

NASBA State Board Report

A Digest of Current Developments Affecting State Accountancy Regulation

Volume XLI, Number 7

July 2012

Panelists Consider Firm Rotation

The Public Company Accounting Oversight Board's concept release considering mandatory audit firm rotation was the topic of panel sessions at the Eastern and Western Regional Meetings. "At the heart of the PCAOB's discussions is trying to raise audit quality – but at what cost?" asked Vice Chair Gaylen Hansen (CO). While the GAO examined the issue in 2003, at that time the impact of the newly formed Public Company Accounting Oversight Board was not known. The time for re-examination of the issue has now come as the Europeans are considering their Green Paper's recommendation as to how long a firm can remain the auditor of record.



Gaylen Hansen

"There is no burning bed we are facing at the moment," NASBA Past Chair Billy Atkinson (TX) observed. "There seems no reason for the PCAOB to act without some research." He referred to NASBA's December 14, 2011 comment letter to the PCAOB that stated: "To justify mandatory rotation of audit firms, it is necessary to establish that there is a strong correlation between length of service and loss of professional skepticism,

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2012-13 Slate Announced

On June 29, 2012 the NASBA Nominating Committee met in Anchorage, AK, and selected the following individuals as their nominees for the NASBA Board of Directors, as reported by Nominating Committee Chair, Michael T. Daggett (AZ):

Directors-at-Large (three-year terms):

- Telford A. Lodden (Delegate – IA)
- E. Kent Smoll (Delegate – KS)
- Raymond N. Johnson (Associate – OR)

Regional Directors (one-year terms):

- Middle Atlantic – Miley (Bucky) W. Glover (Delegate – NC)
- Great Lakes – Kim L. Tredinnick (Delegate – WI)
- Southwest – Janice L. Gray (Delegate – OK)
- Southeast – Jimmy E. Burkes (Delegate - MS)
- Mountain – Karen F. Turner (Delegate – CO)
- Central – Douglas W. Skiles (Delegate – NE)
- Pacific – Donald Aubrey (Delegate –WA)
- Northeast – Jefferson M. Chickering (Delegate – NH)

As previously announced, Carlos E. Johnson (Associate-OK) is the Nominating Committee's choice for Vice President 2012-2013, to accede to President 2013-2014. Elections for the NASBA officers will take place on October 30, 2012, at the Annual Business Meeting, to be held in Orlando, FL. Nominations may also be made by any five member Boards if filed with NASBA Chair Mark P. Harris at least 10 days before the Annual Business Meeting. A majority vote of the designated voting representatives of the member Boards attending the Annual Meeting shall constitute an election provided a quorum is present. ♦

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Published by the
National Association of State Boards of Accountancy
Editor-in-Chief: Louise Dratler Haberman
Editor: Ken L. Bishop
Production Editor: Anthony E. Cox
Editorial Assistant: Ann Bell

Tel/615.880.4200 Fax/615.880.4290
www.nasba.org

Mission Driven, Member Focused Meetings

With 172 attendees at the Eastern Regional Meeting, June 13-15 in Philadelphia, and 159 at the Western Regional, June 27-29 in Anchorage, NASBA President Ken L. Bishop proudly announced the theme for the meeting – and his administration: "Mission Driven, Member Focused." Mr. Bishop told the meetings that he sees his responsibility as NASBA's CEO is to take the organization to the next level. "NASBA has done a great job in promoting our business interests. We became more relevant in the U.S. and globally, but we said we can do more. We know that everything we are doing is focused on assisting our member Boards," Mr. Bishop said.



NASBA Chair Mark Harris and President & CEO Ken Bishop at the Western Regional Meeting highlight NASBA's programs.

"The last few years our strategic planning has been focused on NASBA's business units," observed NASBA Chair Mark P. Harris. "This year we are bringing in representatives of all our stakeholders, with only four staff members. This

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Private Company Council Taking Shape



FAF Chair John J. Brennan addresses the Eastern Regional Meeting.

Both Financial Accounting Foundation Chair John J. Brennan and FAF President Teresa S. Polley expressed their appreciation to NASBA for the relationship that has developed between the two organizations. Chair Brennan told the Eastern Regional Meeting, “We thank NASBA for being great partners with the FAF - constructive, supportive and being great friends. It is important to have partners who give us good constructive feedback. This is the best relationship we have with an organization – and we are very grateful.” Ms. Polley quipped at the Western Regional Meeting, “If we could work with all our stakeholder groups like we do with NASBA, we could move on to working on world peace.”

The FAF leaders explained how the new Public Company Council came to be. Chair Brennan said, “Let’s stop talking and start doing – wrestle the issue to the ground.” He said

challenges the private companies are facing include globalization, comparability, complexity and user needs. The FAF learned from the Private Company Financial Reporting Committee, which it formed in 2006, that the FASB has to engage in the work of private company standards setting. The new PCC will have 9-12 members, representing a broad spectrum of interests. The FASB members will be expected to be at all the PCC’s meetings, but the PCC’s chair will not be a member of the FASB.

The PCC will have two key responsibilities, President Polley stated:

1. Based on criteria agreed on with FASB, PCC identifies, deliberates and votes on proposed modifications to existing U.S. GAAP for private companies.
2. The PCC is the primary advisory body to FASB on private companies for active technical agenda issues.

Nominations for PCC members were due by the end of June. Ms. Polley said about 85 nominations were anticipated for these uncompensated posts. The FAF expects to appoint the new chair around August 20 and to have completed member selection in September. The first meeting of the PCC is to be held by the end of the year.

The FASB staff is currently working on a decision-making framework for private companies that is to be released as an exposure draft in either July or August. Staff is also working on developing a definition of a “nonpublic entity.” ♦

Mission Driven, Member Focused Meetings (Continued from page 1)

summer you will all be part of the planning,” he told the NASBA audiences.

The Accountancy Licensee Database is “strictly a service for State Boards,” President Bishop told the meetings. “With ALD the State Board can look up where the person is licensed and do the due diligence that is needed. Most states are politically on board now, and NASBA will pay for conversion where there is an IT problem,” he said. As for CPAVerify, President Bishop explained, “This is not to put people in harm’s way. It is for the public to make sure that the people they are about to use are properly registered.”

President Bishop reviewed ways in which NASBA is improving and increasing its services to the State Boards. He reported: “NASBA has a business side to it and most of what we do has competitors. We are dealing with a candidate generation that expects instant gratification, so now over 99 percent of what we do is done on line. We moved evaluation of CPA Examination candidate credentials from requiring up to six weeks to taking just 5-6 days. That same streamlining has been put to use for the CPE Sponsor Registry. Now we are going down the path for international candidates’ credential evaluation, as we were asked to do by State Boards. We are asking the State Boards to use this new NASBA service – let us show you how well we can do it.”

Chair Harris encouraged all present to send him their thoughts for the “Goldfish Bowl” competition. He requested suggestions on how NASBA could better serve the State Boards. He explained

a contest entry could be some change in NASBA’s governance, a possible future service or a subtle change in a present service. The person who submits the winning suggestion will be assigned to a task force that will meet in NASBA’s new New York City conference room to consider how it should be implemented.

The Regional Meetings were moderated by NASBA’s Regional Directors: Jimmy E. Burkes (MS), Jefferson Chickering (NH), Bucky Glover (NC), Janice L. Gray (OK), Raymond N. Johnson (OR), Telford A. Lodden (IA), Kim Tredinnick (WI), and Karen Forrest Turner (CO). Handout material and videotapes of the meetings can be found on www.nasba.org. This issue of the *State Board Report* includes a few of the highlights from those meetings. ♦

Nominating Committee Members Picked

At the 2012 Regional Meetings, half of the Nominating Committee’s members and alternate members were selected by four Regions, in accordance with Article VII Section 3 of the Bylaws. The newly elected members to the 2012-2014 Nominating Committee are: *Middle Atlantic* – Bobby R. Creech (Associate - SC), Barton W. Baldwin (Delegate - NC) alternate; *Southeast* – Lisa Mays Stickel (Delegate - TN), Charles H. Calhoun (Associate - FL) alternate; *Pacific* – Thomas T. Ueno (Associate - HI), Ruben A. Davila (Associate - CA) alternate; *Central* – Jeffrey Leiserowitz (Delegate - KS), John E. Peterson (Delegate - SD) alternate. ♦

Walking the Walk

As I was mulling over the title for this month's memo, I originally landed on "Hump Day," a phrase that often refers to Wednesday, but also is used to signify the halfway mark of some measurement of time. July 2 marked the beginning of the second half of my first year as CEO. During the first half year, I have "talked the talk" in earlier *State Board Reports*, meetings, presentations, conversations and, most recently, at our NASBA Regional Meetings. While flying home to Nashville from the Western Regional, I was thinking about the promises and commitments made in those talks, when I happened to see the airline's magazine contained an article entitled "Walking the Walk" — and I knew that I had found the right title for this memo (albeit a borrowed one).

There is a certain amount of speculation about where the adage, "If you are going to talk the talk, you've got to walk the walk," originated. Though it sounds like dialog from an old Western movie, one more lofty theory is that it derived from Aristotle's followers who were said to have discussed implementing his philosophy while walking around him. Different derivatives of the message have survived through the ages: "Walk it like you talk it," was a favorite of Abraham Lincoln. Another similar statement, "Actions speak louder than words," sends the same message. As does my often used favorite from President Harry Truman: "Don't write checks you can't cash." The point is, as I pass the "hump day" of my first year, I am pledged to fulfilling the commitments we have made.

At the recent Regional Meetings, NASBA Chair Mark Harris and I enjoyed unveiling our new slogan, "Mission Driven – Member Focused," which encapsulates the commitment to enhance our ability and capacity to support our Boards of Accountancy. Upon returning to Nashville, NASBA staff immediately began the process of advancing the various support products and services outlined at the Regional Meetings.

The implementation of the new office of Legislative Affairs directed by John Johnson is one of our highest priorities. John and others are making an assessment of the legislative activity in the country to determine our capacity and to prioritize our response. Donny Burkett (SC), NASBA Director-at-Large and Chair of the Legislative Support Initiative Committee, and NASBA Chair Harris are meeting with John to discuss resources and protocols for successfully providing this vital new service to State Boards. We were pleased by the positive responses and supportive comments from participants at the Regional Meetings regarding this initiative. More importantly, several states have already reached out to NASBA requesting assistance with matters for the upcoming legislative year.

Dan Dustin, NASBA's Vice President of State Board Relations, is meeting with State Boards across the country to build relationships and to ascertain how NASBA can better support and enhance their effectiveness. We are particularly interested in understanding, and hopefully resolving, barriers and prohibitions that keep many State Boards from attending NASBA meetings and conferences. Dan serves as a conduit for all State Boards to communicate their concerns or issues, giving them assurance that we will provide a timely response.

On August 1, we will launch NASBA International Transcript Evaluation Services. We have several states signed up and are in discussions with others. This is a new business line that was requested by our State Boards and we are committed to providing the highest quality service to Boards and to their international candidates. Contact James Suh at jsuh@nasba.org for additional information about this service.

These are just some of our more recent initiatives, because it would take pages to list all of the projects underway at NASBA. We are constantly looking at new ways to support our Boards. We are continuing to "talk the talk," but we promise to keep "walking the walk"!

Semper ad meliora. (Always toward better things.)



Ken L. Bishop

A handwritten signature in black ink that reads "Ken L. Bishop". The signature is fluid and cursive.

— Ken L. Bishop
President and CEO

Pathways Commission to Release Report

The accounting profession is killing itself in the way it does research, Dr. Bruce K. Behn, chair of the Pathways Commission, told the Eastern and Western Regional Meetings. He explained that the research and practice arms in accounting are 180 degrees apart. In other professions, such as medicine and law, academics and practitioners are working to solve the same problems. He estimated that, in the last 30 years of accounting research, there was not one piece of academic research that changed accounting practice.

The Pathways Commission's report is due out at the end of July. Its first recommendation, which Dr. Behn said is critical to



Dr. Bruce Behn at the Regional Meeting called for change.

accounting, is to build a learned profession. All the accounting professors are trying to get published in four academic journals, and it takes, on average, three years to be published. In some cases, publishing an article in the faculty journal has resulted in points being subtracted from the academic's rating. Dr. Behn observed that in the major universities, teaching is not valued in the same way that research is. There are some exceptions, like the University of Tennessee, where he teaches, that does have three tracks for making promotions – lecturer, professional track and tenure track.

Encouraging students to be interested in accounting earlier in their academic career is another recommendation the Pathways Commission is supporting. Dr. Behn suggested advanced placement courses in accounting to bring students in earlier.

The forthcoming report's most important recommendation is the creation of an organization to get all recommendations implemented, Dr. Behn stated. Past education studies' recommendations have failed because they did not have the mechanism to transition accounting change efforts from episodic events to a continuous, sustainable process. "There will be a Pathways 2 to make sure this stuff happens," Dr. Behn stated. NASBA Vice Chair Gaylen Hansen asked that NASBA be involved in this continuation of the Pathways Commission's work. ♦

Women Minorities Less Often CPAs

Female African American accountants and female Hispanic accountants are less likely to be CPAs than their male counterparts, researchers who were recipients of NASBA grants discovered. Dr. Dale Flesher, speaking at both the Eastern and Western Regional Meetings for his co-researchers, Dr. Helen G. Gabre and Frank Ross, said the purpose of the study was to conduct an empirical investigation of the possible factors associated with the dearth of minority (Hispanic and African American) CPAs. The researchers gathered 965 responses, from members of the National Association of Black Accountants (653) and the Association of Latino Professionals in Finance and Accounting (312). They found 50 percent of the African American males answering the survey passed the CPA Examination, but only 32 percent of the African American females passed. As for the Hispanic accountants, 60 percent of the males had passed the CPA Examination but only 37 percent of the females had.

The researchers also found that African American candidates who graduated from private black colleges had the highest pass rate, 53 percent, and those from non-black private colleges the second highest pass rate, 38 percent. Taking a CPA review course proved to be particularly important to passing the examination, with a 95 percent failure rate for those who did not take such a course. In summary, Dr. Flesher said economics impacts the pass rate. "I am not sure how this affects regulators – other than the cost of the examination. If you need more revenue – get it from the licensees, not from the examination candidates." He suggested scholarships for review courses would be helpful.

Dr. Kate Mooney and Kerry Marrer, of St. Cloud University, also reported on the results of their study to the NASBA Regional



Dr. Karen Turner and Dr. Dale Flesher at the Western Regional Meeting

Meetings. They gathered data from 444 students to see what types of courses they were completing to reach the 150 hour total. Their school has many transfer students, so 75 percent of the respondents had transfer credits, each having an average of 34 credits. The researchers categorized the courses taken as relevant (business, accounting, core competencies, etc.), unintentional (having been taken prior to admission to the accounting major) or irrelevant (other courses, such as basket weaving). The "unintentional courses" came about because students had started in another track or had courses that could not be transferred easily.

"Students are not choosing the easy, irrelevant courses to meet the 150 hour requirement," the researchers found. However, they did find that at St. Cloud University, "Students who are meeting the 150 hour requirement are doing it with mostly unintentional courses."

Education Committee Chair Karen Turner asked that the Boards submit to her suggestions for research that would be useful to them. ♦

Regional Directors Lead 2012 June Meetings in Philadelphia and Anchorage



Northeast Regional Director Jeff Chickering opens the Eastern Regional Meeting.



Southeast Regional Director Jim Burkes, Middle Atlantic Regional Director Bucky Glover and Great Lakes Regional Director Kim Tredinnick listened to their Regions at the Eastern Regional Meeting.



Eastern Regional Meeting attendees ask education research grant recipients questions. Gary Fish (IL) at the microphone.



Western Regional Meeting attendees enjoy Senior Vice President/CFO Michael Bryant's "FISH" talk at the luncheon.



Mountain Regional Director Karen Turner, Pacific Regional Director Raymond Johnson and Southwest Regional Director Janice Gray heard from their Regions at the Western Regional Meeting.



Central Regional Director Ted Lodden begins the Western Regional Meeting.

Panelists Consider Firm Rotation (Continued from page 1)

objectivity and independence.” Mr. Atkinson said, “Auditor firm rotation is a process that is supposed to solve a fundamental problem that we do not see now....The issue we need to work on is building an interactive relationship between the auditor and the audit committee. We don’t have a way to say why we are resigning. What we have is all boilerplate.”

“I don’t agree with Billy,” Mr. Hansen said. “MF Global went down: Where was the skepticism or objectivity? What is the root cause? Why are these things happening?” Mr Hansen does not think the PCAOB will require firm rotation because it has shifted focus. However, he pointed out, in the European Union, joint audits and audit-only firms are being talked about now, as are more restrictions on non-audit services and placing more emphasis on the composition of the audit committees, including having an audit expert on those committees.

“This is seen as a global issue,” NASBA Pacific Regional Director Ray Johnson (OR) stated. Having just returned from teaching in Australia, Dr. Johnson reported: “In Australia, they felt the proposals failed to address the underlying firm culture. When people come into your firm, do you know how to balance client, firm and public interest? I don’t think we uniformly believe that the

public must come first.”

The PCAOB’s initial two-day roundtable was very contentious, observed Richard G. David (MI) at the Eastern panel. The number of restatements is dropping, but the “PCAOB is saying the auditors aren’t doing it right,” he said. “Sometimes the PCAOB is looking for something to hunt that is not there.”

Also speaking at the Eastern Regional Meeting’s panel, Ray Stephens (OH) said: “I think there are alternatives that exist that could increase skepticism, such as increasing the responsibility of the audit committee, or requiring an automatic change of auditor if a restatement is required – rather than going to mandatory rotation.” Dr. Stephens warned: “Some legislator is going to say that whatever the PCAOB does, it is appropriate for us at the state level.”

Mr. Hansen noted that Arthur Levitt had commented that rotation just feels right and that long client/auditor relationships do not. Mr. Atkinson stressed there are alternatives to be considered, such as better promotion of the PCAOB’s firm inspection reports to the audit committee, increasing disclosures by companies when they change auditors to say why, or involving the audit committee more in the selection of the key audit team. ♦

Johnson and Cook Award Winners

NASBA Director-at-Large and Vice Chair-Nominee Carlos E. Johnson, CPA, was awarded the Oklahoma Society of Certified Public Accountants’ public service award, its highest community service recognition. Debby Hampton, president and CEO for United Way of Central Oklahoma stated: “Carlos volunteered tirelessly for the Oklahoma Center for Nonprofits...He not only spent time ensuring the accountability of our statewide organization that serves as the expert to over 19,000 nonprofits in the state, he went above the call of duty, providing pro-bono expert advice to

other nonprofits with one-on-one meetings and teaching free of charge to countless nonprofits.”

William Hunter Cook, CPA, vice chair of the North Carolina State Board of CPA Examiners, was awarded the North Carolina Association of CPA’s Raymond Rains Outstanding Service Award. This recognizes a Society member who has made significant contributions to the NCACPA through committee, chapter, board of directors, or other volunteer service. Mr. Cook is with Dixon Hughes Goodman, LLP, in Charlotte. ♦

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National Association of State Boards of Accountancy
150 Fourth Avenue North, Suite 700
Nashville, TN 37219-2417