

NASBA BOD Okays Firm Mobility in UAA

The seventh edition of the Uniform Accountancy Act, to be released in May, will contain two major changes from the previous edition: a revised definition of “attest” and provisions for firm mobility. These changes have been approved by both the NASBA and the AICPA Boards of Directors. The revised “attest” definition was approved in January by the NASBA Board and the firm mobility amendments were approved at the NASBA Board’s April 25 meeting. Both changes were approved by the AICPA at the end of March.



Kenneth Odom

NASBA UAA Committee Chair Kenneth R. Odom (AL) explained to the Board: “The UAA Committee has presented this to you as two documents. The document including both the new definition of ‘attest’ and firm mobility will be the one that will be incorporated in the UAA. We wanted a separate ‘attest’ document for those states that only want that part. In Alabama, we already had firm mobility, so we have now moved ahead and adopted the new ‘attest’ definition in our law.”

Mr. Odom reported the language brought to the Board of Directors for their approval was essentially the same as what had been in the exposure draft – with one additional sentence. The NASBA/AICPA UAA Committee had considered all of the comments they received about

the new provisions and found that some State Boards were concerned about the peer review requirements that an out-of-state firm would need to meet.

To address that concern, a sentence was added to the commentary that underscores what is required: “Any firm practicing pursuant to this provision must, as required by Section 23(a)(3), comply with the practice privilege state’s statutes and rules such as all those related to peer review, including disclosures, and on all other matters.”

Should a state determine it wants to participate in firm mobility, an out-of-state firm would need to meet the peer review requirement (UAA Section 7(h)) and the ownership requirement (Section 7 (c)) before offering or rendering any attest service in that state. The UAA ownership requirement has been amended to state in Section 7 (c)(2)(B): “All non-licensee owners are of good moral character and active individual participants in the CPA or PA firm or affiliated entities.”

NASBA President Ken Bishop reminded the Board that neither NASBA nor the AICPA will be pushing for adoption of firm mobility in states that are not ready for it, but will provide legislative support for states that do wish to move forward with firm mobility or the redefinition of “attest.” ♦

PCAOB Members Differ on “Audit Failures”

Members of the Public Company Accounting Oversight Board seem to disagree over how reporting errors are described. The PCAOB’s use of the term “audit failures” in its inspection findings reports was questioned by PCAOB Board Member Jay D. Hanson in an address to the Pharma/Biotech Accounting & Reporting Congress on March 18. He pointed out that the way the PCAOB uses the term does not mean that the company’s financial statements were misstated, as it does when the U.S. Government Accountability Office uses it in its mandated studies. However, PCAOB Chairman James Doty told a conference at Baruch College on May 1 that he believes the public understands how the term is being used.

Mr. Hanson said: “I don’t believe it is necessary or appropriate for us to deviate from this more commonly understood definition of ‘audit failure’ by using that term to refer to our inspection findings – which are deficiencies in the firm’s work but not necessarily representative of problems in the audit client’s financial statements or internal controls. Therefore, I would like to see the Board eliminate the use of the term in our inspection reports (unless we know, with respect to a particular audit, that the auditor’s failure, in fact, relates to misstated financial statements),” Mr. Hanson stated.

The PCAOB’s inspections have changed things, Mr. Doty explained: “Before the audit inspection regime established by the Sarbanes-Oxley Act, an ‘audit failure’ could only be discovered if there were a restatement or other problem in the financial statements.

Independent audit oversight and inspections, however, have allowed for new, independent insight into the performance of all audits. In that environment, it is both appropriate and useful to distinguish between a financial reporting failure and an audit failure. In my view, most people can, in this new environment, understand that distinction.”

A concept release on audit quality indicators that could be used to evaluate the quality of the audit firm’s work is expected to be opened for comment by the PCAOB in the coming months. ♦

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Wisconsin Legislature Closes Loophole

Thanks to the coordinated efforts of the Wisconsin Board of Accountancy, the Wisconsin State Society of CPAs, NASBA and the AICPA, legislation was passed in April that has kept CPAs in Wisconsin substantially equivalent to others in the U.S. This legislative outcome was a response to Wisconsin Act 114, passed last December, that allowed, with limited exceptions, anyone to take certain professional examinations in Wisconsin regardless of their educational background. While noble in its intent to allow individuals different pathways to obtain their professional licenses, there were several unintended consequences in the bill that left alone would have caused great harm to the CPA profession.

NASBA Director of Legislative Affairs John Johnson explained that: "In the past, when NASBA has detected loopholes in state statutes, it has worked closely with the AICPA, State Societies, State Boards of Accountancy, and advocates for the profession in those states to close such loopholes. That level of collaboration was instrumental for this bill in Wisconsin."

As a result, on April 8, 2014, Governor Scott Walker signed into law legislation reinstating an education requirement to sit for the Uniform CPA Examination. Although the signed bill reduces the credit hours from 150 to 120 in order to take the Examination, it does retain the benchmark of 150 credit hours for licensure.

"Had NASBA, the AICPA, and the Wisconsin Board and the Wisconsin Institute of CPAs been unsuccessful in this effort, we would have had to discontinue offering the Exam in Wisconsin, and CPA candidates in Wisconsin would have been forced to apply to other

jurisdictions to take the Exam," NASBA President Ken L. Bishop observed. "Those are both precedents that no one wants set in any jurisdiction, and NASBA stands ready to assist State Boards and their allies in defeating any measure that could potentially undermine the rigor of the CPA certification process, and its ability to protect the public." ♦

NASBA Enforcement Report Expanded

The NASBA Enforcement Resources Committee, chaired by Harry O. Parsons (NV), continues to work with NASBA staff to gather information from federal agencies regarding disciplinary or enforcement matters involving CPAs. As edited by Regulatory Affairs Manager Stacey Grooms, the quarterly Enforcement Report being sent to the Accountancy Boards' Executive Directors now includes information gathered from the SEC A&A Reports and Litigation Releases, IRS Bulletins, and the PCAOB and AICPA web sites and publications.

To improve the ease of use of the quarterly report, more jurisdictional identifiers have been added. The spreadsheet's first column shows any jurisdictions referenced in the federal report, including states of licensure, location of violation, court of jurisdiction, etc. For the April report, another column was added that brings in information from the Accountancy Licensee Database to assist Boards in identifying their licensees. The next quarterly report will be distributed in July. ♦

SEC Commissioner Questions Standard Setters

Who is setting standards has become one of the themes addressed by SEC Commissioner Daniel Gallagher in his recent public addresses. Speaking to the International Institute for Market Development on April 16 he questioned forcing nations to accept a unitary set of regulatory standards created by international bodies and on March 27 he told Tulane University's Corporate Law Institute he took issue with third parties attempting to determine what should be in corporate filings. NASBA's Standards Study Group will discuss these issues at the Regional Meetings. (See President's Memo on page 3.)

While Commissioner Gallagher said it is wise to leverage relationships with regulators in other countries in order to avoid duplicative or contradictory regulations among jurisdictions, he added: "This does not, however, mean engaging in the type of so-called 'regulatory harmonization' that has come to mean a top-down, forcible imposition of one-size-fits-all regulatory standards on sovereign nations. 'Harmonization,' unfortunately, has become a euphemism for forcing nations to accept a unitary set of regulatory standards created by international bodies such as the Group of Twenty, the Financial Stability Board, and the International Organization of Securities Commissions. To be blunt, it is the height of regulatory hubris to assume that not only is there a single regulatory solution to a problem, but that simply by banding together in international forums, we imperfect regulators can find that perfect solution."

The SEC's authority to prescribe standards for corporate filings was stressed by Commissioner Gallagher in his March 27 presentation: "The



Daniel Gallagher

somewhat confusingly-named Sustainability Accounting Standards Board provides a good example of an outside party attempting to prescribe disclosure standards. I say 'confusingly-named' because the SASB does not actually promulgate accounting standards, nor does it limit itself to sustainability topics, although I suppose it is in fact a Board. The SASB argues that its disclosure standards elicit material information that management should assess for inclusion in companies' periodic filings with the commission. I don't mean to single out the SASB, but it's important to stress that, with the sole exception of financial accounting – where the Commission, as authorized by Congress, has recognized the standards of the Financial Accounting Standards Board as generally accepted, and therefore required under Regulation S-X – the Commission does not and should not delegate to outside, non-governmental bodies the responsibility for setting disclosure requirements. So while companies are free to make whatever disclosures they choose on their own, so to speak, it is important to remember that groups like SASB have no role in the establishment of mandated disclosure requirements."

On May 1 the SASB announced Former SEC Chairman Mary Schapiro will serve as vice chair of the SASB's Board of Directors. The SASB describes itself as an independent organization that establishes and maintains industry-specific standards for use in disclosing material sustainability issues in annual filings to the SEC and it is "accredited to set standards by the American National Standards Institute." ♦

PRESIDENT'S MEMO

I Am Not a “Turf Guy”

My predecessor, David Costello, and I used to compare stories and compete as to who was the poorest when we were kids. That debate continues and is often the catalyst for new recollections (sometimes enhanced slightly). The common recurring message is that both of us began our lives in humble financial environments, and that neither of us would change that -- even if we could.

One of my recollections of childhood is that I never recall feeling jealousy or “turfiness” (my word) towards others who had more material things or opportunities than my family had. In fact, I found it somewhat motivational. I never felt something was coming to me. I knew that if I wanted to improve my condition, then I had better be prepared to work hard. Now, what does this story have to do with, or have relevance to, NASBA and Boards of Accountancy?

I often write and speak about the importance of making both NASBA and Boards of Accountancy more relevant. Being relevant is not about gaining turf, but about being more significant in the deliberative processes in the accounting arena. In recent discussions about standards setting, promulgations of accounting related guidance and the creation of new frameworks and other such non-authoritative “standards,” I often hear that “standards” are somehow flawed solely because of where they originate.

Those that work closely with me know that I often challenge that position. Remember that I am not a “turf guy.” But I do agree with the underlying concern that historically Boards of Accountancy, and others, have often been relegated to enforcing standards, frameworks and guidance that have been unilaterally developed and promulgated by the profession or a special interest within the profession. The Constitution, Sarbanes-Oxley Act and State Law place the determination of what standards are to be enforced in the hands of state regulators, but what we frequently have is a classic “tail wagging the dog” scenario.

Others involved in accountancy regulation are also questioning the current processes. In a recent speech, Daniel Gallagher, a commissioner with the Securities and Exchange Commission (SEC) raised the issue of the legitimacy of third party organizations that unilaterally set accounting and financial disclosure standards with no apparent authority. He specifically singled out the Sustainability Accounting Standards Board (SASB) that is developing and releasing “Sustainability Standards” for U.S. companies to use in their annual filings. Mr. Gallagher maintains that only the Financial Accounting Standards Board, under the Financial Accounting Foundation, has the clear legal authority to issue such standards. His argument was not a “turf” argument, but a statement of fact. The SEC (and Boards of Accountancy) are seeing an increasing number of these types of accounting practice guidance occurring in their jurisdictions. I know many of the people who make up the bodies that unilaterally produce such guidance, and I hold many of them in high regard. My concern is not people, personalities or turf, but the disparate and non-regulated process used in their products’ development.

After the Financial Reporting Framework for Small and Medium-size Entities (FRF for SMEs) issue last year (which you will recall was resolved through consensus with AICPA), NASBA’s volunteer leadership realized that we should have been in a position to have proactively addressed State Boards’ concerns in that matter earlier in the process. As a result, a new Standards Study Group (SSG) was named to consider the issue of the lack of Accountancy Boards’ input and review of the standards setting process. The initial outcomes of that group’s efforts were presented to the NASBA Board of Directors in April, and will be presented to the Boards of Accountancy at the Regional Meetings in June.

Some key elements of the SSG’s conclusions are that Boards of Accountancy, through NASBA, should monitor and be responsive to proposed standards, guidance and frameworks used in public accounting. That monitoring would include a review of: the issuing body’s authority; its membership’s makeup and quality; the transparency of the standard-setting process the Accountancy Boards’ input; potential regulatory concerns; and more.

I am looking forward to hearing the feedback at our Regional Meetings from our Boards of Accountancy regarding this next step in enhancing their, and NASBA’s, relevancy. Not for “turf” reasons, but because it falls within the scope of our public protection mandate.

Remember, I am not a “turf guy”!

Semper ad meliora (Always toward better things)



Ken L. Bishop
President & CEO

A handwritten signature in black ink that reads "Ken L. Bishop". The signature is fluid and cursive.

-- Ken L. Bishop
President & CEO

Chair Johnson Attends AACSB International

Singapore was the site of the 2014 International Conference and Annual Meeting of the Association to Advance Collegiate Schools of Business (AACSB), bringing together professionals and academics from top business schools around the world, April 7-9. This year's conference showcased how the AACSB-accredited schools are embracing the more flexible, less prescriptive, Accreditation Standards adopted by the AACSB last year. The standards are based on the three pillars of innovation, engagement and input. NASBA Chair Carlos E. Johnson (OK) and Director of Continuous Improvements and Analytics James Suh attended the meeting, in addition to going to meet with the Hong Kong Institute of Certified Public Accountants, the Institute of Singapore Chartered Accountants and the Accounting and Corporate Regulatory Authority (the accountancy regulatory body for Singapore).

"This was a real opportunity to learn about how other countries

are facing the challenge of educating professionals for the global economy," Dr. Johnson observed. "Also informative discussions were held with each of the regulatory authorities regarding global mobility. The regulatory authorities desired to have their professional credentials be equal to the U.S. CPA."

Mr. Suh, who heads NASBA's International Evaluation Service and Candidate Performance efforts, remarked: "Attending a meeting in Singapore allowed us to connect with and learn from a large number of institutions and professionals in the international community. Many of these have a significant and growing interest in NASBA and the U.S. CPA profession. Also, as NASBA's membership grapples with the implications of the rapidly changing education model, it was notable that nearly every institution we spoke with identified the non-traditional education model as a risk that needed to be better understood and proactively managed."

At the AACSB meeting, one of the featured speakers was Professor Howard Thomas, Dean of Singapore Management University's Lee Kong Chian School of Business, who forecast that it is inevitable that there will be market consolidation and a thinning of the ranks of business schools.

Melanie G. Thompson (TX), who has brought the State Boards' views to the American Accounting Association's Pathways Commission, will be speaking at the 2014 NASBA Regional Meetings about the educational changes being fostered by that project. ♦



Carlos Johnson and James Suh attend the AACSB International Conference.