

How to Handle NOCLAR Debated

On July 15 the International Ethics Standards Board for Accountants' new standard on how to respond to a client's non-compliance with laws and regulations (NOCLAR) will go into effect in those countries that have adopted IESBA's code. Since 2012, the AICPA/NASBA Uniform Accountancy Act Committee has tabled its discussion of NOCLAR, awaiting the outcome of IESBA's years of consultation, and NASBA is now requesting that discussion be reopened.

The new IESBA standard marks out guidance for auditors' and other professional accountants' disclosure of NOCLAR to appropriate public authorities in certain circumstances. As a member of the International Federation of Accountants, the AICPA has agreed to promote the international body's standards and the AICPA's Professional Ethics Executive Committee in March 2017 released an exposure draft on NOCLAR for which the comment period ended on May 12. PEEC's draft and the IESBA's standard differ in some significant ways, most importantly when an accountant can set aside the duty of confidentiality to disclose NOCLAR to appropriate authorities. NASBA responded to PEEC's draft (see www.nasba.org) and has requested the UAA Committee reopen its discussion to determine if the model law needs to be amended.

Responding to the PEEC exposure draft, NASBA wrote: "Overall we have significant concerns that the proposed language will effectively discourage CPAs from acting in the public interest even after care has been taken to comply with all relevant professional standards. If CPAs withhold knowledge that otherwise could have prevented or brought to light an act in a timely manner so as to prevent public harm from occurring or continuing to occur, it will not reflect well on the worth of the profession."

The letter underscores: "It is in the public interest to communicate NOCLAR to the client's auditor, even if the matter is

not required to be communicated to regulatory authorities. Such communication is a responsibility in the public interest and should not be framed as a breach of confidentiality."

The IESBA explains that their new standard "clarifies that turning a blind eye to potential NOCLAR is not an appropriate response from professional accountants, while placing renewed emphasis on the roles of management and those charged with governance in addressing the matter." IESBA maintains this standard "enhances the profession's reputation as a guardrail for trustworthy organizations and a healthy global financial system."

Speaking at NASBA's Western Regional Meeting, NASBA Ethics Committee Chair Janice Gray reported there are eight states that already have rules or statutes that allow NOCLAR disclosure without client consent. NASBA is recommending that UAA Section 18 be reconsidered by the joint UAA Committee, which is composed of 10 members from the AICPA and 10 members from NASBA. They would consider PEEC's recommended interpretation as well as federal and state law and other pertinent material. ♦

Plan to Attend CPE Summit

Anyone who is interested in the future of continuing professional education for accounting professionals should be planning to attend the September 26-27, 2017, NASBA National Registry Summit in Nashville. This year's theme is "The Tempo of Change." The program not only features innovations in this dynamic field, but also current and evolving state regulation. For more details, check www.nasba.org. ♦



NASBA Meets with PCAOB



James Doty

Common projects and concerns were discussed at a meeting on May 18 of Public Company Accounting Oversight Board Members and NASBA representatives. NASBA Chair Telford Lodden (IA), President and CEO Ken Bishop and Executive Vice President and COO Colleen Conrad summarized NASBA's activities for

PCAOB Chair James R. Doty and Members Lewis H. Ferguson and Jeanette M. Franzel. The focus of NASBA's Standard Setting Advisory Committee on data analytics was mentioned, as on May 12 the PCAOB had released a briefing paper on "The Use of Data Technology in Audits," in preparation for the May 24-25 meeting of its Standing Advisory Group. Although the use of data analytics may enhance audit quality and make the audit more efficient, the paper cites associated risks. These include the ability to:

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Vasarhelyi Answers Analytics Questions



Miklos Vasarhelyi

R. Allen (NY) during a panel session at the Western Regional Meeting, Dr. Vasarhelyi explained that data analytics improves the way auditors are assuring a measurement that someone else has given them. In every stage of the audit process there can be visualization that clearly shows the outliers.

Dr. Vasarhelyi believes the skills that students need to bring to auditing are very different from what they needed earlier. “In the age of Google, what do we need to remember?” he asked. “We need to rethink the basis of what we have to memorize and what skills students need. I think we should rethink the required curriculum.” Although he has made the suggestion that data analytics be included in the Uniform CPA Examination, he reported that the suggestion has been turned down because it is not being taught in the accounting

Today’s accounting students are being shown videos that portray data analytics as a tool for current and future practice, but such practices have been a long time in coming for Dr. Miklos A. Vasarhelyi, director of the Rutgers Accounting Research Center, who started on “big data” projects for Bell Labs in 1986. Speaking with Regulatory Response Committee Chair W. Michael Fritz (OH) and Standard Setting Committee Chair Catherine

programs. “We have to think what we will need in 2020-2030,” he commented.

Information about data analytics is readily available, Dr. Vasarhelyi pointed out. Not only are there currently more than 20 dissertations being done on advanced work in data analytics, but he suggested, “Just go to YouTube or the Rutgers website and there is information for your use. Just type in ‘data analytics.’” The International Auditing and Assurance Standards Board has appointed Dr. Vasarhelyi to its recently established Data Analytics Project Advisory Panel.

Many groups are considering data analytics, Ms. Allen said, as well as the NASBA Standards Setting Advisory Committee and the Public Company Accounting Oversight Board. The AICPA will be releasing an audit guide in August for those who do not have significant information on the field. NASBA Director-at-Large Richard Reisig (MT), a member of the Auditing Standards Board, said he believes the new guide will be a good starter document. While some Accountancy Boards are concerned that they are not ready to assess audit failure in this new environment, Mr. Reisig said, “We still have the tools to monitor CPAs. They still need appropriate audit evidence.”

“The nature of evidence is changing,” Dr. Vasarhelyi stated. “If you see a surge in product complaints on social media – something is wrong. Also non-GAAP data now exists that never did before, and that helps the work. But it changes the competencies needed.” ♦

PTIN Suspended

Although the US District Court for the District of Columbia on June 1 determined the Internal Revenue Service has the authority to require the use of a Preparer Tax Identification Number (PTIN), it enjoined the IRS from charging a user fee for issuing or renewing PTINs. Consequently, the IRS has suspended PTIN registration and renewal. The IRS is now working with the Department of Justice to consider how to proceed and is advising those who prepare taxes to see the Tax Pros page on www.irs.gov.

Does this mean that no regulation of non-licensed preparers can be anticipated in the near future? President Donald J. Trump’s budget for fiscal year 2018, released on May 23, includes a line for “increase oversight of paid tax return preparers.” For 2017 nothing

is budgeted, but starting in 2018 it goes up to \$12,000,000 and in 2019 to \$18,000,000, with continuing increases each year through 2027. However, the same budget includes in its overview the President’s aim to lay “a new foundation of restraint that limits Government regulation and intrusion.”

NASBA has participated in this issue by filing an amicus brief in the *AICPA v. IRS* suit in February. The amicus’s concern was “about a new official credential being potentially equated in consumers’ minds with state-licensed professionals.” ♦



NASBA Meets with PCAOB (Continued from page 1)

- effectively capture data from different client systems;
- validate completeness and accuracy of data and produce audit evidence;
- maintain security of client data; develop competencies within the firm to use data analytic tools;
- maintain quality control over the development and use of data analytic tools;
- and avoid over-reliance on data analytic tools.

The increasing use of technology has raised new issues for regulators trying to perform effective oversight and enforcement, both the NASBA and PCAOB meeting attendees agreed.

While there has been some exchange of information among groups studying data analytics, the field is moving fast, and firms do not want to supply details that potentially could benefit other

firms. However, the CPA firms’ greatest competition is coming from Silicon Valley, not other firms, many said. Tools are being developed by IT firms that can give good assurance, and much of the software is client-based, not CPA-based.

President Bishop and Chair Doty agreed to cooperate on assessing the impact of data analytics on regulation and will share information in that regard. Chair Doty affirmed that NASBA should be folded into the PCAOB’s ongoing research.

Besides both NASBA and PCAOB studying data analytics, in December 2016, the PCAOB added NOCLAR to its research agenda. The staff is exploring whether there is a need for changes to AS 2405, *Illegal Acts by Clients*, to improve direction to auditors as to their responsibilities with respect to illegal acts. At the May meeting, it was agreed that NASBA will be talking to PCAOB staff studying this topic too. ♦

PRESIDENT'S MEMO

The Demise of the Certified Public Accountant

The demise of the Certified Public Accountant? What? Hopefully the title caught your attention. Before you begin thinking that the NASBA President has gone completely off the ranch, let me assure you that I do not believe that the Certified Public Accountant credential is in harm's way and I certainly don't believe its demise is eminent. In fact, I believe that the U.S. Certified Public Accountant brand is among the world's most recognized and trusted credentials. So why the *Memo* title?

In the past year, I have been hearing more and more rhetoric about how less students are planning to become Certified Public Accountants, how Certified Public Accounting firms are hiring fewer Certified Public Accountants, how the number of licensed Certified Public Accountants is shrinking, and how the need for Certified Public Accountants in the future will be diminished. Recently I have even heard predictions that future Certified Public Accountants will not be providing tax or advisory services and possibly not even financial audits but will be limited to some new higher level of services. Finally, some have concluded (and possibly hope) that because of the predicted decline of the Certified Public Accountant profession, the State Board of Accountancy regulatory system may no longer be needed.

More worrisome to me is that this negative conversation and these gloomy predictions are not coming from associations that typically advocate for non-Certified Public Accountants, but from those that have historically focused on the value, promotion and protection of the Certified Public Accountant credential, CPA.

I have been thinking about this for a while and finally decided to bring it into the bright light of day. As I travel around the country, I am hearing from an increasing number of Certified Public Accountants that they are confused, frustrated and angered by what appears to many to be an abandonment and dilution of the value of the Certified Public Accountant credential by those they feel should be supporting them. As I have written previously and stated publicly, I believe that a strong and vital Certified Public Accountant profession is a critical element of public protection. Ignoring or accepting the rhetoric of demise could shake public confidence and dissuade students from seeking to become Certified Public Accountants, which conflicts with the State Boards' duty to protect the public. I feel it is important that our members and stakeholders know that I share their concerns.

As to the naysayers, NASBA's Accountancy Licensee Database gives us the ability to monitor the number of Certified Public Accountants (over 650,000), which is historically high. Accounting programs in colleges and universities are full. Even with the normal disruption of candidate flow that accompanies changes to the licensing examination as occurred this year, we continue to see strong numbers of test takers. Firms are hiring accounting graduates in record numbers and are constantly pursuing more qualified candidates who have passed the licensing examination. We will have to compete with other professions for candidates in the smaller current generation; however, if we refrain from buying into potentially self-fulfilling and damaging prophecies, the future looks bright.

At last year's Annual Meeting I stated that the accounting profession will change more in the next five years than it has in the last 40 years, and that technology will play an increasing role. I hope I made it clear that this is a positive transition. The need for a technology-savvy accounting profession will be critical in an increasingly complex world of electronic commerce, Bitcoin and Block Chain. We should be considering and discussing how education, experience and the licensing examination need to keep pace with the changing accounting environment. It is critical that we are sending the right signals by communicating that there are great opportunities for current and future Certified Public Accountants, rather than forecasting the profession's demise. I recently heard Dr. Miklos Vasarhelyi, Director of the Rutgers Accounting Research Center and an expert on data analytics, tell a story about how a student of his asked if because of technology and the use of data analytics, should he be worried about becoming a Certified Public Accountant. Dr. Vasarhelyi responded that "the opportunities have never been greater." In fact, a whole new type of student may seek the profession because of the technological opportunities.

As my old Grampa Wilson used to say, I hope this *Memo* "knocks the bubble off center," and that it provokes some thought and conversations. I have purposely used "Certified Public Accountant," rather than "CPA" throughout the *Memo*. This is for clarity. It seems that some organizations are now purposely removing the term "Certified Public Accountant" from their titles, business cards, PowerPoint presentations and published materials, and replacing it with other words that use the same acronym. There is irony in seeing accountants in other countries move to use the acronym CPA because of the brand's established value in the global financial marketplace at the same time we hear folks questioning its future relevance.

As most of you know, I am not a Certified Public Accountant, but an old cop. However, I could not be prouder of the Certified Public Accountant profession that does so much to ensure the financial integrity of the U.S. I hope you also know that I am not a "bomb thrower" and I am very cautious about implying criticism of others, particularly our friends. But, as I hear the crescendo of concerns being raised by State Board members, societies, firms and others, I feel compelled to opine...and as an old cop, I cannot help wondering what the motive is for those who seem to be forecasting the demise of this honored credential and who no longer proudly display "Certified Public Accountant."

Semper ad meliora (Always toward better things).



Ken L. Bishop
President & CEO


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President & CEO

Public Says “Accountant” = Licensed

Asking the same three questions that it posed to the inhabitants of Texas in 2006, the Texas Board of Public Accountancy has learned the public still believes that someone calling him or herself an “accountant” is licensed. Hill Research Consultants, an independent polling organization, posed the following questions and received the following responses from 803 Texans:



J.C. Baker

Do you think persons or firms that refer to themselves as accountants or accounting firms in advertising to the public are required to be licensed by the State of Texas?

Of the 803 adults polled in either English or Spanish: 63 percent believed both accounting firms and accountants are licensed, 5 percent only accounting firms, 3 percent accountants only and 18 percent thought no license was required. Eleven percent had no opinion.

Do you think persons or firms that advertise accounting services to the public are required to be licensed by the State of Texas?

To this question 75 percent of respondents said they expected the state to license those who advertise accounting services, 18 percent did not share that expectation and 7 percent had no opinion.

Do you think persons or firms that advertise auditing services to the public are required to be licensed by the State of Texas?

Again 75 percent thought they should be licensed, 17 percent did not think so and 8 percent had no opinion.

The phone interviews were conducted on May 6-11, 2017 and each was typically 4-5 minutes long. Contributors to the survey were Dr. David B. Hill, Dr. Stephen N. White and Jason Nemeck. Only those 18 and above were interviewed.

Texas Board Presiding Officer J. Coalter Baker explained that the Board had requested the poll to assist it in responding to the exposure by the AICPA/NASBA Uniform Accountancy Act Committee of proposed language that would amend Section 14 of the UAA to allow non-CPAs to use management accounting titles under specific circumstances (see www.nasba.org for the proposed language).

“Based on this evidence, we are assured that the public believes any individual or entity that publicizes that they are an ‘accountant’ or ‘auditor’ is licensed,” Mr. Baker said. “The survey found this to be true even if someone is a financial professional. I was somewhat surprised that an even greater percentage of the public believes this when compared to the earlier polling in 2006. The study has been circulated to each of the State Boards for their consideration.”

As Chair of the NASBA UAA Committee, Mr. Baker reminded the State Boards that their comments on the proposed management accountant language are needed by the UAA Committee. He reminded the Boards to submit their comments to lhaberman@nasba.org by September 30, 2017. ♦