NASBA

STATE ♦ BOARD ♦ REPORT

A Digest of Current Developments Affecting State Accountancy Regulation

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NASBA Restructuring to Outsource IT

NASBA's transition to fully outsourcing its IT operations to CGI is scheduled to be concluded this month. At the January NASBA Board of Directors Meeting, NASBA President Ken L. Bishop described how the decision was made to turn to outsourcing, why CGI was selected as the supplier and what this strategic move is expected to bring to NASBA. Under a long-term agreement, CGI will be providing NASBA with application development and maintenance, infrastructure operation and engineering, cloud services management, end-user support and service desk response. A joint governance model will provide CGI and NASBA with sustained reporting and performance analysis.

"Our expectation is to have an enhanced IT capability and flexibility in IT capacity that we have never been able to achieve with a fixed internal shop," President and CEO Ken L. Bishop told the NASBA Board. "While this restructuring investment will have a significant financial impact in the current fiscal year, it will ultimately produce savings over the long term of the contract." He assured the Board this will not diminish the projected funding for mission spending.

CGI was founded in Quebec City in 1976. CGI stood for "Conseillers en Gestion et Informatique" (which translates to "consultants in management and information technology"). Today CGI has 74,000 employees who are working in hundreds of locations worldwide. In 2017, CGI acquired CTS, then based in Birmingham, AL, a firm that had successfully consulted with NASBA on several IT projects.

President Bishop compared NASBA's agreement with CGI as taking a "big swing" for the future. He stated: "This collaboration will not only provide access to some of the industry's most innovative professionals and technology, but it will also give us the ability to scale our IT capacity and capabilities." ♦

Education Committee Invites Research

April 1, 2019 is the deadline for proposals for NASBA Accounting Education Research Grants, which are 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.

This year's interest areas include, but are not limited to:

- Integrating data analytics and AI as part of an accounting education
- Diversity in the CPA profession
- CPA Pipeline:
  - ◊ Factors influencing students to take accounting and/or become CPAs
  - ◊ Factors influencing accounting students' decisions to not take the CPA Exam
  - ◊ Why candidates stop taking the CPA Exam before completion
- Impact of licensing requirements on students' decisions to pursue accounting careers
- Teaching and evaluating professional skepticism.

Education Committee Chair Stephanie Saunders (VA) announced that additional research areas will be added periodically throughout the year. More information about the program can be found on www.nasba.org. Proposals must be submitted electronically to grantproposal@nasba.org. ♦

Super Bowl Ad for Live CPA

CPAs may have been surprised on Super Bowl Sunday when they heard an ad that featured "RoboChild" being told he could not grow up to be a "TurboTax Live CPA" because they are "human beings with real emotions," and the robot was "never going to be emotionally complex enough for that job." While ads like this may add to the awareness of the value of the CPA – and might even increase the pipeline – some states have asked NASBA whether the CPAs working with Turbo Tax, Intuit and others are duly licensed, or eligible for mobility, in the states from which reliant consumers are calling. NASBA is currently exploring that question. ♦

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PCAOB Makes KPMG Criticisms Public

The Public Company Accounting Oversight Board has made public portions of its inspection report of KPMG LLP based on its determination that the firm failed to address certain criticisms contained in the PCAOB's October 15, 2015 and November 9, 2016 inspection reports on the firm. Those portions can now be viewed within the public versions of the reports on the PCAOB's website.

On January 25, the PCAOB release stated: "The quality control remediation process is central to the Board's efforts to oversee firms' efforts to improve quality of their audits and thereby better protect investors. The Board therefore takes very seriously the importance of firms making sufficient progress on quality control issues identified in an inspection report in the 12 months following the report… Any Board judgment that results in later public disclosure is a judgment about whether a firm has made sufficient effort and progress to address the particular criticisms articulated in the report on that firm in the 12 months immediately following the report date."

In a statement from KPMG accompanying the PCAOB's release, the firm points out: "Notably, during a significant portion of the applicable periods, remediation efforts were being led by individuals who engaged in conduct that undermined the integrity of the regulatory process through their inappropriate use of PCAOB confidential information." That was when one of KPMG's employees who had previously worked for the PCAOB had received leaked advance information on which engagements would be inspected by the PCAOB (see *sbr 5/17*).

The firm reports that in the last 18 months they believe they have made significant changes to their audit leadership team, enhanced their overall governance process and undertook an enterprise-wide culture assessment. Among the steps they have taken their statement mentions: "We have initiated a project to more clearly delineate core competencies by organizational level. Our training curriculum and promotional processes will align directly to this core competency framework." ♦

Overview of AI from FRC

Robo-accounting technical advisors might be showing up by 2034, a new report from the Financial Reporting Council's Financial Reporting Lab projects. The January 2019 report entitled "Artificial Intelligence and Corporate Reporting: How Does it Measure Up?" explains, "If [accounting] standards themselves were made machine readable, ML [machine learning] and NLP [natural language processing] could be used to understand, then generate, interpretations of unique situations based on historic practice and underlying frameworks, and provide the preparers of the future with a robo-accounting technical advisor." However, the report also notes there are already applications of AI (artificial intelligence) that structure data, but not applications of AI that make judgements. The LAB team says: "Many of the areas where there might be value in AI making judgement are areas where society values oversight and ownership by a human who can be called into account. Therefore, there is a need for AI to build trust before it can be applied to true judgement. It is perhaps only when this trust in AI exists that the transformative power of AI will be felt."

Trust is frequently mentioned in the report as a key determinant of how AI will be applied by an organization, determining the level of overall judgement devolved to AI: "Many of those who are implementing AI in search of efficiency are focusing on specific elements or processes that are easy to automate and are compatible with the current control framework. However, given the overall capacity of AI, wholesale redesign of the entire end-to-end finance process may ultimately lead to the most effective outcomes," the report states. They predict over the next 5-10 years the use of AI is likely to increase further as off-the-shelf AI building blocks become available to smaller companies. However, using AI to create annual reports would only happen "once management are comfortable and trust the technology."

The need for bringing those with AI skills into corporate governance and regulation is underscored in the paper. ♦

NASBA 2019 Awards

Ted Lodden

As the new year begins, State Board members and staff are being asked by Awards Committee Chair Telford A. Lodden (IA) to start thinking about whom they would like to select as the recipients of this year's awards for:

William H. Van Rensselaer Award – Since 1988, recipients of this award are individuals who have earned recognition through their contributions in the development of a new program or improvement of a current program for Boards of Accountancy, or who influenced passage of rules or statutes.

NASBA Distinguished Service Award – Since 1999, recipients of this award are individuals who have demonstrated unswerving commitment and dedication to enhancing the mission of the National Association of State Boards of Accountancy.

Lorraine P. Sachs Standard of Excellence Award – Since 2008, recipients of this award are State Board executive staff leaders who have shown excellence in regulating and made a positive impact on the accounting profession.

The 2019 Call for Nominations will be open March 26 – June 28. Board of Accountancy members are encouraged to submit a nomination(s), including an explanation of why this person(s) should receive NASBA's highest honors, using the online nomination form, which can be found at https://nasba.org/mc/nasba-annual-awards/. Please direct questions regarding the awards process to Awards Committee Liaison and Communications Manager, Cassandra Gray, at cgray@nasba.org. ♦

Call for Vice Chair Nominations

Ted Long

NASBA Nominating Committee Chair Theodore W. Long, Jr., is asking all those interested in serving as NASBA Vice Chair 2019-2020 to please submit their resume by April 16, 2019 to him at NASBA, 150 Fourth Avenue – Suite 700, Nashville, TN 37219-2417 or e-mail aholt@nasba.org. To be eligible, an individual must have served on the NASBA Board of Directors for a minimum of two years. Questions about the process should be directed to Assistant to the President Anita Holt (615)880-4202. ♦

This Threat is Real

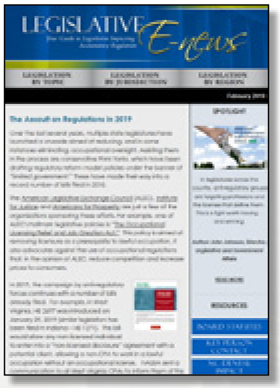
Ken L. Bishop
President & CEO

For the past few years we have been discussing the threat of anti-regulatory legislation. In some ways we have been challenged in how best to monitor and respond to this threat, as many of us concur that there are obvious cases where the requirement for licensure has been abused. In the beginning of mandated regulation only a few professions were covered, including medical doctors, dentists, architects and, for well over 100 years, Certified Public Accountants. Now, with the proliferation of regulation, some states require licenses for 50 or more service providers, of which few would be described as "professionals," including hair braiders, parking lot attendants and private investigators. Our position is not broad support of regulation, but we support the importance of regulation of professions on which the public relies.

NASBA, working closely with AICPA, State Boards and State Societies, has been successful in warding off bad legislation for years. However, there has been a significant shift in the tactics, legislative approach and, indeed, momentum of the anti-regulation movement. In January, HB 2697 was introduced in the West Virginia House of Representatives that would allow any non-licensed individual to enter into a "non-licensed disclosure" agreement with a potential client, allowing a non-CPA to provide a service for which the state otherwise requires an occupational license. I am sure someone like Bernie Madoff would have gladly signed such an agreement with a non-CPA. The point is, the reliance on the work of a CPA is often not limited to the "client," but extends to investors, banks, acquirers of businesses and the public in general.

Folks, I sincerely believe this is not a battle we can lose. We have all seen the claims of expertise and value of others providing non-restricted services that CPAs provide for the public, and the continual promotion of misleading and confusing titles that claim to match or surpass the abilities of a CPA. Can you imagine the misleading advertising and false arguments that will be developed in West Virginia if that Bill does not exempt CPAs. HB 2697 opens the door to consumer confusion as it permits the unlicensed person to "list the private trade organizations to which the unlicensed person belongs and any titles or credentials the unlicensed person earned from those organizations" on the disclosure agreement. To the states that have not yet seen such legislation, know that if a single state passes a permissive bill, the tactics used will spread across the country. Similar legislation has been filed in Indiana, HB 1271.

NASBA recently sent the following talking points to West Virginia CPAs:



"The expertise Certified Public Accountants achieve through licensure – education, testing and experience – is the very thing that makes it possible for the public to rely on them. The attest services provided by CPAs are an integral part of creating trust in the financial system – not just in the critically important capital markets – but also in financial, banking and credit transactions where financial statements are relied upon every day by banks, insurance companies, investment funds, governments, private individuals, equipment and inventory suppliers and other grantors of capital credit. Additionally, the income tax and broad array of advisory services provided by CPAs have a tremendous impact on the state's economic health and its citizens in terms of the state's GDP and tax collection.

"Thus, the public has a vital interest in the competence of CPAs and their adherence to statutes and rules, code of professional conduct and standards of practice. The most egregious examples of malfeasance or malpractice nearly always stem from the violation, or ignorance, of professional standards or ethics. To allow a non-licensee to contract with a consumer to provide such services could easily impact financial markets, the economy and the public's financial wellbeing that the West Virginia government represents. Professional licensure provides the proper oversight needed to ensure life savings aren't lost!"

It would be good for all Boards to keep these points close by and ready!

I sincerely believe that most legislators and Governors are not trying to create harm to the public. Certainly the proliferation of unnecessary regulation should be considered. Newly elected Florida Governor Ron DeSantis recently tweeted a message that told Florida licensing boards that they need to "open the gates to allow more people into their profession." I have had the opportunity to meet and speak with Mr. DeSantis in the past, and I know that he is not suggesting that non-qualified people should be able to practice medicine, design bridges or prepare audits. However, I also know that some will try and use his words to promote damaging legislative change. NASBA completely concurs with the need to consider any obstacles that might keep underprivileged, minorities, military, disabled and other talented people from entering this great profession. That is much different than allowing non-qualified individuals to do public harm.

To every single State Board of Accountancy member: Your primary responsibility is protecting the public. This threat may be the most critical challenge you will face as a Board member. You are not alone. NASBA, through our Legislative and Government Affairs Director John Johnson, our Vice President of State Board Relations Dan Dustin and our team of legal and communication resources, will be there for you. I hope each of you had the opportunity to read the most recent issue of *Legislative E-news* for additional information on this important topic.

Most of you know that I am not one to cry "Wolf!" prematurely: This threat is real!

Semper ad meliora (Always toward better things).

— Ken L. Bishop
President & CEO

State Board Report

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IAESB Looks to Outputs for CPE

While most current U.S. standards for continuing professional education call for an input-based approach of measuring continuing education in terms of hours, the International Accounting Education Standards Board (IAESB) is calling for the output-based measurement approach to continuing education as well. The revised International Education Standard (IES) 7, Continuing Professional Development "places greater emphasis on learning and development needed for professional accountants' roles and responsibilities rather than focusing on a minimum number of hours," the IAESB states.

IES 7 explains that the output-based approach includes the establishment of defined learning outcomes, which the professional accountants can establish for themselves when undertaking self-assessment activities. Output-based and input-based approaches can both be used in a measurement system, the IAESB believes. For example, an input-based approach can be established and a portion of the continuing education could be measured using an output-based approach.

The AICPA/NASBA CPE Standards Committee is currently considering revisions to the *Statement on Standards for Continuing Professional Education Programs*, an appendix to the Uniform Accountancy Act. It is anticipated the proposed revisions will be brought to the April 2019 NASBA Board of Directors' meeting for approval for exposure for public comment. ♦

ALD Also Tracks Non-Licensed

State Boards can now request the *ALD (Accountancy Licensee Database) Non-Licensed Resident Report* for their jurisdiction, which allows them to discover CPAs and firms with home or business addresses in their state that are not registered with them. The report has been distributed to Boards of Accountancy in Alabama, Georgia, Kansas, Louisiana, Mississippi, Nevada, North Carolina, South Carolina and West Virginia.

NASBA is continuing to develop new ways for the ALD to better serve the Boards of Accountancy. Most recently, Nevada became the first state to submit, via the ALD, data that is published on the home state record for licensees who have received disciplinary action from Nevada under mobility provisions.

ALD now also has the ability to filter how discipline records are displayed in ALD and CPAverify. Using the state's specific criteria, filters are created to prevent discipline markers from displaying on the public CPAverify, but remain displayed in ALD for the Boards. This has been done for both Connecticut and Washington.

NASBA is also in the final stages of an ALD/CPAverify implementation with the Utah Board of Accountancy. Once complete, Utah will become the 53rd jurisdiction to participate in the ALD and CPAverify. ♦