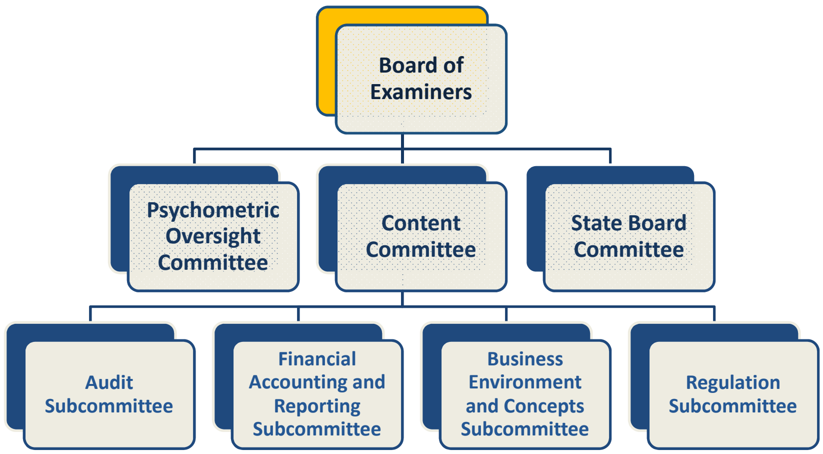
Wendy Perez CPA
Chair, Board of Examiners

The Uniform CPA Examination®

Agenda

- Role of the BOE
- BOE/Staff Initiatives
- CPA Exam Trends & Volume

BOE Committee Structure



Role of the BOE

- **Protects the public interest**
- **Ensures that candidates possess knowledge and skills for initial licensure through:**
  - Strategic planning
  - Risk Assessment
- **Establishes policies governing:**
  - Content development
  - Delivery
  - Scoring
- **Represents the CPA Exam to the boards of accountancy and the profession**

Development of CPA Exam Content

- **Practice Analysis**
- **Content Specification Outline (CSO)**
  - Annual review and update
- **Item Bank Reviews**
  - Obsolescence
  - Terminology

Delivery & Scoring of the CPA Exam

- **Delivery**
  - International
  - Domestic
  - Technology platform
- **Scoring**
  - Standard setting process to set passing score

BOE Initiatives

BOE / Staff Initiatives

- **Strategic Plan**
  - Lays the groundwork for the future vision of the CPA Exam
- **Technology**
  - Platform consolidation in process
  - Next generation platform
- **Item Development Process Improvement**
- **2015 Practice Analysis**
- **Recruiting**

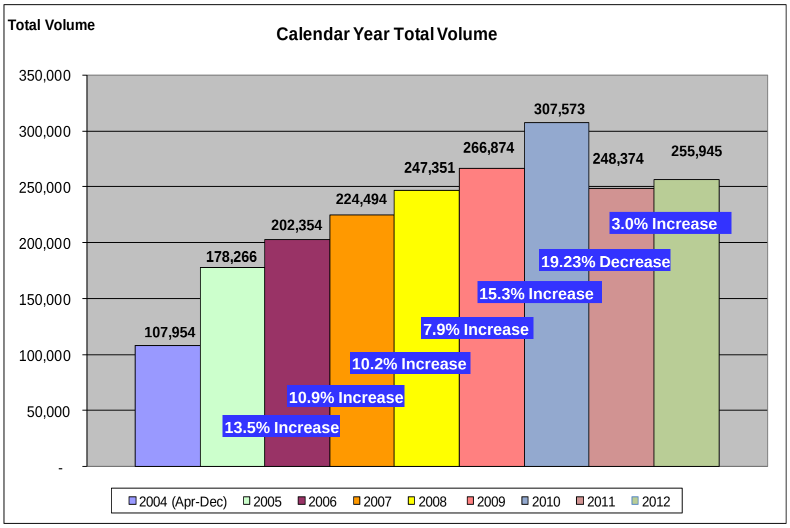
State Board Committee and Staff Initiatives

- **Board of Accountancy Communications**
  - CPA Exam booklet on-line at aicpa.org
  - BOE Update Calls, regional forums, web chats

- **Presentations and communications at NASBA Executive Director, Regionals, and Annual Meeting**

CPA Exam Trends & Volume

Domestic Volume



CPA Exam Pass Rates (Domestic)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
AUD	42.54	43.62	44.01	47.57	49.10	49.79	47.80	45.62	47.40
BEC	44.61	44.16	43.81	46.56	47.49	48.34	47.29	47.13	53.94
FAR	42.09	43.11	44.54	48.15	49.21	48.45	47.81	45.57	48.26
REG	40.67	40.61	42.33	47.03	48.74	49.81	50.66	44.22	48.48

Thank You

Acronyms Heard at NASBA Meetings

AAA - American Accounting Association
AACSB – Association to Advance Collegiate Schools of Business
ACAP – Advisory Committee on the Auditing Profession (US Treasury Department)
ACCA – Association of Chartered Certified Accountants
ACAT – Accreditation Council for Accountancy and Taxation (NSA affiliated)
ADA - Americans with Disabilities Act
AG - Attorney General
AICPA - American Institute of Certified Public Accountants
ALD – NASBA's US Accountancy Licensee Database
ALL – Accountancy Licensing Library
ARSC – AICPA Accounting and Review Services Committee
ASAF – Accounting Standards Advisory Forum
ASB – AICPA Auditing Standards Board
ATT – Authorization to test (for Uniform CPA Examination)
AUD – Auditing and Attestation (section of Uniform CPA Examination)
BEC – Business Environment and Concepts (section of the Uniform CPA Examination)
BOA - Board of Accountancy
BOD - Board of Directors
BOE - Board of Examiners
BRP – AICPA/FAF/NASBA Blue Ribbon Panel on Standard Setting for Private Companies
CA - Chartered Accountant
CAC – Compliance Assurance Committee
CAG –Consultative Advisory Groups advise various IFAC committees
CAI – Chartered Accountants Ireland (formerly Institute of Chartered Accountants in Ireland)
CAQ – Center for Audit Quality
CBT - Computer-based testing
CGA – Certified General Accountants Association of Canada
CGMA – Chartered Global Management Accountant
CICA - Canadian Institute of Chartered Accountants
CIMA – Chartered Institute of Management Accountants
CLEAR - Council on Licensure, Enforcement and Regulation
CPA – Certified Public Accountant; Chartered Professional Accountant
CPAC – Chartered Professional Accountants Canada
CPAES - NASBA's CPA Examinations Services division
CPC- Contador Publico Certificado (Mexican equivalent to CPA)
CPE - Continuing professional education
CPT – NASBA Center for the Public Trust
CSG – Contract Steering Group (NASBA/AICPA/Prometric CBT examination contract)
EA - Enrolled Agent
ED - Exposure draft or executive director
ERB - CPA Examination Review Board
FAF – Financial Accounting Foundation
FAR – Financial Accounting and Reporting (section of the Uniform CPA Examination)
FASB - Financial Accounting Standards Board
FEI - Financial Executives International
FRC – Financial Reporting Council (independent regulator in United Kingdom)
FSA – Federation of Schools of Accountancy
FTC – Federal Trade Commission
GAAP – Generally Accepted Accounting Principles

GAAS – Generally Accepted Auditing Standards
GAGAS – Generally Accepted Government Auditing Standards
GAO - Government Accountability Office
GATS - General Agreement on Trade in Services
HKICPA – Hong Kong Institute of Certified Public Accountants
IAASB – International Auditing and Assurance Standards Board
IASB – International Accounting Standards Board
ICAA - Institute of Chartered Accountants in Australia
ICAEW – Institute of Chartered Accountants of England and Wales
ICAS – Institute of Chartered Accountants of Scotland
IESBA – International Ethics Standards Board for Accountants
IFAC - International Federation of Accountants
IFRS – International Financial Reporting Standards (prior to 2002 referred to as IAS)
IFIAR – International Forum of Independent Audit Regulators (IFAC affiliated)
IG - Inspector General
IMCP – Instituto Mexicano de Contadores Públicos
IOSCO – International Organization of Securities Commissions
IPSB – Independent Professional Supervisory Board
IQAB - NASBA/AICPA International Qualifications Appraisal Board
IQEX - International Qualification Examination
IRS – Internal Revenue Service
LPA - Licensed Public Accountant
MRA - Mutual recognition agreement
NABA – National Association of Black Accountants
NAFTA - North American Free Trade Agreement
NASBA - National Association of State Boards of Accountancy
NCCPAP - National Council of CPA Practitioners
NCD – National Candidate Database
NQAS - NASBA National Qualification Appraisal Service
NSA - National Society of Accountants
NTS – Notice to schedule (for Uniform CPA Examination)
NZICA – New Zealand Institute of Chartered Accountants
PA - Public Accountant
PCC – Private Company Council
PEEC - AICPA Professional Ethics Executive Committee
PCAOB - Public Company Accounting Oversight Board
PIOB – Public Interest Oversight Board (IFAC body)
PMRA – Professional Mutual Recognition Agreement (variation of MRA)
POB – United Kingdom's Public Oversight Board
PR – Peer Review (as well as Puerto Rico)
PRB – Peer Review Board
PROC – Peer Review Oversight Committee
PTIN – IRS issued Preparer Tax Identification Number
QAS - Quality Assurance Service (associated with the NASBA CPE Sponsor Registry)
REG – Regulation (section of the Uniform CPA Examination)
SAC –Selection Advisory Committee
SAICA – South African Institute of Chartered Accountants
SAS - Statements on Auditing Standards
SBR - *State Board Report* (NASBA's monthly newsletter)
SEC – Securities and Exchange Commission
SFAS – State Facilitated Access System (AICPA Peer Review transparency initiative)
SOX - Sarbanes-Oxley Act of 2002 (also called "Sarbox")

SQCS - Statements on Quality Control Standards
SSAE - Statements on Standards for Attestation Engagements
SSARS - Statements on Standards for Accounting and Review Services
TAC - The Accountants Coalition (E&Y, PWC, D&T, KPMG, GT)
UAA - Uniform Accountancy Act
USTR - US Trade Representative
WTO - World Trade Organization
XBRL – Extensible Business Reporting Language

NASBA

106TH ANNUAL MEETING

MAUI, HAWAII

OCTOBER 27-30, 2013

PEER REVIEW OVERSIGHT COMMITTEE (PROC) SUMMIT

NASHVILLE, TENNESSEE

JULY 10, 2013

NATIONAL REGISTRY SUMMIT

HOUSTON, TEXAS

SEPTEMBER 9-10, 2013

ALD and CPAverify

June 2013 Regional Meeting

ALD UPDATES

2013 Shaping Up to be a Big Year for ALD and CPAverify

With almost three quarters of boards of accountancies already participating in the ALD and CPAverify, and commitment from nearly 100%, NASBA staff is preparing to help the final fifteen join the ranks of those already live.

Based on "State Board Profiles – June 2012," a compilation of state board profile information provided to NASBA by the individual state boards, the estimated national total of "Persons Regulated" is approximately 732,329. That means, the 43 accountancy boards participating in the ALD represent 83% of the world's CPA population (about 604,910 licensees). On CPAverify, the 38 participating boards make up about 79% of regulated CPAs (about 576,117 licensees).

A special thank you to all the many dedicated Board Members, Executive Directors, Legal Counsel, IT personnel and other Board Staff that have contributed to this achievement.

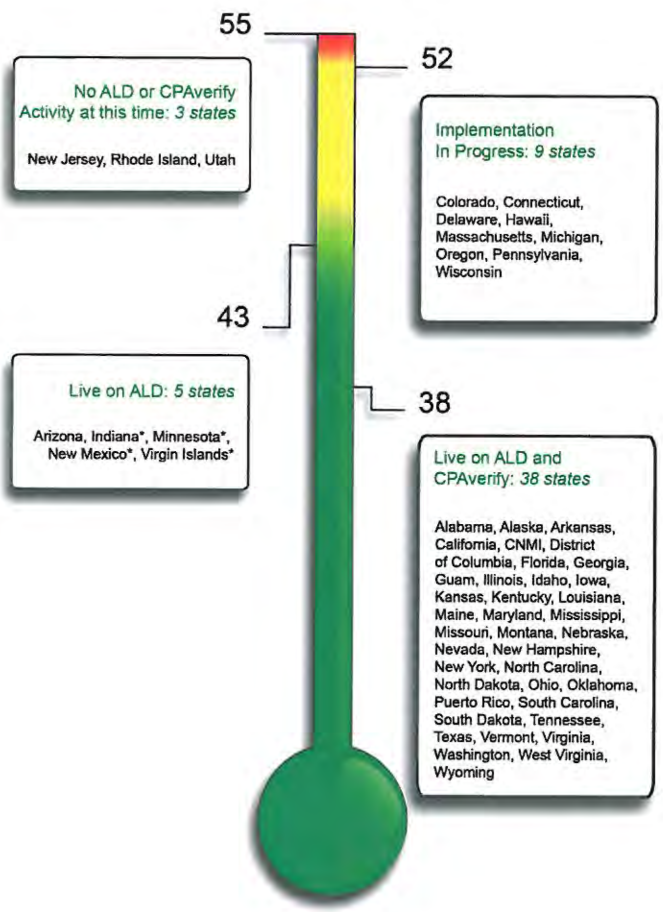
Vermont, Arizona, Virgin Islands, District of Columbia, and Guam recently went live on the ALD, making the count 43 participating accountancy boards. Vermont, DC, and Guam also went live on CPAverify, making the count 38 boards participating on the public site. Virgin Islands is working to complete their dataset before being added to CPAverify.

83%

As we shared in November's edition of the ALD Newsletter, we identified the "ALD Big Four" as the top four data components for boards of accountancy to provide. The Big Four are (1) hashing, (2) disciplinary data, (3) firm data, and (4) automated feeds. Vermont, Montana, and Kansas were the 10th, 11th, and 12th boards of accountancy to accomplish the Big Four goal! Congratulations!

Nebraska, New Hampshire and Alabama are investigating adding firms to their existing datasets. Idaho has finalized their feed automation. The Boards of Accountancy are committed to data integrity, contributing to a robust national database, and protection of the public. Thank you!

ALD and CPAverify Status Gauge



NEWS & ANNOUNCEMENTS

What's On Tap for the ALD/CPAverify Committee

The ALD/CPAverify committee is ramping up for another eventful year. Committee chair Laurie Tish said that the ALD has successfully transitioned into "operational mode," which calls for a different type of committee oversight.

"We'll be migrating the committee to a more advisory committee," said Tish. "With the goal that the committee role would be to assist and advise staff in areas of policy, approval or buy-in of major initiatives or activities, and to concentrate on considering other appropriate applications of the databases."

Here's to a productive and successful committee year!

ALD Training for Board Staff

NASBA recently launched a new training tool, the ALD Training for Board Staff, designed to teach staffers how best to use the ALD. Executive Directors, Legal Counsel, Investigators, Managers and Administrators will all find value in this helpful tool. The goal of this video is to help users maximize the ALD to enhance day-to-day activities.

The training module is easy to navigate because the content is divided into chapters that are easily managed and referenced later. Important documents, such as the ALD Security Statement, are available for download under the Attachments tab. When you launch the video, you'll notice to the left of the presentation, the chapters are listed under the Contents tab. You can revisit chapters that matter most to you or share certain relevant chapters with individual staff members at the Board, if you so choose.

All ALD training videos are permanently housed and conveniently located in a new Help section inside the ALD, accessible after logging into an ALD account.

Benefits of ALD and CPAverify for State Board Staff

Think you know all the ways the ALD and CPAverify can help you day to day? Review our list to be sure!

1. Increase assurances for Boards regarding status of out-of-state licensees
2. Provide quicker turn-around time for pending reciprocal applications, which means fielding fewer calls from licensees waiting for their applications' approval
3. Aid in State Board enforcement efforts by providing a single source for information and disciplinary action
4. Offer disciplinary alerts feature that emails notices to State Boards when one of their licensees has been disciplined in another state
5. Dissuade fraudulent use of CPA designation and promotes the value of the CPA designation

SPOTLIGHT ON

Laurie Tish

Meet Laurie Tish, the new Chair for the ALD/CPAverify Committee! Laurie has just begun her fifth year serving on NASBA's Board of Directors. In 2005, Laurie joined Moss Adams LLP after 23 years with Deloitte & Touche LLP. Laurie is a nationally recognized speaker on topics including government accounting and auditing standards, federal compliance, and corporate governance in the public sector. We asked Laurie a few questions to get to know her better:

Q. Where were you born and raised?

A. I was born and raised in Seattle, where I still live and work. (I am third generation Seattle native.)

Q. Tell us three fun facts about you.

A. Mick and I travel via our Harley motorcycle to at least one NASBA Board meeting per year. Other hobbies include flower gardening, kayaking in Puget Sound, and watching my kids participate in their many sports and other activities.

At Moss Adams LLP, I am the national practice leader for government services, and I also serve as the lead partner for our audit of corporate sustainability reports for several multi-national corporations.

Q. What are you most excited about for the new committee year?

A. I am most excited about achieving full participation in ALD and CPAverify and working with the committee and NASBA staff to ensure reliability and robust use by all of our State Boards.

Benefits of CPAverify for the public!

CPAverify.org enhances your Board's mission of protecting the public. Do you know all of the ways that the site accomplishes this?

1. Gives the public confidence when hiring CPAs for personal or business purposes
2. Makes it easier and quicker for hiring managers to verify pre-hire credentials
3. Assists accounting firms in tracking their employee's license renewal dates
4. Protects the public by linking a CPA's license history across state lines

NASBA

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Tel 615/880-4200 Fax 615/880-4290 Web www.nasba.org

2013 REGIONAL MEETING EVALUATION

Name:______________________ Board/Affiliation:_________________________

Regional Meeting Attended: Western ____ Eastern ____

Your evaluation of the Regional Meeting is important to us. Please rate the various aspects of the meeting by circling the number that best corresponds to your opinion. **NOTE: Anonymous comments will not appear in the summary report.**

Day 1	**Excellent**	**Good**	**Satisfactory**	**Fair**	**Poor**
1. Welcome from Regional Directors					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
2. Welcome from Host Board					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
3. Update from NASBA Leadership on NASBA Activities					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
4. What's happening with Private Company Standards?					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
5. Why Change the Definition of "Attest" & Other UAA Issues					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
6. Questions and Answers (2 Regions Meet)					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
7. Seminar for Other Attendees: Improving Relations with Boards – Key Issues					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
8. Changes in Ethics					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
9. Regional Breakouts					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1

	Excellent	Good	Satisfactory	Fair	Poor
10. Seminar for Other Attendees: Working Together to Strengthen Accounting Education and Diversity in the Profession					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
<u>**Day 2**</u>					
11. Report from Regional Breakouts					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
12. Legal Heads Up					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
13. Update from AICPA Accounting and Review Services Committee					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
14. Friday Morning Breakout Sessions (check session attended)					
____**Education** – Accreditation sources, federal funding and on-line programs					
____**UAA Questions** – How can these changes work in my jurisdiction					
____**Considering ARSC's Proposals** – Regulatory concerns					
____**International Candidates** – What the statistics reveal					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
15. Friday Afternoon Breakout Sessions (check session attended)					
____**Education** – Accreditation sources, federal funding and on-line programs					
____**UAA Questions** – How can these changes work in my jurisdiction					
____**Considering ARSC's Proposals** – Regulatory concerns					
____**International Candidates** – What the statistics reveal					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
16. Education Research Projects					
• **The Influence of Professional Integrity and Client Advocacy on Reporting Decisions**					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
• **Best Practices in the Delivery of Online Accounting Education: An Evaluation of learning analytics**					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
• **Global Accountancy Education Recognition Study 2012 (video presentation)**					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
17. Report from the CPA Examination Review Board					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1

NAME:______________________________________

	Excellent	Good	Satisfactory	Fair	Poor
18. The Uniform CPA Examination					
• **Report from the Board of Examiners**					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
• **Report on International Administration of the CPA Examination**					
Topic	5	4	3	2	1
Presentation	5	4	3	2	1
19. Final Questions & Answers	5	4	3	2	1
20. Raffles	5	4	3	2	1
21. Agenda Materials	5	4	3	2	1
22. Schedule	5	4	3	2	1
23. Cost	5	4	3	2	1
24. Location	5	4	3	2	1
25. Social Program	5	4	3	2	1
26. State Board Chairs'/Presidents' Meeting	5	4	3	2	1
27 Executive Directors' Meeting	5	4	3	2	1

28. What aspects of the meeting were most beneficial to you?______________________________

29. What aspects of the meeting needed improvement? ______________________________

30. What topic should be considered for discussion at this year's Annual Meeting or next year's Regional?

31. Comments.______________________________

NAME:______________________________

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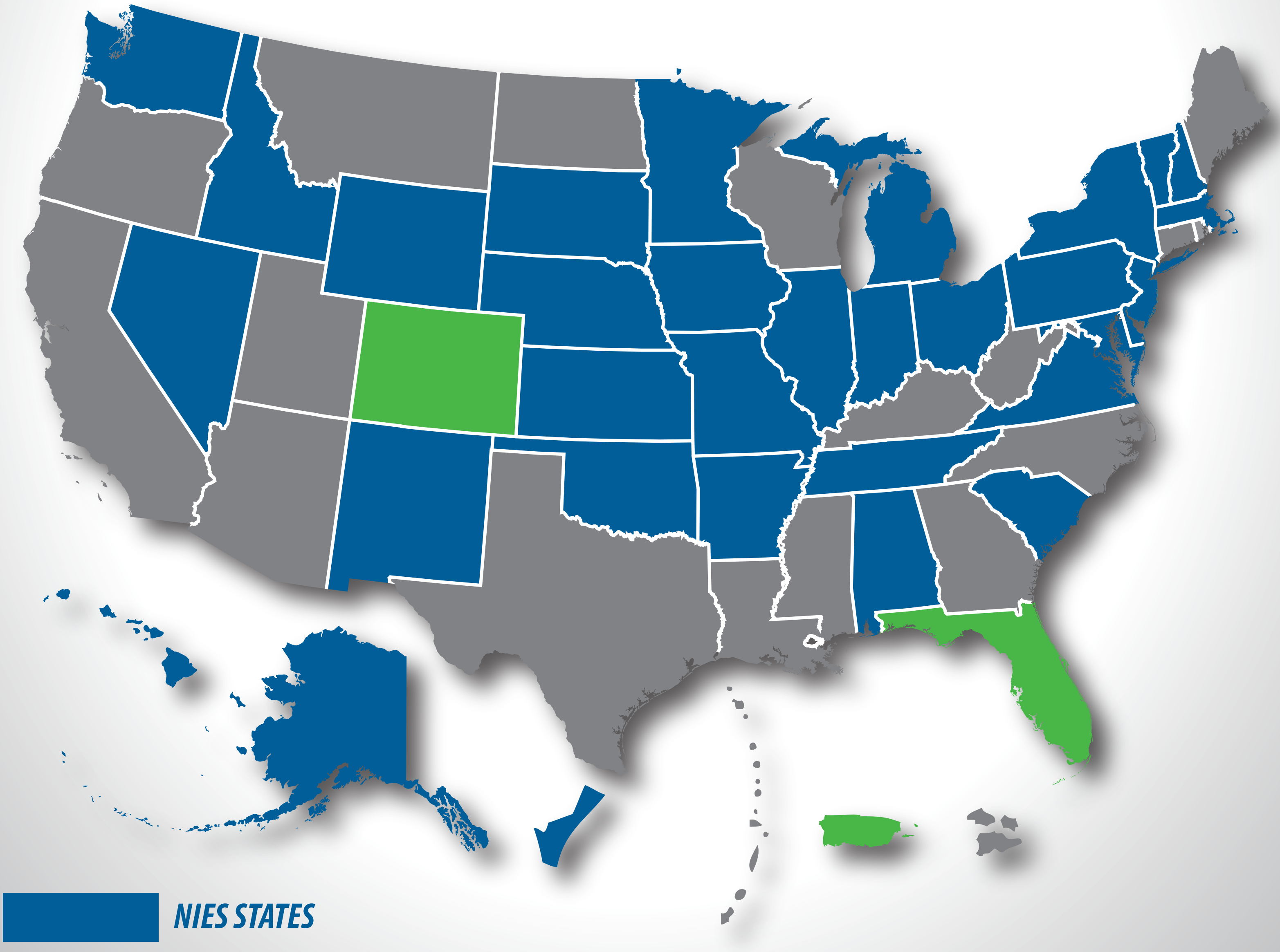

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