

State Board *Report*

A Digest of Current Developments Affecting State Accountancy Regulation

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IFAC and PCAOB at Annual

NASBA's 100th Annual Meeting, October 28-31, will feature an outstanding lineup of important voices in the accounting landscape. Among them will be Ian Ball, CEO of the International Federation of Accountants, Daniel Goelzer, member of the Public Company Accounting Oversight Board, and Cynthia M. Fornelli, executive director of the Center for Audit Quality. Gary Brown, an adviser to the drafters of the Sarbanes-Oxley Act will be the keynote speaker, following through on the Annual Meeting's theme of "Respecting the Past – Anticipating the Future." Voting schedule permitting, we will also have Congressman K. Michael Conaway reporting on our national legislators' views on the global economy and their impact on domestic accounting.

Educators Jan R. Williams and Dale L. Flesher will, respectively, discuss the future of accounting education and the past of NASBA, on which the Association's future is being built.

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UAA Rule 7-3 Works with New Standards

Looks like the revisions to the AICPA's peer review standards will be in agreement with the changes NASBA recently made to the Uniform Accountancy Act's Model Rule 7-3. Thomas J. Sadler, chair of NASBA's Compliance Assurance Committee concluded after attending the August 28 meeting of the AICPA's Peer Review Board. Peer Reviews will be categorized as either "pass," "pass with deficiencies" or "fail," as stated in revised Model Rule 7-3 (see www.nasba.org for the July 2007 Model Rule changes). Some boards of accountancy and the General Accountability Office had recommended in their exposure draft responses to the AICPA that the Peer Review reports retain the "letter of comment," to give readers more information about the quality of a firm, beyond "pass."

The Peer Review Oversight Board's Task Force has drafted the "AICPA Peer Review Board 2007 Annual Report on Oversight," on which attendees at the August 28 meeting were asked to comment. Mr. Sadler noted that the last annual oversight report from the Peer Review Board (PRB) was distributed in 2003.

While Mr. Sadler thought the 2007 Annual Report "is very close to what we have envisioned for the Compliance Assurance Review Board's reporting model," he also pointed out that the PRB was "not independent and should say so – or restrict the report to internal use only." He explained, "The report looks a lot like an engagement for agreed upon procedures under the attestation standards, but those standards require independence and the use of the report is restricted."

Susan S. Coffey, AICPA vice president of audit quality and professional ethics, and Mr. Sadler will present a session on developments in peer review and compliance assurance at NASBA's 100th Annual Meeting. ♦

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College Board and NCS Pay for Grading Mishap

The College Board and NCS Pearson Inc. on August 24 announced they are ready to pay \$2.85 million under a proposed class action settlement in a case (*Russo, et al. v. NCS Pearson, Inc., et al.*, Civ. No. 06-1481 (JNE/SRN)) brought by test takers of the October 8, 2005 Scholastic Aptitude Test (SAT). If the settlement is approved by a federal district judge on November 29, the fund is to be distributed to approximately 4,400 SAT participants (or about one percent of the 495,000 high school students who took that exam) who received scores lower than they deserved because of scanning errors. For some students, as many as 450 points were taken out of the total possible 2,400 points.

In March 2006, the College Board announced that the scoring error had occurred in the grading of the October 2005 SAT because some of the answer sheets had become moist by the time they arrived at Pearson Education Measurement, in Austin, TX. This caused the answers to be misread when scanned. A systematic error was discovered only after some students had paid for rescoring by hand. Ultimately it was found that 4,411 test-takers in 30 states had initially received scores that were too low, and 613 had received scores that were too high, but those with the higher scores were not corrected.

Under the proposed settlement, class members would have two options for

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BDO Faces \$521 Million Damages

On August 14, a day after a Florida jury decided BDO Seidman LLP is to pay \$170 million in base damages, it awarded another \$351 million in punitive damages in a civil action based on its audits of E.S. Bankest LLC. The suit was brought by Banco Espirito Santo SA, a Portuguese bank that was a shareholder in Bankest. BDO Seidman was accused of having failed to spot numerous signs that fraud was taking place.

This June, the jury decided against BDO Seidman for negligence in its audits, but in August of 2006 four Bankest officers were found guilty of federal criminal charges, involving conspiring to fraudulently inflate, by hundreds of millions of dollars, the value of collateral used to obtain loans through Espirito Santo Bank of Florida. From June 1994 through August 2003 the four were found to have falsified financial statements, and

created fictitious invoices, checks and accounts receivable.

BDO is expected to appeal and it is suing Banco Espirito Santo claiming that the directors it appointed to Bankest's board were negligent.

Back in January, in considering BDO's strategy in not attempting to settle with Banco Espirito Santo, the *Wall Street Journal* reported Scott M. Univer, the firm's general counsel, said BDO Seidman's US arm had taken six cases to trial over the past 12 years and had won them all. ♦

College Board and NCS Pay for Mishap

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payment. They could submit a short-form claim to receive a payment of \$275, or they could submit a longer form if they believe their damages are greater than that amount. Subject to the amount available in the settlement fund, there would be no set limit on what students submitting individualized claims might receive. Students had paid a basic fee of \$41.50 each to take the examination and another \$50.00 for hand scoring. Notices, claim forms and the settlement agreement are to be available on www.october2005satsettlement.com.

Robert Schaeffer, public education director of the National Center for Fair & Open Testing (known as "FairTest") based in Cambridge, MA, who has been following the SAT case commented: "This isn't like flunking a licensing test . . . It is much more difficult to identify quantifiable loss when a high school student gets a 500 rather than a 600. There is no [passing] cut off." Asked about the settlement's acceptance, Mr. Schaeffer said that, so far, he had not heard any of the lawyers involved saying they did not like the proposed settlement, but initially there had been lawyers who chose not to take the case because big losses could not be proven. However, he observed, should a similar problem occur that resulted in someone being deprived of a license, "They would be entitled to compensation from day one – and that adds up to real money." ♦

IFAC and PCAOB at Annual

(Continued from page 1)

Larry Bridgesmith, director of the Institute for Conflict Management, will talk about resolving cultural disagreements, and Wally Amos, the famous cookie entrepreneur, will offer some entertaining advice on how to survive in any crummy situation. Other informative speakers will include leaders from NASBA and the AICPA and the major accounting firms.

Besides these memorable presenters, there will be breakout sessions to afford state representatives time to exchange information with their colleagues. For meeting details and registration information, go to www.nasba.org. ♦

Comptroller Walker Says 'Go Global'

US Comptroller General David M. Walker stated, "We need to ultimately go global in connection with all major accounting and audit matters," when he addressed the National Association of State Auditors, Comptrollers and Treasurers on August 13 in Nashville.

The Comptroller General called for revising the existing audit reporting model to accomplish at least four objectives:

1. "Recognize that the opinion should address whether the financial statements are fairly presented in all material respects and prepared in accordance with authoritative accounting principles (e.g., promulgated by FASB, GASB, FASAB, IFAC).
2. "Expand the auditor's report to include key value and risk-based performance and projection information over time and as appropriate.
3. "Update the audit reporting model to link it with the new financial reporting model and provide appropriate degrees of assurance for each type of information to improve value and reduce risk.
4. "Move beyond 'going concern' opinions to provide more timely and meaningful information to the users of financial statements in appropriate circumstances (e.g., US government)."

He urged the government accountants to coordinate domestic efforts through groups like the US Auditing Standards Coordinating Forum. The sooner this is done, the less changes will be needed and the more time there will be to make adjustments, the Comptroller explained. There needs to be public education, discussion and debate on: "the role of government in the 21st Century, which programs and policies should be changed and how, and how government should be financed," Comptroller General Walker stated. ♦

President's Memo

P's and Q's

I grew up listening to adages, quips and analogies which, quite frankly, made little sense to me at the time. Mother would often say, "A bird in the hand's worth two in the bush." Other times she would tell me, "A stitch in time saves nine" (you figure it out). To a young boy these statements seemed to be mere gibberish and confirmed my notions that adults had their own mystical language.

Only recently I was reminded of another saying from my childhood, "Better mind your p's and q's." Instead of dismissing it outright, as I'd done in earlier years (we didn't have Google then), I looked up the origin of this odd advice. And to my consternation, I found that this admonition has several possible derivations and the two more popular are these:

- ❑ In the 1800's typesetters used blocks of type that were mirror images of the letters, so it would be easy to mix up the lowercase p and q. This origin would give "mind your p's and q's" a connotation of paying attention to detail.
- ❑ In old Irish pubs, beer and ale were served in pints and quarts. The barkeeper tracked patrons' drinking totals by marking "p" for pints and "q" for quarts. Both the barkeeper and the drinker would want to keep careful track of those p's and q's so they knew what the final bill would be. Again, attention to detail was required.

In June, we received a disturbing report on the National Single Audit Sampling Project conducted under the auspices of the Audit Committee of the President's Council on Integrity and Efficiency (PCIE) (see 7/07 *sbr*). From a universe of 38,000 audits for the period April 1, 2003 through March 31, 2004, a statistical sample of 208 audits were randomly selected to measure audit quality and, where appropriate, to recommend changes in single audit requirements. The findings were:

- ❑ Stratum I Audits (audits of entities receiving \$50 million or more in federal funds): **63.5 percent of the audits were acceptable.**
- ❑ Stratum II Audits (audits of entities receiving less than \$50 million in federal funds): **48.2 percent of the audits were acceptable.**

The most prevalent deficiencies included: not documenting the understanding of internal controls over compliance requirements; not documenting testing internal controls of at least some compliance requirements; not documenting compliance testing of at least some compliance requirements; and misreporting coverage of major programs.

Surprising? Disturbing? Shocking! It begs the question: Who's minding their p's and q's?

In the transmittal letter to the report from John P. Higgins, Jr., Inspector General and Chair, PCIE Audit Committee, one of the recommendations cited is: "...that the Office of Management and Budget (OMB), with Federal cognizant and oversight agencies for audit, enter into dialogue with the American Institute of Certified Public Accountants (AICPA) and State Boards of Accountancy, through the NASBA, to identify ways the AICPA and State Boards can further the quality of single audits, and address the due professional care issues noted in the report."

In response to that recommendation, NASBA Chair Wes Johnson appointed the Government Agency Referral Task Force with the charge: "To identify methodologies by which State Boards of Accountancy can be more effective in working with Federal and State regulators that can or should refer substandard work and reports of licensees."

NASBA Director-at-Large Ellis M. Dunkum (VA) will chair the task force, which will include Gerald W. Burns (OR) and Laurie J. Tish (WA). We envision that the task force will guide NASBA and the state boards to establish procedures for assuring that the right referrals are made, that the appropriate state boards are handling those referrals, that there is a system in place for monitoring progress on disciplinary cases, and that there is ongoing effective communication of the entire process among state boards, federal and state regulators and NASBA.

The PCIE Audit Committee report is a jolt to all of us concerned with audit quality and the processes we develop and deploy to assure that licensees are complying with controls, standards and best practices to ensure high quality audits. "Actions speak louder than words," is another time-honored truism that we at NASBA and the state boards are following as we address these latest report's findings.

When it comes to the public's expectations, when it involves public protection and when the public interest is in any way affected, all involved – including regulators and the profession – "better mind our p's and q's."

*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

SEC Chair Cox Wages 'War on Complexity'

The SEC's advisory Committee on Improvements to Financial Reporting (CIFIR) met for the first time on August 2, with SEC Chair Cox explaining, "With your help, today we're opening up another front in our War on Complexity." He told the new group that it is expected to provide "specific recommendations on how unnecessary complexity in the financial reporting system can be reduced and how the system can be made more useful for investors."

Members of the CIFIR include: Robert C. Pozen (Chair), chairman MFS Investment Management; Denny Beresford, University of Georgia; Susan Bies, Federal Reserve Board member 2001-07; J. Michael Cook, retired CEO Deloitte & Touche; Jeffrey J. Diermeier CEO CFA Institute; Scott C. Evans, executive vice president TIAA-CREF; Linda Griggs, partner Morgan Lewis; Joseph A. Grundfest, Stanford Law School; Greg Jonas, managing director Moody's Investors Service; Christopher Liddell, CFO Microsoft Corporation; William H. Mann, III, senior investment analyst Motley Fool; G. Edward McClammy, CFO Varian, Inc.; Edward E. Nusbaum, CEO Grant Thornton, LLP; James H. Quigley, CEO Deloitte Touche Tohmatsu; David Sidwell, CFO Morgan Stanley; Peter J. Wallison, senior fellow American Enterprise Institute for Public Policy Research; and Thomas Weatherford, retired CFP Business Objects SA. Official observers are Robert Herz, chair Financial Accounting Standards Board; Charles Holm, chief accountant Federal Reserve Board; Phil Laskawy, chairman of the trustees International Accounting Standards Committee Foundation; Mark Olson, chairman Public Company Accounting Oversight Board; and Kristen E. Jaconi,

senior policy advisor United States Department of Treasury.

CIFIR Chair Pozen has proposed five subcommittees address the advisory committee's charge: Substantive Complexity; Standard Setting Process; Audit Process and Compliance; Delivering Financial Information; and International Coordination.

In the area of regulation, Chair Pozen stated in his outline for the International Coordination subcommittee's consideration: "The enforcement of accounting standards outside the US may be quite different depending on the particular jurisdiction from the enforcement policies and practices within the US. The subcommittee may wish to consider these differences and determine whether the US system could benefit from any lessons from foreign experience." ♦

NASBA Joining IFACnet

NASBA is becoming part of the IFAC KnowledgeNet for Professional Accountants (known as IFACnet), a global, multilingual search engine that provides professional accountants with one-stop access to thousands of articles, management tools and practice guidance developed by the International Federation of Accountants, its members and other organizations worldwide. Approximately 30 other IFAC member bodies participate in IFACnet, including the AICPA and IMA.

Over the last few months, the resources available through IFACnet have been expanded, offering more materials designed for small and medium practices. A section on "Latest News" has also been added. IFACnet is making thousands of documents available at no charge. ♦

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Register for NASBA's
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