NASBA

STATE ♦ BOARD ♦ REPORT

A Digest of Current Developments Affecting State Accountancy Regulation

Volume XLVI, Number 2 February 2017

Revised Peer Review Paper Distributed

The American Institute of CPAs' peer review team released to Accountancy Board Chairs and Executive Directors its revised "Evolution of Peer Review Administration" early in January, with comments due back to the AICPA by June 30, 2017. The previous version of this plan for enhancing the administration of the AICPA's Peer Review Program received 30 formal comment letters from CPA Societies and 25 from State Boards of Accountancy. A majority of respondents agreed there were inconsistencies among the administering entities (AE) for the program and most thought a reduction in the number of AEs would improve that situation. Stakeholders and staff offered suggestions to the AICPA on the proposal. "Based on this feedback, the model has been revised to eliminate the required number of AEs, the requirement to administer a minimum of 1,000 reviews annually and many of the AE staffing requirements," the January paper states. A final plan, including a transition process, is to be communicated by August 31, 2017.

The AICPA observes: "Many respondents indicated they believed their AE was operating effectively because they were unaware of any evidence to the contrary." What is now being proposed by AICPA is that the AEs will be required to meet specific benchmarks that will be diligently monitored by the AICPA and that will increase the transparency of the AEs' performance. The CPA Society's Chief Executive Officer will be responsible for determining the necessary staffing and for hiring appropriately qualified individuals. Each AE will be required to have at least one CPA on staff who will be responsible for the Peer Review Program but, in recognition of the comments received, the AE will not need to have a full-time technical reviewer on staff.

Included in the paper are examples of proposed egregious benchmark violations that would cause an AE to move into probation. These would cause the AE's immediate probation, with the AE incurring the cost of external oversight during remediation. Non-egregious violations would result in additional oversight and possible probation if there were to be a failure to remediate. All benchmarks would be effective by May 1, 2018.

The paper states: "We will continue to work closely with the National Association of State Boards of Accountancy (NASBA) and boards to support an effective PROC [Peer Review Oversight Committee] process. We will also continue our collaboration with NASBA's Compliance Assurance Committee (CAC) to discuss and develop appropriate oversight procedures. In addition, we will create a panel of board executive directors as an additional channel of input for administrative matters." The paper will be discussed at NASBA's Executive Directors and Board Staff Annual Conference, March 14-16 in New Orleans, and at the June Regional Meetings, June 6-8 in Coeur D'Alene, ID, and June 27-29 in Newport, RI. The Compliance Assurance Committee will be preparing a response to the revised proposal. All comments are to be sent to Beth Thoresen, Director- Peer Review Operations, AICPA at prsupport@aicpa.org by June 30, 2017. State Boards are also asked to send copies of their comments to CAC staff liaison Leona Johnson (ljohnson@nasba.org).

Addressing the NASBA Board of Directors' January meeting, CAC Chair John F. Dailey (NJ) pointed out that while several of the issues raised by NASBA's earlier comment letter were addressed in the revised proposal, others remain to be discussed. These include how the Boards' oversight of the program will function, maintaining a qualified reviewer pool and achieving transparency. Mr. Dailey emphasized this is a fluid situation as some State CPA Societies might not decide to continue to be in the program. ♦

Call for Vice Chair Nominees

NASBA Nominating Committee Chair Donald H. Burkett (SC) is asking all those interested in serving as NASBA Vice Chair 2017-18 to please submit their resume. Any qualified member can directly submit his or her interest letter to Mr. Burkett at NASBA, 150 Fourth Avenue North – Suite 700, Nashville, TN 37219-2417 or e-mail aholt@nasba.org or fax (615)880-4291. To be eligible to serve as Vice Chair, an individual must have served as a Director-at-Large or Regional Director for a minimum of two years, but need not be a current member of the Board of Directors at the time of his or her election. If elected Vice Chair at the Annual Business Meeting on October 31, 2017, in New York City, NY, the individual will accede to the office of Chair 2018-2019.

Mr. Burkett explained that while candidates have in the past sought support of their nomination from multiple State Boards, this is not necessary. He asked that all nominations be submitted to him no later than March 20, 2017.

Nominations for any Board of Directors' vacancy can be made by at least five Boards of Accountancy that file with NASBA Chair Telford Lodden (IA) at least 10 days prior to the Annual Business Meeting. No nominations will be recognized from the floor of the Annual Business Meeting.

Please direct any questions about the nominating process to Assistant to the President Anita Holt (615)880-4202. ♦

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Grant Proposals Due April 1

April 1, 2017 is the deadline for proposals for NASBA Accounting Education Research grants, available to faculty and postdoctoral researchers at institutions of higher education. Preference in awarding the grants is given to research in areas helping NASBA and the State Boards of Accountancy protect the public and be better resources to the public accounting profession.

Research interests of NASBA include, but are not limited to, characteristics of successful candidates, variables in accounting programs that impact CPA exam performance, and barriers to entry into the accounting profession for under-represented groups.

Applicants must be affiliated with a U.S. academic institution. NASBA will fund and award grants totaling up to $25,000 for one-year research projects. The researcher(s) will be expected to finalize the research within one year of the grant award date and may be asked to present their findings to NASBA's Board of Directors or at its national meeting. Details about the program can be found on www.nasba.org. Applications should be made to grantproposal@nasba.org. ♦

CAQ Celebrates 10 Years

The Center for Audit Quality on January 30, 2017 celebrated its tenth anniversary. CAQ Executive Director Cindy Fornelli told the commemorative celebration that audit quality is strong today – stronger than it was 10 years ago. She added, "And of course, we've engaged constructively with our regulators. From the CAQ's very beginnings, we have carried out the profession's desire to be, as a distinguished member of the profession once said, 'full partners with our regulators in driving meaningful and purposeful change.'"

NASBA President Ken L. Bishop attended the January 30, 2017 CAQ event. ♦

SSAC Studies Data Analytics' Impact

The use of data analytics to enhance the quality of audits is being given significant attention by the accounting profession, but what will this mean to the State Boards of Accountancy that are responsible for regulating the profession? That is the new charge that NASBA Chair Telford Lodden (IA) gave to the Standard-Setting Advisory Committee at their January meeting. He explained that he believes data analytics, which enables all transactions to be scanned not just a sample, will have a profound effect on the profession. Chair Lodden told the SSAC: "Focus should be on how NASBA and the State Boards can participate in the creation of the professional standards that embrace this new technology, and how NASBA can bring this information to the State Boards in a timely and meaningful manner."

NASBA President Ken L. Bishop outlined to the SSAC concerns he and other regulators have in this area:

1. For regulatory purposes there has to be a common definition of "data analytics," a benchmark.
2. What is the appropriate level of "reliance" on data analytics? Auditors say they have to "backfill" when using data analytics, meaning they go back to construct paperwork to meet the standards. There is concern about what really happens within the computer and what the auditor needs to know to comfortably rely on the software.
3. Software does not necessarily have the equivalent of the auditor's professional intuition, which is what frequently leads to the discovery of problems. The auditor needs to understand the handshake between the data and the accounting.
4. How will regulators be able to reach into this software to determine what party is responsible when something goes wrong?

President Bishop said NASBA is seeking ways to be part of the discussion as new standards are developed. He believes it is important the State Boards recognize the significance of their early involvement in the process. The right language will need to be in the Uniform Accountancy Act, and ultimately the Boards' rules.

SSAC Chair Catherine Allen (NY) led the committee in a discussion of next steps. Besides considering the ramifications of the application of data analytics and artificial intelligence to public accounting, the Committee will continue to monitor and objectively evaluate processes of standard setters, recommending improvements when warranted and sharing their findings with NASBA leadership. Working with Ms. Allen will be Committee members Matthew P. Bosher (VA), Scott Dockins (ID), Timothy F. Egan (CT), Gaylen R. Hansen (CO) and Michael P. Rollage (PA). Staff support to the SSAC is being provided by Colleen Conrad, Louise Dratler Haberman and Nigyar Mamedova.

Also in attendance at the SSAC meeting was NASBA Regulatory Response Committee Chair W. Michael Fritz. His committee is working with the SSAC to respond to the International Auditing and Assurance Standards Board's Data Analytics Working Group's paper on "Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics." Mr. Fritz will be moderating panel discussions on data analytics and artificial intelligence to be held at the June 2017 NASBA Regional Meetings. ♦

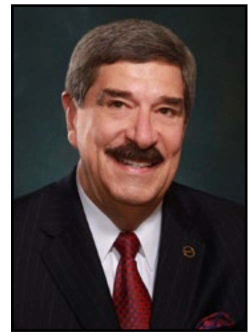
Data Analytics Global Issue

Having reviewed the use of audit data analytics (ADA) in the six largest United Kingdom audit firms, the Financial Reporting Council released a report in January that recognizes these tools "are global in nature and in some circumstances may operate outside our geographic jurisdiction." The FRC is calling for other independent audit regulators to work collaboratively to adopt "a standard approach to satisfying ourselves as to the integrity of these tools."

Audit teams in the UK are using standard ADA tools based on their firms' assurances as to the reliability and effectiveness to function as intended. One firm formally accredits the tools for audit use by its teams. "Where audit teams use such tools, the actual programming logic that performs the analysis and, where relevant, identifies the exceptions, is embedded in the ADA tool and may not be visible. Hence it is not archived on the audit file and neither is it visible to regulators performing audit quality inspections," the report states.

The FRC's *Audit Quality Thematic Review: The Use of Data Analytics in the Audit of Financial Statements*, reports: "…in our inspection work, we have not identified evidence that would indicate that a centrally assured ADA tool does not function as intended when used as intended." ♦

Firm Mobility Revisited



Ken L. Bishop
President & CEO

The regular turnover of both State Board members and staff brings fresh ideas and new perspectives to NASBA, and is one of the positive attributes of the organization. However, it also brings some challenges. Decisions and agreements made years ago by volunteers and staff, many of whom are no longer Board members or have retired, are occasionally challenged or, minimally, misunderstood.

At the January meeting of the Committee on Relations with Member Boards, we heard that a State Board was unhappy that their State CPA Society was introducing firm mobility legislation with which the Board was uncomfortable. The Board members reported that the Society was motivated by the belief that both NASBA and AICPA were "pushing them to get the legislation passed." While technically not true, it is certainly understandable that the Society would come to that conclusion. I thought it might be helpful to review, for everyone, the history of what got us to where we are today.

First, NASBA will always support a State Board's determination of what is best for its jurisdiction. However, NASBA officially advocates both individual mobility and firm mobility. The current language of the Uniform Accountancy Act that includes firm mobility was unanimously adopted by the members of the joint NASBA/AICPA Uniform Accountancy Act Committee, exposed to all Boards of Accountancy and Societies for comment, and ultimately adopted unanimously by the NASBA and AICPA Boards of Directors. Several states and individual State Board members questioned the adoption of the firm mobility language. As a result, both NASBA and AICPA leadership committed to not push or strong-arm any jurisdiction that was opposed to the legislation to adopt it. NASBA continues to stand by that commitment.

Now the history: The desire for CPA mobility in the U.S. began decades ago. Several attempts at developing and promoting language for the UAA were made, but were unsuccessful. In late 2006, NASBA Chair Wesley P. Johnson and AICPA Chair Jimmy L. Williamson decided the time was right to make a joint effort to pass mobility language. I am keenly aware of this as I was asked by NASBA Chair Johnson to head the Mobility Task Force that was charged with enacting mobility legislation in every state.

Initially, the UAA mobility language covered both individuals and firms. After reviewing the proposed language, the Task Force identified a fatal flaw related to firm mobility. In 2006, many states did not mandate peer review and a significant effort was underway to implement it in every state. The proposed mobility language would have allowed firms in states without peer review to practice in states that did require it. After a quick meeting of leadership of both organizations, it was decided that we would only pursue individual mobility legislation until issues around firm mobility could be resolved. In the meantime, a few states had already passed the original language — which would become important later.

We were successful with the individual mobility legislative effort. Several states adopted it immediately and, within five years, almost every state had passed individual mobility language. Today only one state, Hawaii, has not adopted individual mobility, but we are hopeful that will change.

Six years ago, as President and CEO of NASBA, I inaugurated the "Back to Our Roots" campaign, to ensure that NASBA's focus was on our members, the State Boards of Accountancy. In discussions with states that had pulled away from active participation in NASBA, we discovered that some were disgruntled because, in good faith, they had passed firm mobility as originally promulgated in the UAA, only to be left high and dry when NASBA and AICPA stepped back from firm mobility. This allowed firms from other states to practice in the early adopting states while their home firms were denied that reciprocal privilege. Those Boards were justifiably unhappy.

In 2012, NASBA and AICPA revisited the firm mobility issue and concluded the landscape had changed significantly since 2006. Almost every state had mandated peer review and addressed other issues, such as firm ownership and names, resolving what were "fatal flaws" in 2006. The time had come to reboot the firm mobility effort.

In 2017, as several states are considering firm mobility legislation (either favorably or not), I hope it is helpful to consider the history of the effort. We know that some states remain opposed for different reasons, including possible financial consequences to the Board. Local circumstances differ and NASBA absolutely supports your determination as to what is best for your jurisdiction. We would welcome the opportunity to discuss your opposition to something we believe enhances regulation, and together we may find a way to mitigate your concerns, but in the end be assured that we will stand steadfastly with you and your ultimate decision.

Semper ad meliora (Always toward better things).

— Ken L. Bishop
President & CEO

2016 Candidate Books Ready

The Jurisdiction Edition and the University Edition of *Candidate Performance on the Uniform CPA Examination*, including 2016 data, are now available. See www.nasba.org for ordering details. Included in the University Edition are rankings for 858 institutions with 10 or more reported Uniform CPA Examination candidates. The following excerpt is reprinted with permission from that publication. ♦

Ranking by Institutions by Pass Rate for Sections Taken: First-Time, All Programs

Rank	State	Institution	Percent Pass
1	NC	WAKE FOREST UNIV	89.5%
2	IL	NORTHWESTERN UNIV	88.9%
3	FL	UNIV WEST FL	87.1%
4	IL	IL INST TECH	85.7%
5	IA	NORTHWESTERN COLL	85.0%
6	WI	UNIV WI MADISON	84.7%
7	FL	UNIV FL	84.6%
8	UT	BRIGHAM YOUNG UNIV	84.6%
9	IA	DORDT COLL	84.1%
10	PA	MESSIAH COLL	83.8%

AICPA Advises SA Don't Rotate Firms

Mandatory audit firm rotation (MAFR) should not be adopted in South Africa, Barry C. Melancon, Chief Executive Officer of the Association of International Certified Professional Accountants, wrote to Bernard Agulhas, Chief Executive Officer of South Africa's Independent Regulatory Board for Auditors (IRBA), on January 17. Writing in response to a consultation paper issued by IRBA on October 25, Mr. Melancon stated: "The Association strongly opposes MAFR and further believes that it may have a negative impact on audit quality, increase market concentration to a more limited number of auditing firms and will hinder, rather than promote, transformation of the profession."

The Association, which is a combination of the American Institute of CPAs and the Chartered Institute of Management Accountants, was launched on January 1, 2017 with Andrew Miskin, FCMA, CGMA, named as its first chair. Mr. Miskin previously served as president of the Chartered Institute of Management Accountants. Tim Christen, past chairman of the AICPA, is the Association's initial vice chair. The chair will rotate between the AICPA and CIMA on a 12-month basis.

In response to exposure drafts from the Public Company Accounting Oversight Board and others, NASBA has continued to take a similar position regarding MAFR. However, NASBA President and CEO Ken L. Bishop notes that conversations with IRBA leadership are ongoing and, "NASBA will not try to persuade the IRBA in any public forum." ♦

State Board Report
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