



National Association of State Boards of Accountancy

◆ 150 Fourth Avenue North, Suite 700 ◆ Nashville, TN 37219-2417 ◆ Tel 615.880-4200 ◆ www.nasba.org ◆

April 30, 2020

Board of Examiners
American Institute of CPAs
100 Princeton South, Suite 200
Ewing, NJ 08628

Via Email: practiceanalysis@aicpa.org

Re: Exposure Draft: Maintaining Relevance of the Uniform CPA Examination

Dear Board of Examiners and Staff:

We are pleased to respond to the request for comments from the American Institute of CPAs' (the "AICPA") Board of Examiners (the "BOE") on its *Exposure Draft: Maintaining the Relevance of the Uniform CPA Examination: An Exposure Draft and Invitation to Comment* (the "Exposure Draft and ITC"). The National Association of State Boards of Accountancy's (NASBA) mission is to enhance the effectiveness and advance the common interests of Boards of Accountancy (the "Boards"). Our comments are made in consideration of the Boards' mandate to protect the public interest.

We support the AICPA and BOE in this important endeavor of conducting a practice analysis to ensure that the Uniform CPA Examination (the "Exam") continues to test the minimum competencies needed to become a licensed Certified Public Accountant. The Boards of Accountancy rely on this Exam, along with education and experience requirements, as stated in their Accountancy Acts, as they make the important determination of qualification to become a newly licensed CPA (nlCPA). Given the significance of the Exam to all Boards of Accountancy, they have relied upon NASBA to monitor this practice analysis process closely on their behalf.

In furtherance of the above, NASBA offers the following comments on the Exposure Draft and ITC.

RESPONSE TO EXPOSURE DRAFT AND ITC QUESTIONS

Section A – Comments requested on the next version of the Exam as defined in the Exposure Draft

1. *How do the findings align with the changes you see impacting nlCPA practice? If the primary findings do not align with the changes you see impacting nlCPA practice, please provide your view and explain your rationale.*

We agree with the broad findings identified by the AICPA practice analysis being nICPAs need to have increased knowledge and skills related to:

1. Understanding the business
2. Digital and data-driven mindset, including data analytics, and
3. Reliance on System and Organizational Controls (SOC1) reports.

In alignment with those findings, we strongly believe that the AICPA should continue to focus on testing higher-order cognitive skills in conjunction with content. CPAs, even those who are newly licensed, are expected to perform at more advanced levels due to the increased use of technology and outsourcing for relatively basic tasks. Given that expectation, we encourage the AICPA to continue to evolve the Exam by introducing additional analysis and evaluation simulations across the sections. nICPAs must typically make decisions about such things as the appropriateness of accounting methods used and correct tax treatment of items, which involve a moderate degree of complexity and uncertainty.

We were somewhat surprised to see reference to addition to the Exam of only testing some knowledge of SOC1 reports. Our stakeholders note that reliance on SOC 2 reports is also becoming more prevalent by businesses, and therefore their shareholders and customers. As the AICPA looks toward CPA Evolution, we believe that additional trust services such as SOC 2 engagements should be considered for inclusion.

We do also understand that the AICPA presumes that all nICPAs are supervised in everything that they do and that the practice analysis and the discussions with firms, focus groups, content rating panels and confirmation panels were conducted under that premise. It was noted a number of times in our discussions with Boards regarding the response to the Exposure Draft and ITC that small firms in states with fewer practitioners do not have the luxury of multiple levels of supervision of work or extensive firm-wide training programs for nICPAs. Such firms more heavily rely upon the education system and Exam to prepare their nICPAs to be ready to conduct complete audits. Such nICPAs are supervised and trained, but not to the depth assumed in some areas within this Exposure Draft and ITC. We also note that when licensed, with self-assessed competency, a CPA is afforded the right to sign audit and attestation reports.

2. *Do you agree with the proposed Exam changes? If not, please explain your rationale. Responses should address specific changes by number.*

2.1. Change 2 – Group C: Terms of engagement. Topic 1: Preconditions for an engagement.

While we agree that nICPAs in many firms are not often required to perform precondition procedures, the underlying concepts are fundamental to the CPA / client relationship and could be considered unified with the client acceptance and continuation decision-making process. Given this, we believe that such procedures should remain in the body of knowledge and still be tested at the remember-and-

understand and the application skill levels. Board members in states with a higher representation of small firms were especially concerned about this change.

2.2. Change 18 – Group D: Specific matters that require special considerations. Topic 5: An entity’s ability to continue as a going concern

This is a topic area where we believe that testing of critical thinking skills is warranted. In firms where nCPAs are responsible for completing many small engagements, it is possible that they will be required to perform procedures to assess management’s evaluation and conclusions regarding an entity’s ability to continue as a going concern. We also believe this is a fundamental concept that all CPAs, even those who are newly licensed, should understand and be able to apply.

2.3. Change 20 – Group G: Subsequent events and subsequently discovered facts

We believe that the topic of subsequently discovered facts is a unified topic with subsequent events. One never knows when the lowest staff classification might be the first to learn of a subsequently discovered fact significant to an already issued report. This topic is fundamental to the reporting process and should not be deleted.

2.4. Change 27 - Group A: Understanding of information technology (IT). Topic 3: Data

Change 27 states that content will be added that is related to data but does not provide any further explanation of specifics. Data analytics is increasingly important and a nCPA needs to be able to analyze raw data to draw informed conclusions. We recognize that audit analytics is being added in Change 14 but encourage its emphasis by its retention in this area of the Exam as well. Not all analytics are related to financial reporting, but could also be related to other types of engagements.

2.5. Change 31 – Group B: General-purpose financial statement: for-profit business entities. Topic 9: Going concern.

While nCPAs may not usually have the primary responsibility for going concern issues, the ability to recognize a going concern problem is important as nCPAs may have the first opportunity to identify them. The nCPA should be able to recognize a potential going concern issue and understand disclosure requirements in order to help protect the public. We therefore recommend coverage of this topic be retained.

2.6. Change 40 – Group C: Debtor-creditor relationships. Topic 1: Rights, duties and liabilities of debtors, creditors and guarantors. Topic 2: Bankruptcy and insolvency. Topic 3: Secured transactions

We are concerned with the continued deemphasis of business law topics on the Exam. Following the last practice analysis, the AICPA reduced the minimum percentage of the REG section devoted to business law to only 10 percent from what was a minimum of 17 percent. Our recommendation at that time was to increase the range to (at a minimum) 15-20 percent of the REG section score.

We struggle with the juxtaposition of the recognition through the practice analysis of the need for increased understanding of clients' businesses with the perceived decision to continue decreasing the testing of business law on the Exam. The knowledge of business law topics, such as those being reduced in scope and removed from the Exam through Changes 40 and 41, are important to understanding clients' businesses and the laws and regulations they must follow. As an example, debt issues are critical to the evaluation of financial statements. The nCPA should have sufficient knowledge to evaluate debt issues.

An added concern to the deemphasis of business law is that universities could drop business law courses from their curriculum if it becomes even less tested and weighted on the REG section of the Exam. CPA candidates would then be left to gaining business law knowledge through on-the-job training, which is not sufficient given the topics and content involved.

Lastly, the International Qualifications Appraisal Board (IQAB) is concerned about deleting additional business law content such as those recommended in Changes 40 and 41. This is because the REG section of the Exam is used as the International Qualifications Examination (IQEX). Professionals from other countries who seek recognition in the United States under the terms of mutual recognition agreements are required to pass the REG section as a demonstration of their having knowledge of laws and regulations specific to the United States. It has been determined that by showing their knowledge of the United States ethics, responsibilities, business law, and the federal tax system and its procedures, they are equipped to become US CPAs. If the business law components of the REG section continue to diminish, it will jeopardize its continued use as IQEX.

2.7. Change 41 – Group D: Government regulation of business. Topic 1: Federal securities regulation.

We believe that the relationship of the securities regulations to corporations and corporate governance as it pertains to the Securities Acts of 1933 and 1934 are fundamental knowledge that all CPAs, including nCPAs should understand. These are not concepts which CPAs pick up on the job, but are as basic as understanding which government bodies establish and administer tax laws. Boards are often referred SEC investigations, which could be perceived as evidence that CPAs and those they serve do not adequately understand SEC regulations.

- 3. *Are there other areas affected by technology beyond the findings identified in the Practice Analysis – Findings section of this document broadly impacting nCPA practice that should be considered in future revisions to the CPA Exam Blueprints? If so, describe them.***

We believe your assessment of the current landscape regarding the nCPA use of technology and data is accurate. Our stakeholders do note that nCPAs in small to medium-sized firms are much more apt to extract and transform data directly than are

those in larger firms, where teams of data engineers and analysts are on staff. Often commercially available software packages are used to extract and transform the data. This further confirms the need to continually ramp up the ability to assess critical thinking skills, including professional skepticism. It also underscores the vital importance of understanding the client's business and being able to adequately assess the quality of audit evidence. We encourage the AICPA to continue to review the need for data analytics skills in other engagement areas such as taxation and consulting.

In recognition of the research conducted through the practice analysis, we ask that the AICPA continue to monitor additional assurance and trust services developed and their acceptance by the business community. We believe that nCPAs might begin practicing earlier in their careers in areas such as SOC 2 reporting, cybersecurity controls and other expanding areas.

We concur that the AICPA and BOE should continually monitor developing technologies as we believe that, in the very near future, nCPAs will rapidly begin using additional tools and procedures. It will be important to publicly expose any such anticipated skills and content that could be added to the Exam as a result.

4. *Based on a review of the CPA Exam Blueprints, do you believe there is additional content that should be removed from the CPA Exam as it is not critical to nCPA practice and the protection of the public interest? If so, describe them.*

None are noted. We do encourage the AICPA to conduct regularly scheduled and comprehensive obsolescence reviews of all questions on the Exam to ensure they remain up-to-date, accurate and relevant.

As also discussed below in our ITC response, we acknowledge that this Exposure Draft and ITC does not address the CPA Evolution Initiative. We do believe, however, that as details of the proposed licensure model have been shared, it is important to consider if some topics recommended to be deleted from the Exam in this Exposure Draft and ITC should be paused until the CPA Evolution model is further developed. Certain specialized topics considered for removal now, might become appropriate for the more specialized discipline sections of the considered new Exam model.

Section B – Comments requested for the future of CPA Exam content and structure changes as defined in the Invitation to Comment.

1. *Given the considerations in the ITC, do you agree or disagree with the recommendation to remove the essay question (written communication question)? Please provide your rationale.*

Being able to effectively communicate is a key requirement of any CPA, including any nCPA. As an example, the assessment and then clear documentation of audit procedures and evidence is a vital skill for nCPAs. In our opinion, the methodology

used to grade the essay portion of the BEC exam, however, does not allow for an adequate evaluation of a person's communication skills as it pertains to entry into the CPA profession. In addition, the weighting of the essay questions is being used to differentiate marginal Exam candidates by only considering rudimentary skills such as grammar, punctuation, capitalization, spelling and the like, which is not a true test of effective communication skills.

While we certainly believe communication is an important skill for CPAs, we recognize that it is difficult to test and grade using computer technology. Unless and until there is an effective way to reasonably test and grade a candidate's communication skill in the context of accounting, auditing, and taxation knowledge and skills, including research, judgment, and professional skepticism, we support removal of the essay questions in BEC.

We do, however, strongly urge the AICPA to continue research projects into testing communication in conjunction with content and skills for inclusion in future versions of the Exam. With the advances in artificial intelligence and other technology, we are confident that this should be possible at some point. Effective communication is so fundamental to the practice of public accounting that we feel it should be tested on the Exam when it becomes feasible.

2. *Given the considerations in the ITC should accounting for state and local governments continue to be assessed on the CPA Exam? Please provide your rationale.*

NASBA had mixed reaction to this recommendation by the AICPA from our constituents, though general consensus was reached on at least one aspect of our response. All who participated in drafting the NASBA response believe that completely removing state and local (S&L) government accounting from the Exam is inappropriate. All feel that, at a minimum, basic coverage should be retained.

Though it is recognized that S&L government accounting is a specialized area, the Boards believe that in many states such practice by nCPAs is more common than perceived through the practice analysis. There are thousands of S&L government entities in the United States, ranging from very small to larger than many public companies and including hospitals, airports, utility districts, public protection agencies, university systems and more. The public is highly reliant on the financial viability and proper functioning of these entities, most of which have audit requirements.

Some of our constituents feel that reducing the amount of coverage of S&L governments is understandable in order to allow for new technology and data analytics content to be added. Others feel that reducing the content at all is inadvisable. All recognize, however, that nCPAs in small and medium-sized firms across the United States are often called to serve this industry. Often this is through small firms with very small audit teams requiring nCPAs to operate without substantial supervision that is afforded

in larger firms. There is added concern that if that entire area of accounting is removed from the Exam, universities will cease offering coursework in governmental accounting. This could have serious impact on the availability of nI CPAs needed in government entities and in the profession to serve the industry.

Though we realize that this practice analysis is not focused on the CPA Evolution Initiative, we suggest that possibly more advanced topics and skills related to S&L government accounting could be considered for inclusion in the Business Reporting and Analysis discipline examination, while basic understanding and knowledge could be retained in the core accounting examination. If this were considered, it might be inadvisable to completely remove S&L government accounting from the Exam at this time.

In this time of rapid changes to the business and economic environment, the CPA profession is also changing rapidly. As the Boards of Accountancy rely on the Exam as one measure by which they determine if a candidate meets the bar to become licensed as a CPA, it is imperative that the Exam is current, relevant, reliable and legally defensible. We appreciate that the BOE recognizes this and applauds them for conducting this targeted practice analysis after a shorter period since the last practice analysis and deploying methods that allowed for the analysis to be conducted in a more rapid fashion.

As the BOE considers any practice analyses required for CPA Evolution, we encourage them to conduct their review in a holistic fashion and ensure that all aspects of professional practice are incorporated into the study. Given this practice analysis had two discreet research objectives and was focused solely on technology and paring content, it was targeted in nature. We believe the next practice analysis should necessarily be broad. We continue to strongly support that the system by which changes are made to the Exam remains transparent and follows a robust process, which includes public review and comment. We value that the BOE plays a significant decision-making role and that the entire process remains transparent with appropriate exposure to all stakeholders, importantly including Boards.

* * *

NASBA appreciates the opportunity to provide our perspectives on these important topics. Our comments are intended to assist the AICPA and BOE in analyzing the relevant issues and potential impacts from a public protection point of view. Our Boards would be interested in seeing all responses received to this Exposure Draft and ITC to better understand the perspectives of other stakeholders, importantly including candidates.

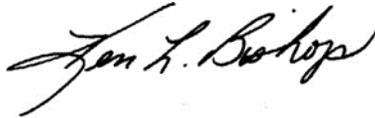
AICPA Board of Examiners
April 30, 2020
Page 8 of 8

We look forward to the opportunity to follow the deliberations of the BOE on responses to this Exposure Draft as they finalize the next version of the CPA Exam.

Very truly yours,



Laurie J. Tish, CPA
NASBA Chair



Ken L. Bishop
NASBA President and CEO