

NASBA State Board *Report*

A Digest of Current Developments Affecting State Accountancy Regulation

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Regionals Weigh Standards

NASBA's 2009 Regional Meetings evidenced the growing importance of global accounting services as the progress of the adoption of International Financial Reporting Standards (IFRS) in the United States and the possibility of administering the US CPA Examination abroad were discussed. The Western Regional Meeting in Oklahoma City, June 3-5, and the Eastern Regional in Indianapolis, June 17-19, each had about 140 participants from over 30 state accountancy boards. Video recordings of sessions from both meetings can be found on www.nasba.org.

The Western Meeting began with opening remarks from Larry Nichols, who partnering with his father John Nichols, CPA, built Devon Energy Corporation, the largest US-based independent oil and gas producer. Mr. Nichols congratulated the accounting profession for training its candidates in the importance of having the integrity to apply professional rules in an honest way. He pointed out that Devon employs a large number of CPAs in its operations.

The Eastern Regional Meeting heard welcoming remarks from former Indiana Board Chair Martha Nommay, who read proclamations

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Nominating Committee Announces Slate

On June 19 the NASBA Nominating Committee met in Indianapolis, IN, and selected the following individuals as their nominees for Directors-at-Large and Regional Directors, as reported by Nominating Committee Chair Samuel K. Cotterell (ID):

Directors-at-Large (three-year terms)

Walter C. Davenport (Associate – NC)

Mark P. Harris (Delegate – LA)

Carlos E. Johnson (Delegate – OK)

Regional Directors (one-year terms)

Middle Atlantic – Donald H. Burkett (Delegate – SC)

Great Lakes - Claireen Herting (Delegate – IL)

Southwest - David D. Duree (Associate – TX)

Southeast - Kenneth R. Odom (Delegate - AL)

Mountain - Harry O. Parsons (Delegate – NV)

Central – Telford A. Lodden (Delegate – IA)

Pacific - Laurie J. Tish (Delegate – WA)

Northeast - Michael Weinshel (Delegate – CT)

As announced in March, the Committee selected Michael T. Daggett (Associate - AZ) as their Vice Chair nominee, who will accede to the office of NASBA Chair 2010-11 should he be elected by the member Boards at the Annual Business Meeting, on November 3, 2009.

Nominations may also be made by any five member Boards if filed with NASBA Chair Thomas J. Sadler at least 10 days prior to the Annual Business Meeting. No nominations from the floor will be recognized. 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.

Under the provisions of NASBA's Bylaws, at the 2009 Annual Meeting, Billy M. Atkinson (Associate – TX) will accede to the office of NASBA Chair and Mr. Sadler (Associate – WA) will accede to the office of Past Chair. Continuing to serve for the balance of their unexpired terms: Directors-at-Large (third year of a three-year term) – Sally Flowers (Associate – CA), Gaylen R. Hansen (Delegate – CO) and Leonard R. Sanchez (Delegate – NM); Directors-at-Large (second year of a three-year term) – Richard Isserman (Delegate – NY), Theodore Long, Jr. (Associate – OH) and Kathleen J. Smith (Associate – NE).

At the 2009 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, with the other half having been selected at the 2008 Regional Meetings. The newly elected members to the 2009-2011 Nominating Committee are:

Southwest – Dorothy Fowler (TX); Alternate - Michael A. Tham (LA)

Mountain – Charles W. Clark (ID); Alternate - Patrick M. Thorne (NV)

Northeast – Andrew L. DuBoff (NJ); Alternate - James S. Ciarcia (CT)

Great Lakes – Myra A. Swick (IL); Alternate - Ray G. Stephens (OH).

In addition, the Pacific Region elected Raymond Johnson (OR) to complete the remaining year of Mr. Daggett's term as an alternate member for the Nominating Committee. ♦

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Regional Meetings Weigh International Issues

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from both the Governor of Indiana and the Mayor of Indianapolis making June 18 National Association of State Boards of Accountancy Day.

NASBA Chair Thomas Sadler told the meetings that NASBA's 25 committees had been busy since his term began in October. He summarized the activities of these groups, underscoring: the strides made by the Compliance Assurance Committee to have State Board representatives be part of the AICPA's peer review oversight; the Regulatory Response Committee's letters in support of high quality standards which are developed free of political influence; the Enforcement Practices Committee's activities to identify best practices and competent experts; and the Global Strategies Committee's constant vigilance of professional activities to keep the Boards involved in the international arena.

President Costello congratulated the states on their tremendous success in passing mobility legislation. NASBA is working jointly with the AICPA on two other projects that are moving smoothly, he reported, providing the computer-based Uniform CPA Examination and planning for the international administration of the examination. The computer-based testing agreement runs through 2014 and negotiations for extending the contract are covering topics such as: cost containment, examination control, staffing of the Board of Examiners, and leadership of the examinations task forces.

Steps to keep the State Boards and NASBA recognized in



President David Costello (left) and Chair Tom Sadler.

international accounting regulation and standard setting, other than NASBA's being a member of the International Federation of Accountants (IFAC), are being considered by NASBA leadership, Chair Sadler said. He explained, "We cannot agree to commit 55 jurisdictions to adopting IFAC's standards." The State Boards of Accountancy collectively are the largest regulators of the accounting profession in the world, he noted, and "NASBA is going to do the best we can to represent you." Chair Sadler stressed that the Accountancy Boards should not feel they are alone, but should know that NASBA is there to assist them with support in legislation, research and with technology. ♦

Meetings Ponder IFRS Adoption



Gaylen Hansen

Although states' CPAs are already using International Financial Reporting Standards (IFRS) for the US subsidiaries of foreign companies, Strategic Initiatives Committee Chair Gaylen Hansen still told the 2009 Regional Meetings that he believes the Securities and Exchange Commission's "Roadmap" to the adoption of IFRS is "at a bit of a dead end." He summarized the many comment letters received by the SEC about the

Roadmap and concluded that most responders were unhappy with the timing for implementation. The letters also mentioned the cost of adoption, the governance of the International Accounting Standards Board, the quality of the IFRS and the need to maintain a convergence plan.

"Last year, I thought IFRS was one of the most significant issues we were facing. With the market meltdown, it has taken a bit of a back seat," Mr. Hansen observed. "I don't think IFRS is ready for prime time – and I don't think that because of its internal structural issues it will ever be," he stated. "We're told that, if we do not adopt IFRS, we will be left behind. I think we have to stop apologizing for US GAAP: I think it is the gold standard."

At breakout sessions on international standards, NASBA Vice

Chair Billy Atkinson (TX), Past Chair Sam Cotterell (ID) and Legal Counsel Noel Allen encouraged questions from Board members. Mr. Allen pointed out that IFRS is already acknowledged in the United States, with Colorado expressly referencing it in its definition of accepted accounting principles, Connecticut mentioning it in experience and New York in the scope of what subjects licensees to discipline. Boards need to consider, if they do not mention IFRS in their rules, they may be leaving out a whole area that is beyond their jurisdiction. There is a Constitutional issue of the need to give licensees notice of what rules they must follow, he noted.

Statutory filings in Europe are being done using IFRS, Mr. Atkinson pointed out. He observed: "IFRS is a form of GAAP and the market is going to move on it whether the State Boards want it or not." He added, "We have different jurisdictional issues and need to vet standards to make sure they meet our public expectations, and to have an independent body doing that." There is a need for states to be advised on good legal standards, he said, and he anticipates a NASBA committee will be working on those.

"We have to continue convergence rather than ceding US GAAP to international standards," Mr. Cotterell stated. He noted that with IFRS it will be necessary to provide more disclosure about the basis for professional judgment. More disclosure is the price to be paid for IFRS, he observed, and he was not convinced that corporations would be eager to do that. ♦

Shortage of Oddities?

Ripley's Believe It or Not! is experiencing a shortage of oddities. You know, oddities are those treasured pieces like a portrait of Barack Obama made of 12,000 gum balls displayed in Ripley's New York City location, the three shrunken heads on display in its London site, and the vampire-killing kit from the mid-1800s at the Gatlinburg, TN museum.

"We have 10% of what we had just two years ago," says Tim O'Brien, Vice President of Communications at Ripley Entertainment. "We are in search for at least 200 A exhibits to replenish our supply and meet our current needs," he says.

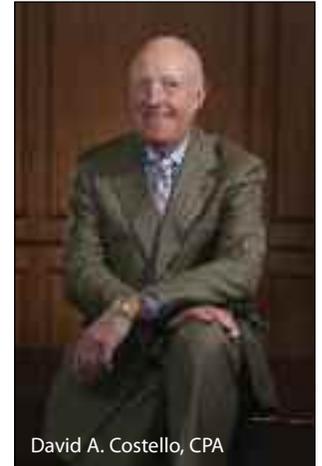
While Ripley's may be finding it difficult to find weird stuff, it seems we in the accounting world have no such shortage. Case in point is the AICPA's Accounting and Review Services Committee's recently issued Exposure Draft (ED) dated April 28, 2009 "Proposed Statement on Standards for Accounting and Review Services." Two rather strange notions are introduced in the ED as relates to review reports:

- Replace "limited assurance" that the financial statements are free of material misstatement with a newly expressed concept of obtaining "moderate assurance." These terms are not synonyms. They are quite different. Somewhat concerning is that one of the expressed reasons for the change is that we in the U.S. need to harmonize our review standards and reporting language with that of the international community. I can embrace the ideal of harmonization, but I think State Boards of Accountancy will require a more in-depth rationale than what we have seen and read.
- Allow CPAs to perform review engagements even when independence has been impaired due to the performance of a nonattest service designed to help management prepare higher quality or more reliable financial statements. Under existing standards CPAs, in order to maintain independence with respect to review engagements, will, if necessary, have the client engage other professionals to assess internal controls, make adjusting entries, tidy up the recordkeeping or perform any other quality enhancing activities for preparation for a review engagement. Now, the ED states, we need to drop independence as a bedrock principle. That's strange!

For years CPAs have enjoyed an exclusive status when it comes to reporting on financial statements. This exclusivity has been based principally on our independence in relationships and with regard to any activity. Independence is what separates us. If we're willing to diminish its value even in review engagements, what are we telling the public about who should be allowed to conduct reviews and compilations? I believe that non-CPA firms might be able to make persuasive, if not compelling, arguments to State Boards of Accountancy or legislators that they should be able to issue review reports because the CPA profession has determined the concept of complete independence is unnecessary. The non-CPA firms could argue that they are as competent and objective as CPAs, and that they could abide by the CPA's independence rules regarding relationships. This proposed change is weird.

Ripley's supply of oddities is limited. A six-legged calf, for example, is "about one in four million born alive." But I understand Ripley's going after six-legged calves—it's their business. It's what they do. The oddity for us in the accounting profession and in regulation is eschewing our exclusive franchise by diminishing the foundation of that exclusivity—independence. Strange, isn't it?

*Ad astra,
Per aspera*



David A. Costello, CPA

A handwritten signature in cursive script that reads "David A. Costello".

— David A. Costello, CPA
President and CEO

International Exam Administration Outlined

How the Uniform CPA Examination could be administered outside the United States was described by NASBA Past Chair John B. Peace, AICPA Past Chair Leslie A. Murphy, NASBA Senior Vice President Ken L. Bishop and AICPA Vice President of Examinations Craig N. Mills at NASBA's 2009 Regional Meetings. During panel sessions moderated by NASBA Executive Vice President Joseph T. Cote, the task force's members explained how testing abroad would: be more convenient and less expensive for international candidates; lead to an increased number of international candidates, which would provide financial support to the domestic program and could result in reductions in the cost of US administrations; and raise the number of licensed CPAs in international locations in order to protect the public and strengthen the influence of the US CPA.

Eleven states now account for most of the international CPA candidates, Mr. Peace reported. Very few of those candidates actually become licensed by those states. Instead, they use their examination passing letter to move up the corporate ladder in their home country, he stated. "We don't know if they are holding themselves out as CPAs in their countries, but we expect they are," Mr. Peace said. He explained the proposal would lead to better public protection because fewer candidates who pass the examination would hold out as a CPA if they were not licensed. Once licensed as CPAs, these foreign candidates would commit to a code of ethics, a system of discipline and continuing professional education for lifelong learning.

The task force's proposal would have those who take the



International Administration panelists from left to right: Craig Mills, Ken Bishop, Leslie Murphy, John Peace and Joe Cote

examination outside the US required to sign an informed consent agreement stating they intend to become licensed within three years and to abide by certain security policies. To assist with enforcement, a central database of international candidates will be maintained, reflecting status of licensure and renewal. Ms. Murphy said the states will be asked to administer the informed consent forms and implementation details will be worked out for efficient collection of the data. The states will also be asked to inform the candidates that they may retest if a suspected security breach occurs, she said. Administration before the end of 2010 in two pilot test countries is what the task force is proposing.

Executive Vice President Cote urged boards to send him their comments (jcote@nasba.org) as the task force will continue to work on this proposal, which can be found on www.nasba.org in the 2009 Western Regional Meeting documents entitled "International Administration of the CPA Examination." ♦

Peer Review Oversight Committees Surveyed

The profile of a dozen State Board Peer Review Oversight Committees (PROC) was distributed by Mark Harris (LA), chair of the NASBA Compliance Assurance Review Committee, at the Regional Meetings, listing the names of the PROC members, staff liaisons and general description of the PROC's structure and procedures. "2009 PROC Survey Responses" can be found on the NASBA Website www.nasba.org, with other materials from the Regional Meetings.

Mr. Harris conducted breakout sessions at the Regional Meetings that discussed the State Boards' oversight committees'

role in the AICPA's Peer Review Program's oversight model as it currently operates.

Reporting on the breakout sessions, Mr. Harris said the oversight processes have become more transparent and he believes that State Boards are working to ensure the adequacy and integrity of the approved review programs through those processes. His committee conducted the survey to identify common characteristics among the existing PROC's for inclusion in a "toolkit" to assist all State Boards in their creation or adaptation of oversight committees. ♦

Coordinating Enforcement Efforts

NASBA's Enforcement Practices Committee is working to coordinate the enforcement efforts of the State Boards, participants at the Eastern and Western Regional Meetings were told. Committee Chair Harry Parsons (NV) described how, through the work of four subcommittees, the Enforcement Committee is aiming to improve referrals and communications among Boards and other government bodies, develop a resource bank, formulate a process for multi-state investigations, and create an enforcement manual. Subcommittee Chair Michael Weinshel (CT) reported on his group's surveys to identify the best enforcement practices currently being used by State Boards, which will eventually be included in a manual.

Linda Biek and Ken Bishop serve together as the Committee's staff liaisons.

Communication is key when working with the federal agencies, Ms. Biek underscored. She pointed to the expanded government agency referral program that NASBA has developed which has been recognized by the GAO (see *sbr* 5/09). She also noted the IRS has started to notify State Boards when CPAs have failed to file their income tax returns.

Mr. Bishop reported NASBA is moving forward with developing a course for investigator training. He told the Boards, "We are trying to give you the tools and give you the ability to share resources and investigations." ♦

Mobility and ALD Moving Ahead

The enactment of mobility legislation throughout the country “is almost unprecedented in the legislative arena,” NASBA Senior Vice President Ken L. Bishop told the NASBA Regional Meetings. He said it has been a truly collaborative effort of many parties, including state board members and staff, state societies, the major accounting firms, the AICPA and NASBA, including NASBA’s CPA Mobility Task Force chaired by Ron Rotaru (OH). As of January 1, 2007 there were only four states that had passed mobility legislation similar to what is outlined in Section 23 of the Uniform Accountancy Act. As of June 1, 2009, there were 49 jurisdictions that had either passed mobility legislation or had such legislation introduced, Mr. Bishop reported. Looking at the state legislators who voted to pass mobility legislation shows it has been a bipartisan effort, with equal support coming from both parties, he noted. “No one can find any legislative effort like that,” Mr. Bishop commented.

Eighteen states, including all those in NASBA’s Southwest Region, are now completely up and running on the Accountancy Licensee Database (ALD), with four more states preparing to come on and two others in discussion for implementation, Mr. Bishop

reported. Almost every state now has licensee information on its Web site and, therefore, the ALD Task Force, chaired by Daniel Sweetwood (NE) is working to convince all state boards to bring that information together on the ALD.

States have raised legal, political and technological issues that need to be resolved to permit them to participate. Mr. Bishop said NASBA is prepared to provide software and hardware assistance, legal advice and research assistance to clear those obstacles. He told the Regional Meetings he hopes to have this project completed by next year.

Mr. Bishop reminded everyone that they can find the latest information on what is required for mobility via a link on www.nasba.org. He asked the Meetings’ participants to send him (kbishop@nasba.org) any comments on how the site might be enhanced.

Regional Meeting participants were able to have their questions about mobility implementation answered at breakout sessions co-moderated by Mr. Bishop and Sheri Bango Cavaney, AICPA Vice President of Practice Mobility and State Regulatory and Legislative Affairs. ♦

Significance of Firm Names Discussed

The significance of accounting firm names (as recently brought up by the firms of Crowe Horwath and Virchow, Krause & Co., several court decisions and a draft non-authoritative white paper by the AICPA/NASBA Firm Name Study Group) was the topic of Regional Meeting breakout sessions co-moderated by Study Group Chair Gaylen Hansen (CO), NASBA Uniform Accountancy Act Committee Chair Laurie Tish (WA) and NASBA UAA Committee Past Chair Andrew DuBoff (NJ).

Mr. Hansen presented some of the background material considered by the joint study group:

While 37 State Boards have approved the name change of “Crowe Chizek” to “Crowe Horwath LLP,” the North Carolina and Kansas Boards have not approved the change. “Virchow Krause & Company, An Independent Member of Baker Tilly International” has announced it is seeking regulatory approval to change its name to “Baker Tilly, LLP,” stating: “The firm will maintain its independent member status and will not assume any management responsibilities within the network as a result of the name change.”

US District Court Judge Lewis A. Kaplan in two cases involving Parmalat denied summary judgment to Deloitte (January 27, 2009) and Grant Thornton (February 25, 2009) as he considered the use of the firms’ names evidence of control of foreign affiliates.

Mr. Hansen said the joint AICPA/NASBA Firm Name Study Group is still editing its paper (a draft was distributed at the meetings and is available on www.nasba.org with the other Regional Meeting materials), and he invited the State Boards’ input on the topic. The study group is recommending that guidance pertaining to “fictitious names” in the UAA’s Model Rules and State Boards’ rules and regulations be deleted and reference be made to “misleading” names instead. The boards should permit names if they are not false or misleading, he advised. ♦

1,000,000th Exam to Launch in July

Since the computer-based test’s (CBT) inauguration in April 2004, the number of examinees has been increasing, with over 85,000 having taken the Uniform CPA Examination in 2008, which is more than the estimated number who tested in the last pre-CBT year, representatives of the AICPA’s Board of Examiners told the Regional Meetings. July 2009 will see the millionth examination launched, BOE Chair Colleen Conrad (MO) and BOE Vice Chair Douglas Warren (TN) reported to the NASBA audiences.

“The CPA Examination has demonstrated operational stability and psychometric integrity,” the BOE leaders said. “Its status as a state-of-the-art computerized licensure examination is undisputed.”

NASBA’s CPA Licensing Examination Committee (CLEC) has reached out to the State Boards asking them what they like, or do not like, about the current Uniform CPA Examination. CLEC Chair Robert A. Pearson (MO) reported to the Regional Meetings: “As in the past, we received a limited response to our request. The conclusion that CLEC has drawn from the lack of response is that the State Boards are generally satisfied with the current exam.”

On May 15, 2009 the BOE approved the revisions to the CPA Examination’s Content and Skill Specifications to include International Financial Reporting Standards and, during the first week in August 2009, the BOE plans to announce the implementation date of a new release of the CPA Examination (dubbed the “CBT-e”), the BOE speakers said. Among the major changes to be included in the CBT-e are: 6-7 short task-based simulations in the AUD, FAR and REG sections of the Examination, replacing the current two simulations; three essays only in the BEC section, replacing the two essays now in each of the AUD, FAR and REG sections; faster score reporting a few months after CBT-e is implemented; adjusted section time allocations; implementation of the revised Content and Skill Specifications; and FASB standard codification changes. ♦

Student Panelists Eager to Enter Practice

The eight students who addressed NASBA's 2009 Regional Meetings were all looking forward to entering public practice, not afraid of putting in long hours and drawn to firms that said they were concerned about their staff's work/life balance. Panel moderators Education Committee Chair Melanie Thompson (TX), Education Committee Member Penelope Yunker (IL) and NASBA Vice Chair Billy Atkinson (TX) questioned the upper level students, who had been nominated by their schools and then selected by Beta Alpha Psi to speak to the Boards' representatives. The panelists at the Western Meeting were: Sara Bennett – University of Oregon, Nicole Blaschko – University of Nebraska at Kearney, Devin Claus – University of North Dakota, and Wesley Martin – San Diego State University. At the Eastern Meeting they were: Christine Cisneros – Bradley University, Katherine Crawford – Drexel University, Robert Dornan – Niagara University, and Matthew Fisk – University of Miami/University of Notre Dame. Four of the panelists are set to begin their careers at PricewaterhouseCoopers, which was a pleasant surprise to Mr. Atkinson, a PWC partner. Most of the students had taken accounting courses in high school, some expect to be taking a

course in International Financial Reporting Standards and several said they would consider teaching accounting at a later point in their careers. The students remarked that teachers who had careers in public accounting were especially valuable, as were firm speakers at Beta Alpha Psi meetings. One panelist stated he learned more from those speakers than he did from standard classroom PowerPoints.

When asked about their preference for the 120- or 150- hour requirement to take the Uniform CPA Examination: one liked the 120 because he could prepare for the test before he had clients, another liked the 150 because it forced her to take more pertinent courses, and two said they would find it beneficial if there were courses specified to qualify.

While the students said they were familiar with the accounting societies, they were unsure about what the State Boards do. NASBA Communications Committee Chair Sally Flowers asked what would be the best ways for Boards to communicate with students. E-mailing students through their university's site was suggested, as well as speaking at the school's accounting club, reaching out through local chapters of Beta Alpha Psi, and setting up a table at the university's student center for a few days. ♦



Western Panel (left to right): Wesley Martin, Sara Bennett, Melanie Thompson, Nicole Blaschko and Devin Claus.



Eastern Panel (left to right): Matthew Fisk, Christine Cisneros, David Costello, Katherine Crawford and Robert Dornan.

State Board Report

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