

## New Enforcement Committee

A new committee, NASBA's Enforcement Practices Committee, chaired by Harry O. Parsons (NV), has formed four subcommittees to address its broad charge:

1. Uniform Enforcement Education Subcommittee (Mr. Parsons, chair) - Will maintain the Governmental Agency Referral process to ensure its successful continuation and will interact with the AICPA Professional Ethics Executive Committee to encourage referrals to state boards and to agencies when appropriate.
2. Enforcement Assessment and Best Practices Subcommittee (Michael Weinschel (CT), chair) - Is developing a manual of best enforcement practices.
3. Enforcement Practices Resource Subcommittee (Michael W. Skinner (GA), chair) - Is assembling a resource bank of specialized investigators and producing other information to be posted on the Communications Committee's page on the NASBA Web site.

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## SEC Urged to Converge FASB and IASB Standards

Convergence, not complete adoption, of International Financial Reporting Standards (IFRS) was recommended by NASBA leaders to the Securities and Exchange Commission in a February 19, 2009 letter commenting on the SEC's "Roadmap for Potential Use of Financial Statements Prepared in Accordance with International Reporting Standards by U.S. Issuers." NASBA Chair Thomas J. Sadler and President David A. Costello wrote: "Were the Roadmap to be implemented by the Commission, it would adopt IFRS set by the IASB... This would abandon the process of convergence which the Roadmap recognizes as 'an important means of increasing the quality of IFRS and [U.S.] GAAP and, at the same time reducing the disparity between the two.'"

The NASBA leaders underscored the need for the Financial Accounting Standards Board continuing to act in the interest of the US public: "The FASB, its committees and task forces, are vital to the development of high quality financial reporting in the United States and should be continued in their present roles of setting financial reporting standards for U.S. issuers and non-issuers."

Many of the more than 100 countries which have endorsed the use of IFRS

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## Budget Proposals Threaten State Boards

The recession has sent many governors scurrying for ways to trim their state budgets – with the accountancy boards, along with other licensing boards, coming under scrutiny. Board members, executive directors, NASBA and professional associations have had to take action throughout the country to make legislators aware of the work being performed by the accountancy boards.

In Connecticut, Governor M. Jodi Rell said her third plan to decrease the state's budget deficit, announced on February 18, would cut from state agencies and tap into the state's Rainy Day Fund, while avoiding layoffs and tax increases. Her original budget for FY 2010-2011 called for sweeping the Board of Accountancy into the Department of Consumer Protection. The projected savings for FY 2010 would be \$211,543 and for FY2011 \$122,485 according to the Governor's estimates. Currently the Board has an executive director, legal counsel and three other staff members. The Governor's proposal would remove two positions, fold the legal counsel and the remaining staff into the Department of Consumer Protection, and cede much of the licensing, enforcement, and regulatory authority of the Board to the Commissioner of Consumer Protection..

In 2007 the Connecticut Board of Accountancy marked 100 years as a state board. During 2007-2008 it renewed 4,662 CPA licenses, 2,519 CPA certificate registrations and 1,536 firm permits. The Board also issued 526 initial certificates, 626 initial CPA licenses, registered 136 CPA certificates and issued 124 new firm permits. Only four years ago it became an independent agency.

Connecticut State Board of Accountancy Chairman Thomas F. Reynolds on February 10 testified at the Appropriations Sub-Committee hearing on General

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## Communications Officers Exchange Ideas

More than 30 State Board representatives participated in the NASBA Communications Committee's conference call on February 24, when top outreach initiatives for the boards were discussed. Committee Chair Sally Flowers explained the initiatives are bundled into five areas: student outreach, speakers bureau, society outreach, licensee outreach and outreach through mobility and technology. Communications officers have been named by over 40 boards, and all are being encouraged to move forward with many programs including the following:

- ◆ Encourage Boards of Accountancy to host monthly meetings on college campuses.
- ◆ Make tapings of Board meetings and hearings available to college professors to blend into their courses.
- ◆ Create public service announcements and forward copies to local campus radio/tv stations for airing.
- ◆ Form a strategic partnership with a student association or

business fraternity to hold events together.

- ◆ Post a listing of available Board of Accountancy speakers on the Board's Web site.
- ◆ E-mail notices and a copy of the Board's public meeting agenda to stakeholder representatives.
- ◆ Encourage stakeholders to attend NASBA meetings and conferences.
- ◆ Encourage local firms to give time and training to employees who are prospective CPAs.
- ◆ Institute a mental health/substance abuse awareness program to assist licensees suffering with these problems.
- ◆ Encourage the Board to establish and maintain an informative Web site.

Communications Committee Chair Flowers asked all Boards to submit outreach program suggestions to NASBA Communications Director Thomas Kenny at [tkenny@nasba.org](mailto:tkenny@nasba.org). ◆

## SEC Urged to Converge Standards

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are only using a portion of those standards, the letter points out, with many countries making changes to the standards that satisfy their local reporting needs. "There is simply no assurance that all countries embracing IFRS will apply the standards in the same way to achieve comparability – the chief benefit argued for a single set of standards," the NASBA leaders state. Consequently, they observe, "The joint efforts of the IASB and the FASB to converge standards, to the extent possible, could ultimately result in a form of jurisdictional adoption of IFRS by the FASB, similar to other countries that have maintained their accounting standards boards with the endorsement of use of jurisdictional IFRS."

Since its inception in 1973, the FASB has "continued to set high quality reporting standards" for both U.S. public companies that report to the SEC and private companies that do not. "In accordance with Amendment X to the Constitution of the United States, financial reporting standard setting for non-issuers [private companies not reporting to the SEC] is among the powers reserved to the states. It is not likely that the states would accept the IASB, a non-U.S. organization, as the one to set standards for U.S. issuers," Messrs. Sadler and Costello predict. "Therefore, the states would have to establish and fund a standard setting organization that would be independent of pressure from the non-issuers and their auditors. It would be a daunting, but not impossible, task to establish a credible second standard setter. However, having two standard setters in the United States would not be in the public interest."

The NASBA leaders also ask the SEC to consider the enforceability of IFRS: "Regulators, the SEC and State Boards included, would be required to become more subjective in their determination as to whether or not standards were appropriately applied in a given situation because IFRS are significantly more

flexible and lack the implementation guidance of U.S. GAAP [Generally Accepted Accounting Principles]." They caution that "it is possible that the judiciary would hold U.S. issuers to bright line standards in order to promote uniformity, resulting in financial reporting being set in adversary legal processes rather than consideration of the needs of users."

Not only accounting students would need to learn about IFRS. "Accountants, owners, managers, directors, investors, bankers and others would have to obtain training in the application of IFRS and would have to become familiar with the differences between IFRS and non-user standards, currently U.S. GAAP?"

NASBA's leaders conclude by urging the Commission "to continue its support of the joint efforts of the IASB and the FASB to converge standards, to the extent possible, as they work to their target completion date of 2011."

The letter to the SEC can be found on [www.nasba.org](http://www.nasba.org). ◆

## Enforcement Committee Begins Work

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4. Multi-State Investigations Subcommittee (Kenneth R. Odom (AL), chair) - Will form relationships with representatives of the accounting profession and other interested parties to develop an efficient process for multi-state, multi-office investigations and will promote interstate compacts as a means for fair and efficient enforcement.

Committee Chair Parsons told the NASBA Board in January that, "Mobility will not work unless we can assure all the states of enforcement." He asked all jurisdictions to assist the Committee in gathering information about their current enforcement procedures and in identifying ways in which they would like NASBA to help them with enforcement. ◆

## Planning At The Zoo

In a recently published scientific paper, a primatologist describes the planning habits of an adult male chimpanzee, "Santino," who lives in a Swedish zoo and often collects stones before opening time. He readies these to later hurl them at visitors who agitate him. On some days, he has barraged visitors with up to 20 projectiles thrown in rapid succession. Several times Santino has used his neatly stored stones to hit spectators standing about 30 feet away. The paper, as summarized in the *Washington Post*, reports that other animals and birds also have been found to plan ahead.

I thought about Santino as I read the latest proposal in the rush to fix the financial world, particularly accounting standards and their application. In the early days of March, we were quite surprised to learn of the introduction of H.R.1349 that would establish a Federal Accounting Oversight Board (FAOB). This new board would approve and oversee the application of Generally Accepted Accounting Principles for purposes of the federal financial regulatory agencies. The FAOB would have powers to determine whether accounting principles adversely affect certain industries or the financial health of the U.S., and the concomitant authority to act to redress any perceived ill effects.

Coming as no surprise, this latest hurried attempt to establish oversight would upend the development of accounting standards: It would give the FAOB the authority to interpret and act on principles and standards to resolve questions concerning liquid and illiquid instruments. (So, if you don't like the mark-to-market principle, lobby to legislate it away!)

This latest rush to involve Congress in accounting standards is just one more example of what we in NASBA have been critical about. We've been shown the SEC's Roadmap (see story on page 1 and *sbr 2/09*). Now this ill-founded draft legislation on difficult and complex issues, poorly planned and inadequately vetted, is just astounding. Even monkeys plan!

Where have the accounting standards set by the FASB gone so far wrong? The debate continues concerning mark-to-market -- and I've not seen the compelling reason to completely overhaul this standard. Should it be reviewed and perhaps interpreted differently for certain industries? Maybe. But it must be done openly, transparently and patiently. Did an accounting standard really throw the world into economic chaos?

Business, academia, not for profits, and governments plan strategically and tactically, and monitor those plans against actual results. Planning and preparation are parts of a fabric of operating to meet objectives and missions. Even monkeys plan!

You'll pardon me if I seem to be a bit put out. But when will the nonsense stop? No, we don't need knee-jerk reactions to perceived ills of accounting standard setters and standards -- particularly not by the Congress! There are other problems that require their attention. Let's continue to work with the FASB and other standard setters to enhance the quality of financial reporting, to improve the vetting processes to include all relevant parties, and to impress upon standard setters and the Congress that there is a critical need for proper planning and the rejection of quick fixes to accounting.

*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

## Indian Authorities Respond to Satyam

Two former members of Price Waterhouse India are among the five individuals who were remanded to custody in the Satyam case, what has been called the biggest corporate scam to hit India. The scandal became public in early January when the founder and chairman of Satyam Computer Services confessed in writing that he had inflated the company's balance sheet over several years. The Institute of Chartered Accountants of India, which serves as the statutory body that oversees auditors, wrote to its members on February 6: "The fact as to whether the auditors were innocent, or whether they were negligent or, in the worst case scenario, whether they were hand in glove with the Chairman in falsifying the accounts, will no doubt come out in the investigations/probe being done by several agencies, including the disciplinary mechanism of the Institute, but the fact remains that the profession has received a severe beating."

ICAI President Uttam Prakash Agarwal told the membership that the Institute had taken several steps in response to the case:

1. The Director (Discipline) of the Institute issued show-cause notices to the auditors;
2. Show-cause notices were issued to the Satyam's former CFO and former senior vice president – internal audit;
3. Communications were sent to authorities/agencies seeking relevant documents/details in their possession for the purpose of examination;
4. The ICAI's Financial Reporting Review Board commenced the task of review of the financial statements of Satyam for the past five years;
5. ICAI is increasing the information on its Web site to place in the public domain information about individuals who have been removed from the ICAI Register of Members for the past five years and the names of the firms with which they were associated;
6. ICAI will communicate information about these "tainted Chartered Accountants" to the regulatory authorities, and to those who want to refer to this information before engaging a CA firm;
7. ICAI is creating a high powered committee to examine "the entire gamut of the Satyam fiasco in relation to accounting and auditing aspects."

B. Ramalinga Raju, Satyam's chairman, confessed to placing fictitious assets and nonexistent cash on the balance sheet. Investigators say the value of these assets totals about \$674,000,000. Mr. Raju and his brother, the managing director B. Rama Raju, resigned from the company and were charged

with criminal conspiracy, forgery, criminal breach of trust and falsifying documents, and they face up to life in prison, according to a report in the *Huffington Post*.

The case is being called the "Indian Enron." Initial press reports said the software services firm, based in Hyderabad, had 53,000 employees; however, subsequent reports said it had been discovered that 13,000 of those employees were also fictitious.

Indian police arrested Price Waterhouse Chief Relationship Partner in India, S. Gopalakrishnan, and its Engagement Leader, Srinivas Taluri, on January 24 in connection with the fraud at Satyam. The head of PWC's Indian affiliate's auditing practice, Thomas Mathew, has also resigned as its "assurance leader," although the firm says he was not involved in the Satyam audit. Mr. Mathew remains a firm partner, *Bloomberg News* reported

Under an act passed in India in 1949, foreign firms are barred from signing off on Indian companies' financial statements under their international firm name. However, Price Waterhouse is allowed to do so because it has been doing business in India for more than a century.

On January 13 the Indian accounting firm wrote to Satyam's board: "The contents of the said letter [from Chairman Raju], even if partially accurate, may have a material effect (which effect is currently unknown and cannot be quantified without a thorough investigation) on the veracity of the Company's financial statements presented to us during the Audit Period. Consequently, our opinions on the financial statements may be rendered inaccurate and unreliable." The auditors further advised the Satyam board that they "should promptly commence an independent investigation pursuant to Section 10A of the United States Securities and Exchange Act of 1934 in order to determine whether such illegal act occurred and, if so, the nature and extent of such acts." Price Waterhouse was Satyam's statutory auditor from June 2000 to the quarter ending September 2008.

Investigators are seeking to find out if there were forgeries of account balance statements and letters of confirmation of account balances from four major banks (HSBC Holdings, PLC of the UK; Citigroup Inc. of the US; and HDFC Bank and ICICI Bank Ltd. of India), the *Wall Street Journal* reported.

India's Central Bureau of Investigation on February 20 registered a case under sections of the Indian Penal Code relating to forgery and cheating against Raju, Satyam's former directors and auditor. "Satyam" translated from Sanskrit means "this is true." ♦

## Chinese Announce CPA Examination Reform

The Chinese Institute of Certified Public Accountants has released its “Action Plan for the Reform of the CPA Examination System” and will launch a revised form of its current National Uniform CPA Examination later this year. First-time candidates in 2009 will be registered to take the new examination, with transition arrangements being provided for those who successfully passed any of the five subjects in the older examination system.

Under the new Chinese CPA examination system, certificates are granted upon successful completion of Level 1, the “professional stage,” and upon completion of Level 2, the “advanced stage.” Level 1 covers six subjects: accounting; auditing; financial management and cost management; corporate strategies and risk management; economic law; and tax law. Level 2 assesses if candidates can integrate and apply these subjects in practice, and whether they can also maintain professional values, ethics and attitudes in solving problems.

It is suggested that candidates gain practical work experience before sitting for the Level 2 examination. Examination results for each of the six subjects in Level 1 are valid for five years, and the Level 2 examination should be passed within five years of having

passed all the Level 1 subjects.

The CICPA states: “With the enhancement of the level of competence and the convergence of international standards in the practice of the Chinese CPAs, one of the key objectives is that the Chinese CPA examination will be internationally recognized. The Chinese CPAs will then have the mobility for going international.” The CICPA has more than 5,600 accounting firm members and more than 140,000 individual members.

The Action Plan for the Reform of the CPA Examination System can be found on [www.cicpa.org.cn/english/news\\_alert/200902/t20090220\\_15272.htm](http://www.cicpa.org.cn/english/news_alert/200902/t20090220_15272.htm). ♦

### CPAES Gives NH Candidates Choice

In response to a request from the New Hampshire Board of Accountancy, beginning with this testing window, NASBA’s CPA Examination Services will release scores to NH candidates via e-mail, fax, or U.S. postal service. It is up to the candidates to select their method of score delivery. ♦

## Does PCAOB Trust EU Oversight?

The extent of the trust between trading partners has been questioned by the European Union’s Commissioner for the Internal Market and Services Charlie McCreevy in a statement released on February 19. “Before making a decision on audit working papers, I think that we need more time to ensure that the United States, in particular, is ready to cooperate with us fully, based upon mutual trust and mutual assistance. Only then can we, in the EU, move forward together on this issue with one approach for all our main trading partners. I should stress that it is still my aim to move forward on this issue,” he stated. According to Mr. McCreevy, the recent economic crisis has “highlighted the lack of cooperation and coordination amongst authorities.”

He explained that he had tabled a draft decision for the EU member states that would allow those states’ public oversight bodies to cooperate with their counterparts in Canada, Japan and the United States. Before discussions continue, Mr. McCreevy said the views of President Obama’s administration need to be heard. He called on the SEC and the PCAOB to agree to the draft policy statement of December 2007 [PCAOB Release No. 2007-011] on how to deal with overseas oversight bodies and resolve outstanding issues.

“The EU’s aim has always been to move toward full reliance on the audit inspections of the public oversight bodies in these third countries,” Commissioner McCreevy said. “In practice, this would mean that audit firms from these countries would no longer have to be inspected by European public oversight bodies, as we in the EU could rely on the audit inspections that were carried out by their counterparts in these countries. In return, of course, EU oversight bodies would expect the same treatment for EU audit firms. Putting in place this model of cooperation would go a long

way towards restoring the confidence of investors.”

On December 4, 2008, PCAOB Chairman Mark W. Olson stated, when announcing the release of proposed PCAOB Rule Amendments concerning the timing of certain inspections of non-US firms: “The full reliance proposal – where the PCAOB set forth proposed criteria upon which it could consider relying to the fullest extent possible on the inspection work of a non-US counterpart - is a separate initiative. The Board continues to carefully consider the comments received on that proposal - including those received during its June roundtable on the subject - which communicated a wide array of views. I hope that we will be in a position to move toward a final statement early next year [2009].” More than 880 non-U.S. firms are registered with the PCAOB and about 255 of them were subject to PCAOB inspection on a triennial basis when Chairman Olson made his statement.

In January 2008, NASBA Chair Samuel Cotterell and President David Costello submitted a letter of comment to the PCAOB on its Release No. 2007-011, which is still under consideration by the PCAOB. Messrs. Cotterell and Costello’s letter recommended bilateral agreements with non-US oversight entities include “a comment on the need for technical training and proficiency of inspectors in understanding: (a) the PCAOB’s standards, (b) the Securities and Exchange Commission’s independence standards, and (c) U.S. Generally Accepting Accounting Principles when applicable.” They also stated that full reliance on a particular non-US oversight entity should depend, in part, “on the ability to access the same information that the PCAOB’s inspectors can access when conducting inspections or investigations in the United States.” ♦

## Budget Proposals Threaten State Boards

(Continued from Page 1)

Government Agencies in the Governor's Proposed Budget and reminded them that for years the Board of Accountancy had been under the Department of Consumer Protection and had been taken out from that umbrella organization when the state realized such positioning was "inappropriate and ineffective." The revenues collected by the Board were approximately \$2,500,000 this year, with an operating cost of about \$425,000, he noted. Chairman Reynolds explained to the legislators that much of the Board's work relates to the technical details of accountancy, which place it in a unique position that cannot be bundled with other occupations' licensing boards.

A legislator asked Chairman Reynolds what other efficiencies the Board might find should it be allowed to continue in its independent status. He responded that an automation project is underway, which is budgeted for \$109,000 and in the long-run will lead to efficiencies. He pointed out that many hedge funds are based in Connecticut and this would be the wrong time to cut back on the state's regulation of accountants.

NASBA Director of International and Government Relations Linda Biek also spoke before the hearing in support of the Board's continuing independence, as did Connecticut Society of CPAs Executive Director Arthur J. Renner. It will probably be months before there is a decision on the Board's fate, Chairman Reynolds estimated, as the hearing was just the beginning of the Appropriations Committee's deliberations.

In Ohio a budget bill has been introduced that would also consolidate the Accountancy Board of Ohio's backroom functions with those of other boards. Executive Director Ronald Rotaru said, to avoid cutbacks, he has not filled two positions that became vacant at the Board and has instead redistributed the work to the

remaining staff members. He estimates that the Ohio Accountancy Board has held more disciplinary hearings per capita than any other state board in the country. Letters and testimony in support of the Board's independence are being submitted by NASBA, as well as the Board and local stakeholders.

Washington Governor Christine Gregoire had recommended that the Washington State Board of Accountancy become part of the Department of Licensing, rather than continuing to be a stand-alone agency. NASBA wrote to the Governor in support of the Board's independence (see President's Memo *sbr 2/09*), as did the Washington Society of Certified Public Accountants. No decision has yet been made on the Board's status.

On February 12, New Hampshire Governor John Lynch announced in his budget address: "I am proposing that all licensing boards and commissions be consolidated by subject matter within four major departments - health and human services, safety, environmental services and the secretary of state. From there, commissioners will work with the boards to strengthen their operations, and we will implement a plan to achieve full consolidation of the State's licensing functions by 2012." The New Hampshire Board of Accountancy's Executive Director Louise O. Romeo commented that the Governor's announcement was "shocking" to the Accountancy Board, as it has been "one of the most successful Boards in our State."

Participants in NASBA's March 2009 28th Annual Conference for Executive Directors and State Board Staff will be sharing information on how budget cuts are impacting their operations. To enable representation from all states, NASBA is providing scholarships for executive directors and legal counsel from those states that do not have funding that would enable them to attend the March conference for Executive Directors and Board Legal Counsel. ♦

## State Board Report

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