NASBA

STATE ♦ BOARD ♦ REPORT

A Digest of Current Developments Affecting State Accountancy Regulation

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CPT/Baruch Conference on Integrity

The Public Company Accounting Oversight Boards' inspections have found continuing failure in professional skepticism, Christine Gunia, the PCAOB's Associate Director of Inspections told Baruch College's Eleventh Annual Auditing Conference: Ensuring Integrity, held in New York City on November 29 and cosponsored by the NASBA Center for the Public Trust. There usually are contributing causes that inspectors find are collectively associated with the lack of professional skepticism. The PCAOB inspectors work with standards that call for the auditor to have "a critical mind," which has to be applied throughout the audit and demonstrated in various degrees, Ms. Gunia said. "The PCAOB does not have a secret checklist. Once we identify a deficiency we will analyze data about the firm and we will re-review that information. We think firms are in a better position to figure out why the deficiency occurred."

EY Partner David Simko and KPMG Director Susan Jones described how their firms are working to build professional skepticism into their training programs. Mr. Simko explained EY has identified their five top audit focus areas, including a "questioning mindset," which the firm works to strengthen through having enablers work with auditors on questions that should be posed. Ms. Jones said her firm is stressing required documentation: "We believe a lot of our auditors are skeptical, but they have not documented that." In addition, Ms. Jones reported that the AICPA has its Professional Ethics Executive Committee, Auditing Standards Board and Education Committee working together to develop research on applying professional skepticism A research paper from this tri-party group is expected in early 2017.

"Experience tells us that the PCAOB's role is essential and our standards and oversight programs are making a real difference on behalf of investors and companies," PCAOB Chairman James R. Doty stated. He reiterated several of the points he made at the NASBA Annual Meeting in October (see *sbr 11/16*) including that through its standard setting, inspection and analysis, the PCAOB is maintaining audit quality. He also underscored: "Beginning in the first quarter of 2017, audit firms will report the names of the engagement partner and the other firms involved in the preparation of a company's audit report." This will be on the new PCAOB Form AP and can be in the auditor's report. Chairman Doty announced that the PCAOB had just entered into a cooperative agreement with the Italian audit oversight regulator Commissione Nazionale per Società e la Borsa (CONSOB) for joint inspections. Approximately 900 audit firms currently registered

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PhD Project Hails 20 New Professors

With the assistance of the PhD Project, 20 new business professors were recognized this year at the 22nd Annual PhD Project Conference, held in the Hyatt Regency O'Hare, November 16-18. At that meeting over 320 minority business professionals were invited to explore doctoral programs in all business disciplines. NASBA has been a sponsor of the PhD Project since 2014, with NASBA CEO & President Ken Bishop serving on its Board of Directors.

"This is a results-oriented organization that has had remarkable success in bringing minority talent into academic positions where they can inspire others to follow their lead," NASBA President and CEO Ken Bishop explains. "We are happy to have this program that augments our effort to bring diversity into the accounting profession and to its regulation."

When the PhD Project was created, there were only a total of 294 doctorally-qualified African-American, Hispanic American and Native American business professors in all U.S. business schools. Today, there are 1,344 minority business professors. In addition, 278 minorities are currently enrolled in doctoral programs and are expected to become full professors over the next few years. The PhD Project provides direct access to these individuals, so companies providing funding at, or above, a certain level can connect with participating doctoral candidates and their students to share information about careers, scholarships and other educational initiatives.

Qualified candidates are invited to the PhD Project's annual conference where they hear from deans, professors and current minority doctoral students about the benefits of pursuing a business Ph.D. Candidates are exposed to close to 100 doctoral-granting universities that are represented during the conference's university exhibit fair. Networking with the university representatives, deans, professors and current doctoral students provides candidates with the tools and resources they need to be better prepared for the application/admission process to doctoral programs.

For more information on the PhD Project, visit: http://www.phdproject.org on Facebook or Twitter at http://www.facebook.com/thephdproject; www.twitter.com/ThePhDProject. ♦

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$8 Million Deloitte Brazil Penalty

The Public Company Accounting Oversight Board announced two settlements against members of the Deloitte Global network on December 5: A civil penalty of $8,000,000 was imposed on Deloitte Brazil (Deloitte Touche Tohmatsu Auditores Independentes) and of $750,000 on Deloitte Mexico (Galaz, Yamazaki, Ruiz Urquiza, S.C.). Claudius B. Modesti, director of the PCAOB's Division of Enforcement and Investigations, commented about the Deloitte Brazil case: "The orders released today detail some of the most serious misconduct the PCAOB has ever uncovered."

The PCAOB's inspectors found Deloitte Brazil had knowingly issued a materially false audit report for the 2010 financial statements and internal control over financial reporting of Gol Linhas Aédreas Inteligentes S.A. (a Brazilian airlines). The engagement partner directed junior personnel to alter work papers from the 2010 audit to conceal known audit deficiencies from the PCAOB inspectors. The altered work papers along with other misleading information were presented to the PCAOB inspectors by Deloitte Brazil. In attempting to obstruct the PCAOB's investigations, multiple firm partners provided false testimony and made false representations to the PCAOB's staff about the 2010 audit.

Besides agreeing to the civil penalty, Deloitte Brazil agreed to sanctions including: censure, measures to improve the firm's quality control system, appointment of an independent monitor to assess the firm's achieving remedial benchmarks, immediate practice limitations and additional continuing professional education and training for the firm's audit staff. All but one of a dozen former Deloitte Brazil partners and other audit personnel who were involved in the case were barred or suspended from associating with a registered public accounting firm. The PCAOB gave credit to one senior manager on the audit who reported to the PCAOB staff that senior firm management was obstructing their investigation.

Deloitte Brazil performs audits on approximately seven issuers, as defined in Section 2(a)(2) of the Securities Act, and participates in audits led by accounting firms for approximately 60 other issuers, including other members of Deloitte Global, the PCAOB reports.

Deloitte Mexico had failed to implement quality control policies and procedures for audit documentation, the PCAOB announced. Two former Deloitte Mexico partners and another former auditor were sanctioned for violations including audit deficiencies and improper alteration of work papers in the 2010 audit of a U.S.-based mining company. Mr. Modesti commented: "By failing to prevent repeated late archiving of its audit documentation over many years, Deloitte Mexico undermined its own quality control system and increased the risk that work papers might be improperly altered." Deloitte Mexico serves approximately six issuer audit clients and plays a role in approximately nine audits of other issuers, the PCAOB reports. ♦

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with the PCAOB are located outside the United States, and 14 are located in Italy.

The reorganization of the PCAOB Auditing Standards goes into effect on December 31, 2016, Jennifer A. Rand, PCAOB Deputy Director – Office of the Chief Accountant, reminded the conference. The standards have been reorganized using a topical structure and a single, integrated numbering system. She also noted that the information the PCAOB collects on its new AP form will be available on www.pcaobus.org in a searchable database. This information will include for each SEC registered company: the name of the engagement partner; the name, location and extent of participation of each accounting firm participating in the audit whose work constituted at least 5 percent of the total audit hours; and the number and aggregate extent of participation of all other accounting firms participating in the audit whose individual participation was less than 5 percent of total audit hours.

In the first quarter of 2017, the PCAOB expects to be releasing proposals on "Auditing Accounting Estimates, Including Fair Value Measurements" and "The Auditor's Use of the Work of Specialists," Ms. Rand said. She assured the audience that the PCAOB is "trying not to be different just to be different," and they are meeting with the IAASB to coordinate standards.

Auditing Standards Board (ASB) Chair Mike Santay reported the ASB is nearing exposure of two projects with strong public protection elements: (1) auditor reporting on employee benefit plans and (2) non-registered securities filings. He noted that the IAASB has a new auditor reporting model effective this year and the ASB is considering it. The ASB will try to align with the IAASB standards but might not have all the same provisions.

NASBA Outside Legal Counsel Noel Allen said NASBA is continuing to work to have more State Board involvement in the development of professional standards. The State Boards have an enforcement, interpretation and implementation role in standards, he reminded the professionals, professors and students at the conference.

Michael Young, partner of Wilkie Farr & Gallagher, observed that generally the litigation environment for the CPA profession is "not so bad" this year. While there is enforcement and regulatory action taking place, there has been less overall litigation than in other years.

The NASBA Center for the Public Trust is glad to be partnering with Baruch College of the City University of New York, CPT President Alfonzo Alexander told the audience. ♦

Australians Call for Bitcoin Standards

The Australian Accounting Standards Board (AASB) asserts that with the increasing prevalence of digital currencies there needs to be clear guidance on how to account for them. The Australians are recommending that the International Accounting Standards Board (IASB) develop a standard that would address accounting for investments in intangible assets and commodities. "Digital Currency – A Case for Standard Setting Activity," a paper released this month by the AASB, explains why they believe digital currencies are a material enough phenomenon to require the attention of standard setters.

The paper states: "It is possible that future growth in digital currencies could be similar to the global adoption of the World Wide Web."

The underpinning for digital currency is blockchain technology which records every transaction using a specific digital currency. Complicated algorithms are used to verify each transaction, the paper explains.

NASBA Technical Research Director Nigyar Mamedova reported the need for new accounting and auditing standards for digital assets was presented by the IAASB (International Auditing and Assurance Standards Board) Innovation Working Group as a topic for discussion at the Board's meeting on December 6, 2016. ♦

PRESIDENT'S MEMO

A Time to Reflect

Ken L. Bishop
President & CEO

I always enjoy writing the December *President's Memo* because it requires a time to reflect. Throughout the year my job involves a considerable amount of speculation and forecasting to insure that NASBA is prepared to meet its mission obligations to the Boards of Accountancy. Those activities really don't stop at the end of the year, but it is important to annually take measure of what has been accomplished.

At NASBA's 109th Annual Meeting in Austin, entitled "Evolve", we discussed the importance of insuring that accountancy regulation keeps pace with an evolving profession in a changing environment. My lookback assessment is that we did a good job this year in taking substantial steps to identify and mitigate issues that could impact public protection and potentially diminish confidence in the U.S. accounting profession.

Thanks to the depth, breadth and capability of our volunteer committees and task forces, with quality staff support, we have worked through a myriad of significant challenges including: modifications to peer review administration, confusing and misleading titles, changes in education methodologies, expiring international agreements, questionable reliance on education accreditation, and increasing incorporation of data analytics in accounting and auditing. While all of these issues are still in various stages of development or implementation, we have laid the groundwork for addressing each of them. More importantly, we have faced them in deliberative and measured ways.

There will be many changes in the coming year, including the launch of the new Uniform CPA Examination, which have been well vetted and communicated to stakeholders. Other potential changes will require the same thorough review and forethought. Post-election banter suggesting the elimination of the Dodd-Frank Act, changes to the Sarbanes-Oxley Act, sustainability concerns and significant revisions to the IRS code will certainly have an impact on the profession and regulation. Similarly, the new Administration will have impact on the leadership of regulatory bodies such as the Securities and Exchange Commission.

NASBA will be tracking, analyzing and communicating significant changes and their potential impact on Boards of Accountancy. Some changes will be indirect. For example, the Governmental Accounting Standards Board (GASB) receives its funding under Section 978 of the Dodd-Frank Act. The forecasted elimination of Dodd-Frank's support for GASB and other areas are critically important matters on which we will need to respond. NASBA committees, including the Standard-Setting Advisory Committee, International Qualifications Appraisal Board, Regulatory Response Committee, Education Committee, Compliance Assurance Committee, Uniform Accountancy Act Committee, Relations with Member Boards Committee and Legislative Support Committee will be monitoring these developments and speaking up for the Boards.

On a personal note, when you are reading this, I will be completing my fifth year as President and CEO of NASBA. It is unbelievable how quickly five years have gone by. As I end this year, I feel truly blessed and grateful for the wonderful support I have received from our leadership, Board of Directors, and you, the State Boards. I wish each of you a merry Christmas, happy Hanukkah and joyful holiday season, and a very safe, happy and successful New Year! I hope you give yourself a time to reflect on the importance of what you do for the public and the profession.

Semper ad meliora (Always toward better things).

Ken L. Bishop

— Ken L. Bishop
President & CEO

Advisory Group Says Audit Non-GAAP

The significance of non-GAAP financial measures was underscored by the Public Company Accounting Oversight Board's Investment Advisory Group (IAG), at their October 27 meeting. An IAG working group concluded that "GAAP and non-GAAP financial measures (NGFM) together can provide a more comprehensive perspective on how management runs the company and the board of directors governs the business" and it is critical to ensure that all NGFM are audited.

While the IAG working group recommended requiring disclosure and presentation of NGFM in financial statements to ensure they are consistently calculated and audited, the IAG members noted there exist "significant concerns about relevant jurisdiction and whether this can be achieved in a timely manner." They also see the need for independent validation through self-regulation of the industry or trade organizations, but they are not sure whether this is a "viable approach."

Another IAG working group also reported back to the meeting on the implementation of the U.S. Treasury Department's 2007 Advisory Committee on the Auditing Profession's (ACAP) recommendations. NASBA had been one of the groups mentioned in the recommendations and that responded back to the 2016 working group's survey. Most of the 31 recommendations that the

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Gone But Not Forgotten

This is the time of the year when the kids are gathered around singing, "Grandma Got Run Over By A Reindeer," but do they wonder what would happen to her client files if Grandma was a CPA sole practitioner? Hopefully they would not end up on the curbside waiting for the weekly trash pickup with the used holiday giftwrap. Reindeer attacks do not happen frequently, but with many baby boomer CPAs, Boards need to be concerned about practice continuation planning for their licensees. The AICPA and NASBA have created a pamphlet entitled: *Practice Continuation Agreement: A Practice Survival Kit*.

This document was originally distributed to the Board Chairs and Executive Directors shortly before the Annual Meeting. At the Annual Meeting, several Boards told their Regional Directors that they were going to place this topic on their meeting agendas and distribute the pamphlet material to their licensees. Questions were raised at some of the Annual Meeting's breakout sessions about what the Board's responsibility is for stepping in and taking charge of such records.

The Accountancy Board of Ohio included the entire *Practice Continuation Agreement* pamphlet in their newsletter to licensees. The pamphlet can be found on the publications page of www.nasba.org. NASBA Vice President of State Board Relations Dan Dustin encourages Boards to give the information wide distribution. ♦

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survey requested input on had not been completely acted upon with successful results. The IAG working group commented: "We believe that industry-wide initiatives of this nature should in the future include a monitoring and public reporting mechanism with respect to the implementation of recommendations made."

One recommendation that the IAG working group felt had been accomplished by NASBA, AICPA and the PCAOB was: "Develop training materials to help foster and maintain the application of healthy professional skepticism with respect to issues of independence and other conflicts among public company auditors, and inspect auditing firms, through the PCAOB inspection process, for independence training of partners and mid-career professionals." Another recommendation that IAG members felt NASBA, PCAOB and SEC had achieved was to "require regular and formal roundtable meetings of regulators and other government enforcement bodies." ♦

25 Years of IRS Discipline on Line

The public now has easier access to information on 25 years of Internal Revenue Service censures of practitioners for Circular 230 misconduct and suspensions and disbarments of individuals from practice before the IRS. The IRS Office of Professional Responsibility has created a disciplinary look-up through a searchable Excel file.

To view the list of disciplined practitioners, go to IRS.gov at Search for Disciplined Tax Professionals. ♦

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