After hearing many professionals discuss how technology is changing the accounting profession and will continue to do so, NASBA President and CEO Ken L. Bishop challenged those at the Annual Meeting to move out of their comfort zone and consider how the traditional description of a “CPA” may be modified to include “data technologists.” “What if we create a new and separate pathway to the CPA – different education, examination and experience requirements to bring data technologists into the profession? If you look at the skill sets of the CPA and the technologist, I believe a person could have both,” Mr. Bishop remarked. “Open your minds and think of CPAs who are current in technology.”

NASBA Chair Telford Lodden (IA) announced NASBA has started a CPA pathway task force to consider how, for example, requirements might be changed to give engineers the accounting language they need to fit into the business education model. He pointed out the need for what is covered in the Uniform CPA Examination to keep pace with the profession, since many professors teach to what is included in the Examination.

(Continued on page 2)
Deloitte’s CEO Sees CPAs Transforming

The accounting profession needs to fulfill the vision of providing more information, and that requires the evolution of attestation, Cathy Engelbert, chief executive officer of Deloitte, told NASBA’s 110th Annual Meeting on October 30 in New York City. She explained that the profession is at a crossroads with five generations in the workforce and shifts in technology, demographics and expectations of investors and shareholders.

Ms. Engelbert recalled that last year she told Deloitte it was the “year of cognitive,” when they were streamlining manual processes and revolutionizing how financial transactions are recorded. While she predicted that 90 percent of present accounting and auditing jobs will become automated in coming years, she believes not all that accountants do will be taken over by machines: “Professional skepticism and judgement remain critical – those are the hardest things to automate or replicate.” She observed that humans are still unique for their empathy, intelligence, creativity and other attributes which come into play with the professional skepticism that is required for accountants to do their job. The work will change, and young people coming into the profession are fired up by the opportunity to use artificial intelligence, drones, and other technologies that will create new career paths.

Stakeholders are looking for more information, analysis and insights and 75 percent of stakeholders surveyed believe auditors should use technology to provide more information than is provided in the traditional financial statements. “Where so much of securities law predates technology, there needs to be conversation,” Ms. Engelbert remarked. She maintains that “talent and technology can truly merge to provide value for investors.”

“To get from ‘here’ to ‘there’ will require us to think in new ways, work together as a profession, listen to investor and other stakeholder needs, and work with academia, regulators and legislators,” Ms. Engelbert stated.

Deloitte is proud to support the ethics training provided by the NASBA Center for the Public Trust. Ms. Engelbert stated. The CPT gets ethics on students’ radar earlier. She also commended NASBA for its efforts to promote diversity, which is needed at both the front and end of the candidate pipeline. “Diversity of the pipeline is an immediate challenge,” she noted.

Ms. Engelbert concluded her remarks by stating, “I think the sky is the limit for this profession.”

Envisioning a New Pathway to CPA (Continued from page 1)

In addressing the 356 Annual Meeting attendees, representing 53 Boards of Accountancy and other interested parties, President Bishop noted that New York was a most appropriate place for the Annual Meeting as it was the first state to enact the regulation of accountants in 1896. He announced that for the coming year NASBA has budgeted $10,300,000 for mission spending in support of the State Boards. NASBA is stronger than it ever has been financially, in its capacity to provide what the State Boards need, and in the level of participation of the member Boards, Mr. Bishop observed. For example, he reported that 43 State Boards ultimately responded to the most recent Uniform Accountancy Act exposure draft and those well-reasoned responses will make NASBA “a stronger organization.”

Among the other issues covered by President Bishop in his report to the Annual Business Meeting were:

Phase one of the redesign of NASBA’s Nashville offices has worked out very well and now the second phase has started, which will provide for a larger meeting space and a video studio. Mr. Bishop predicted the video studio will help NASBA to develop “great new tools” for the Boards.

The new Gateway system for CPA candidate data will be completed in 2018. A new vendor is working on the CPE tracking tool, which will result in a more reliable product. He reported the vendor previously chosen had returned all the money NASBA had spent on the project, including compensation for NASBA staff time.

State Board members have complained to President Bishop about confusion over the meaning of the AICPA’s reorganization. To address those issues, NASBA Chair Lodden has created the Reorganization Impact Task Force chaired by Director-at-Large John Dailey (NJ) to

Elections by the Board

At their meeting on October 31, the 2017-18 NASBA Board of Directors elected the following to serve:

• Treasurer – Jimmy E. Burkes (MS)
• Secretary – W. Michael Fritz (OH)
• Director-at-Large (to fill remaining two years of Vice Chair Janice Gray’s term) – Richard N. Reisig (MT).
Tomorrow Is Promised

“Promises! Promises!” Throughout our lives, we will continue to make promises — some will be kept and some will not. But one thing that is promised is tomorrow. There are things that you and I must do as regulators to ensure that there is a safer tomorrow for the public we serve. The theme of the Annual Meeting, “Shaping the Future,” fits the world we are experiencing both as regulators and professionals. We must do the right things today, for a brighter tomorrow.

The presenters at this year’s Annual Meeting focused on the continual evolution of the accounting profession. As regulators, we must anticipate changes within the profession and adapt to be effective. These changes include an emphasis on an increased reliance on technology, legislation that undermines effective regulation, changes to education accreditation models and improvements to the peer review process. Our strategic plan will be updated this year to continue to gauge the Boards’ needs. I will chair this committee and I welcome your input because it will be instrumental in guiding the organization for tomorrow.

I began this column with the phrase, “Promises! Promises!” There are three promises that are important for us to keep: 1 - To enforce your Board’s rules and regulations; 2- To guard against deregulation; and 3- To engage in the evolution of the profession.

It is imperative that Boards of Accountancy proactively enforce their rules and regulations. I have noticed in various disciplinary hearings of the Ohio Board that, when the Code of Conduct is referenced, the licensees are not aware of this most important document. Your Board’s rules and regulations can be communicated more proactively than reactively through outreach initiatives such as newsletters, email communications, social media and video. NASBA’s communications team is ready to do all the heavy lifting to help you communicate to your licensees, candidates and the public in your state.

I am asking for your continued support of the Uniform Accountancy Act by both adopting the just approved Model Rules for continuing professional education, which outline the requirements for learning and programs, and enforcing the restrictions on confusing and misleading titles. As President Ken Bishop says, “Enforce your rules, or change them, because you can’t look the other way.”

During our Annual and Regional Meetings, we discussed NOCLAR (noncompliance with laws and regulations). State Boards need to thoughtfully consider the issue and voice their opinions. What is the appropriate balance between two important, but sometimes competing, values: confidentiality and the public interest?

Quality control is one of the pillars of the accounting profession. The American Institute has suggested changes to the administration of its Peer Review Program. Twenty-six Boards of Accountancy sent comments to the American Institute in response to their proposed changes. Thanks to your input and comments, many modifications were made to that original proposal.

The second promise that must be kept is to guard against deregulation. The deregulatory political climate is more prevalent today than ever in history. Recent Congressional legislation, the Restoring Board Immunity Act (RBI), was introduced to undermine our public protection mandate. This bill encourages states to examine and eliminate their occupational license regulations. Undermining regulation, and the regulatory bodies that have been put in place to protect the public, that is the true danger -- and we can no longer be complacent on this issue. In 2018, NASBA will take the lead on this issue by coordinating efforts between Boards of Accountancy and the profession to reassert the value of the service Accountancy Boards provide.

The third promise is we must be engaged in the evolution of the profession. My promise to you as chair of NASBA is that we will do everything in our power to keep Boards apprised of the latest regulatory issues and changes in the accounting profession. We must keep up with the rapidly changing educational models. Credit for experience, online classes and competency-based granting of credit are all part of the changing education landscape. We must ensure that the Uniform CPA Examination remains current and tests what newly licensed CPAs need to know. As the profession evolves and non-CPA experts in data analytics and IT controls become even more integral to the performance of services, we must ask if pathways into the CPA profession need to evolve too. We will be considering that thought-provoking question this coming year.

This past year, a new AICPA, the Association of International Certified Professional Accountants, came front and center. This reorganization of the American Institute of CPAs and its partner, CIMA, has brought about many questions. These questions are operational, political, contractual and regulatory. In response to your questions and concerns, NASBA recently created the Reorganization Impact Task Force.

We are aware of the changes in the world’s population. The licensees we regulate and the world we protect is more diverse than ever before and the current composition of the Boards of Accountancy does not reflect the diverse population they serve. I want to publicly applaud the efforts of the Boards that are working closely with minority accounting organizations to have their members serve on Board committees and task forces.

I ask you again to keep these three promises during this upcoming year: Enforce your Board’s rules and regulations; Guard against deregulation; Engage in the evolution of the profession. By coming together on the issues, educating each other, and embracing the change of tomorrow we will strengthen state-based regulation for years to come.

Tomorrow is here! Embrace it.
Tackling Technological Changes

We are in the fourth industrial revolution, NASBA Regulatory Response Committee Chair W. Michael Fritz said as he introduced an Annual Meeting panel looking at how technology is currently changing the profession. A. Michael Smith, national leader of PricewaterhouseCooper’s US Internal Technology Audit Services Practice, commented, “The use of blockchain is only limited by our imagination.” He briefly explained that blockchain is a form of applied cryptography, where anything collected is integrated into the process. If any single part of the process is violated, it becomes immediately visible. A simple application of blockchain is distributed ledger technology, which uses consensus to prove the accuracy of the underlying ledger.

Mr. Smith said blockchain is being employed for many different purposes, including: to verify green farming is being used; the United Nations is looking into using it for establishing a global identity for displaced people; and in the United Kingdom they are trying to apply it to the welfare system to remove black marketing. One current problem with blockchain is that it is a technological concept with no standardized framework, no COSO, Mr. Smith said. There is nothing on the basic cryptography, but that framework is being developed and he believes meaningful regulatory standards will emerge. Compliance is all about standardization, he stated.

Jeanette Franzel, Public Company Accounting Oversight Board member, said that when she thinks about blockchain, she wonders how it will impact the financial reporting process: “I do think blockchain will disrupt how we talk about global management. On the audit side, it will challenge some of those processes. It raises a lot of questions about standards and business models. Routine types of testing can be done by computer, but how does that change the skill set that accountants need and will that change happen fairly quickly?”

Changes in the use of data and technology in the conduct of audits was added to the PCAOB’s research agenda in December 2016 and has continued to be explored since then, with the PCAOB speaking to the American Accounting Association, Financial Reporting Council, AICPA, CPA firms and software developers. Ms. Franzel said she would recommend that the PCAOB develop guidance, rather than standards, on how auditors are to work with these advances.

Allen Spotlights Blockchain Laws

States that have already passed laws and/or commenced studies pertaining to blockchain were pointed out by NASBA outside legal counsel Noel Allen. These included:

- Vermont – “Blockchain enabling” law (2015, 2016, 2017);
- Hawaii - Legislation to establish blockchain technology and digital currency working group (February 2017);
- Arizona – “Blockchain Technology” law (March 2017);
- Illinois – “Legislative Blockchain and Distributed Ledger Task Force” (March 2017);
- Maine – Study using blockchain technology in conjunction with paper ballots in elections (March 2017);
- Nevada – Law related to use of blockchain technology (March 2017);
- Delaware – Law to allow use of distributed ledgers or blockchain for corporate records (July 2017);

Mr. Allen added that there is other associated legislation and/or rulemaking activity in progress in California, New York, North Carolina and North Dakota. He predicted there will be public protection challenges. For example, where there is no single place the information is stored, which state laws are going to apply? Is working with this data even the “practice of public accountability” — and does a State Board have jurisdiction over it? He cited two recent cases involving blockchain: U.S. v. Ulbricht (2nd Cir. 2017) in which the FBI used blockchain to see how a drug trafficker paid transactions in bitcoins; and In re Dole Food (DE Chancery Ct. 2017) where it was decided that blockchain could be used to determine where all the shareholders in the class action are.
NOCLAR for Corporate Governance

Why did the International Ethics Standards Board for Accountants (IESBA) feel they had to change the long-standing rule on how accountants are to respond to a client’s noncompliance with laws and regulations (NOCLAR)? IESBA Deputy Chair Richard Fleck explained to the NASBA Annual Meeting audience: “There was growing concern about whether or not the public had confidence that accountants disclosed what they became aware of – not just auditors.” He assured all that it was not part of IESBA’s objective “to have accountants operate as policemen,” but there was concern that the principle of absolute confidentiality was operating to the detriment of the public interest.

“Fundamentally it is about good corporate governance,” Mr. Fleck stated. IESBA’s new rules require when accountants become aware of a breach they are to disclose what they have found to the appropriate level of company management, so management can take the proper course of action, and then the accountant has to evaluate how management has responded. “Only after all that has happened and management has decided not to do anything, then the accountant has to decide to report to an outside party, or resign, depending on how the accountant believes the public will be impacted,” he stated.

Catherine Allen (NY), NASBA Northeast Regional Director and Standard Setting Committee Chair, pointed out that the proposed ethics interpretation released by the AICPA Professional Ethics Executive Committee in March reflected IESBA’s changed rules but differed on whether confidentiality could be overridden and if the rule should be expanded to non-auditors as well as auditors.

The basic points of NOCLAR are similar to what is covered under Section 10a of the Securities Exchange Act, which requires the auditor to inform the audit committee of NOCLAR and if the auditor determines appropriate actions are not taken then the auditor has to report to the SEC within 24 hours, but there is a big difference in the IESBA rule, Michael Young, Wilkie Farr & Gallagher litigation partner, explained. “The big change is that NOCLAR disconnects from the fairness of presentation in the financial statements,” he pointed out. In the U.S. environment, it is hard to overstate the significance of potentially extending the accountant’s determination to non-financial matters, such as health and safety. “The objective is laudable, but we would be putting in place an extraordinary and new expectation – and the profession would need to be prepared to fulfill it. Absent a confidentiality constraint, the accountant would have to report on any possible problem,” Mr. Young contended.

Corporate violations are happening every 90 seconds and most turn out to be nothing, Mr. Young stated, “But how do you determine the one that will blow up? How can we operationalize it?”

Mr. Fleck responded that probably the same argument was raised when Section 10a was proposed “and people learned to behave in an increasingly responsible way.” He stated that the rule is working in the United Kingdom. “I contend this can and should operate properly in the United States. Companies have to assess risk all through the year, and to understand risk down the table as to whether their operation is effective. The accountant is encouraging them to take the appropriate action.” The IESBA Deputy Chair said: “We are not there trying to produce standards for the profession – but for the public interest.”

The Public Company Accounting Oversight Board’s Consultative Advisory Group is actively looking at updating their auditing standard, Ms. Allen added. “It is not enough to just satisfy 10a, but there is an ethical standard beyond your auditing duties. For all of us, as regulators, we need to lay this issue to rest. It goes back to our relevance.”

NASBA Uniform Accountancy Act Committee Chair J. Coalter Baker (TX) said NOCLAR will be one of the topics being considered by the Committee this year.

No Action on Titles

NASBA Uniform Accountancy Act Chair J. Coalter Baker (TX) thanked the State Boards for responding to the exposure draft of language that would have amended the UAA to permit the use of management accounting titles. “We asked you to educate yourself on your current law, to prepare a thoughtful response, and to provide any other commentary that would be helpful to our process – and you did,” Mr. Baker said.

Based on the responses received, the AICPA/NASBA UAA Committee concluded that there should be no addition of the proposed language to the UAA. Mr. Baker said the UAA Committee will not revisit the issue.

Should Boards want to adopt such language, NASBA would be willing to help them work on it so that there would not be many varying versions, Mr. Baker advised. Similarly, NASBA would assist Boards that decide to oppose such language should it be introduced in their jurisdictions.
Peer Review AEs Still Need CPA

The AICPA received 55 comments on their plans to evolve their Peer Review Program's administration, many from the Boards of Accountancy, and those comments did have an impact, according to NASBA Compliance Assurance Committee Chair John F. Dailey, Jr. (NJ). Rather than using a consolidation model, that would have set as a goal a maximum number of administering entities (AEs), the plan released on August 31 is focused on AEs continuing to be in operation based on their consistently meeting benchmarks, which will include qualitative, objective and measurable criteria. Mr. Dailey reported to the Annual Meeting that the AICPA has stated the AEs’ performance on those benchmarks is to be transparent to the state society CEOs as well as the Boards of Accountancy.

The benchmarks will be subject to change and will be modified, as appropriate, to deal with issues such as changes in technology. It will be up to the AE to develop its own policies to address compliance with the benchmarks.

Most of the comments the AICPA received from the State Boards remarked on the increase in cost to reviewed firms that would be anticipated if the AE must have on staff full-time a CPA who is knowledgeable in the Peer Review Program’s standards and administrative requirements. Mr. Dailey pointed out that the AICPA feels a CPA on staff will provide skills, knowledge and ability that will enhance the AE’s performance. However, the AE can request a waiver for up to three years to meet this requirement. Waivers must be filed by April 1, 2018 with the AICPA, he reported. AICPA Vice President Jim Brackens said the waivers will be automatic the first year because the AICPA has not yet established the benchmarks. However, waivers will need to be applied for annually.

The AICPA has stated that they will administer the Peer Review Program if the AE leaves the program and no other AE steps up, but in such situations a qualified Peer Review Oversight Committee (PROC) would review the program. Mr. Dailey announced that NASBA’s Compliance Assurance Committee continues to work on a plan for providing more hands-on assistance to State Boards with the facilitation of PROCS for Boards that may not have one, or would like assistance with their existing PROC.

Sadler, Smoll and Kasin Honored

NASBA’s three annual awards were presented by Awards Committee Chair Walter C. Davenport and Executive Vice President Emeritus Lorraine P. Sachs on October 31, 2017 in New York City, at the Annual Meeting, to:

- Thomas J. Sadler (WA), NASA Chair 2008-9 – William H. Van Rensselaer Public Service Award – who focused a bright light on the need for effective State Board oversight of compliance assurance programs.
- E. Kent Smoll (KS), NASA Director-at-Large – NASBA Distinguished Service Award – who provided outstanding guidance to the Administration and Finance Committee, and its Investment Advisory Committee, as a member and a chair.
- Nicole Kasin (SD), Executive Director of the South Dakota Board of Accountancy – Lorraine P. Sachs Standard of Excellence Award - who has identified the concerns of smaller Boards of Accountancy, as well as of the executive directors, and advocated for their resolution.

Melancon Sees Cybersecurity Demand

The speed of change is scary for a profession that is rooted in so many things, AICPA President Barry C. Melancon told the NASBA Annual Meeting. However, he pointed out, “Today the profession is more trusted than at any other time in our history. Our negatives are at the lowest.” Mr. Melancon said he does not lose sleep over the changes, but he does over how to bring these new capabilities to the mid and smaller size firms. “I expect you will not be able to recognize the profession in ten years – but I really mean five,” he said.

Five years ago NASBA held its Annual Meeting in Orlando, FL, and Mr. Melancon spoke there asking that the definition of “attest” be amended in the states’ laws. Now approximately 75 percent of the states have made that change, and he thanked the Boards. One of the new services covered under that definition is cybersecurity, which Mr. Melancon compared to the attestation that the public was calling for in the 1930s and 1940s. Just as the audit evolved to fill that demand: “Cybersecurity is that element today – the public is demanding it. The public is asking how do we know when the management team says they are doing all that is needed in cybersecurity.” The AICPA is coming out with a new cybersecurity guide in the beginning of 2018.

Among the issues AICPA is working on with NASA is the candidate pipeline. Mr. Melancon said the AICPA has developed an honors course in accounting which it is working to have colleges accept for advanced placement credit.

He stressed the need for strong and effective State Boards to maintain the regulatory structure, and that the profession must continue to evolve. “Change is always hard – but the profession comes out more successful when it embraces change,” Mr. Melancon observed.
A Glimpse at the 2017 NASBA Annual Meeting

Chair Lodden welcomes the 110th Annual Meeting, which had 356 attendees with 53 Boards represented.

Ted Lodden (left) congratulates new Chair Ted Long.

NASBA Center for the Public Trust Workshop.

Anton Colella (left) receives award from Ken Bishop.

AICPA Chair Kimberly N. Ellison-Taylor.

Representatives of CPA Canada, Instituto Mexicano de Contadores Públicos, COMPIC, IQAB, NASBA and AICPA sign renewal of recognition agreement.

Generous CPT Bids on Broadway contributors.

Meeting attendees consider new challenges.
International Agreements Moving Ahead

Proof of the work of the NASBA/AICPA International Qualifications Appraisal Board (IQAB) and their counterparts in other countries was evident at NASBA’s Annual Meeting. IQAB Chair Sharon Jensen (MN) moderated a session that saw the signing of the renewal of the tri-party mutual recognition agreement with the Instituto Mexicano de Contadores Públicos and CPA Canada by representatives of IMCP, CPAC, NASBA, AICPA and COMPIC (Comite Mexicano para la Practica Internacional de la Contaduría). As Ms. Jensen explained, this agreement took a significant amount of time as CPA Canada now represents all three accountancy bodies in Canada, and the qualifications for each were reviewed by the IQAB team, and specific requirements for those covered by the agreement were outlined in the renewal.

NASBA President Ken Bishop and AICPA President Barry Melancon thanked all those involved in this effort. Representatives at the signing included Tashia Batstone, CPAC Senior Vice Chair – External Relations and Business Development; Rachel Miller, CEO, Chartered Professional Accountants Alberta and Chair, Canadian CPA Profession’s Council of Chief Executives; Jose Besil, IMCP President; and Manuel A. Sanchez Y Madrid, Member, COMPIC.

Appreciation of the mutual recognition agreement’s renewal with the Chartered Accountants of Ireland, signed in August in Dublin (see sbr 9/17), was also voiced at the NASBA Annual Meeting, with CAI President Shauna Greely and Chief Executive Barry Dempsey thanked for their assistance and support of the negotiations.

Looking to an agreement that is set to be finalized in January 2018, a memorandum of understanding was signed with the Institute of Chartered Accountants of Scotland, represented by Anton Colella, CEO ICAS, and Mark Allison, Executive Director – Education and International ICAS. Mr. Colella remarked: “You don’t often have a chance to do things that history will remember. This is truly history in the making. Who would have thought the political reality would be what it is today. This process has gone all the way to the top of the political agenda. I want to honor those great men and women who have made these things happen.”

CPE Model Rules Approved by BOD

The revised Uniform Accountancy Act Model Rules Article 3, covering continuing professional education, were approved by the NASBA Board of Directors at their meeting on October 27 in New York City. Maria L. Caldwell, NASBA Director of Compliance Services, asked all Boards to update their own CPE rules to operate in accord with the UAA Model Rules. Among the added provisions are the requirement that 50 percent of a CPA’s total CPE requirement be completed in courses from the technical fields of study, as defined in the rules.