

# Advisory Committee on the Auditing Profession

**NASBA**

**2008 Regional Meetings  
Strategic Initiatives Committee**  
June 12, 2008 – Asheville, NC  
June 19, 2008 – Newport Beach, CA  
Gaylen R. Hansen


Advisory Committee on the Auditing Profession



Auditing Committee on the Auditing Profession

# Committee Charge

The Treasury Department established the Advisory Committee on the Auditing Profession to examine the sustainability of a strong and vibrant auditing profession. The Committee will consider, among other things, the auditing profession's ability to cultivate, attract, and retain the human capital necessary to meet developments in the business and financial reporting environment and ensure audit quality for investors; affect market competition and concentration and the impact of the independence and other professional standards on this market and investor confidence; and the organizational structure, financial resources, and communication of the auditing profession.


The NASBA logo is located in the bottom right corner of the slide. It features the word "NASBA" in a bold, serif font, with a stylized graphic element to its right consisting of several vertical bars of varying heights.NASBA 

# Advisory Committee on the Auditing Profession

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## Background

- Audits of Public Companies
- Strategic Recommendations – Health & Sustainability
- Loss of Another Major Audit Firm

The NASBA logo is located in the bottom right corner of the slide. It features the acronym "NASBA" in a bold, serif font, with a stylized graphic element to its right.

## NASBA

## Advisory Committee on the Auditing Profession

### Organization

- Federal Advisory Procedures Act
- 21 Members
  - 6 CPAs
    - 2 Former SEC Chief Accountants
    - AICPA President
    - KPMG CEO
    - McGladrey Retired Partner
    - NASBA/Small Firm Representative



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## Advisory Committee on the Auditing Profession

### Working Program

- 7 Public Meetings since October
- May 5<sup>th</sup> Draft – Published May 15<sup>th</sup>
- July 22<sup>nd</sup> Final Report “likely”



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## Advisory Committee on the Auditing Profession

### Key Issues

- State Regulatory Regime
- Transparency
- Key Performance Indicators
- Auditor Independence
- Barriers to Small Firms
- Fraud
- Mobility
- Firm Governance
- Partner Rotation
- Audit Report



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## Relevancy of State Boards

### National Licensure & Mobility

- David Costello December 3<sup>rd</sup> Testimony
- UAA Section 23 Mobility
- April 1<sup>st</sup> Comment of ACAP Member



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## Relevancy of State Boards

### Firm Structure and Finances Subcommittee Recommendation 2a (Page VI:4)

■ 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 the adoption of these provisions.

- Support Accountancy Licensee Database



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## Regulatory Consistency

### Federal & State Coordination

- Enforcement
- Duplication / "Piling On"



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## Regulatory Consistency

Firm Structure and Finances Subcommittee

Recommendation 2b (Page VI:6)

- Regular & Formal Roundtables
  - PCAOB, SEC, DOJ, State Boards & Attorneys General
  - Focus on Regulatory Coordination, Improvement & Consistent Approaches to Enforcement
  - NASBA Leadership & Coordination Role



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## Strengthen State Boards

Financial & Operational Independence

- Capacity for Investigation & Enforcement
- Centralized "Umbrella" Operations
- Outside Influences



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## Strengthen State Boards

Firm Structure and Finances Subcommittee

Recommendation 2c (Page VI:7)

- Enhance Regulatory Effectiveness
- Operational & Financial Independence



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## Advisory Committee on the Auditing Profession

Other Notable Recommendations  
(Generally Impacting NASBA and / or State Boards)

- Update College Curricula, Textbooks & CPA Exam [V:3]
- National Center to Detect & Prevent Fraud [VI:2]
- Consolidate & Clarify Independence Standards [VII:12]



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## Advisory Committee on the Auditing Profession

Other Notable Recommendations - *continued*  
(Generally Affecting Audit Firms)

- Mechanism to Prevent Loss of Large Firm [VII:6]
- Report Reasons for ALL Audit Firm Changes [VI:10]
- Independent Board or Advisory Members [VI:7]
- Key Performance Indicators of Audit Quality [VII:10]
- Reduce Barriers to Small Firms [VII:3]



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## Advisory Committee on the Auditing Profession

What's Missing (and still being debated)

- Liability Reform
  - Federal Securities Court
  - Clear Standard of Care (Link to SEC Rule 103(e))
  - Liability Caps (DOA)
- Firm Transparency
  - Annual Report
    - EU 8<sup>th</sup> Directive, Article 40
    - Quality Metrics
    - Audited Financial Statements



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## Advisory Committee on the Auditing Profession

What's Missing  
(and still being debated – *continued*)

- Auditor's Report –
  - Pass / Fail Model
- Fraud Responsibilities (AU 316 / SAS 99)
  - Partner Signature
- Partner Rotation
- Internationalization



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## Advisory Committee on the Auditing Profession

State Board Action Steps

- Impact of 2010 Mobility "Deadline"
- Comment on Draft Report
  - Online (<http://www.treas.gov/offices/domestic-finance/acap/>)
  - Hansen ([ghansen@eksh.com](mailto:ghansen@eksh.com))



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