



National Association of State Boards of Accountancy

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November 26, 2014

Board of Examiners
American Institute of CPAs
100 Princeton South, Suite 200
Ewing, NY 08628

Via Email: jmaslott@aicpa.org

Re: Invitation to Comment: Maintaining Relevance of the Uniform CPA Examination

We are pleased to respond to the request for comments from the American Institute of CPAs' (the "AICPA") Board of Examiners (the "BOE") on its *Maintaining the Relevance of the Uniform CPA Examination Invitation to Comment* (the "ITC"). The National Association of State Boards of Accountancy's (NASBA) mission is to enhance the effectiveness and advance the common interests of Boards of Accountancy in the United States and its territories (the "Boards"). Our comments are made in consideration of the Boards' mandate to protect the public interest.

We support the AICPA and BOE in this important endeavor of conducting a comprehensive practice analysis to ensure that the Uniform CPA Examination (the "Examination") continues to test the minimum competencies needed to become a licensed certified public accountant. The Boards of Accountancy rely on this Examination, along with the education and experience requirements, as stated in their Accountancy Acts, as they make the important determination of qualification for licensure as a CPA. Given the significance of the Examination to all Boards of Accountancy, they have relied upon NASBA to monitor this practice analysis process closely on their behalf.

OVERALL COMMENTS

In our discussions regarding the ITC, we did have several comments and questions that did not specifically relate to one of the questions posed. These include:

1. The phases of the practice analysis are laid out in Section 3 of the ITC. The timeline provided seems very aggressive with multiple overlapping phases. We find it curious that the ITC response period (September 2014 - December 2014) and the Survey period (November 2014 - December 2014) overlap. If the ITC brings entirely new feedback to the BOE's attention, such as additional content areas, skills or other matters, how will that feedback be evaluated, since the survey will have already been completed?
2. The title of Section 4.A. of the ITC refers to "adaptability" along with other skills, but that does not appear to be addressed further in the section. Is "adaptability" meant to be included as a consideration for comment?

3. In soliciting input for this ITC response, we have had several questions regarding the level at which the Examination tests candidates. Some have asked how the Examination can test at a level that determines what a newly licensed CPA needs to know, when the candidate could be taking the Examination immediately following his or her education and still needs to meet the experience requirement before being licensed. We would ask that the BOE provide greater insight into this topic to the Boards of Accountancy.
4. Several Boards of Accountancy have approached NASBA with a request for year round testing and, more specifically, with a request for opening the month of June for Examination testing as an accommodation to those candidates who are either still in school or have just graduated in May. We encourage the AICPA to continue exploring avenues to alleviate or diminish the need for dark months, and also work with NASBA to consider what improvements could be made to the testing schedule.

RESPONSE TO ITC QUESTIONS

Section A – Length, Sections, Content Added and Removed

1. Are the current Examination sections (AUD, FAR, REG and BEC) the correct structure? Should the number of sections change? Should they be organized differently? Is each section's time allotment appropriate?
 - These are broad questions that are difficult to answer. Though we have no significant concerns about the current structure of the Examination, it would be helpful to better understand its background, including why there are multiple sections and how were those sections chosen initially. Also, why have the sections changed over the years? This insight could help us to provide a more thoughtful response.
 - We do have some concerns about the BEC section. Is it really testing the content it was originally envisioned to cover? Escalating pass rates on this section raise concerns regarding the robustness of the questions and content matter tested.
 - Given the speed at which new accounting / auditing standards are introduced or changed and the tax code is revised, as well as the introduction of multiple international standards to the Examination in recent years, we would not be comfortable with reducing the overall length of the Examination. We would ask the BOE to consider if the current length is adequate after the survey is completed and a better understanding of the depth and breadth of content and skills needing to be tested is determined.
2. Are there additional content areas that should be included in the Examination?
 - While we note that professional ethics and independence standards are currently tested on the Examination, primarily in REG, we feel that these topics should be given greater emphasis and tested either pervasively through all sections, or possibly as a separate section. We also believe it would be beneficial to test professional ethics in the simulations. A case study approach in

which a candidate must consider multiple data points and apply the standards could measure the application of skills and knowledge instead of just rote memorization of standards.

- Consideration should be given to more specific testing on the use of valuation services in auditing. From a review of PCAOB inspection reports and SEC enforcement cases, major audit deficiencies focused on fair value, estimates and impairments.
3. Are there content areas that should be removed because they are no longer applicable?
- None are noted. We do encourage the AICPA to conduct a regularly scheduled and comprehensive obsolescence review of all questions on the Examination to ensure they are up-to-date, accurate and relevant.

Section B - Essays

1. Should writing skills be tested in additional sections of the CPA examination? If so, in which sections and in what proportion?
- It is our understanding that written communications were moved from the other three sections of the Examination to BEC in order to facilitate speed of scoring for all sections. BEC was previously only multiple choice. We would not be in favor of adding it back to the other sections unless AICPA derives a way to test content along with written communication skills. Without the content connection, there is no reason to test these skills in all sections. Neither do we believe additional weight should be assigned to them.
 - We do, however, strongly encourage AICPA to continue to research ways in which content could be tested in conjunction with writing skills.
2. What types of writing tasks should be added (management letter comments or other communications, memo on accounting research, a written tax position, or other types of communications)?
- Without being aware of what writing tasks are already being tested, it is difficult to provide additional suggestions. Other applicable written tasks not mentioned in the question include financial statement footnotes or procedures for attestation engagements. However, the form of the writing task has less significance when it isn't scored for content.

Section C - Simulations

1. Should the weighting of simulations be adjusted in AUD, FAR, and REG? If so, in what proportion?
- Without knowing what changes could ultimately be made to content and skills tested, it is impossible to answer this question. Basing the answer on the current content and skills, we find

a 40 percent weighting in AUD, FAR and REG to be reasonable. However, we submit the following questions: Is there empirical data comparing candidates' performance on multiple choice questions (MCQs) versus simulations? Can skills such as critical thinking, problem solving, analytical ability, professional skepticism and adaptability be tested in MCQs, and has AICPA considered doing so?

2. What types of tasks should be tested in AUD, FAR, and REG?
 - We understand that many of the answers in simulations throughout these sections of the examination are provided via drop down boxes and selection of responses (choosing a standard section or code section, selecting from a choice of prepared answers, etc.). Is this format really testing the ability to apply knowledge, or is it simply a more robust type of MCQ? It would be our hope that AICPA could move toward "real world" simulations where the answers are not one of a selection of choices, but must be derived holistically by the candidate.
3. Should simulations other than essay questions be considered for BEC? If so, in what proportion
 - We are generally supportive of the integrative approach outlined in the ITC of creating case studies or task-based simulations that would test knowledge and skills related to BEC concepts as they pertain to AUD, FAR, REG and BEC. We do however have a concern that new content and skills testing would be intermingled with content and skills already tested in other sections. Would this cause some content to be tested twice and give greater weight to the content and skills than warranted or expected? Would this dilute the importance of the BEC-specific content?
4. What types of tasks should be tested in BEC?
 - No response provided.

Section D – Simulation Enhancements

1. What other candidate resources should be enhanced or added?
 - No response provided.
2. Should the basic spreadsheet be converted to Microsoft Excel even if the cost to take the examination increases as a result?
 - In a discussion with NASBA's Executive Directors Committee, it was noted that Boards are getting few, if any, complaints about the spreadsheet deployed in the existing Examination. We do agree, however, that providing tools on the Examination that are reflective of those used in practice is optimal, so we would be amenable to converting to Microsoft Excel if cost increases related to this conversion were not prohibitive.

Section E – Simulation Enhancements

1. What types of enhancements could make the simulations more realistic?
 - Audio/video enhancements could be employed to test the candidates' comprehension. The functionality of these enhancements should be implemented in such a way that they are intuitive to utilize by the candidates. Directions should be clear and easily understandable.
2. Should these enhancements be implemented even if the cost to take the exam increases as a result?
 - The answer to this question is relative to the amount of cost increase contemplated by the AICPA to implement and sustain the enhancements. We do believe an increase to the Examination's cost is warranted, if it ensures the Examination remains robust and relevant.

Section F- Integrative Section

1. Should the CPA Examination consider an integrative case study section?
 - The concept of an integrative case study section is appealing, as it may more robustly test the candidates' ability to apply their knowledge of content and skills in a realistic situation. It would be important that both content knowledge and skills be measured in the same case studies.
2. Should an integrative section be a capstone? Candidates would be required to pass AUD, FAR and REG prior to sitting for the capstone.
 - We are intrigued by the concept of an integrative capstone section, but would like more information. Is there data available on how capstones have been integrated into other high stakes professional examinations in the United States as well as how they are used by the accounting profession in other countries? What impact would adding a capstone have on the candidates' ability to complete the examination within the 18 month time frame?
 - Some of the Boards of Accountancy could require statute or rule changes to accommodate a new section name, or more importantly, a requirement that a capstone section be taken last. This would require significant lead time, which should be seriously considered as the BOE ultimately makes its determination regarding number of sections, ordering of sections, and so on.
 - There is concern that, based on other comments in the ITC, that an integrative section might be more difficult and time consuming to grade. Given this, if it is truly a capstone, and must be taken last, communication to candidates regarding the change would be crucial, as they would need to plan their testing schedule to allow additional time for grading when considering when to take the section. If it ultimately would be an integrative section, but not a capstone, it could then be a very real possibility that candidates would choose to take this section first to allow the extra

time for grading in their first section in states where the 18 month period commences with the publishing of scores.

Section G – Cost Increases

1. Should the CPA Examination consider improvements that may provide greater testing of higher-order skills even if they would require increasing the cost of the examination?
 - Without specific details, this question is difficult to answer. Which improvements? Which higher order skills? How much of an increase?
 - We are concerned that, in the zeal to test higher order skills, the AICPA could consider investing in expensive and complex technology beyond what might be warranted. Though we want the Examination to be of the highest quality, we don't want to overly burden candidates with unneeded complexity and significantly higher examination costs. Finding the right balance will be key.
2. What amount of cost increase (for example, \$10, \$15, \$20, or \$25 per section) do you think would be acceptable given the proposed changes?
 - We are concerned that this question is being asked in a vacuum, as there have been no cost/benefit discussions or information provided regarding specific changes. We also realize that the overall Examination fee to candidates is not solely based on the AICPA's fee. As an example, if additional Examination sections are added or additional time is allotted to completing the existing four sections, there is an inherent increase because the Prometric portion of the fee is hour-based. Also, to the extent significant changes are made by AICPA, it could impact interfaces and costs of NASBA and Prometric, accordingly. Therefore, we believe that cost/benefit analysis should be considered across the entire examination process, not just measured against the AICPA's Examination development and scoring.
 - Given this caveat, we do feel that a moderate overall increase in price would be tolerable but would suggest that it be considered from a percentage base such as 5-10 percent, rather than from a dollar amount.
 - In polling our Executive Directors Committee, we learned that there are few complaints regarding current Examination fees, even from international candidates. All acknowledge that the cost of the Examination itself, is minimal compared to the cost of their post-secondary education, and Examination review course fees, when utilized. We remain concerned, however, that excessive cost increases could drive candidates away from the Examination and the profession. It is in the public's best interest that the pipeline of newly licensed CPAs remains robust, given the impending retirement of large numbers of CPAs from the baby boomer generation.

Section H – Score Reporting Timeline

1. Should the CPA Examination consider improvements that may provide greater testing of higher-order skills even if they would require increasing the time to report scores?
 - We agree that newly licensed CPAs are being asked to perform tasks and analyze data at more sophisticated levels than ever before. As such, it is imperative that the Examination constantly evolve and test at appropriate levels. The surveys of newly licensed CPAs and those who supervise them being conducted by the AICPA, should help determine the levels at which candidates should be tested.
 - We are concerned, however, about extending the length of time for score reporting by any significant amount. We believe that the candidates are much more concerned about this than the cost of the examination. Our biggest concern is that candidates have adequate time after receipt of their scores to be able to schedule and test in the next window.
2. In the current exam, candidates typically receive their scores for a particular section within 10-20 business days. What range of lengthened score reporting timeline (for example, 5, 10, 15, 20 business days, and so on) do you think is acceptable given the potential need for additional time to effectively score an examination (for example, if human scoring were required for a section)?
 - As noted in the immediately preceding question, we are concerned about extending score reporting timelines significantly. We feel that, in the event an integrative or capstone section is added, an addition of five business days to score that section of the Examination would be acceptable.

Final Question:

1. What other changes should be made to the CPA Examination?
 - We would not support the BOE changing its policies regarding double jeopardy on the Examination. Each scoring opportunity should be considered separately and candidates should be given credit for incrementally correct answers.

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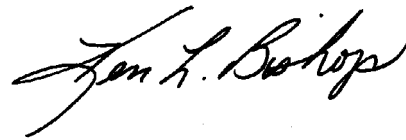
NASBA appreciates the opportunity to provide our perspectives on these important topics. Our comments are intended to assist the AICPA in analyzing the relevant issues and potential impacts. Our Boards would be interested in seeing the responses received to this ITC to better understand the perspectives of other stakeholders, importantly including candidates. This information would provide greater perspective to Boards as they are asked to provide additional input.

We look forward to the opportunity to follow the deliberations of the BOE and provide additional opportunities for the Boards of Accountancy to provide input as the revisions to the Examination begin to take shape. As NASBA and AICPA have discussed, though we know the next formal opportunity outlined in the ITC to provide input is to the exposure draft expected to be released in August 2015, we hope to share preliminary thoughts of the BOE with the Boards of Accountancy at the June 2015 NASBA Regional Meetings or possibly other agreed-upon venues as information becomes available.

Very truly yours,

Handwritten signature of Walter C. Davenport in black ink, featuring a stylized 'W' and 'D'.

Walter C. Davenport, CPA
NASBA Chair

Handwritten signature of Ken L. Bishop in black ink, written in a cursive style.

Ken L. Bishop
NASBA President and CEO