

Students Ready for IFRS in 2011

The first class of graduating seniors likely to have a substantial amount of International Financial Reporting Standards (IFRS) education will be the class of 2011, according to 30 percent of the accounting faculty surveyed by the American Accounting Association and KPMG LLP.

During July and August 2008, the survey team contacted 535 professors. They were asked if they could incorporate IFRS into curricula in a significant way this year, and only 22 percent said they could, while 62 percent said they had not taken any steps to do so.

Key challenges for bringing IFRS into the curriculum according to the surveyed educators are: Developing curriculum materials (cited by 79 percent of the respondents) and making room for IFRS in the curriculum (72 percent). To teach IFRS, 89 percent of the respondents said they needed textbooks and 76 percent said they needed case studies. Forty-two percent of the educators believed textbooks would not be

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ACAP Final Report Approved

Though the banking turmoil kept him from staying on the September 26 conference call, US Treasury Secretary Henry Paulson quickly told the Advisory Committee on the Auditing Profession (ACAP) that the accounting profession is “critical to our capital markets” and expressed his gratitude for the time and effort the ACAP members had put into their recommendations. He said he looked forward to reading ACAP’s final report during the upcoming week.

The final report that was approved by ACAP on September 26 contained only a few changes from the draft report of July 22, 2008. Its three sections (Human Capital; Firm Structure and Finances; Concentration and Competition) contain more than 30 recommendations to improve the sustainability of the public company auditing profession. Among the changes from the July draft was the naming of the Public Company Accounting Oversight Board as the host for the proposed center for the sharing of fraud detection experiences.

Several undecided areas are included in the final report. It explains that the

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Boards’ Oversight Committees Meet

The first Conference of State Board Peer Review Oversight Committee (PROC) members, held in Nashville on September 22, 2008, drew representatives from 19 state boards across the country. The conference was produced by NASBA’s Compliance Assurance Committee’s (CAC) Implementation Task Force, chaired by Jim Burkes (MS). Their charge was to facilitate development of state board-established oversight bodies, as described in Uniform Accountancy Act Model Rule 7-4(b).

Discussion leaders Linda Biek (NASBA), Jim Burkes (MS), Gary Freundlich (AICPA), Janice Gray (OK), Mark Harris (LA) and Susan Harris (MS) shared information about: the components of the existing peer review programs’ oversight processes and improvements in their transparency, the CAC’s work, an update on the AICPA’s Peer Review Program’s reporting standards and procedures, the AICPA’s Facilitated State Board Access submission program, and a sample state’s PROC’s organizational documents, checklists and annual report. A brief explanation of the Accountancy Licensing Library was also presented by NASBA’s Stacey Grooms.

CAC Chair Mark Harrison (LA) explained: “The conference was established as a forum to: bring PROC members into the loop of NASBA’s mission and its communication resources; discuss their relevance to stakeholders and the Compliance Assurance Committee; and enhance understanding of how the effectiveness of the oversight processes is relied upon by regulators and the public. We were very pleased with the conference’s participation.”

Mr. Harris said there will be ongoing communication with the meeting’s participants as the Compliance Assurance Committee continues to focus on the makeup and responsibilities of PROCs. The CAC’s webpage on NASBA.org will target information of interest to these key board members. ♦

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Editor-in-Chief: Louise Dratler Haberman
Editor: David A. Costello
Production Editor: Anthony E. Cox
Editorial Assistant: Ann Bell*

*Tel/615.880.4200
Fax/615.880.4290
www.nasba.org*

PCAOB Standards and ISA Not Fully Converging

Tension is obvious between forces moving toward globalization of standards and the other forces developing, maintaining and enforcing US standards, Public Company Accounting Oversight Board Founding Member Bill Gradison observed in an address on September 16 at North Carolina State University. He pointed out that the current “state of play” involves two sets of accounting standards (GAAP and IFRS with numerous local variations) and three sets of auditing standards which are each in a state of flux: “the ISAs toward which many non-US jurisdictions seem to be moving, the ASB standards which apply to non-issuers in the United States (and are conceptually ‘ISAs plus’), and the PCAOB standards for issuers.”

“My personal view,” Mr. Gradison said, “is that in the long run adoption of a single high-quality auditing standard ought to be the primary goal. That, however, is not an endorsement of the ISAs. In fact, PCAOB is in the process of replacing its interim standards and the new PCAOB standards will go beyond the ISAs. As a practical matter, the chances of full convergence of these

two standards are somewhere between zero and nil since there has not – to put it mildly – been a rush of non-US standards writers to adopt anything close to PCAOB’s internal control over financial reporting standard – AS5 which is required by Section 404 of Sarbanes-Oxley.

“At precisely the same time as PCAOB is revising its interim standards, according to John Kellas, Chairman of the International Auditing and Assurance Standards Board, International Standards of Auditing ‘are used or being adopted by more than 100 countries’ and are being applied by the larger firms to their international audit work.”

Mr. Gradison pointed out that part of the PCAOB’s Strategic Plan for 2008 committed the Board to playing “a leadership role in international efforts to improve auditor oversight and auditing practices worldwide and reduce duplication of effort” by examining “the implications for the PCAOB’s mission of multiple auditing standards and varying audit environments across global capital markets and consider how the Board should respond.” ♦

ACAP Final Report Approved

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Structure and Finance Committee could not agree “as to whether either the historical record or pending litigation supports the argument that litigation threats faced by the auditing profession are sufficient to justify substantial change to the current liability regime.” An earlier draft had proposed requiring all audit-related litigation involving public companies be brought to federal court. This was not in the final report and NASBA’s letter to the ACAP was quoted: “NASBA notes that giving the federal courts exclusive jurisdiction over private causes of action arising out of some state law claims is without precedent and might be unconstitutional...NASBA maintains that state courts are in the best position to interpret state law claims.”

While the report would require larger auditing firms to produce a public annual report and submit to the PCAOB audited financial statements, the final ACAP report intentionally remained silent as to whether or not the firms’ audited financial statements should be made public. Gaylen Hansen, ACAP member and NASBA Director-at-Large, asked PCAOB Chair Mark Olson how the Board would handle these reports. Mr. Olson responded that the PCAOB has been waiting for the recommendations to be finalized before taking any positions on them. ACAP’s final report was approved by a vote of 14 to one. The single “nay” vote was voiced by Lynn Turner, former SEC chief accountant, who told *CFO.com* that the reason for his dissent was he believed that the financial statements should be made public.

The final report does include in Recommendation 2 from the Committee on Firm Structure and Finances:

- Institute the following mechanism to encourage the states to substantially adopt the mobility provisions of the Uniform

Accountancy Act, Fifth Edition (UAA). If states have failed to adopt the mobility provisions of the UAA by December 31, 2010, Congress should pass a federal provision requiring those states to adopt these provisions.

- Require regular and formal roundtable meetings of regulators and other governmental enforcement bodies in a cooperative effort to improve regulatory effectiveness and reduce the incidence of duplicative and potentially inconsistent enforcement regimes.
- Urge the states to create greater financial and operational independence of their state boards of accountancy.

The final report can be found at

www.treas.gov/offices/domestic-finance/acap/docs/draft-final-report-09-26-08.pdf. ♦

Expanded NASBA 150/120 Paper on Web

A newly revised draft of the NASBA white paper on “Education and Licensure Requirements for Certified Public Accountants: A Discussion Regarding Degreed Candidates Sitting for the Uniform CPA Examination with a Minimum of 120 Credit Hours and Becoming Eligible for Licensure with a Minimum of 15 Credit Hours” has been posted on NASBA’s Web site www.nasba.org. The latest draft contains a revision of “Chapter V, Statistical Implications” and includes 25 pages of candidate statistics garnered from the Gateway System.

NASBA invites feedback on the paper and is asking that comments, suggestions and/or observations be sent to laxisa@nasba.org no later than December 31, 2008. ♦

A Year of Progress

As I write this, we are just a month away from what I believe will be an exceptional Annual Meeting in Boston. It comes as a bit of a shock to realize that the great privilege I had this past year to serve as NASBA Chair is almost over and that causes me to reflect on what we have accomplished this year.

A friend of mine told me this story: His four-year old granddaughter was spending the night and as she was getting ready for bed in another room, she stubbed her toe on the bed frame and began to cry. Hearing that, he rushed into the room. After ascertaining what had happened, he thought to console her by saying, "That's okay. Papa's done that lots of times." Even through her tears she blurted out an incredulous and profound question, "Why do you keep doing that, Papa?"



Cotterell

I am proud to report that at NASBA we don't keep doing things the same way -- and this past year was no exception. Our mission is to enhance the effectiveness of state boards of accountancy in their mission of protecting the public through appropriate regulation of the accounting profession. As you know we now have 31 states that have passed mobility legislation. Ten to 15 more are expected to pass similar legislation in 2010. Through these legislative efforts we have been able to articulate why "no notice" and "no fee" make sense in our mobile and cross border economy, while building in a powerful enforcement tool with "no escape." However, we can't rest.

We have to make sure that "no escape" means just that. The Accountancy Licensee Database (ALD) provides an information flow that will help coordinate, among other things, information about enforcement actions among the jurisdictions. We made this a priority this year with the formation of a high-powered task force and will continue this priority going forward. Our goal is 55 jurisdictions with mobility and 55 in ALD. We are also working to provide other resources for boards so that "no escape" is effective for all states.

As I said in my inaugural remarks last year, the CPA exam represents one of the best, if not the best, professional entrance examination in the world. We've got to keep it that way. We met in May to solicit your thoughts on the topics of contract, control, cost, contingency and how best to offer the exam internationally. The valuable feedback we received there and during the Regional Meetings is already shaping how we move forward on such challenges as the termination of the current contract in 2014 and international delivery within the parameters of state-based involvement.

Speaking of international issues, state boards to date have quite frankly been left out of discussions around internationalization of accounting and reporting standards. As regulators of the largest body of accounting professionals in the world, that must not happen. We continue to work to not let that keep happening. In conjunction with the Annual Meeting we are also holding a conference of international accounting regulators to discuss items of mutual interest. This represents an important step in this educational process along with the comment letters we provided on international topics this past year.

We also had a unique opportunity this year to provide input to the federal government regarding the accounting profession and the impact of state regulation. The Treasury Department convened an "Advisory Committee on the Auditing Profession" (ACAP). NASBA provided significant input to ACAP through the participation of Gaylen Hansen as an ACAP member and through testimony provided by David Costello. State boards were well represented through their efforts. We continue to make information flow, and coordination among NASBA/state boards and other U.S. regulators remains one of our highest priorities.

Based on requests from boards for more information, we spent time this year discussing and debating the model already adopted by 19 states of 120 hours or a baccalaureate degree to sit for the CPA exam with 150 hours required for licensure. We provided a draft paper, which does conclude that no evidence was found that the public is harmed under this model. We continue to solicit further evidence in support of or contrary to this conclusion.

Our Compliance Assurance Committee just completed a historical first conference for representatives of state boards' Peer Review Oversight Committees to discuss how to strengthen state boards' oversight responsibility for compliance assurance. I am excited about the direction we are heading to provide meaningful oversight by state boards in the context of the current peer review system.

The above items represent only a small portion of the activities of NASBA this past year. We had 26 committees and task forces with approximately 250 volunteers providing countless hours and effort to making state-based regulation of the accounting profession as effective as possible. Thank you for all of your hard work. And thanks to the outstanding staff of NASBA for your talents, professionalism and devotion to the mission of NASBA and state boards. It is not by accident that NASBA was voted one of the top places to work in Tennessee this past year.

It has been my honor and pleasure to serve as Chair this year and I look forward to continued service to state boards and to NASBA.

— Samuel K. Cotterell, CPA
Chair

IFAC Supports One Set of Auditing Standards

A single set of auditing standards covering all size entities is what the public expects, according to the International Federation of Accountants' (IFAC) Policy Position 2, released in September. The International Auditing and Assurance Standards Board (IAASB), a standard-setting board under the auspices of IFAC, establishes International Standards on Auditing (ISAs) "designed to be applicable to the audits of entities of all sizes," the paper underscores.

Rather than developing differential standards for audits of small and medium-sized entities (SME), the IAASB was considering an alternative form of assurance that would serve the public interest, basically through revising its standards on compilation and review engagements. The meaning of the level of assurance that is "provided by a 'review' or a similar service" needs to be communicated to regulators, legislators, investors, lenders and others who rely on financial statements, IFAC explains.

"The decision on whether an audit or an alternative assurance service best meets the needs of each individual SME must be evaluated on an entity-by-entity basis, where there is no legislative or regulatory requirement. IFAC does not see it as being necessary that a service like a review engagement be the subject of regulation, but rather takes the view that it should achieve market acceptance based on the communication of its benefits to lenders, owners and other users."

IFAC has released a consultation paper "Matters to Consider in a Revision of International Standard on Review Engagements (ISRE) 2400 – Engagements to Review Financial Statements," developed by the staff of the national auditing standard setters of New Zealand. It is expected the responses to the paper will assist

the IAASB. The paper can be found on IFAC's Website www.ifac.org. Comments are due by December 15, 2008.

Policy Position 2 states: "IFAC is committed to ensuring that any new assurance service reflects the best traditions of independent judgment, and maintains the reputation of the profession." ♦

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available until the 2010-2011 academic year. Only 23 percent felt that the university administrators responsible for allocating resources understand the significant change needed to incorporate IFRS into the curriculum.

Adopting IFRS only after there is an acceptable level of convergence with US standards is achieved was supported by 42 percent of the educators, but 37 percent thought the SEC should require adoption by establishing a specific date. A phased-in IFRS implementation process, based on the size of the company, was favored by 27 percent of the respondents.

Manny Fernandez, KPMG National Managing Partner – University Relations and Recruiting, commented: "It is imperative that professors take the time to educate administrators on the overall impact of IFRS in business and present a needs assessment for their department and curricula. There is no doubt that the early movers in incorporating IFRS into the curricula are those that have adequately informed university leadership, and it will be those schools that will be more successful in building their brands in recruiting students." ♦

State Board Report

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

Chair's Memo (Jump)

the direction we are heading as we work to provide meaningful oversight by state boards in the context of the current peer review delivery system. Stay tuned. There is much more to come in this important area.

The above items represent only a small portion of the activities of NASBA this past year. We had 26 committees and task forces with approximately 250 volunteers providing countless hours of devoted time and effort to making state-based regulation of the accounting profession as effective and efficient as possible. The value of the service rendered is incalculable. Thank you for all of your hard work. And thanks to the outstanding staff of NASBA for your talents, professionalism and devotion to the mission of NASBA and state boards. It is not by accident that NASBA was voted one of the top places to work in Tennessee this past year. You are truly incredible.

It has been my honor and pleasure to serve as Chair this year and I look forward to continued service to state boards and to NASBA.

— *Samuel K. Cotterell*
Chair