NASBA

STATE • BOARD • REPORT

A Digest of Current Developments Affecting State Accountancy Regulation

Volume XLVI, Number 9 September 2017

MRA with Irish Institute Renewed

The first mutual recognition agreement (MRA) renewal using a new, more transparent format was signed by representatives of Chartered Accountants Ireland, NASBA and the AICPA on August 10, 2017. This agreement features an overall statement and then appendices that go into detail about what qualifications an applicant must have to take advantage of this abbreviated qualification pathway to the credential, what practice rights this agreement covers and how to go about receiving the credential. The agreement is clearly designed for those who have been in practice for several years, not new credential holders. Previous agreements did not go into the detail that this format features, clearly identifying what is needed to first be recognized by an accountancy body, earn a practice certificate and the right to audit public companies.

NASBA/AICPA International Qualifications Appraisal Board (IQAB) Chair Sharon Jensen (MN) explained that, in developing this new format, it became clear that there are more steps to obtaining mutual recognition than had been contemplated in the early agreements. Though the goal is for professionals in one country to be recognized for their knowledge as professionals in another country, gaps to easy portability of credentials do exist. IQAB has been negotiating to smooth them out.

"NASBA/AICPA IQAB has been working toward international professional recognition for more than 20 years. However, we

(Left to right) Ted Lodden, Pat Costello, Shauna Greely, Barry Dempsey and Ken Bishop

realize that there are differences in the education, examination and experience requirements and laws that hold those differences in place. It is a slow process of seeing how those laws can be interpreted to fit different environments, but we are trying to do that with willing partners. We were fortunate in having had Pat Costello, newly retired chief executive of the Irish Institute, working with us and we look forward to having Barry Dempsey, the current chief executive, working to close up some of the gaps in this agreement," President Ken L.

(Continued on page 2)

Plans for NASBA Annual Meeting

NASBA's 110th Annual Meeting, to be held in New York City on October 29 – November 1, will address "Shaping the Future," with leaders in the accounting profession joining NASBA officers and directors. Updates on the Uniform CPA Examination, legislative developments and legal decisions will be important parts of the program, as will the networking opportunities for State Board members and other professionals. The keynote speaker on "The Profession's Tomorrow" will be Catherine Engelbert, Deloitte's Chief Executive Officer.

Other presentations will include a discussion of how the accounting profession worldwide is dealing with client's noncompliance with laws and regulations ("NOCLAR") as presented by Richard Fleck, Deputy Chairman of the International Ethics Standards Board for Accountants, and viewed in terms of the US legal environment by Michael R. Young, Willkie Farr & Gallagher partner. The changing technology being used in audits, the education required for effectively using that technology and how standards will need to be altered to keep pace with the technology will be covered by a panel including Roger E. O'Donnell, KPMG Global Head of Audit Data and Analytics, A. Michael Smith, PWC Partner and Internal Technology Audit Services Leader and Jeanette M. Franzel, Member of the Public Company Accounting Oversigh Board, and moderated by W. Michael Fritz, Chair of NASBA's Regulatory Response Committee and Deloitte partner. Progress being made on the recommendations of the NASBA/AICPA Accreditation Task Force will be the focus of a presentation by Carlos E. Johnson, Task Force Co-Chair and NASBA Past Chair, and Sharon Lassar, associate dean for executive and professional programs at the University of Denver and a member of both the NASBA/AICPA task force and an AACSB task force considering related topics.

AICPA Chair Kimberly Ellison-Taylor and President Barry Melancon will also address the meeting on forthcoming professional developments and the State Boards' part in those efforts. Adding a global perspective, signing of international professional recognition

(Continued on page 2)

Contents

Published by the National Association of State Boards of Accountancy
Editor-in-Chief: Louise Dratler Haberman; Editor: Ken L. Bishop; Production Editor: Anthony E. Cox; Editorial Assistant: A. Ann Bell.
Tel/615.880.4200 Fax/615.880.4290 Web/www.nasba.org

NASBA Responds to PCAOB Proposals

Comment letters on two PCAOB rulemaking proposals, one on auditing accounting estimates and the other on the auditor's use of specialists, have been submitted by NASBA, and can be found on www.nasba.org. The two proposals (PCAOB Release No. 20017-002 Proposed Auditing Standard- Auditing Accounting Estimates, Including Fair Value Measurements and Proposed Amendments to PCAOB Auditing Standards and PCAOB Release No. 2017-003 Proposed Amendments to Auditing Standards for the Auditor's Use of the Work of Specialists) were companion releases, as the PCAOB explained it "has observed that, in many cases, specialists are used to either develop or assist in evaluating various accounting estimates." The purpose of the proposals is "to provide direction to prompt auditors to devote greater attention to addressing potential management bias in accounting estimates, while reinforcing the need for professional skepticism" and "to strengthen the requirements that apply when auditors use the work of specialists in an audit," the Board stated.

In response to Release No. 2017-002, NASBA commented: "We commend the PCAOB on its efforts to develop a single standard on auditing accounting estimates including fair value measurements and to replace multiple existing standards. The increasing complexity of financial instruments creates new risks which need to be assessed and addressed by auditors. In addition, recent accounting standards on fair value measurements, expected credit loss and other financial reporting standards mandate new accounting and disclosure requirements which contain disclosures that need to be audited." The letter further states: "It appears that the Proposal has been developed to address findings identified during the PCAOB's inspection process. As State Boards, we would encourage the PCAOB to continue the development of other standards where it believes audit quality can be improved to protect the public interest, not just through areas that have been identified during the inspection process."

Among NASBA's comments on the use of specialists (Release No. 2017-003) were requests for application guidance on procedures to be performed by auditors to evaluate specialists used and for guidance on consideration of management's controls related to company specialists.

Both letters can be found on NASBA's website. The letters from Chair Ted Lodden (IA) and President Ken Bishop were developed by NASBA's Regulatory Response Committee, chaired by W. Michael Fritz (OH). ♦

A High Price for Immunity

Legislation has been proposed by Senators Mike Lee (R-UT), Ted Cruz (R-TX) and Ben Sasse (R-NE) and Representative Darrell Issa (R-CA-49) that would provide for antitrust immunity for state regulatory boards but would involve creating active supervision and periodic review of the current occupational boards and establishing a cause of action for judicial review of licensing laws (S. 1649/H.R. 3446).

"Rather than recognizing the vital role regulatory boards play in public protection, the bill's sponsors are encouraging states to examine, modify and/or eliminate their occupational licensing regulations in exchange for immunity," NASBA Director of Government and Legislative Affairs John Johnson writes in the September edition of *Legislative E-News* (on www.nasba.org). He underscores that the Professional Licensing Coalition, to which NASBA belongs, is monitoring legislation closely and studying the fiscal impact that similar legislation has had in states over the years. He advises all states to review the legislation to see its potential impact on their boards.

For more details, see this month's *Legislative E-News*. ♦

MRA with Irish Institute Renewed (Continued from page 1)

Bishop stated.

The agreement with the Chartered Accountants of Ireland enables CPAs from the US in good standing with their State Board of Accountancy to receive the Irish ACA credential with a minimum of three years of practical experience in the past ten years. To obtain a license to practice public accounting in Ireland the US CPA must become a member of the Chartered Accountants Ireland and have two additional years of experience in public practice after their admission to membership. To perform statutory audits they have to have at least two years of practical experience obtained with a statutory auditor or audit firm approved in an EU member state. The agreement states: "The Irish Institute undertakes to seek a determination from the Irish Auditing & Accounting Supervisory Authority to grant the Irish Institute the authority to recognize practical audit experience obtained in the United States towards the above noted practical audit experience requirements."

To be covered by this agreement, a holder of an Irish Chartered Accountant credential (ACA/FCA) must come through one of the education routes specified in the renewal agreement and have completed a minimum of three years relevant work experience prior to obtaining the ACA/FCA credential and being admitted to membership in the Irish Institute and an additional two years of relevant work experience after obtaining the ACA/FCA credential and being admitted to membership.

NASBA Chair Ted Lodden (IA) thanked IQAB members and staff for completing this renewal. He stated: "To be relevant and influential in our increasingly global economy, we must have MRAs in place. The new format of the MRA which is transparent and intuitive will be easier for the Boards to understand and provide a roadmap for us to mitigate all the gaps."

The renewal agreement has been sent to all State Boards for their consideration and has been posted on www.nasba.org. ♦

NASBA Annual Meeting (Continued from page 1)

agreements and renewals is anticipated.

John Stossel, the 19-time Emmy Award-winning journalist seen on ABC and FOX channels, will be the luncheon speaker. He will discuss individual freedom, free markets and the benefits and responsibilities of being an American. For those guests who are anxious to go touring, a New York City outing is scheduled. There will also be receptions for all to enjoy. Details of the social program can be found on www.nasba.org.

Prior to the start of the conference, the NASBA Center for the Public Trust will present a workshop on white collar crime, led by Richard G. Brody of the University of New Mexico, and offering CPE credit. Details on registration for the Annual Meeting, as well as for the workshop, can be found on www.nasba.org. ♦

PRESIDENT'S MEMO

We Have to Take a Stand!

Ken L. Bishop
President & CEO

I recently had the opportunity to visit with some state government officials at the behest of the Board of Accountancy regarding the ongoing discussion of consolidation and reorganizing of the Board and its staff. I am always pleased when government officials are willing to discuss the potential risks associated with consolidation transitions. In providing some background information I began with a brief history of state-based accounting regulation.

While some of you may know that NASBA has been in existence in some form for nearly 110 years, you may not know that the state-based regulation of the profession had begun several years before the establishment of a national body, beginning in New York in 1896. Within the following 25 years, every state enacted a similar licensing program. It is important that we all remember the genesis of accounting regulation as it seems that the original arguments for a strong, independent regulatory system are too often forgotten.

In the early days, most states had very few regulated "professions." Typically, they included the practice of law, the practice of public accounting and the practice of medicine. It had become clear that anyone practicing in those professions needed to be adequately educated, obtained practical experience and had rules for ethical behavior, and that the public needed to be protected from those who did not meet those qualifications. In well over a century, those premises have not changed. What has changed is the tremendous increase in the number of regulated "professions" from a few in some states to over 50 in others. By extending the category, I believe that the significance of a strong regulated accounting profession has been diluted.

Most Board of Accountancy members that I know are generally fiscally conservative. Probably most would agree that regulation has been overused and is often misused. That dilemma has created a situation wherein, when Board members and interested stakeholders fight to maintain a strong and viable Board of Accountancy, they are reproached as being out of step with reformers' efforts to streamline government to become more efficient and accountable. This is hardly the case.

Looking back, lawyers and medical professionals have done a better job in protecting a strong and effective state-based regulatory system. For the past 30 years or so, the Certified Public Accountants have not fared as well: They have often been lumped in with those in other occupations including tattoo artists, hair braiders, parking lot attendants, private investigators and massage therapists, to mention a few. More importantly, many government officials making or recommending the diminution of Boards of Accountancy appear to consider CPAs and their firms to be no more important to the protection of the public than the hair braiders.

How did this happen? Frankly folks, we consciously or unconsciously let it happen, and "we" is not just Board members but the profession, state societies and national associations, including NASBA. In the state I recently visited, the profession and state society were not willing to make more than minimal efforts at protecting the Board of Accountancy's abilities because they were trying to get a piece of legislation passed to benefit the profession and they did not want to spend political capital supporting the integrity of the profession nor its role in public protection. Regrettably, this is too often the case around the country. I have even heard Board of Accountancy members say that if they stand up and fight against what they agree is a weakening of their Board's effectiveness, they will not be reappointed to the Board.

It is going to be hard to "un-ring the bell" and stop the misinformed position that Boards of Accountancy are just another regulatory body that may not be necessary. A few years ago, NASBA worked with the Georgia State Board of Accountancy when it was stripped of its leadership, staffing and funding capability to the point of being unable to effectively protect the public. As in other jurisdictions, it began with an articulated attempt to shrink government in order to be more efficient and accountable, and it had happened under the noses of the profession and the state society. The happy ending to this story is that the Board of Accountancy members and the leadership of the society worked together and, albeit under political pressure and resistance, were able to get legislation passed recognizing the important role of the Board of Accountancy and ensuring that the Board was adequately funded and staffed. The Georgia State Board of Accountancy is now among the strongest in the country and the relationship between the Board and society is stronger than ever.

Again, we recognize and support the efforts toward efficient and effective government. I have no doubt that the goal of eliminating arbitrary occupational hurdles has merit. But if Boards of Accountancy continue to be lumped in with what I would argue are not "professions" and treated as such, then the Certified Public Accountant credential and CPA firms will ultimately be weakened. We all have to take a stand!

Semper ad meliora (Always toward better things).

Ken L. Bishop

— Ken L. Bishop
President & CEO

Regulatory Environment Questioned

In the recently released Forbes study, "The Future is Now," researched with KPMG LLP, a survey of corporate executives found an increasing number believe the "regulatory environment" is one of the "biggest challenges to enhancing the role of audit/the auditor." The 200 respondents surveyed in October 2016 included 46 audit committee chairs and members, 62 chief financial officers, 19 chief audit officers, 18 chief tax officers, 21 controllers and 34 directors of financial reporting. All were from organizations with $500 million or more in annual revenue. Nearly 80 percent of the respondents maintain auditors should routinely use bigger samples and more sophisticated technologies for data gathering. The researchers report "while organizations understand that technology will continue to evolve, they want to see some significant changes in approach to audit sooner rather than later."

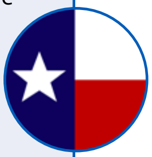
When Forbes and KPMG conducted a similar study two years earlier, 59 percent felt the regulatory environment was the biggest challenge to enhancing the role of audit, but in 2016 that had grown to 66 percent. One quoted accounting professor in the recent study believes that some of the best accounting students are going to other financial careers because of better entry-level compensation than public accounting and because the profession has been made less desirable in light of regulators' oversight. "Many people don't want to have their judgments second-guessed, and you don't get that in finance. I think regulators have done a little too much," he observed.

The study concludes: "Regulatory environments, budgets, data security and litigation can slow progress in enhancing the role of audit. These challenges must be recognized and properly addressed. The audit profession will undoubtedly continue to change, and only those who evolve and innovate will succeed."

NASBA's 2017 Annual Meeting will include a panel on "Blockchain, Bitcoin and Other Transforming Developments" as the meeting focuses on "Shaping the Future." Check www.nasba.org for details. ♦

Harvey Extends TX Eligibility

The Texas State Board of Public Accountancy is extending the examination eligibility date of candidates through October 31, 2017 for those who were scheduled to take a section of the Uniform CPA Examination and were unable to test due to the closure of a Prometric test center or were displaced by the hurricane and subsequent flooding.



Hurricane season has Prometric encouraging candidates to check www.prometric.com for a list of test centers that are currently or will be non-operational and unable to deliver examinations. Candidates are being advised they will be contacted via e-mail within 24 hours of the test center's closure. With the approach of more hurricanes, 15 testing centers in Florida posted their closings, many a few days in advance and nine out as far as five days in advance.

"Hurricane season is always a challenge for the NASBA Exam Team, but this year is shaping up to be one of the worst. That combined with score delays and credit extensions ensures the Exam Team is hard at work," Patricia Hartman, NASBA Director of Client Services, said. ♦

State Board Report

National Association of State Boards of Accountancy
150 Fourth Avenue North, Suite 700
Nashville, TN 37219-2417