

Ray Johnson Chairs IAESB CAG



Ray Johnson

As of January 1, NASBA Director-at-Large Raymond N. Johnson, CPA, Ph.D., is the new chair of the International Accounting Education Standards Board's Consultative Advisory Group (CAG), to serve in that position for a three-year term. Dr. Johnson, who also chairs NASBA's Education Committee and is a member of the NASBA/AICPA International Qualifications Appraisal Board, has taught at

Portland State University as well as universities in Australia and the United Kingdom. He has served as an IAESB CAG member from 2012-2014 and from 2016 to the present.

The CAG is a 15-member body that includes representatives from regulatory bodies, academic associations, academia and professional organizations. It provides advice on technical and public interest matters pertaining to the development of the IAESB's International Education Standards, and their supporting materials.

Currently the CAG is considering the revised International Education Standard 7 on continuing professional education, and new projects on information and communications technology, professional skepticism and critical thinking, and behavioral competence.

Dr. Johnson stated: "I am honored to lead the IAESB CAG as it plays a key role in developing strong professional standards for global

accounting education that are fit for the future. On the technology front, it is not about learning a particular technology, but about becoming technologically agile. Further, advances in technology not only are impacting internal controls, accounting and auditing, but how education takes advantage of technological advances, and then how that education will be delivered. As regulators, we need to understand that tomorrow's education may not be delivered the way it was delivered to us. We need to appreciate that as audits are changing, both the content and the delivery of accounting education are changing.

"Looking forward, I expect a dynamic education environment, in which content will change more rapidly and delivery of education will change with more on-line programs and greater use of technology in the delivery and assessment of education. Nevertheless, the quality of professional education must continue to remain high and accounting education must continue to evolve to serve the public interest. We also need to recognize that in a connected world, if we solve a problem somewhere, we can solve that problem everywhere. It is essential that we understand best practices around the globe, for example best practices in teaching and evaluating professional skepticism and critical thinking, and we share that knowledge for the betterment of the accounting profession." ♦

NASBA at PCAOB International Meeting

NASBA Executive Vice President and COO Colleen Conrad represented NASBA at the Public Company Accounting Oversight Board's 11th annual International Institute on Audit Regulation, held December 7-8 in Washington, D.C. Participants included approximately 75 officials from audit regulators in 39 non-U.S. jurisdictions along with 10 officials from international organizations.



Colleen Conrad

PCAOB Member Lewis H. Ferguson underscored the need to improve the consistency of audit quality. He told the regulators: "In particular, we can push the firms to take actions to improve their cultures around quality and consistency of execution, to provide adequate coaching and training, to develop and monitor audit quality indicators, to improve their root cause analyses, to hold their partners and employees accountable for quality outcomes, to create proper incentive programs, and to focus on critical issues such as audit planning and time management."

The meeting included panel discussions among audit regulators, academics, investor representatives and corporate governance experts from around the world. They focused on: key international developments - coordination among audit regulators; firm culture, auditor behavior and professional skepticism; financial fraud; and the evolution of firms and its impact on inspections.

Securities and Exchange Commission Chairman Jay Clayton introduced John C. Bogle, of Vanguard Group, to discuss "The Modern

Corporation and the Public Interest." Other speakers included: Benjamin W. Heineman, Jr., on creating a culture of integrity; David L. Yermack on blockchains and the auditing profession; and Eugene Soltes on potential improvements to corporate compliance and whistleblower programs.

PCAOB Director of International Affairs Bruce Wilson said, "This program is an important part of our international outreach and reflects our collaborative approach to working with our international counterparts." An introductory session for new and developing audit regulators was held the day before the Annual International Institute. ♦

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New Faces at PCAOB



W.D. Duhnke

William D. Duhnke, III, was sworn in as chairman of the Public Company Accounting Oversight Board on January 2. Prior to coming to the PCAOB, Mr. Duhnke was the majority staff director and general counsel to the U.S. Senate Committee on Rules and Administration, chaired by Richard C. Shelby. He joined Senator Shelby's staff in 1995, after serving in the U.S. Navy, and has served as general counsel to the Senate Committee on Banking, Housing and Urban Affairs, Senate Committee on Appropriations, and Senate Select Committee.

Also sworn in on January 2 was PCAOB member Kathleen M. Hamm, who came from the Promontory Financial Group where she was the global leader of securities and fintech services and senior strategic adviser to the chief executive officer on cyber solutions. From 2014 to early 2017 she had served at the U.S. Treasury Department as counselor to the deputy secretary on cybersecurity and related governance, regulatory compliance, and risk management issues facing the financial services sector.

Other new members coming on to the PCAOB are J. Robert

Brown, James Kaiser and Duane DesParte. Mr. Brown is currently a professor of law at the University of Denver, where he is the director of the corporate and commercial law program. Mr. Kaiser is a partner and Global Assurance Methodology and Transformation Leader at PricewaterhouseCoopers and has been with the firm for 38 years. Mr. DesParte is retiring as Senior Vice President and Corporate Controller of Exelon Corporation where he has been for 14 years, after being an audit partner with Deloitte & Touche and previously Arthur Andersen.

PCAOB Member Jeannette M. Franzel is continuing as a Board member pending the arrival of the new Board members. Chairman James R. Doty and Board Members Steven B. Harris and Lewis Ferguson have completed their service at the PCAOB. Chief of Staff Samantha Ross has also left the PCAOB, having been with the Board since it was first formed. Francis "Abe" Dymond stepped into the Chief of Staff position on January 2. He came to the PCAOB in 2012 and has served as special counsel to Ms. Franzel. ♦



Monitoring Group Collecting Input

Questions have been raised about the independence of the International Federation of Accountants (IFAC) standard-setting process and its responsiveness to the public interest, observes the Monitoring Group in a consultation paper released late last year entitled "Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest." The Monitoring Group, which includes the International Organization of Securities Commissions (IOSCO), the Basil Committee on Banking Supervision (BCBS), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), and the World Bank Group (WBG) has worked with IFAC with the objective of restoring confidence in the standard-setting of IFAC's independent Boards.

The current governance framework has three separate standard-setting boards that are nominated, funded and staffed by IFAC to develop international standards for (1) audit and assurance, (2) ethics and (3) education. There is also a Public Interest Oversight Board (PIOB) that is charged with protecting the public interest and then there is the Monitoring Group that is responsible for the overall governance of the standard-setting process and its implementation. The consultation paper which is now out for comment, and is being studied by NASBA's Standard Setting Advisory Committee, offers options for consideration in keeping with the Monitoring Group's periodic look at the effectiveness of the standard-setting process. One proposal would have a single independent board to develop and adopt auditing and assurance standards and ethical standards for auditors, rather than the current three separate boards. However, it is proposed that the responsibility for the development and adoption of educational standards remain with IFAC.

"The Monitoring Group notes that there is a legitimate concern



among many stakeholders that the influence of the profession is at least perceived to be too strong and that addressing this issue could further strengthen public confidence, as well as encourage still-wider global adoption of the International Standards on Auditing (ISAs)," the paper states.

The Monitoring Group is looking for feedback on whether the changes being proposed are necessary and if they could more effectively deliver the standards' objectives. Views on whether the options would enhance transparency and public understanding of the governance structure are being requested. The options being suggested would change IFAC's role, but it would be expected to continue to contribute thought leadership on the future development of the accountancy profession. The comment deadline is February 9. ♦

IESBA Asks About Fees

The International Ethics Standards Board for Accountants currently has a questionnaire posted on its website to explore a number of matters related to fees charged by firms, with a view to determining whether there is a need for further enhancements to the IFAC Code of Ethics for Professional Accountants or for additional staff guidance. Input is being sought by February 1, 2018 from investors and other users of financial statements, the corporate governance community, the regulatory and audit oversight community, preparers, firms, national standards setters, IFAC member bodies, academics and others. NASBA Ethics Committee Chair Catherine R. Allen (NY) is considering the questionnaire with her committee. ♦

PRESIDENT'S MEMO

In 2018: Bots, Cognitive API, AAI and Machine Learning

Wow....2018! Hard to believe that we are almost two decades into the 21st century. In recent speeches and columns I have been discussing the rapid changes in technology, and how the accounting profession will be impacted by these ever-increasing advances, and how we must be prepared for them as regulators. In our personal lives we readily accept asking ALEXA for an update on the weather, letting our cars autonomously drive us down busy freeways, or having our televisions changing channels by simply saying, "Turn to ESPN." Yet in our professional lives there is somewhat of a reluctance to prepare for what is inevitable. This year, terminology that has not yet become a part of standard accounting and regulatory jargon will be frequently heard and continue to gain in importance. In 2018, bots, cognitive API, advanced artificial intelligence and machine learning will be a part of our vocabulary and, more importantly, a part of the accounting profession's operational environment.



Ken L. Bishop
President & CEO

So that we are all on the same page, let me provide some generally accepted definitions for the terms mentioned above:

- "Bots" or "Internet robots" are software applications running automated, repetitive structural steps at a pace and accuracy level much higher than the capability of a human being.
- "Cognitive API" or "cognitive computing application programming interface" is essentially an application tool that can learn and enhance itself on its own. It develops artificial intelligence and powerful cognitive computer applications without the need for an expert software developer.
- "Advanced Artificial Intelligence" (AAI) is computer-based intelligence, surpassing the brightest and most gifted human minds, that continuously monitors and perceives its environment to maximize success.
- "Machine Learning" is a computer-application-driven process that provides systems with the ability to continuously analyze information and improve automatically.

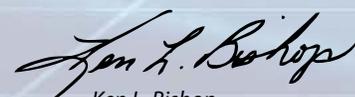
There are several more terms and definitions that I could list, but those shown above should give you enough to think about. They are not from a script of a science fiction movie, nor part of some soothsayer's prediction. They are, in fact, very much a part of our current existence. As we consider the rapid transition to reliance on data analytics, it is important to know that these processes provide much of the underlying mechanics that allow data analytics to work and evolve.

In recent months, I have opined that it is important that State Boards and the regulatory community quickly get up-to-speed as to their knowledge of how data analytics and artificial intelligence are being utilized in accounting and auditing. NASBA is preparing to provide education and support to State Boards in that endeavor. We are, and have been, in discussions with fellow regulators, large firms and universities to ascertain the use of technology and to begin developing strategies for how to best regulate work that is, by definition, performed by machines.

I give credit to the American Institute of Certified Public Accountants (AICPA) and their leadership for the work they are doing in this area. They, and others, are developing new technology resources that will provide artificial intelligence tools to firms of all sizes. NASBA volunteers and staff are dedicated to ensuring that State Boards are prepared and have what they need to protect the public. In 2018 that includes understanding bots, cognitive API, advanced artificial intelligence and machine learning.

I wish each of you a happy, safe and prosperous New Year.

Semper ad meliora (Always toward better things).



— Ken L. Bishop
President & CEO

Call for Research

April 18, 2018 is the deadline for proposals for NASBA Accounting Education Research Grants available to faculty and postdoctoral researchers at U.S. institutions of higher education. Preference in awarding the grants is given to research focused on areas that can assist NASBA and the State Boards of Accountancy protect the public and be better resources to the public accounting profession. Since 2011, this program has supported studies that have provided helpful insights for the Boards and the profession.

Recipients of the 2017 NASBA Accounting Education Research Grants will be reporting on the progress of their studies at the June 2018 NASBA Regional Meetings. Those projects include:

- **The Landscape of High School Accounting Education and the Impact on the Future of the Accounting Profession** – Dr. Kimberly Swanson Church of the University of Missouri – Kansas City and Dr. Gail Hoover King of Purdue University Northwest.
- **Stereotype Threat and Mindset Orientation: Psychological Barriers to the Accounting Profession** – Dr. Brandis Phillips, North Carolina A&T State University
- **Is Success on the CPA Exam All About Opportunity?** – Reza Espahbodi of Washburn University, and G. Thomas White of the College of William and Mary.

More information about the grant program, including an application form and topics of special interest, can be found on NASBA's website www.nasba.org. Proposals must be submitted electronically to grantproposal@nasba.org. Applicants are encouraged to submit proposals in advance of the deadline of April 18, 2018, at 11:59 p.m. Central Time. Grant recipients will be announced in May. ♦

CPAs Do Not Braid Hair!

The NASBA Legislative Support Committee is getting ready to increase its efforts to make clear to legislators that all professional licenses are not the same, such as those for CPAs, hair braiders and tree trimmers. Led by Mountain Regional Director Nicola Neilon (NV), the Legislative Support Committee (LSC) has been working with Director of Legislative and Governmental Affairs John Johnson to create a multi-pronged approach to educating policy makers and the general public to the threats created by a blanket anti-regulation approach to occupational licensing.

Using a report by the Institute of Justice as the information source for its November 25-26, 2017 editorial, the *Wall Street Journal* (WSJ) named as the "10 states with the highest number and worst average burden of occupational licensing requirements": 1- California, 2- Nevada, 3- Arkansas, 4- Arizona, 5- Hawaii, 6- Louisiana, 7-Virginia, 8- Oregon, 9- Washington and 10- Rhode Island. The WSJ editorial went on to state: "The cost and time to obtain a license is no accident, as professional guild members sit on licensing boards and reinforce the racket. They want to limit competition to keep prices high."

Director Johnson observed: "We must acknowledge that the debate around what professions and occupations should continue to require licensure is one that is here to stay and it is one that must be engaged in. At the same time, however, the accounting profession must differentiate itself and seek to be removed from a broad-brush approach, when possible, through increasing the trust and appreciation that anti-regulatory groups may have for the accounting profession." The LSC is looking to do this through developing robust communications, forming collaborations with other learned professions and providing training for State Board members and State Society leadership. ♦