

Obama Creates Fraud Task Force

An interagency Financial Fraud Enforcement Task Force, led by the U.S. Department of Justice, was established by President Barak Obama on November 17. Its purpose is “to strengthen the efforts of the Department of Justice, in conjunction with Federal, State, tribal, territorial, and local agencies, to investigate and prosecute significant financial crimes and other violations relating to the current financial crisis and economic recovery efforts, recover the proceeds of such crimes and violations, and ensure just and effective punishment of those who perpetrate financial crimes and violations.”

The U.S. Attorney General will chair the Task Force consisting of senior-level officials from Federal departments, agencies and offices. Besides holding regular meetings, the Task Force will “conduct outreach with representatives of financial institutions, corporate entities, nonprofit organizations, State, local, tribal, and territorial governments and agencies, and other interested persons to foster greater coordination and participation in the detection and prosecution of financial fraud and financial crimes, and in the

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NASBA Becomes IFAC Affiliate

After years of discomfort with its membership status in the International Federation of Accountants, in November NASBA was given “affiliate” status by the IFAC Council. As an affiliate, NASBA is released from membership obligations, which include having its members support the policies, standards and programs of IFAC. As NASBA is a forum of State Boards of Accountancy, it could not bind them to such support.

President David Costello explained: “We applaud IFAC for the work it has done in raising accounting standards in developing economies and its continuing efforts to promote high quality standards worldwide. Our membership in IFAC was a show of support for this organization back in its formative period. However, as IFAC matured, it became obvious that a voluntary association of state licensing Boards did not fit the membership obligations that were being carved out. NASBA can encourage State Boards to adopt standards, but it cannot pledge they will do so. Questions posed in surveys regularly circulated by IFAC were inappropriate for NASBA to answer.

“After a couple of years of meetings and discussions and trying to find the appropriate way to cooperate, IFAC’s leaders and NASBA agreed that the ‘affiliate’ status fit us best. We cannot be a member without committing to supporting and promoting IFAC’s mission, goals, programs, initiatives, etc. We cannot be an ‘associate’ since that is a member in waiting. We can be an ‘affiliate’ and enjoy privileges of meetings, communication, updates and the like. We have great incentive as an affiliate: NASBA becomes so important on the world stage that IFAC changes its bylaws to accommodate our full membership and seeks out advice from the State Boards.”

NASBA representatives attended the 32nd Annual IFAC Council Meeting held in Washington, DC, in November. At that time, full membership status was given to professional associations from Iran, Latvia and Kosovo. Professional associations from Brunei and Luxembourg have recently joined IFAC as associates. ♦

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Exemption for Smaller Issuers From 404?

It is presently uncertain whether small businesses with public float below \$75 million will have to make annual reports on the effectiveness of their internal controls as required under the Sarbanes-Oxley Act of 2002 (SOX), explained Marc A. Panucci, senior associate chief accountant in the Office of the Chief Accountant of the Securities and Exchange Commission. He spoke at Baruch College’s Fourth Annual Auditing Conference, cosponsored by NASBA’s Center for the Public Trust on December 2 in New York City. While an SEC study released in September 2009 found a positive impact on consumer confidence from the internal control reporting required under SOX, the House Financial Services Committee has voted in favor of HR 3775 which would exempt non-accelerated filers (the smaller companies) from such reporting. Prior to the Committee’s action, the SEC had announced a six-month extension of the filing deadline for those annual reports of companies with

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CPT Chair Calls for Conflict Competence

The only thing we can count on is the speed of change, CPT Board Chair Larry Bridgesmith told the Baruch/CPT conference. “The status quo will not be good enough,” he said and urged the conference’s attendees to recognize three types of action the speakers had alluded to: clarify, integrate and anticipate. “Allowing our recovery to rest in someone else’s hands defies being a professional,” Mr. Bridgesmith stated.

Among the conference’s panel sessions were discussions of: auditing fair value, moderated by NASBA President David Costello, with panelists Bruce B. Bingham of Capstone Valuation Services, LLC, Manish Choudhary of Deloitte Financial Advisory Services, LLP, and Robert S. Overstreet of KPMG, LLP; and

auditing and the credit crisis moderated by Brian Richson of PricewaterhouseCoopers, LLP, with panelists Al Paulus of Ernst & Young, and Phil D. Wedemeyer of Grant Thornton, LLP. Harold Monk, Jr., chair of the AICPA’s Auditing Standards Board covered current developments at the ASB. Other speakers, as quoted in this month’s *sbr*, also presented timely information.

Mr. Bridgesmith concluded the conference by challenging auditors to be clearly transparent in their work, which will require them to “step out of the comfort zone.” He said, “We have to have difficult conversations with the public.”

CPT Chair Bridgesmith stated, “It takes courage to step up and become conflict competent.” ♦

Exemption for Smaller Issuers From 404?

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fiscal years ending on or after June 15, 2010.

Mr. Panucci said the SEC’s study had found users of financial information stating they felt reporting on internal control added discipline to the process. Increased transparency had company management addressing deficiencies in a more timely manner, the users told the SEC. The survey also showed that the cost of complying with Section 404 of SOX was a higher percentage of assets for smaller companies than for larger ones, which tended to have higher absolute costs.

“The cost to a company of reporting is a lot less than the cost of a company failing,” Mr. Panucci pointed out.

Martin F. Baumann, the PCAOB’s Chief Auditor, also addressed the conference stating, “Disclosure is very important in the current environment.” He noted that fraud risk is “clearly elevated” now. In December 2008 the PCAOB sent out its “Staff Audit Practice Alert No. 3 – Audit Considerations in the Current Economic Environment,” which Mr. Baumann said is still a very important document as going concern risks reached an all-time high this year. The Alert points out where the PCAOB thinks there are challenges to auditors, he explained.

The PCAOB is working with both the Auditing Standards Board (ASB) and the International Auditing and Assurance Standards Board (IAASB), Mr. Baumann said. He said the public needs integrated financial statements and internal control

statements, but added, “We are considering our unique differences.” He noted that the PCAOB had approved “Auditing Standard No. 7 – Engagement Quality Review,” that is applicable to all registered firms and supersedes the Board’s interim concurring partner review requirement. The standard includes an appendix which shows key differences between No. 7 and equivalent standards issued by the IAASB and the ASB.

Last year the PCAOB released a suite of seven new auditing standards related to the auditor’s assessment of and response to risk, and related conforming amendments. Mr. Baumann said the PCAOB received 33 comments on these proposed standards and they will be re-exposed including an appendix showing where they are different from other standards and why.

A concept release had been sent out by the PCAOB in July 2009 based on a suggestion from the U.S. Department of the Treasury’s Advisory Committee on the Auditing Profession (ACAP) that the engagement partner be required to sign the audit report, as the European Union requires. Mr. Baumann told the conference that 23 comments were received on that release – with all the investors thinking it was a good idea and all the auditors thinking it was a bad one. He said the PCAOB is reflecting on this issue.

This year the PCAOB intends to confer with its Standing Advisory Group on making the auditor’s reporting model more informative, Mr. Baumann remarked. NASBA Director-at-Large Gaylen Hansen has been reappointed as a member of that group. ♦

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enforcement of antitrust and antidiscrimination laws.”

Robert S. Khuzami, Director of the Securities and Exchange Commission’s Division of Enforcement, called the new Task Force “a way for us to mount an even better organized and more collaborative response to the pain and losses caused by the financial crisis.” He noted that in FY 2009, more than 150 of the SEC’s enforcement cases were filed in coordination with criminal

charges filed by the Department of Justice and others, which was an increase of 30 percent over the previous year. Also in this past fiscal year, as compared to the previous year, the SEC increased penalty orders by 35 percent, restraining orders by 82 percent and asset freezes by 78 percent.

Since the passage of the Sarbanes-Oxley Act, the SEC has returned about \$6.6 billion to injured investors and increased penalty orders by 35 percent, Mr. Khuzami reported. ♦

Cell Phones, A Clown And Awareness

It happened in the spring of 2008 in Red Square, a big open plaza at Western Washington University, in Bellingham, WA. Student Dustin Randall under the tutelage of his psychology professor, Ira Hyman, donned his yellow and purple clown suit accented by a red nose and big red shoes and mounted a unicycle. He rode the unicycle thus attired throughout Red Square for an hour among shoppers and walkers. After his hour ride, those who had been present were asked by researchers if they had noticed the clown on the unicycle. Surprisingly, only 51 percent of individuals walking alone noticed the clown and a mere 25 percent of individuals using their cell phones admitted to seeing the clown on the unicycle.

While the notion of cell phone users being so oblivious that they fail to see a clown on a unicycle is humorous, the implications for such lack of awareness are serious. Obvious examples are texting while driving, talking to our grandkids on a cell phone in the middle of a crowded restaurant, or inappropriately using the cell phone while in flight.

As we near the end of calendar 2009 it occurs to me that some of us may have gotten so busy, so involved this past year, that we have missed some significant events which have serious implications. We are familiar no doubt about the promotion of International Financial Reporting Standards (IFRS) for publicly-held companies, but what about the most recent implications for privately-owned entities? Should State Boards and NASBA just sit on the sidelines to wait and see what happens to these private-entity standards that affect most of our licensees? Are we going to fail to see the clown on the unicycle? The answer is obvious: We must not.

Did any of you miss the non-independent review financial statement cycling around in the form of the AICPA's Accounting and Review Services Committee's (ARSC) draft? That's one we dare not overlook. Since our Annual Meeting's discussion of the ARSC draft, NASBA and the AICPA have agreed to sit down to deliberate, and hopefully resolve, independence issues related to the ARSC draft.

And one major development on which we must continue to stay focused is Senator Chris Dodd's (D-CT) recently introduced "Restoring American Financial Stability Act." Again, the implications for state regulation in general — and State Boards of Accountancy in particular — are grave. Federal encroachment into Constitutionally-protected states' rights (Amendment X) are suspect as one reads through the 1,136 page document. Let's not miss this clown on a unicycle.

The main point of all this is for NASBA and its member Boards, on behalf of a trusting public, to stay alert to any diminution of public interest and protected areas of accounting, auditing and financial reporting. Independence is foundational: Standard setting in the private sector must be credible and trustworthy — and state regulation of accountancy must not be subordinated to professional, federal governmental or international influences.

I want to switch gears in my concluding comments. Particularly during this festive season of the year, it is so tempting to focus on the glitz, trees, toys, food and all the commercial temptations coming our way and completely miss the message of the holidays. My holiday card for you is that family, peace, joy, thanksgiving, sharing and all that is the "reason for the season" be your focus, your awareness and your reality during this wonderful time of the year.

*Ad astra
Per aspera*



David A. Costello, CPA

A handwritten signature in black ink that reads "David A. Costello". The signature is written in a cursive, flowing style.

— David A. Costello, CPA
President and CEO

Deloitte CEO Addresses Baruch/CPT Conference

Although the current U.S. financial reporting model may not be perfect, Robert J. Kueppers, Deputy CEO of Deloitte & Touche USA, LLP, rhetorically asked, “If you are going to put in a new model, would you think of doing something that was not international?” If the U.S. adopts International Financial Reporting Standards he thought the learning curve would be steep, but a decision by the SEC needs to be made, and he thought that could happen by May 2010. “I think the Europeans will come to the table if the U.S. agrees. I think they will become serious as to setting global standards,” he stated.

The debate about the need for principles vs. rules is not new, Mr. Baumann observed. “Professional judgment” is the expertise CPAs bring to the client, he stated and suggested that the SEC

develop a construct for “professional judgment,” to prevent misstatement and give confidence to the people in the field. Deloitte has instructed its staff on steps to follow when making decisions, he reported. Mr. Baumann stressed the importance of instilling professional skepticism in firm members at all levels.

Currently there is public interest in what the profession does and what it has done, and he believes the importance of the profession could not be better. “Professionals must meet evolving market needs while keeping true to the fundamentals,” Mr. Kueppers said. “Ethics and integrity will remain the cornerstones of our profession,” he told Baruch College’s Fourth Annual Auditing Conference, “Ensuring Integrity,” cosponsored by the NASBA Center for the Public Trust on December 2, 2009. ♦

Lawyers Say International Names a Challenge

“The law is catching up with what the public is saying with the use of firm names,” James J. Sabella, Esq., said during a fast-paced panel session at the Baruch/CPT conference, moderated by Baruch Professor Douglas Carmichael. “If you are going to say to investors that you are one firm worldwide – it is hard to say when something goes wrong, ‘Only kidding!’ You have to actively exercise the control that you have, rather than let the local partners run amok,” Mr. Sabella stated. His firm, Grant & Eisenhofer, had represented plaintiffs in a Parmalat investors’ case against Deloitte that ended in a settlement.

Michael R. Young, Esq., of Wilkie Farr & Gallagher, said, “Historically, the courts have not allowed liability to spill over.” There has been recognition that the firms have operated as individual entities. However, he also observed, “Major firms are becoming more integrated – and it’s not just the Big Four. From a practice perspective there are advantages for integration, but the lesson from the law is the more you integrate, the more you risk

taking on liability.”

A similarly bleak view was voiced by James R. Peterson, Esq., who observed: “Increasing globalization draws on cross-listing on capital markets. Multi-firm performance involves personnel in other countries. Foreign purchasers are listed on foreign exchanges and you have to resort to using the resources of others.” He cited several recent international cases against large firms and concluded that the firms’ franchise is in “a fragile state at this point.”

The attorneys were critical of the Treasury Department’s Advisory Committee on the Auditing Profession’s failure to make any recommendations about the concentration of auditing of public companies within four firms worldwide.

The NASBA/AICPA Uniform Accountancy Act Committee met on November 18, 2009 in Chicago to begin their discussion of firm names as mentioned in the UAA and the Model Rules. The white paper released by the AICPA/NASBA study group in August served as the starting point for the meeting’s agenda. ♦

State Board Report

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