

State Board *Report*

A Digest of Current Developments Affecting State Accountancy Regulation

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Support for Mobility Grows

Provisions to facilitate licensee mobility and to automatically bring out-of-state practitioners under the jurisdiction of the local state board (as expressed in the newly revised Uniform Accountancy Act Section 23) are gaining support throughout the country. As of the Board of Directors' July meeting, states which had enacted such legislation included: Illinois, Indiana, Maine, Missouri, Ohio, Rhode Island, Tennessee, Texas, Virginia and Wisconsin. In addition, legislative action was in progress in Louisiana, Oklahoma, Oregon and Pennsylvania. Boards in Arizona, California, Delaware, Maryland, Massachusetts, Michigan, New Mexico, North Dakota and Washington have expressed their support for such legislation as well.

Ken Bishop, chair of the NASBA CPA Mobility Task Force, told the NASBA Board in July that, during 2008, the Task Force expects to work with at least 14 additional states to have them actively support Section 23 as well. ♦

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UAA and Model Rule Changes Approved

NASBA's Board of Directors at their July 27 meeting in New Mexico unanimously approved the revisions to the AICPA/NASBA Uniform Accountancy Act and the NASBA UAA Model Rules as presented by NASBA UAA Committee Chair Andrew DuBoff. Both revised documents can be found on NASBA's Web site, www.nasba.org. The UAA Committee had reviewed all the comments received on both the statute and the rules at their May 24 meeting, and made a few adjustments as suggested, the largest being the addition of a definition of "home office," as many favored.

The UAA (statute) revisions had also been approved on July 12, 2007 by the AICPA Board of Directors. Included in these revisions are: major changes to Section 23 on substantial equivalency, addition of a definition of "home office" in Section 3, changes to Section 7 clarifying when firm permits are required, and to Section 14 on unlawful acts stating when a permit is not needed.

"Under the revisions, every substantially equivalent CPA automatically consents to the administrative jurisdiction of the state board whose rules might have been violated by that CPA while using practice privileges," Noel Allen, legal counsel, told the NASBA Board. "Thus, if a CPA uses practice privileges in another state, the CPA is not only agreeing to abide by that state's laws, but also to answer to charges before the state's board of accountancy."

The changes to the Model Rules accomplish the following:

- (1) Add important new definitions for "agreed upon procedure," "audit" and "professional engagement."
- (2) Remove duplicative provisions (definitions of terms already defined in the UAA and procedural revisions that are already subject to state administrative procedure laws).
- (3) Provide guidelines for ascertaining the lack of "good moral character."
- (4) Establish a uniform ethics continuing professional education requirement – four hours during the three-year period preceding renewal.
- (5) Implement the compliance assurance requirements program as a means of allowing more transparency and state board oversight of peer review programs.
- (6) Provide a model for explicit adoption of "applicable standards" and
- (7) Implement the NASBA Model Code of Conduct.

UAA Committee Chair DuBoff (NJ) thanked all who contributed their comments on the exposure draft, the AICPA UAA Committee and staff, and the NASBA UAA Committee members, including: Robert N. Brooks (NC), Marcela E. Donadio (TX), Ellis M. Dunkum (VA), Michael R. Granen (CA), J. Dwight Hadley (NY), Thomas J. Mulligan (OH), Robert A. Pearson (MO), Laurie J. Tish (WA), Michael D. Weatherwax (CO) and Michael Weinshel (CT), legal counsel Noel Allen and staff liaison Louise Dratler Haberman. Keeping with the "evergreen" feature of the Uniform Accountancy Act and Model Rules, the NASBA UAA Committee is now asking the state boards and NASBA committees to submit suggestions for areas for review in the Model Rules and the Act, which may result in future revisions. ♦

CA Attorney Granen Mourned



Michael Granen speaks at 2006 Annual Meeting.

When Michael R. Granen, Esq., California Deputy Attorney General, died on July 31, 2007, NASBA, the state boards of accountancy and the public lost a real advocate. Those NASBA volunteers and staff who had the opportunity to work with Mike on the Uniform Accountancy Act Committee, the Legal Counsel

Committee or one of the many task forces on mobility and interstate enforcement that NASBA formed over the years, knew what an intelligent, diligent and always helpful adviser he was. If any board's attorney e-mailed a question to the other boards' attorneys, Mike was sure to answer promptly with a thorough response.

Although Mike was always very proud of the work done by the California Board of Accountancy, he was also a good listener to the ideas developed by others. If you went to a NASBA State Board Legal Counsel Conference or an Executive Directors' Conference in the last ten years, then you knew Michael Granen. He also spoke at an Annual Meeting and Regional Meetings.

Mike took medical leave from the California Attorney General's Office in May and, unfortunately, never made it back to work. His death took everyone by surprise – and some of us keep expecting yet another detailed e-mail from him.

Donations in Mike's memory may be made to the Santa Clarita Valley Family YMCA, the Breast Cancer Foundation, or a charity of your choice. Condolences may be sent to his widow, Leah Granen, and children Shawn and Krista, at 24042 Briardale Way, Newhall, CA 91321. ♦

Push for Assurance Committees

NASBA's Regional Directors have been enlisted by the Compliance Assurance Committee to assist in bringing mandatory compliance assurance/peer review programs to all jurisdictions along with having states create compliance assurance committees to oversee them. Compliance Assurance Review Board Chair Thomas Sadler reported there are 40 states with some form of compliance assurance programs, 28 relying on the AICPA peer review program and only about a dozen having a state compliance assurance oversight committee.

Mr. Sadler told the Regional Directors on July 26 that the Compliance Assurance Committee is preparing an information tool kit to describe model oversight committees for the boards. ♦

Charges Against 13 KPMG Staff Dismissed

Indictments against 13 of the 16 former KPMG executives accused of selling fraudulent tax shelters were dismissed by Federal Judge Lewis A. Kaplan on July 15. The judge's actions were based on his finding that the Justice Department's prosecuting attorneys had put undue pressure on KPMG to decline paying the defense costs of their former employees and, consequently, the prosecutors had violated the executives' rights to counsel. KPMG had entered into a deferred prosecution agreement in August 2005 (see *sbr* 1/07), which led to the government's dismissing of charges against the firm after December 31, 2006.

"The government's actions with respect to legal fees were at least deliberately indifferent to the rights of the defendants and others," Judge Kaplan wrote in July. He said he had concluded with "the greatest reluctance" that dismissal of the charges against the executives was the only alternative. ♦

ASIC and PCAOB Pledge Cooperation

The Australian Securities and Investments Commission (ASIC) and the Public Company Accounting Oversight Board entered into a Statement of Protocol on July 16 aimed at enhancing the cooperation in supervisory oversight of auditors and public accounting firms that practice both in the United States as well as in Australia.

PCAOB Chairman Mark Olson remarked: "The PCAOB strongly believes that dialogue and cooperation among auditor oversight bodies are critical to every regulator's ability to meet the challenges that come with the increasingly global capital markets. The Statement of Protocol will allow the PCAOB and ASIC to work closely together in the oversight of public accounting firms and auditors in the United States and in Australia, and serves as another successful example of cross-border cooperation between the PCAOB and its counterparts abroad."

More than 780 audit firms that are registered with the PCAOB are located outside of the United States, spanning over 80 countries, and of those registered audit firms close to 40 are located in Australia. ♦

HI Governor Vetoes Experience Bill

Participants at NASBA's Western Regional Meeting heard Hawaii Board Chair Howard S. Todo unhappily report on the passage of House Bill 91, which would have forced CPA candidates to have two years of experience in a public accountancy practice (eliminating the possibility of obtaining experience through private or government accounting or auditing work). As Chair Todo and the Hawaii Board had hoped, Governor Linda Lingle vetoed the bill, and her veto was not overridden by the legislature. ♦

It's Not That Complicated

Mensa is an organization whose members have an IQ of at least 140. A few years ago, there was a Mensa convention in San Francisco, and several members lunched at a local cafe where they discovered that their salt shaker contained pepper and their pepper shaker was full of salt. To swap the contents of the bottles without spilling, the Mensa members devised a brilliant solution involving a napkin, a straw and an empty saucer. They called the waitress over to dazzle her with their solution.

"Ma'am," a smiling member of the group said, "we couldn't help but notice that the pepper shaker contains salt and the salt shaker..."

"Sorry about that," the waitress said, and grabbed both bottles, unscrewed the caps and switched them.

Ever been guilty of making matters more complicated and troublesome than they really are?

A much misunderstood process is the Public Accounting Oversight Board's (PCAOB) reporting of its findings based on inspections of public company auditors. We indeed have salt in pepper shakers and vice versa.

From the time it was established, the PCAOB welcomed our initiatives for dialogue and meetings and displayed an openness and transparency that we had not experienced with other federal regulators. NASBA and state board representatives have met a number of times with PCAOB officials including the Chairman. Two state board members have been chosen to represent boards on the PCAOB's Standing Advisory Group. NASBA representatives have testified at two of the technical Roundtable discussions conducted by the PCAOB. The PCAOB sends representatives to NASBA's regional, annual and executive director/legal conference meetings and have accepted our invitations to speak at these meetings. They have, more than others, listened to state boards and tried to be responsive.

State boards have a keen interest in the inspection reports of the PCAOB inasmuch as the audit firms being inspected are licensed by boards. In short, the boards have a responsibility to do what they can to protect the public from harm resulting from insufficient and damaging audit procedures and reporting. But by federal law the inspection reports are somewhat restricted as to state use. The PCAOB inspection process and resulting reports may be interpreted as follows:

- ❑ The inspection program reflects a legislative choice of favoring the correction of quality control problems, rather than exposing them to the public, to improve the quality of audits over time through successive inspections to prevent future audit failures.
- ❑ When the final inspection report is issued, the firm has 12 months to address the quality control comments. This is intended to be a remedial period to allow the firm to take steps to improve its audit processes.
- ❑ If serious problems are suspected as a result of the inspection, the PCAOB may refer the matter to the Division of Enforcement and Investigations, the SEC or other federal or state regulators.
- ❑ State boards' use of the firm inspection reports is, in most instances, limited to background information for fulfilling their public protection mandate, since the inspection reports are comments only, and therefore cannot be used directly for enforcement.
- ❑ The inspection reports do not constitute adjudicated findings of fact and, therefore, cannot be used directly for enforcement.
- ❑ In most instances, a state board's investigation of suspected violations of professional standards will commence with the conclusion of the actions of federal agencies.

We are not totally satisfied with the PCAOB process of reporting to state boards. That's why we've put together a working group from NASBA's Legal Affairs Committee and the Regulatory Structures and Issues Committee to review and discuss with the PCAOB procedures and protocols for early referral of PCAOB enforcement actions to state boards.

While we may not be pleased with what the PCAOB makes available to the boards, we must not undervalue what we have by either refusing to review and monitor the inspection reports or, worse, not accepting them at all. Let's not overly complicate this matter: Let's use what we can, work to improve the process, and realize that what we receive, review and monitor is better than nothing.

*Ad astra,
Per aspera.*



David A. Costello, CPA

A handwritten signature in dark ink, appearing to read "David A. Costello".

David A. Costello, CPA
President and CEO

IFRS Concept Release From SEC

The Securities and Exchange Commission has published a Concept Release for public comment on allowing US issuers, including investment companies to prepare their financial statements using International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB). Comments are due by November 13, 2007. The Concept Release can be found on <http://www.sec.gov/rules/concept/2007/33-8831.pdf>.

The Release points out that almost 100 countries “now either require or allow the use of IFRS for the preparation of financial statements by listed companies, and other countries are moving to do the same.”

In particular, the SEC notes that with Canada’s announced move to IFRS, more filings with the SEC are expected to comply

with IFRS, as approximately 500 foreign private issuers are from Canada.

SEC Chairman Christopher Cox said, “Having a set of globally accepted accounting standards is critical to the rapidly accelerating global integration of the world’s capital markets.”

Allowing US issuers to use IFRS should not remove the incentive for convergence between IFRS and US GAAP, SEC Commissioner Roel C. Campos said when the Concept Release was announced. Underscoring the need to continue to move forward with the IASB and FASB convergence project, Commissioner Campos, added, “Protection of US investors is also paramount. We need to ensure that allowing US issuers to prepare financial statements in accordance with IFRS serves this goal.” ♦

CPT Plans Three Events

The NASBA Center for the Public Trust has planned three upcoming programs designed to orchestrate successful ethical business campaigns:

- ❑ “Beyond Compliance: Transforming Ethical Dilemmas Through Courageous Leadership,” Sept. 25, 2007, Lipscomb University, Nashville, TN
- ❑ “Ensuring Integrity: The Second Annual Auditing Conference,” Dec. 6, 2007, Baruch College, New York, NY
- ❑ “Principled Leadership: A CEO Forum,” Feb. 1, 2008, Vanderbilt University, Nashville, TN.

For details about the conferences and registration, go to www.centerforpublictrust.org.

Nominations for the second annual Being a Difference Awards are now being accepted by the NASBA Center for the Public Trust. The awards recognize individuals with high standards of social responsibility and ethical leadership. Nomination forms for the awards can be found on www.centerforpublictrust.org. ♦



Register for
NASBA's 100th Annual Meeting
October 28-31 in Maui, HI
www.nasba.org

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