

State Board Report

A Digest of Current Developments Affecting State Accountancy Regulation

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Exam Conference Considers Cost, Control, Contracts and International Delivery

Cost, control, contingency examination, contract and international examination delivery were the key topics around which was based NASBA's Conference on the State of the Examination, held on May 19, 2008 at the Grand Hyatt DFW, in Dallas, TX, with 47 state boards represented and 115 participants. Chair Samuel Cotterell explained the purpose was to hold an interactive meeting to discuss "how to make the best professional examination in the world even better." He set out several questions that he asked all state boards to address over the coming weeks and respond to during the Regional Meetings:

- ❑ What changes should be made to the examination contract as we go forward?
- ❑ It is an irrefutable fact that costs of the examination are increasing. What can or should be done to change that?
- ❑ Should state board control of the examination be enhanced? If so, how?
- ❑ Do the potential contingencies identified and the benefits of having a contingency examination warrant the costs of developing such an examination?
- ❑ What are your thoughts about international delivery of the examination?

President David Costello reminded the boards: "You are the exam provider's customers – the only ones with the statutory authority for a licensing examination." He said the conference was



NASBA Chair Sam Cotterell addresses the attendees at NASBA's Conference on the State of the Examination.

held to create a conversation about what had happened in the years since the computer-based test was inaugurated and what could happen in the future.

NASBA legal counsel Noel Allen reported that while the NASBA/AICPA/Prometric agreement for the computer-based Uniform CPA Examination is 43 pages long, there are hundreds of pages of documentation that support it. In the six years since the agreement was forged, the definitions of many of its words have been argued among the parties. Interrelated escrow provisions were built into the agreement, which now, because of the way the law has evolved, may not be the best tool to use, Mr. Allen commented. "The boards need to weigh how best to go forward to protect the public, and do it in a defensible way, and keep it the best licensing examination in the world," he remarked.

The state boards have the primary responsibility for the costs of the Uniform Examination, NASBA Executive Vice President Joseph Cote stated, as he called on the boards to present ideas on how to hold the projected costs in line. Some ideas heard included: placing a limit on examination costs in the next agreement; shortening the examination; eliminating simulations; foregoing the currently minor testing of writing skills; deleting true-up costs; and limiting the costs for the National Candidate Database.

Nine of the 16 members appointed to the current AICPA Board of Examiners have state-board experience, but they were not directly appointed to their one-year terms by NASBA, noted NASBA CPA Examinations Committee (CLEC) Chair Robert Pearson. He reported there were several instances where NASBA's insistence was needed to have problems remedied.

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National Association of State Boards of Accountancy
Editor-in-Chief: Louise Dratler Haberman
Editor: David A. Costello
Production Editor: Anthony E. Cox*

Tel/615.880.4200
Fax/615.880.4290
www.nasba.org

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Exam Conference Considers Cost, Control and Contracts

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The need for the construction of an examination to be offered should the AICPA or Prometric be unable or unwilling to meet their obligations under the examination agreement was discussed by Daniel Dustin, a member of the Committee on National Examination Preparedness and executive secretary of the New York State Board for Public Accountancy. “This is not a discussion of replacing the Uniform CPA Examination, but for curing weaknesses,” he explained. It would take NASBA at least three years to construct such an examination and each state would need to look at its laws to see if statutory change would be necessary to administer such an examination, he said.

Boards were asked for their input on whether it makes sense to deliver the Uniform CPA Examination outside the United States. “Over 7,000 candidates came to US locations to take the CPA

Examination,” John Peace, chair of the Joint Committee on International Delivery of the CPA Examination, stated, “and we do not know if they are holding out in their own countries as CPAs.” His joint committee, including members from NASBA, AICPA and Prometric, will make recommendations at the July NASBA Board meeting on whether to offer the examination internationally and whether to offer a completion certificate through state boards or a separate organization. “We don’t think there is a market for the CPA license outside the United States. Non-US candidates just want to pass the examination and show that to others,” he stated.

Chair Cotterell told the meeting’s audience, “Take the questions raised back to your boards to discuss in preparation for the Regional Meetings. We are beginning our process of discussion on these matters. NASBA leaders will meet with the AICPA leaders in August and represent the boards’ views more fully with them.” ♦

ALL Brings *Digest* Features Online

Significant enhancements to NASBA’s Accountancy Licensing Library® (ALL) product are being inaugurated this month, completing the conversion of the most requested content in the *Digest of State Accountancy Laws and State Board Regulations* into an online, searchable format. Created as a centralized location for current and reliable CPA licensing for each of the 55 licensing jurisdictions, ALL® now features a powerful new Research Tool.

With this new Research Tool, state boards can now quickly find accurate answers to questions raised in board meetings and legislative sessions. Access to ALL® and its Research Tool are free for state accountancy board Executive Directors and is also available for purchase by the public. Executive Directors are requested to contact Stacey Grooms at sgrooms@nasba.org for more information or assistance logging into ALL®.

Featuring advanced query functionality, ALL® takes advantage of a powerful database of state board of accountancy rules and regulations to create the most convenient method of searching state requirements. This Research Tool narrows the search for state requirements to help determine the state or states mostly likely to qualify the user for licensure. Users can now search multiple criteria (i.e., required residency, education and peer review for firms) across various states with an option to print the reports queried.

The seamlessly-integrated Research Tool saves time, eliminates the need to manually cross-tabulate information gathered from multiple state boards and increases accuracy with up-to-date information and forms. ♦

ACAP Releases Recommendations Addendum

The Firm Structure and Finances Subcommittee of the Treasury Department’s Advisory Committee on the Auditing Profession (ACAP) has provided new recommendations and discussion on standard setting, engagement partner signatures, transparency and litigation in the addendum to the Treasury Department’s Advisory Committee on the Auditing Profession (ACAP). Their “Addendum to VI. Firm Structure and Finances” was accepted at the June 3 ACAP meeting. ACAP’s earlier draft report (see *sbr* 4/08) had a comment deadline of June 13.

One specific recommendation made by the Subcommittee is: “Urge the PCAOB to undertake a standard-setting initiative to consider improvements to the auditor’s reporting model.” The Subcommittee supports “improving the content of the auditor’s report beyond the current pass/fail model to include a more relevant discussion about the audit of the financial statements.”

Another recommendation is that the PCAOB require, beginning in 2010, that larger audit firms (those with 100 or more public company audit clients that the PCAOB inspects annually) produce a public annual report incorporating information required by the European Union’s Eighth Directive, Article 40 Transparency Report, as deemed appropriate by the PCAOB.

Other areas in the addendum say the ACAP is “considering recommending” additional changes. These include: mandating the engagement partner’s signature on the auditor’s report; beginning in 2011 making the larger firms file audited financial statements that it might make publicly available; and having Congress “provide federal courts with exclusive jurisdiction over some categories of claims, which presently may be brought in state courts against auditors, when such claims are related to audits of public company financial statements.” ♦

Moving From Our Seats

I am fascinated by reading biographies of the presidents of the United States, from George Washington to George Bush. One of my very favorites is *John Adams*, a book written by David McCullough and recently the inspiration for an HBO miniseries on the life of the second president. McCullough in one poignant paragraph describes the essence of Adams' character:



Costello

"Adams' greatest moment in Congress came in the summer of 1776. On July 1, Congress considered final arguments on the question of independence. John Dickinson argued forcefully against independence. When no one responded to Dickinson, Adams rose and delivered a rhetorical tour de force that moved the assembly to vote in favor of independence. It was, arguably, the most important speech in American history. Years later, Thomas Jefferson recalled that so powerful in 'thought and expression' was Adams, that he 'moved us from our seats.'"

As we look back over our one hundred plus years' history, there have been relatively few developments and events that have captured state boards' and NASBA's attention to the point of causing us to move together as one — either on behalf of or in opposition to something. Early in our history and continuing to this date, the Uniform CPA Examination is an example of an important and critical component of CPA licensure which demands in the public interest that we proceed with unanimity.

Another example of state boards and NASBA moving together as one significant force is the recent mobility initiative where licensed CPAs are able to engage in cross-border practice without notice, without additional fees, but with appropriate increased enforcement. At the beginning of 2007, there were only four states with mobility provisions. Now there are 26 with the list continuing to grow.

Other examples of boards and NASBA getting things done together include the Uniform Accountancy Act, improving the Sarbanes-Oxley Act, continuing professional education, ethics and education.

In each of the examples cited above as to concerted effort and results on the part of boards and NASBA there is one common element: Something moved us!

I have discussed previously in this column the fact that the world's largest accountancy regulator, the state boards of accountancy, are not represented at all in the deliberative, development and convergence processes of international standards which we will be expected to reference in state law. As you read through the Advisory Committee on the Auditing Profession's (ACAP) draft recommendations, you will no doubt sense the importance attributed to international standards, particularly the International Financial Reporting Standards (IFRS). And instead of the earlier sentiments as to convergence, there now seems to be more of a sense of replacement of U.S. standards. Now, maybe that's in order and appropriate. But one thing I know is that state accountancy boards and NASBA haven't been at the table to discuss what we will be expected to endorse, approve and, in some cases, change our laws to accommodate. It's not that we're against anything — we simply have not been part of the process. We're not mad— we're just moved! Moved to get involved.

An IFRS process which portends great changes in our accounting and reporting standards, our education, our qualifying candidates for the CPA licensure examination and adoption by private companies and enterprise is a flawed process when it proceeds without the involvement of major stakeholders including state boards of accountancy, investors, smaller accounting firms and smaller issuers of securities. This deficient process is so powerful in its ignoring of appropriate industry, financial and public interest groups that state boards of accountancy and NASBA have been moved from our seats! We will not, as we have not in our entire history, be content to sit idle and trust the protection of the public's interest, spread throughout the 50 states and five other jurisdictions, simply be tended to by a few folk who believe that they know what's best for all of us.

Are you out of your seat yet?

*Ad astra
Per aspera*

— David A. Costello, CPA
President and CEO

AICPA Council Recognizes IFRS

Through an amendment to Appendix A of the American Institute of CPAs' Rules 202 and 203, the AICPA's members have been given the option to use International Financial Reporting Standards (IFRS) as an alternative to US Generally Accepted Accounting Principles (GAAP) for international financial accounting and reporting. The AICPA's governing Council on May 18 voted to designate the International Accounting Standards Board, a privately-funded accounting standard-setter based in London, UK, as an accounting body for purposes of establishing international financial accounting and reporting principles.

Under Rule 202 of the AICPA's Code of Professional Conduct, a member performing professional services has to

comply with the standards promulgated by designated accounting standard-setting bodies, which include the Financial Accounting Standards Board, Government Accounting Standards Board, Federal Accounting Standards Advisory Board and, now, the International Accounting Standards Board. The FASB will continue to set standards for the United States.

The Council resolution provided for reassessment in three-to-five years of continued recognition of the IASB as the appropriate body designated to establish financial accounting and reporting principles under Rule 202 and 203. A new Web site, IFRS.com, has been established by the AICPA to provide assistance in understanding the differences between IFRS and US GAAP. ♦

Comments Requested on Exam Content

The AICPA Board of Examiners (BOE) has released its "Proposed Content and Skill Specifications for the Uniform CPA Examination" and is seeking comments by July 31, 2008.

The document can be found on www.cpa-exam.org/cpa/exposure_draft.html. It includes: increased emphasis on ethics; testing of International Financial Reporting Standards (IFRS) should they become generally accepted in the United States; and a fuller description of the skills required for entry-level professionals. NASBA's CPA Licensing Examinations Committee will be submitting comments on the document.

BOE Chair Colleen K. Conrad wrote to the state boards that the exposure draft "is a culmination of two years of practice analysis work by thousands of contributors – among them CPAs who submitted survey responses and those who provided subject matter expertise – as well as psychometricians, cognitive scientists, test developers and other professionals, in addition to the [AICPA] Examinations staff." ♦

Accounting Enrollment Soars

The largest number of accounting graduates in the 36 years that the American Institute of CPAs has been tracking this information was reported in its latest study. According to the AICPA's *2008 Trends in the Supply of Accounting Graduates and the Demand for Public Accounting Recruits*, there were more than 64,000 students graduated with bachelor's or master's degrees in accounting, and 52 percent of them were female. This is 19 percent more graduates than was found in the previous report period, of the 2003-04 school year.

Another 19 percent increase since 2004 was found in the number of students enrolled in accounting programs at both the undergraduate and graduate levels, up to more than 203,000.

The jump in numbers was attributed by the AICPA to the Sarbanes-Oxley Act, which spotlighted the critical role of the accounting profession and also increased the hiring of new graduates by public accounting firms. According to the AICPA study, hiring by the firms in 2006-07 rose 83 percent over the previous three years. ♦

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National Association of State Boards of Accountancy
150 Fourth Avenue North, Suite 700
Nashville, TN 37219-2417