

Practice Analysis Begins

The first steps in the practice analysis are underway with a series of virtual focus groups being held with firms. Additional focus groups with firms, supervisors of newly licensed CPAs and representatives from State Boards will be held in the coming months. Newly licensed CPAs will also be participating in virtual focus groups to confirm the findings from earlier groups.

State Boards are asked to be prepared to meet early in 2020 to consider the exposure draft of the report on the practice analysis' findings, which is expected to be released in late December or early January. As announced earlier, the practice analysis will be focusing on the impact of the technology revolution on the

required knowledge and skills for newly licensed CPAs.

A second related effort running parallel to the practice analysis is a "pruning and prioritizing" effort intended to identify content in the current examination blueprint that may no longer need to be tested. This work will allow the AICPA examinations team to make room for new content to be tested without extending the time of the exam.

More information on the practice analysis will be shared at the June Regional Meetings by AICPA Vice President Michael Decker and NASBA Executive Vice President and COO Colleen Conrad. ♦



CPE Provider Standards Proposed

Revisions to the *Statement on Standards for Continuing Professional Education Programs* have been released for public comment. These are published jointly by NASBA and the AICPA to provide program developers and sponsors with a framework for the development, presentation, measurement and reporting of CPE programs. The Standards, once approved, will be appended to the Uniform Accountancy Act.

Review of the standards is done every two years, with review of the current Standards having been started in May 2018. The NASBA CPE Committee, the AICPA/NASBA CPE Standards Committee and the CPE Standards Working Group (which has 13 members representing the various stakeholders in the CPE arena, including Boards of Accountancy, state societies, educators, CPE providers and the AICPA) cooperated in the review of the Standards and the development of the proposed Standards.

Among the changes being introduced are:

- Allowing adaptive learning self-study programs within the self-study standards;
- Permitting the use of review questions or other content reinforcement tools in a nano learning program;
- Adding clarifications to assist in understanding how to award CPE credit for different instructional delivery methods.

The NASBA *Fields of Study* has also been revised and is also out for public comment. Among the changes to this document are the inclusion under "Information Technology" of: Artificial Intelligence, Blockchain, Data Analytics, Disaster Recovery Plans, and Robotics/ Process Automation. Under "Specialized Knowledge" there has been an addition of "Valuation Services."

The exposure draft, NASBA *Fields of Study* document, and an explanatory memorandum can be found on nasba.org. Comments on the exposure drafts should be submitted to National Registry Associate Director Jessica Luttrull by August 31, 2019 at jluttrull@nasba.org. ♦



Fewer IRS Audits in FY 2018

Although the IRS audited more than 892,000 individual income tax returns during fiscal year 2018, that was slightly down from the prior year, the *2018 IRS Data Book* reports.

Their processing of estate tax returns was also slightly down compared to the prior year; however, the IRS processed more of every other major type of form compared to the prior year, including partnerships filed up almost 5 percent, and S-corporation filings up almost 6 percent.

The IRS collected nearly \$3.5 trillion during fiscal year 2018 and processed more than 250,000,000 tax returns and other forms. Income tax refunds totaling almost \$395 billion were issued to over 120,000,000 individuals. ♦



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IAESB Addresses Future Competencies

As the AICPA/NASBA International Qualifications Appraisal Board works on developing mutual recognition agreements, it has become apparent that professional bodies in other countries, as well as the United States, rely heavily on what is contained in the International Education Standards (IES). Dr. Raymond Johnson, chair of the Consultative Advisory Group (CAG) of the International Accounting Education Standards Board (IAESB), long-time member of the NASBA Board of Directors and former chair of the NASBA Education Committee, reports on the international body's recent meeting in Bali, Indonesia, to address the competencies needed for the future, with a particular focus on information and communication technologies (ICT) and professional skepticism:

During the meeting the IAESB and the CAG focused on a preliminary analysis of Exposure Draft comments for the proposed revisions to IES 2,3,4 and 8. IES 2,3, and 4 address important competencies associated with initial professional development (e.g., what is needed to complete qualifications as a professional accountant). With respect to information and communication technologies, the exposed standards suggest that an accountant completing his or her qualifications should be able to: (1) analyze the adequacy of systems, process and controls for capturing, transmitting, reporting and safeguarding data and information; (2) identify improvements to ICT processes and controls; (3) explain how ICT supports data analysis and decision making; and (4) use ICT to analyze data and information.

The new standards also recognize that the various elements of ICT may well change over time, as technology continues to change and disrupt business and the accounting profession. For example, while blockchain may emerge as a key issue in the next few years, who knows what will follow? Hence, the definition of ICT needs to be less technology specific and more future ready.

IES 2,3, and 4 also address key competencies associated with critical thinking and professional skepticism expected of a professional accountant who has completed his or her qualifications. These include:

- Applying critical thinking skills to solve problems, inform judgments, make decisions and reach well-reasoned conclusions.
- Identifying when it is appropriate to consult with specialists to reach well-reasoned conclusions.
- Analyze contrary evidence to inform decisions and reach conclusions.
- Demonstrate intellectual agility – the ability to adapt quickly to changing circumstances or information in order to solve problems, make judgment and reach well-reasoned conclusions.
- Monitor achievements against high personal standards of performance through feedback from others and personal reflections to improve future actions.
- Demonstrate an awareness of personal and organization bias in decision making and applying techniques to reduce bias in identifying issues and decision making.

All of the IES 2, 3 and 4 competencies relate to work environments that are characterized by moderate levels of ambiguity, complexity and uncertainty. In the spirit of thinking globally and acting locally, consider the following questions: Is your alma mater currently addressing these competencies? How do we best address these competencies here in the United States? Should these competencies be assessed on the Uniform CPA Examination?

State Board Representatives Chosen

NASBA Chair Janice Gray reported to the NASBA Board of Directors that the following individuals recommended by NASBA have been recently appointed to outside groups:

- Board of Examiners: Kathleen Smith (NE), James Corley (AR) (as executive directors' representative) and Sheldon Holzman (IL). (Mr. Holzman had been an AICPA appointee, but will represent NASBA for one additional year.)
- National Peer Review Committee: James Gero (OH)
- Professional Ethics Executive Committee: Lawrence Wojcik (IL)
- Auditing Standards Board: Jeanne Dee (MO). Also reappointed Gaylen Hansen (CO) for an additional year.
- Accounting and Review Services Committee: Tom Prothro (TX)
- Financial Accounting Foundation: Former NASBA Chair Diane Rubin (CA) was elected to serve as Vice Chair.

IES 8 addresses professional competence for engagement partners responsible for audits of financial statements. Revised competencies in the current exposure draft include: (1) setting the tone at the top to ensure proper application of professional skepticism during all phases of the audit engagement; (2) evaluating the ICT environment to identify controls that relate to the financial statements to determine the impact on the overall audit strategy; (3) applying professional skepticism to critically assess audit evidence obtained during the course of an audit and reach informed well-reasoned conclusions; and (4) promoting amongst the engagement team the skills and behaviors necessary to support compliance with the fundamental ethical principles.

Following the IAESB meeting, IFAC president In-Ki Joo, IAESB Chair Anne-Marie Vatale, IAESB CAG Chair Dr. Raymond Johnson and IAESB Technical Advisor Sarah Hamilin participated in a panel discussion with accounting students and faculty from local universities in Bali. The panel was moderated by Dr. Sidharta Utama, an IAESB member from Indonesia. The panel addressed: the skills employers seek when hiring accountants; requirements for the professional accountant in different countries; tips for staying current in an ever-changing professional environment; practical experience and its value; technology's impact on the accountancy profession; and career opportunities, challenges and advice for students.

Panelists cited the significant opportunities offered by earning a professional accountant credential, and the importance of critical thinking and intellectual agility in today's fast changing environment. Panel members felt that many employers specifically sought out individuals who had a professional accountant credential (e.g., CPA or CA), and that an individual's lifelong employment opportunities were greatly enhanced by not only earning the professional credential, but by developing the future-ready competencies (being technologically competent, intellectually agile and demonstrating professional skepticism) that the professional credential represents. ♦

PRESIDENT'S MEMO

The NASBA Summer

For the nearly 20 years I have been involved with NASBA, either as a volunteer from the Missouri Board or as an employee for the past dozen or so years, and I have been perplexed by the public's lack of knowledge as to what State Boards do - and what NASBA does. I often speak about the importance of the "relevance" of NASBA, and I sincerely believe we have made significant strides in increasing stakeholders' and national and international bodies' awareness of who we are and what we do. Yet, I recently had a telephone conversation with a State Board member who remarked: "I guess now that it is summer, all you NASBA folks will get a break." While his comment caused me to chuckle a bit, it made me wonder whether State Board members know what NASBA does during this time of year, the "NASBA Summer"?

First let me say that there is a period of time when activity, particularly of volunteers, slows down a bit. From January through April (the "busy season") we have traditionally been respectful of a time when many of our members are wall-to-wall with their own businesses and responsibilities. During these four months we schedule fewer committee and task force meetings and we are prescriptive in why and how often we communicate with our volunteers. As a result, phone call volume and emails to volunteers (not including examination, licensing and CPE-related calls which are busy all year) and in-person meetings are somewhat curtailed. We've kept busy with holding the legal counsel and executive directors conferences, planning for the Regional Meetings, addressing exposure drafts, working on international agreements and communicating with other professional bodies.

When spring temperatures start rising in Nashville in April, so does the activity, as we assemble materials in final form for the April Board of Directors meeting. In late April, the NASBA Board of Directors meeting typically addresses an inventory of matters that have accumulated since January. The preparation for that meeting starts well in advance.

In early May, the NASBA Nominating Committee meets to nominate the next Vice Chair/Chair-elect. In mid-May the current Vice Chair's Planning Meeting takes place in Nashville. The preparation for the Planning Meeting is intense, as we develop a current portfolio for every volunteer who submits a committee interest form. The information includes terms of office, practice/expertise information, and a record of participation in NASBA. A majority of committee and task force placements are made during this meeting. Also, in May, the NASBA Audit Committee has its planning meeting to map out the audit strategy for NASBA.

The activity in June ramps up even more with our two Regional Meetings. Of course, the planning for these meetings begins months before, developing the agendas and identifying topics, speakers and support materials. The determination of locations, hotels and logistics often takes place years in advance, but it is all the final preparations that need to be attended to in June. The NASBA Nominating Committee meets again in June to choose the nominees for the open Regional and At-Large Directors seats on the NASBA Board. Although the work begins in May, in June the NASBA budget preparation for the upcoming fiscal year creates work processes that involve all staff executives and directors. June also brings international activity, including the North American Summit with the U.S., Canada and Mexico accounting associations and institutes meeting to work on issues of mutual interest.

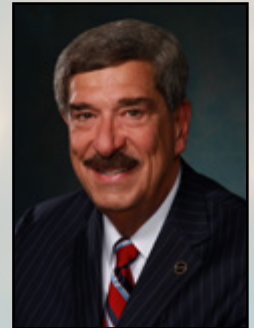
July brings the end of the NASBA fiscal year. The budget is finalized and approved by the Board of Directors. The activities and capital expenditures for the new fiscal year are mapped out in conjunction with the budget.

In August the leadership of NASBA and the AICPA come together for their biannual discussions and meetings. With our partnerships in the Uniform CPA Examination, the Uniform Accountancy Act, legislative plans and other efforts, the preparation and execution of this meeting is critical as it often sets the joint agenda for both short-range and long-range endeavors.

While I have only provided you a flavor of what our summer is like, it is important for State Boards to generally know what NASBA does in addition to the more visible activities such as the administration of the CPA Examination, our legislative work, State Board relations and our communication efforts.

Speaking of summer, I hope that each of you has a wonderful summer and gets the opportunity to enjoy the warm months. We love what we do. I can assure you that all of us in Nashville, New York, Guam and Puerto Rico, and our volunteers and governance from all over the country, will be enjoying our busy NASBA summer!

Semper ad meliora (Always toward better things).



Ken L. Bishop
President & CEO

A handwritten signature in black ink that reads "Ken L. Bishop". The signature is fluid and cursive.

— Ken L. Bishop
President & CEO

State Board Report

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PCAOB's Hamm Sees Cyber Risk

Emerging technologies present real risks through coding errors, unintended or algorithmic bias and unauthorized access to information systems and data, Public Company Accounting Oversight Board Member Kathleen M. Hamm told Baruch College's Financial Reporting Conference in May. The PCAOB has prioritized on its research agenda "quality control" and "data and technology," Ms. Hamm reported. She outlined the two "limited, but important" roles that the auditor has related to cybersecurity threats facing the financial reporting system.

"For cybersecurity-related incidents reflected in the financial statements themselves, the auditor evaluates whether those statements taken as a whole are fairly presented in accordance with generally accepted accounting principles, in all material respects," Ms. Hamm stated. "The auditor plays an even more limited role when cyber-related information is not contained in the financial statements themselves but elsewhere in a company's annual report....the auditor need only read and consider whether the cyber-related information in that report, or its presentation, is a material misstatement of fact or materially inconsistent with the information in the financial statements."

However, Ms. Hamm believes "auditors should consider cybersecurity as part of their audit risk assessments," unless the organization runs entirely manually, without using technology or the internet. She thought that exception might only describe ecclesiastic



Kathleen Hamm

groups hand copying holy texts on mountain tops. "If the auditor identifies a risk related to cybersecurity that could have a material effect on a company's financial statements, the auditor should then design and execute procedures to address those risks. For an integrated audit, this work would include testing relevant controls."

She encouraged auditors to "think broadly" when performing risk assessments, as companies are increasingly becoming linked with their vendors, customers and employees, and "the potential entry points and attack surfaces multiply," with the the weakest link to entry becoming a target. As a recent study found the average time to identify a breach is 196 days, Ms. Hamm advised auditors: "Even if a specific cybersecurity incident has not been identified, it is important for an auditor to remain professionally skeptical throughout the audit."

Even if a cyber-incident does not appear to be material to the financial statements but the auditor becomes aware of a possible illegal act related to the incident, Ms. Hamm advises "the auditors would need to assure themselves that the company's audit committee was adequately informed as soon as practical. Such an instance could occur if management, notwithstanding a legal requirement, failed to timely disclose a breach of customers' personally identifiable information." She observed: "The government, private institutions, and individuals each share responsibility for protecting our individual and collective assets and each other from cyber threats."

Licenseses' responsibilities for cybersecurity will be addressed at NASBA's 2019 Regional Meetings. ♦