

NASBA's Examination Review Board (ERB)
Considerations for Effectiveness Improvement
April 23, 2010

HISTORY

The ERB was established in 1975 as a joint venture of NASBA and the AICPA. In 1977 it became an "independent" (not intended to be independent as defined and described by professional standards—see separate note below) body of the NASBA Board of Directors. In 1993 the charge to the ERB was broadened to include the review and report on the International Qualifying Examination (IQEX) and any other examination provided by State Boards of Accountancy for licensure as a CPA.

AUTHORITY

The ERB is a standing committee of the NASBA Board of Directors as is set forth in the governing Bylaws approved by NASBA's member boards of accountancy. Section 6 of NASBA's Bylaws provides that:

"The CPA Examination Review Board shall review, evaluate and report on the appropriateness of the policies and procedures utilized in the preparation, grading and administration of the Uniform CPA Examination and other examinations in general use by boards of accountancy for the licensing of certified public accountants; examine such records, and make such observations, inspections and inquiries as it deems necessary; and report annually to the boards of accountancy.

The Chair, subject to the approval of the Board of Directors, shall appoint the members of the CPA Examination Review Board and designate the Vice Chair who will automatically succeed to Chair of the CPA Examination Review Board the next year. A vacancy in the office of the Chair of the CPA Examination Review Board shall be filled by the Vice Chair."

Furthermore, the ERB's role is clearly set forth in the March 4, 2010 Amended and Restated CBT Services Agreement:

“ERB is an independent body of NASBA responsible for providing annual assurance that the CPA examinations can be relied upon to meet state boards of accountancy statutory requirements. To meet its principal purpose, the ERB executes a comprehensive program of review, evaluation, and reporting on the appropriateness of the policies and procedures utilized in the preparation, grading and administration of the UNIFORM CPA EXAMINATION and other examinations in general use by boards of accountancy for the licensing of certified public accountants. ERB’s inspection programs include examination of relevant records, observation of examination operations, inquiries of appropriate personnel and inspections of examination sites. The costs described in Section 6.3 include related amounts for the operation of ERB.”

CURRENT STRUCTURE

The ERB is composed of 12 rotating volunteers with various backgrounds principally in auditing and taxation. These professionals are unpaid but are reimbursed for travel expenses. The ERB is assisted by two paid consultants in technology and psychometrics. There is also a dedicated NASBA staff person to the ERB carrying out many of the administrative and procedural functions. The volunteers led by the Chair develop the review scope, perform detailed procedures, document procedures, evaluate their work and report on the results.

LIMITING FACTORS OF CURRENT STRUCTURE

Since the advent of the CBT, it has become increasingly obvious that an ERB structure developed under a paper and pencil exam format does not offer the most effective means to accomplishing the principal objectives as set forth in the bylaws and repeated in the CBT Agreement. Following are some limiting factors which need to be addressed in consideration of addressing the challenges facing the ERB:

- Time—Volunteers simply do not have the time to dedicate to required review procedures.
- Complexity—The CPA exam developed, delivered and administered under the CBT Agreement and involving AICPA, NASBA and Prometric

is much more complex than when the ERB was contemplated and established and maintained until the CBT era.

- Technology—the exam is heavily technology driven and thus has implications for a different mindset and ability for reviewers and auditors compared to a paper and pencil examination.
- International delivery—this aspect of the exam brings on a different complexity and importance for consistent review approach.
- Documentation of procedures—although the ERB’s work is not reported in accordance with generally accepted auditing standards, there still remains a responsibility and expectation that the review will be adequately performed and documented. Documentation and audit file management has become increasingly a challenge under the current ERB structure.
- New ERB members—it is becoming increasingly difficult to attract quality volunteers for the ERB because of the workload and the evolving special skills required.

NOTE ON INDEPENDENCE AS RELATED TO ERB

The ERB is not independent under professional auditing standards and was not intended to be so when it was established. The NASBA Bylaws do not mention independence as relates to auditing standards as a guiding principle for ERB; in fact the Bylaws recognize that ERB is a standing committee of the NASBA Board of Directors and is not independent of NASBA. Some confusion as to independence occurred due to the use of the term in the CBT description of the ERB (i.e. *“ERB is an independent body of NASBA responsible for providing annual assurance that the CPA examinations can be relied upon to meet state boards of accountancy statutory requirements.”*) In the context of the CBT Agreement independent refers to the fact that ERB is wholly responsible to the NASBA Board and the state boards of accountancy. ERB is independent of the AICPA, state societies, Prometric or any other entity or influence.

A PATH FORWARD

With the recent signing of an Amended and Restated CBT Agreement on March 4, 2010 and with the imminent completion of an international agreement, it is timely that we consider a different approach to ensuring the effectiveness of the ERB. The following considerations are offered to address the limiting factors pointed out above and to provide a higher and more consistent quality of review:

1. The ERB should be composed of no more than five volunteers comprising a board which approves scope of reviews, review programs, and oversees the activities of all auditors, consultants, and reviewers. The ERB will be the final approving authority for all work done to carry out the charge of the ERB and will be solely responsible for issuing its reports.
2. The review procedures and documentation shall be performed by a full-time staff dedicated to the ERB and will report to the Chair of the ERB. With the current workload of the ERB it is expected that the staff component will number two or three and would be reviewed annually.
3. One way to view the operating structure of the new approach is analogous to that of a public accounting firm. The ERB senior staff auditor is akin to a team manager under an engagement audit partner (The ERB) in a public accounting firm. A complementary view is that of the ERB staff performing much as an internal audit function focused on the objectives set forth in the CBT Agreement and as scoped by the team manager with ERB approval.
4. ERB members would be appointed for alternating three year terms and rotated by the ERB Chair to various areas of emphasis during the three years and may be eligible for the Chair position at the discretion of the NASBA Chair. Such areas of emphasis will take into consideration specific skill sets needed by the ERB.
5. To coincide with NASBA's and AICPA's fiscal years, the ERB operating year will change from a June 30 date fiscal year end date to July 31 beginning in 2010.

IMPLEMENTATION DECISION

Implementation may proceed under *either* of two methodologies:

1. The five member ERB could be achieved in an attritional fashion by August 1, 2013. Four members would rotate off the board effective July 31, 2010 and the attrition would continue each year thereafter with appropriate additions until the desired composition is reached by August 1, 2013. Appointments thereafter would be made on an alternating terms basis so that there will be a strong nucleus of oversight talent on the ERB at all times. The 2010 ERB chair will be appointed by the current NASBA chair with NASBA board approval.

2. "Bite the bullet" approach: The NASBA Board Chair with board ratification could select five of the current ERB members, or otherwise, to compose the newly established ERB effective August 1, 2010. Further, the 2010 ERB chair will be appointed by the current NASBA chair with the NASBA board approval.

Unless the NASBA Bylaws are changed, a vice-chair of the ERB will continue to be identified by the NASBA chair, with NASBA board consent.

Decision of the NASBA Board on April 23, 2010:

Unanimous approval of the adoption of Implementation using methodology #2.

Following the NASBA April 23rd Board meeting and the ERB meetings in Oklahoma City on April 29 and 30th, Chair Billy Atkinson met with the NASBA

Executive Committee, Chuck Talbert (ERB Chair), David Costello and Wes Johnson. Chair Atkinson also spoke directly or indirectly with the people identified below who have each agreed to serve on the ERB beginning [August 1, 2010](#). Accordingly, and consistent with the attached rationale and plan for the ERB as approved by the NASBA Board on [April 23rd](#), Chair Atkinson will be proposing to the NASBA Board the following information and actions:

1. Proposed five ERB members beginning [August 1, 2010](#):

**Wes Johnson - chair
Sandy Wilson - vice chair
Chuck Talbert
Nick Mastrachio
David Vaudt**

Wes will help assess the initial staggered terms of these 5, but they will have terms in some combination of 3, 2 & 1 year(s) based upon remaining pre-existing terms under the former format and other considerations. Obviously these will also be coordinated and agreed upon with Michael Daggett, next year's NASBA Chair. These terms will be announced at a later date but prior to [August 1](#).

2. The five-member ERB will begin immediately working on transitional issues, including staffing and whether or not additional NASBA member support for a transitional period is needed.

3. As part of the transition planning, the New ERB Chair, Wes Johnson, and Past Chair, Chuck Talbert, will meet with David Costello and NASBA staff, Toerien DeWit, to discuss the overall plan and action steps for the new approach.

4. Wes Johnson will report to the NASBA Board, at its July meeting, on the transitional plans to date, actions taken and requests, if any.