Staff Augmentation ED Raises Concerns

NASBA Chair Janice L. Gray and President & CEO Ken L. Bishop have written to the AICPA Professional Ethics Executive Committee expressing NASBA’s concerns about PEEC’s proposed Staff Augmentation Arrangements Interpretation, which would address a nonattest service in which a CPA firm’s staff provides services to an attest client under the client’s supervision. Their letter states: “Overall, NASBA recommends the PEEC not adopt the proposed interpretation as we believe the premise that firms may lend their staff to perform services under the client’s supervision is inconsistent with the existing and longstanding provision in the Code [of Professional Conduct] that bars simultaneous employment with an attest client.”

The February 25, 2019 letter explains: “First and foremost, we are concerned that the manner in which staff would be employed in this proposal would make them indistinguishable from an attest client’s other employees because client management would be responsible for directing the staff’s daily activities. We believe this will be the case even if the CPA applies the required and suggested, optional safeguards described in the Exposure Draft.”

The proposed interpretation would be “challenging to interpret, apply and enforce” given its subjectivity, the letter states. For example, an engagement is of “short duration” could mean it lasts a week or a year. The safeguards to be applied rely to some extent on the CPA’s judgement as to whether they consider the arrangement to be of “short duration.”

NASBA’s comment letters can be found on the Publications page of www.nasba.org.

The AICPA Professional Ethics Executive Committee is composed of 20 members, four recommended by NASBA. They are: Samuel L. Burke-Chair, Coalter Baker, Carlos Barrera, Stanley Berman, Chris Cahill, Tom Campbell, Robert E. Denham, Anna Dourdourekas, Gregory Gunn, Kelly H. Hunter, Sharon Jensen, Martin Levin, Brian S. Lynch, Bill Mann, William McKeown, Steven Reed, Stephanie Saunders, Lisa Snyder, James Smolinski and Shelly Van Dyne.

Regional Calls Held

All eight of NASBA’s Regions held conference calls in the last few weeks. Besides receiving updates on legislative efforts in and around their states, as presented by Vice President – State Board Relations Dan Dustin and Director of Governmental and Legislative Affairs John Johnson, the Board chairs and executive directors exchanged their insights on the top issues their Boards have been dealing with. The calls were moderated by the Regional Directors, who detailed the recent activities of the NASBA Board of Directors and answering questions about those efforts: Sheldon Holzman – Great Lakes Regional Call - January 30; Catherine Allen – Northeast Regional Call – February 5; Katrina Salazar – Pacific Regional Call – February 11; Andy Bonner – Southeast Regional Call – February 15; Jack Emmons – Southwest Regional Call – February 20; Faye Miller – Central Regional Call – February 20; Michael Womble – Middle Atlantic Regional Call – February 21; Nicola Neilon – Mountain Regional Call – February 25.

Several Boards noted: antiregulatory legislation being proposed in their states; laws being introduced to allow convicted felons to receive licenses after a period of time; activity to bring their law into conformity with the Uniform Accountancy Act; delays in the appointments of Accountancy Board members; and additional review of the Boards’ activities either through sunset committees or other oversight bodies. Boards also discussed how their neighboring states and NASBA shared information for completion of required reports and addressing common regulatory issues.

Among the more surprising reports was Texas is now awaiting the approval of its sunset legislation (SB 613) that would extend the Texas State Board of Accountancy for another 12 years, but would also require fingerprints from its licensees – even those who have been licensed for decades – and non-licensees who want to be owners of CPA firms. The legislation also requires that the Board include on the agenda of each regular Board meeting an opportunity for public comment on each agenda item before the Board makes a decision on it. Many Boards reported they support changing their rules or law to allow for continuous CPA Examination testing. They are looking forward to using the new CPE Audit Service program. NASBA’s communications department received many thanks for their assistance in enabling the Boards to provide their licensees with timely newsletters, e-mail blasts, videos and other information. Chief Communications Officer Thomas Kenny told the Boards about a swearing-in ceremony video that NASBA has produced which may encourage Boards to hold similar events.

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**SEC Settles with Deloitte Japan**

Employees' bank accounts in Japan have resulted in Deloitte Touche Tohmatsu paying $2 million to settle charges brought by the Securities and Exchange Commission. The SEC charged the firm with having issued audit reports for an audit client at a time when dozens of Deloitte Japan's employees had bank accounts with the audit client's subsidiary. According to the SEC, those accounts had balances that exceeded the deposit insurance limits putting them in violation of the SEC's independence rules. Futomichi Amano, the firm's former CEO, and Yuji Itagaki, the firm's former director of independence, were charged by the SEC of causing the audit client to violate its reporting obligations. Both were suspended from appearing and practicing before the SEC as accountants, Mr. Amano for two years and Mr. Itagaki for one year, after which time they can apply for reinstatement.

The SEC's order said the firm failed to disclose Mr. Amano's bank account balances, and subsequently the firm investigated and found 88 other Deloitte Japan employees had financial relationships with the audit client. The SEC also concluded that Deloitte Japan had failed to adequately staff and supervise its Office of Independence and caused independence violations by making deposits to partners' bank accounts that exceeded the insurance limits.

The firm, Mr. Amano and Mr. Itagaki all consented to the SEC's order without admitting or denying the findings.

**NOCLAR Task Force Named**

A new task force has been formed to align the efforts of the AICPA/NASBA Uniform Accountancy Act Committee and the AICPA Professional Ethics Executive Committee as they work to understand how best to address clients' noncompliance with laws and regulations (NOCLAR). The members are: Coalter Baker - Co-Chair, Robert Denham - Co-Chair, Carlos Barrera, Anna Durst, Tom Neill, Vicky Petete, Stephanie Saunders and Lisa Snyder. The joint task force expects to hold their first conference call by the end of April.

**Revisions to 3 Sections of Exam**

Three sections of the Uniform CPA Examination will have a revised Blueprint effective July 1, 2019. The complete, revised Blueprints are posted in the CPA Exam Study Materials section of aicpa.org/cpaeexam. As noted at the NASBA’s 2018 Annual Meeting by AICPA Vice President Michael Decker, every six months the Blueprints are updated and he advised those interested in the latest version to check the website. For July, the changes will be:

1. Auditing and Attestation (AUD) – The revisions expand upon or add more detail to the AUD Blueprint on audit data analytics. The concepts covered remain the same as those currently being tested.

2. Business and Environment Concepts (BEC) – Not intended to be significant changes, these revisions clarify the Section's introduction and reorganize Area IV, Information Technology.

3. Regulation (REG) – The revisions add an assumptions discussion to the Section's introduction and clarify three representative task statements.

There are no revisions to the Financial Accounting and Reporting (FAR) Blueprint. These revisions to the Examination's Blueprints were approved by the Board of Examiners in October.

**Regional Calls Held**

Among the issues mentioned on the regional calls were:

- **Alabama** – Used Accountancy Licensee Database and found 233 people needed a license to continue to practice in state.
- **District of Columbia** – Good student and faculty turnout at Board meeting held on university campus.
- **Florida** – All 20 licensing boards brought under one roof to talk about deregulation and what various boards could do to streamline their operations.
- **Georgia** – Working to conform CPE rules with UAA.
- **Idaho** – Sunrise and sunset dates established.
- **Illinois** – Considering 120/150 for taking the Examination.
- **Kansas** – Local representative has proposed every entity subject to open meetings law have a video posted on the website within 24 hours of holding such a meeting.
- **Kentucky** – Continuing to talk about 150-hour requirement.
- **Maryland** – Comparing their fees with fees of other Accountancy Boards.
- **Mississippi** – Under criminal justice reform, changing rule to allow those with criminal record to obtain a license (“Fresh Start”).
- **Missouri** – Continues to seek more access to peer review reports.
- **Montana** – Board extended for four more years.
- **Nebraska** – Looking at CPE reciprocity.
- **Nevada** – Expect legislation for firm mobility to be introduced.
- **New Hampshire** – Ongoing concern about many non-US candidates coming to New Hampshire.
- **New Jersey** – Statute updated for first time in 20 years and now in compliance with UAA.
- **New York** – CPAs now must complete CPE requirement in first registration period, no longer exempt.
- **North Carolina** – Reviewing CPE rules: Will not include 50 percent technical CPE requirement.
- **South Dakota** – Discontinuing its peer review program; instead all will need to undergo AICPA Peer Review program.
- **Tennessee** – Facing legislation that would allow anyone to petition if they believe entry requirements are unfair.
- **Utah** – Now requires 120 hours to take the Uniform CPA Examination.
- **Virginia** – Revisiting its “CPE Exempt” status.
- **Virgin Islands** – Sending out letters for noncompliance with continuing education and peer review.
- **Wyoming** – Adopted firm mobility.
Substantial vs. Radical

Recently I was in a meeting with some senior staff considering the next steps in the “CPA Evolution” discussion. We had received the CPA Evolution Task Force’s report and were pondering how to best communicate its conclusions and implementation strategies. While the Task Force agreed two unique pathways to become a CPA were unacceptable, they also maintained that action needs to occur to prepare the profession, and those entering the profession, for the technology-driven changes that continue to advance. NASBA’s leadership understands that change is critical – but that change is often resisted.

In the staff’s discussion, we were considering what was the best word to describe the degree of change necessary to accomplish the goal of transitioning the profession and the entry requirements to become a CPA, knowing that the consensus of leadership at the February AICPA/NASBA Summit was that “radical” change was needed. In trying to find the right word, some thought the word “radical” had negative connotations and suggested “substantial” as an alternative. After all, traditionally accountants are known for well thought-out, cautious, considered action, not radical measures. However, as I described in a recent President’s Memo: Take a Big Swing at It, sometimes a big swing is necessary. I wasn’t sure that “substantial” was strong enough to represent a “big swing,” but concurred that “radical” might be construed as negative, so I began searching for the appropriate word.

There is a great line in the movie “Forrest Gump” where Forrest remarks, “Sometimes there just aren’t enough rocks.” After a thorough investigation of synonyms of “radical” in various thesauruses and dictionaries, I began to feel a bit like Forrest: Sometimes there just aren’t enough words. In my job, I know words are important, particularly words that can be interpreted negatively. A case in point is the word “disruptive.” The CPA Evolution discussion is premised on the occurrence of disruptive technology. The first reaction of many to the word “disruptive” is that anything disruptive is bad. Yet, the definition of “disruptive” as applied to technology includes “innovative, inventive and ingenious,” certainly not negative words.

To give you some idea of the importance and prioritization of the CPA Evolution discussion, the incoming Chairs of NASBA, Laurie Tish, and of AICPA, Bill Reeb, have been asked to lead the effort to get to implementable strategies, building on the work of the joint CPA Evolution Task Force. Their first step will be the development of new principles. Having the Vice Chairs in this role will insure that there is continuity of leadership of the process.

The pace of change toward the use of technology continues to accelerate, as do the ramifications. Dave Sanford, the Executive Director of the Guam Board of Accountancy, recently sent me an article about blockchain security holes. The theme of the article is that blockchains, once thought to be unhackable, are now getting hacked. The potential financial threat of these type of breaches will be huge. Almost every day there are news reports and articles about the rapid advancements in technology in accounting and auditing. Some even imply that audits may not be needed in the future because technology will automatically only produce reports that are completely reliable. I heard the same thing about blockchain. Mr. Sanford’s forwarded article pretty much debunks that argument.

So why all this discussion about words? NASBA is preparing for future presentations to you of ideas and principles to move forward with an acceptable and implementable plan for change. I have to confess that even thinking, speaking or writing about words in this context makes me somewhat uncomfortable. I am a strong believer in clear messaging, accuracy and transparency, or as my old grandpa would say, “straight talk.” Some might think that focusing on what words to use or not use conflicts with that goal. My intent is to make certain that never happens. I am not sure what words we will end up using, but they will be clear and succinct.

I have no idea of what the outcomes of this work will be, but I am certain that dealing with “disruptive technologies” and other related advances will require “radical” change. While this may seem negative to some, I am hopeful that State Boards, State Societies and all stakeholders can get their heads around the fact that this effort is going to indeed take a big swing. I don’t know what word(s) we will be using, “substantial” vs. “radical” or something else. I do know that we will build on the strong requirements that have made the CPA highly respected and make recommendations that the times demand to maintain that status.

Semper ad meliora (Always toward better things).

Ken L. Bishop
President & CEO

2019 Legislation in Motion

Check out NASBA’s Legislative E News to get the state-by-state details of the current status of legislation related to the regulation of the accounting profession. For example, as highlighted in last month’s E News, on nasba.org, learn about:

- Definition of “attest” legislation active in 2019 in Hawaii, New Jersey, South Dakota and Wyoming.
- Individual mobility legislation filed in Hawaii.
- CPA firm ownership legislation filed in New York.
IAASB Focuses on Professional Skepticism

The International Auditing and Assurance Standards Board (IAASB) has released a suite of proposed standards relating to quality management at both the firm and engagement level. In reviewing the responses they received to their Invitation to Comment (ITC) last year, the IAASB found: “One of the most significant public interest issues highlighted in the ITC was fostering an appropriately independent and skeptical mindset of the auditor.” The proposed standards are open for comment until July 1, 2019, and will be commented upon by NASBA.

The International Standard on Auditing (ISA) defines “professional skepticism” as: “An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.” The IAASB has exposed for comment proposed ISQM (International Standard on Quality Management) 1 and 2 and ISA 220 (Revised).

• Proposed ISQM 1 looks at the firm’s system of quality management, which has a pervasive effect on the exercise of professional skepticism at the engagement level. It requires the firm to establish the quality objective for the engagement teams.
• Proposed ISQM 2 sets out the criteria for eligibility of the engagement quality reviewer.
• Proposed ISA 220 emphasizes that professional skepticism supports the quality of judgements and the overall effectiveness of the audit team in achieving quality at the engagement level.

The IAASB’s Professional Skepticism Working Group has been coordinating its efforts with other sections of the International Federation of Accountants. They have worked with the International Ethics Standards Board for Accountants’ project addressing behavioral characteristics expected of all professional accountants, and with the International Accounting Education Standards Board on their proposed revisions to their standards on technology and professional skepticism.

Few Bitcoin Tax Returns

As of mid-February the state of Ohio had received state tax payments made in bitcoin from two companies. However, since the cryptocurrency payment platform only became operational in December, how successful this program will be is still undetermined. Three other states, Arizona, Georgia and Illinois, had bills introduced last year to allow for cryptocurrency tax payment, but Ohio was the first to go ahead in this area.

Ohio Treasurer Robert Sprague, who took office in January, announced: “We’re reviewing how the program might be either curtailed or might be expanded, and what our counter-party risk is with that vendor.” The state hired Bitpay to process the bitcoin payments and convert them into currency to be sent to the Ohio treasury (see sbr 12/18).