

## Boards Consider Technology Pathway

Attendees at NASBA's Eastern and Western Regional Meetings are being asked to consider the concept of a Technology Pathway leading to the CPA license. Executive Vice President Colleen Conrad and Vice President – State Board Relations Dan Dustin are presenting the basic features of what is under consideration and asking those at the meetings for their input.

CPA firms are predicted to automate or eliminate up to 40 percent of basic transactional accounting work by 2020, Mr. Dustin explained. "The Technology Pathway is an opportunity for the Boards to be proactive," he commented. "The firms' hiring of accounting graduates is down, but not their overall hiring. Many of the professional hires are going to non-accounting graduates."

Ms. Conrad added: "Skills are evolving and we need to attract the right people into the profession for public protection. If clients are to rely on the firm to look at controls, cybersecurity, etc., there needs to be a population available to look at those services."

What is under consideration is a program of equivalent rigor to the traditional CPA pathway that would result in a CPA, not a hyphenated CPA, Mr. Dustin explained. This should be a program of interest to students as well as those already in CPA firms who are engaged in predictive analytics, data analysis and modeling, IT risks and controls, and similar activities. The pathway would include a

four-part examination and require 150 credit hours of education with core courses covering business/accounting as well as IT. While the examination would still cover the basic accounting questions, it would go much deeper into subjects such as IT controls and cybersecurity. Staff and volunteers are engaged in several work streams to add details to the concept. The preliminary work streams cover: defining "it"; education – core curriculum; education – programmatic accreditation; communication/outreach; examination; education – bridge program; regulation/statute; and report signing.

This discussion has led to consideration of qualifications for those who have the ability to sign audit reports. Regional Meeting attendees are being asked to consider whether a requirement should be added for those signing reports to have had a minimum number of hours of experience in audits/examinations in the last five years. Mr. Dustin explained that if a CPA did not meet that requirement, then

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**Colleen Conrad**  
Executive Vice President & COO

## Changes at PCAOB

Many key people announced they were leaving the Public Company Accounting Oversight Board in May. These included:

- Claudius Modesti – Director of Enforcement and Investigations
- Nirav Kapadia – Director of Information Technology and Chief Information Officer
- Martin F. Baumann- Chief Auditor and Director of Professional Standards
- Helen A. Munter – Director of the Division of Registration and Inspections
- J. Gordon Seymour – General Counsel.



**William Duhnke**  
Chair PCAOB

NASBA has benefited from the assistance offered by several of these PCAOB leaders and we look forward to working with the PCAOB as it moves forward under the direction of PCAOB Chairman William D. Duhnke, III. He announced in May that the PCAOB expects to complete a draft of its 2019 strategic plan by the end of July, at which time the plan will be open for public review and comment. It is anticipated the plan will be finalized in November, alongside the PCAOB's final budget for 2019.

Through 2017, the PCAOB had conducted more than 3,500 inspections of PCAOB-registered audit firms. Its inspectors had also looked at significant portions of more than 13,000 public company and broker-dealer audit engagements. Chairman Duhnke observed

that the information gathered from those inspections has improved audit quality, but he added: "Notwithstanding these improvements, however, many firms have 'plateaued' in their progress toward improved inspection results. Therefore, now is an excellent time for us to consider the potential reasons for those plateaus, including considering the continuing effectiveness of our current inspection approach in driving further improvement in audit quality."

Chair Duhnke praised SEC Chairman Jay Clayton for bringing him together with his fellow Board members: J. Robert Brown, Duane M. DesParte, Kathleen M. Hamm, and James G. Kaiser. They are "a diverse

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*Published by the National Association of State Boards of Accountancy  
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## One or Two Regional Meetings?

The State Boards are being asked to consider whether NASBA should continue to have two Regional Meetings or one June meeting that would combine all Regions besides the Annual Meeting, which would remain at the end of October. The agenda for the combined meeting would continue to include an extended session for each of the eight Regions to meet on their own, as these single Region sessions have consistently been given high marks by attendees.

Combining the Regional Meetings was proposed by Illinois Board of Examiners Executive Director Russ Friedewald in a note to President Ken Bishop, and brought to the NASBA Board in a special telephonic meeting on May 21. The Board agreed to have Chair Theodore Long and President Bishop present the concept for discussion at the June Regional Meetings.

Over the years, the NASBA Regional Meetings have grown in size, starting out as eight meetings, then condensing to four meetings and now two meetings, always with an Annual Meeting. Also which Regions would meet together has changed. At one point, which Regions would meet together was alternated. In recent years the division has been those Regions in the East meeting together, and those in the West meeting together. When there was alternate pairing of the Regions, attendees said they enjoyed having the opportunity to meet with those from other parts of the country. However, the East/West division allowed for shorter travel to the meetings.

The format of the meetings has also changed over time. At one point there were sessions where two Regions would meet together and share a roll call of states, besides the single Region session.



Attendees at the 2018 NASBA Eastern Regional Meeting consider changes.

There were also more topical breakout sessions. However, some participants valued spending more time focused on a single Region, and preferred panels presented one time so that everyone heard the same information in the same way. Through all the years, and various formats, the Regional Directors determined the topics to be covered and Chair Long and President Bishop said the Regional Directors would be expected to continue to play that part no matter the number of Regional Meetings decided upon.

As meeting space planning has to be done well in advance of their actual dates, those Boards with an opinion on this issue are asked to send their recommendations to NASBA President Ken Bishop as soon as possible. The next meeting of the NASBA Board of Directors will be on July 20, 2018. ♦

## Changes at PCAOB

(Continued from page 1)

set of talented and dedicated individuals.” Chair Duhnke stated, “Each of my fellow Board members brings a wealth of relevant experience and skills to the Board.” Prior to their PCAOB appointments: Mr. Duhnke was staff director and general counsel to the U.S. Senate Committee on Rules and Administration; Mr. Brown was a professor of law at the University of Denver; Mr. DesParte was senior vice president and corporate controller of Exelon Corporation; Ms. Hamm was the global leader of securities and Fintech solutions and senior strategic adviser on cyber solutions at Promontory Financial Group; and Mr. Kaiser was a partner and the global assurance methodology and transformation leader at PricewaterhouseCoopers.

Five core values have been preliminarily identified by the PCAOB as required to achieve their mission: integrity, excellence, effectiveness, collaboration and accountability.

“This is an exciting time for the auditing profession, which as everyone here appreciates, sits on the precipice of substantial change,” Chair Duhnke stated. “Innovations in data analytics, and technology unquestionably will disrupt the profession over the coming years. These disruptions will change not only how audits are conducted, but also the business and staffing models of audit firms. As an organization, we must not stand in the way of these coming innovations. We must, instead, foster them and focus our efforts on ensuring that they advance audit quality and thus promote the efficiency of our capital markets.”

Among the questions the PCAOB is asking themselves, Mr. Duhnke mentioned:

- Is there additional information we can provide that would enhance the value of our reports for interested parties?
- Are there more effective or transparent means to communicate not only the nature of our findings but also their severity?
- Given the rapidly changing data and technology landscape, are our standards sufficient to withstand major changes in audit methodology, staffing and tools? ♦

### Accounting Association Scam

The Internal Revenue Service has sent out a warning to tax practitioners to watch out for phishing e-mails posing as state accounting and professional associations. Seeking to collect user names and passwords, it is reported that the e-mails were sent to tax professionals in Iowa, Illinois, New Jersey, North Carolina and Canada.

The e-mail states: “We kindly request that you follow this link [HERE](#) and sign in with your email to view this information from (name of accounting association) to all active members. This announcement has been updated for your kind information through our secure information sharing portal which is linked to your email server.”

The IRS has requested that tax practitioners who receive suspicious emails related to taxes or the IRS, or phishing attempts to gain access to practitioners’ databases, to forward those emails to [phishing@irs.gov](mailto:phishing@irs.gov). ♦

# PRESIDENT'S MEMO

## Transparency and the Elephant in the Room

So, why am I writing about transparency again? I am writing this *Memo* after returning to Nashville from the NASBA Eastern Regional Meeting in Florida, as I am preparing to attend the National Association of Black Accountants' Annual Meeting, soon after to address the California Society of CPAs' Annual Meeting, and finally to speak at NASBA's Western Regional Meeting in California near the end of the month. A hot topic at all of these meetings was, and will be, the growing reliance on technology in the accounting profession and, more specifically, consideration of a new Technology Pathway to the CPA. It has become evident to me that we need to do a better job of communicating on that topic – which takes us back to transparency and, hopefully, clarity.

During the breakfast meeting with State Board Chairs and Presidents at the Eastern Regional Meeting, a long-term Board member raised some very important points. His comment to me, and I am paraphrasing as closely as I remember, was: "Ken, we know you are being transparent, but what we are hearing from you now is not what we heard in NASBA's presentations." After sharing his observation with others, I received similar feedback.

I can assure you that we have spent a considerable amount of time and energy reviewing how best to communicate the key elements under consideration for a potential new technology pathway. It is somewhat challenging as we are discussing a concept that is still fluid. We are trying to provide enough information to have a sensible conversation on which to gauge support for this concept while at the same time listening to ideas on how to build it. Frankly, I thought we had nailed our presentation, but I have reassessed that conclusion.

An example of the confusion is how we use (or do not use) the word "accountant." In "NASBA jargon" we frequently use terms like "the accounting profession," but because most State Boards regulate Certified Public Accountants and do not prohibit the standalone use of "accountant," we often purposely do not use the term to avoid confusion and to clearly separate regulated CPAs from non-regulated accountants. In the discussion about the Technology Pathway we have articulated that the "pathway" would allow information technology (IT) and artificial intelligence (AI) experts (and/or students interested in a career in IT or AI) to become CPAs. We know what we meant, but numerous individuals have responded: "CPAs need to be accountants, so why would you make my IT guy a CPA?"

My bad! I absolutely agree. We should have been saying something like: "We need to attract folks interested in IT and AI careers to be 'accountants' and for them to become licensed as CPAs. While their education, examination and experience might be different and have an additional focus on IT and AI and more generalized accounting and business, all should agree that their academic and testing requirements adequately provide and measure their competency to be accountants." Failure to accomplish that threshold will make any attempt at integrating individuals with IT and AI acumen into the accounting profession unacceptable. It could also jeopardize our mutual recognition agreements.

Another frequently asked question is: "Why not change the existing pathway to require IT and AI college courses and to add IT and AI-related questions to the Uniform CPA Examination?"

I think most, including me, believe that this organic approach is, at least theoretically, the best approach. One of the positive outcomes of this robust discussion is that some change is already occurring, albeit slowly. One threat of waiting for organic change is that it will be too slow to counter the rapid change and the need for technology-focused accountants. The more serious concern of altering the Uniform CPA Examination is the disruption to the existing pipeline. We know from experience that even small modifications in the Uniform CPA Examination can result in significant changes in candidates' behavior, including a temporary decline in candidate volume and, potentially, the loss of candidates.

Finally, the "elephant in the room," a consistent theme we have heard in recent weeks, is described by State Board members as "distrust of the AICPA." A few comments heard frequently in recent days compared the Technology Pathway to AICPA's Cognitor, or it's because AICPA wants more members and "it is all about money." Most problematic were comments that, "This is an AICPA effort and they are using NASBA." These ill-founded beliefs and comments are important in that they are impacting what NASBA is undertaking to accomplish in partnership with the AICPA.

I have previously shared my thoughts on the use of the word "distrust" vs. "disagreement." NASBA, on behalf of Boards of Accountancy, has disagreed with AICPA on several issues, including recently; the appropriate use of the CGMA title, the need for State Board participation in determining peer review administration and oversight, and the impact of the AICPA's merger with CIMA. In each of these matters our staff and volunteers have been working closely with AICPA, through our trusted relationships, to successfully mitigate many of the State Boards' concerns. I can promise you that NASBA's involvement in the consideration of how to deal with the profession's rapidly increasing reliance on technology is not being driven by AICPA, but because our volunteers, folks just like you, have been educated on the issue and are focused on being prepared for the State Boards' future role in public protection as their licensees' services evolve.

On a personal note, I appreciate so much the candor, and willingness of our members to debate and discuss these important matters. NASBA's power is our willingness and ability to do that. We will continue to be transparent and will work to have more clarity in our communications.

*Semper ad meliora (Always toward better things).*



**Ken L. Bishop**  
President & CEO

A handwritten signature in black ink that reads "Ken L. Bishop".

— Ken L. Bishop  
President & CEO

# State Board Report

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## FRC Issues Thematic Review

The United Kingdom's Financial Reporting Council (FRC), the competent authority for audit in the UK, in an effort to improve audit quality has performed a "thematic review" to compare, and provide transparency to, actions at different firms in relation to a particular topic. The report on their review of "audit culture" was released in May. In PCAOB Chairman Duhne's address in May, he referenced how the FRC is using these thematic reviews in a two-pronged approach to inspecting audit firms, the other prong being individual firm inspections.

For the thematic review of audit culture the FRC looked at the eight firms that have adopted the Audit Firm Governance Code "to establish, promote and embed a culture that is committed to delivering consistently high audit quality audits."

The report states: "It is important that firms create a culture where achieving high quality audit work is valued and rewarded, and which emphasizes the importance of 'doing the right thing' in the public interest. Auditors must also consider if their duty [is] to serve the needs of shareholders, rather than management of the audited entity."

Regulation has an impact on audit culture, the report notes: "This manifests itself in a variety of ways, including auditors being fearful of the implications of delivering poor quality work. An appropriate degree of tension here is necessary to achieve consistently high

quality outcomes. The FRC needs to ensure the outcomes of our regulation are fair, transparent, consistent and evidence-based. We place great emphasis on these matters and they are important elements of our own cultural design."

However, when the FRC held focus groups to discuss the impact of regulation on audit culture, they were told that regulatory pressure is leading to increased focus on the audit process, rather than on whether or not an auditor's judgement was sound. ♦



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## Boards Consider Technology Pathway

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their work would be subject to an engagement quality control review until the experience level was reached. This too is a concept under development that Boards are being asked to discuss.

"We are in a period of listening to see how constituents feel about the concepts," Ms. Conrad said. She does not anticipate a decision on whether or not to move forward before the year ends, though she did underscore that there is some urgency on creating the Technology Pathway to keep pace with the evolving profession. The discussion needs to be widened to speak with educators, accrediting bodies and other regulators, Ms. Conrad noted, but the licensing model has to start at the State Board level. ♦