UAA Firm Name ED Released
All interested parties are invited to comment on the latest exposure draft on the changes to the Uniform Accountancy Act and its Model Rules concerning CPA firm names. The joint AICPA/NASBA changes were approved for distribution by the NASBA Board of Directors in October and by the AICPA Board of Directors in November. The document can be found in the “news” section of www.nasba.org and comments are requested by Friday, March 4, 2011.

The proposed changes to the UAA would add definitions of “Network” and “Network Firm.” The Model Rules changes would further clarify those definitions, delete any mention of “fictitious” CPA firm names, and scope out what is and is not a misleading firm name.

A comment to the Rules has also been proposed which underscores that in determining whether a CPA firm name is misleading, the Board recognizes that it is the policy of its State to promote interstate mobility for CPAs and CPA firms which employ them, and the Board shall also consider the basis for approval of the same CPA firm name by another state’s Board of Accountancy.

Consultant’s Report Backs WA Board
An analysis to evaluate the effectiveness, economy and accountability of merging the Washington State Board of Accountancy into the Washington State Department of Licensing found such a merger would “result in a significant decrease in the accountability of the Board to the public and the profession” with “little or no gain in efficacy or economy of the Board’s operations and functions.” The report was submitted to the Board, the Governor and appropriate state appointments on November 30 by Zwillinger Greek Zwillinger & Knecht, PC, a Phoenix, AZ, firm.

The “Merger Report” resulted from an amendment to section 144 of the State of Washington’s Supplemental Budget for fiscal year 2010/2011 which allocated funds to allow the Accountancy Board to engage a consultant to conduct an independent investigation and produce this report. It was coupled with a Performance Review Project Report that studied the practices, policies and procedures of the Board and concluded it was properly run (see sbr 10/10).

The Washington Society of CPAs, NASBA Committee on State Board Relevance and Effectiveness, and the U.S. Department of the Treasury’s Advisory Committee on the Auditing Profession are all quoted in the report as endorsing the independence of State Boards of Accountancy. The consultants’ evaluation looked for evidence that would support or contradict those positions by: 1- Obtaining and comparing information related to complaints investigated by Boards of Accountancy that are independent agencies versus those operating under the authority of other

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Independence Standard and Loss-Audit Paper on Web
The two discussion papers developed by the NASBA Ethics and Strategic Professional Issues Committee have been posted on www.nasba.org: “Audit Fees and Engagement Profitability: A Threats and Safeguards Approach to Strengthen Compliance with Standards of Ethical Behavior” and “Proposed Uniform Definition of Independence.” The NASBA Board of Directors approved both papers at their last meeting, in October. Committee Chair Gaylen Hansen underscored that these documents should not be considered to be “authoritative,” but as issues to be discussed by the State Boards.

“Whether fees or profits associated with an attest engagement are unusually large or small is not, by itself, an ethics violation,” that paper states. “However, such conditions may indicate a risk of unethical behavior.” The paper looks at relevant threats and appropriate safeguards in such situations, considers potential peer review solutions, discusses anti-trust considerations, and makes recommendations for interested parties.

The paper on a uniform definition of “independence” has put forward the following as a standard for consideration by the Uniform Accountancy Act Committee:

“Independence is comprised of both of the following:

“Independence of mind – The state of mind that permits the performance of
EC Questions Audit Policy

The European Commission’s Green Paper, “Audit Policy: Lessons from the Crisis” has raised questions about the role of the auditor, the governance and the independence of audit firms, the supervision of auditors, the configuration of the audit market, the creation of a single market for the provision of audit services, the simplification of rules for Small and Medium Sized Enterprises (SMEs) and Practitioners, and the international cooperation for the supervision of global audit networks. In response, NASBA has written to the EC: “…we believe that consultation and coordination of regulation and standards should be a substantial consideration in your deliberations. …In this regard, we trust that the EC will not limit its commitment to cooperate solely with members of the Financial Stability Board and the G20, but also with national regulatory authorities so as to minimize the threat of regulatory arbitrage.”

The Green Paper suggests a single European market for the provision of audit services could be based on harmonization and creating a European passport for auditors. “This would imply creating a European-wide registration with common professional qualification requirements and common governance, ownership and independence rules applicable across the European Union.” The paper also suggests that a new European Supervisory Authority be considered.

According to the paper, the first step in international cooperation is building mutual trust through the exchange of audit working papers between oversight bodies in Europe and their counterparts in other countries. This can be achieved through bilateral arrangements where countries have oversight systems that have been declared adequate. “Following Commission adequacy decisions adopted this year, such arrangements are possible as regards the co-operation with the audit oversight bodies in Australia, Canada, Japan, Switzerland and the United States,” the paper reports.

The paper’s final question asks what could be done to enhance the quality of the oversight of global audit players? According to the paper, “…the Commission will discuss with its international partners what other measures should be adopted at the global level for the supervision of group audits and global audit networks.”

Consultant’s Report Backs WA Board (Continued from Page 1)

governmental agencies; 2- Comparing investigator resources per licensed individual of the Board versus the various disciplinary boards under the Department of Lincensing’s authority; 3- Comparing complaints investigated per licensed individual by the Board versus under the various disciplinary boards under the Department’s authority; 4- Considering the impact that consolidation of the Board with the Department would have on the Board’s access to the State of Washington’s Governor’s Office.

Based on responses from 22 Boards of Accountancy, the consultants observed: “Independent agency accountancy boards averaged 26.17 complaint investigations and resolutions per 1,000 licensees over a two year period (or 13.08 per 1,000 licensees for a one year period) and consolidated agency accountancy boards averaged 14.15 complaint investigations and resolutions per 1,000 licensees over a two year period (or 7.08 per 1,000 licensees for a one year period).” When the consultants looked only at medium-sized boards with 10,000-20,000 licensees, they found four independent boards averaged 24.24 complaint investigations and resolutions per 1,000 licensees over a two year period, and four consolidated agency accountancy boards averaged 11.70 in the same period.

As the proposed merger would not change the number of the Board’s investigative staff, the consultants said that provided no reason in favor or against merger of the Board into the Department. They looked at the number of cases resolved and investigated by the Washington Engineers/Land Surveyors Board which is under the authority of the Department, and found their rate of investigation and resolution was 56 percent lower than the Accountancy Board’s for the same period.

Currently the Board of Accountancy’s executive director reports directly to the Office of the Governor. Once merged it would have to go through an additional four supervisory levels before it obtained an audience with the Office of the Governor. On the basis of this proposed structure, the consultants stated: “It is hard for us to conceive how removing WBOA’s access to the Office of the Governor without first clearing four separate supervisory levels would increase its opportunity to fulfill its statutory requirements and mission statement.”

Having constructed a pro forma expenditure budget, the consultants found there would be an annual savings of $63,200, or 5.4 percent, if the Board were to be merged with the Department. However, they felt this was a “negligible savings” which was not enough to conclude the merger should take place. The consultant’s comparative operational benchmarks for average expenditure per full time employee also failed to support a conclusion that the merger should take place.

Currently the Washington Board has a Web site which includes on-line license applications, on-line license renewals and on-line search of the status of a licensee. To convert or integrate the Board’s IT with the Department’s would cost from $200,000-$500,000 or more, the consultants estimated. “Depending on the ultimate costs of implementing the IT systems’ integration and conversion, and the accuracy of our pro forma expenditure budget savings of $63,200 upon merger, it would take the State of Washington three to eight years to recover the actual costs of merging the Board’s IT platforms and databases,” they stated.
Good-Bye Joe

A magician was doing his act in front of a big audience, but saw he wasn’t getting anywhere. After trying all his best tricks, in desperation, he called a large, muscular man out of the audience. “Sir, I’d like you to take this 20-pound sledge hammer and hit me as hard as you can right in the head,” he said.

The startled man refused.

The magician then said, “Sir, I am a professional. This is my greatest illusion. Besides, there are hundreds of witnesses, so hit me as hard as you can right in the head with the hammer.”

The man shrugged, swung the hammer --and the magician went flying across the stage, hit the wall and immediately fell to the ground. He was rushed to the hospital, and remained in a coma for years.

Ten years later, the magician came out of the coma, looked around, and said, “Ta DA!!”

Many of you were present at NASBA’s Annual Business Meeting on October 26 when I introduced the famous magician, Dave King. He promptly acknowledged his assistant and placed her in a small locked trunk. In a flash she was gone -- and out popped Joe Cote!

Joe Cote has been an integral part of the NASBA magic since his first day here on March 18, 1996. Over the years, Joe has popped up in many places and positions of service and has performed excellently and exemplarily. I recall vividly Joe’s leadership as Director of Examinations during our relocation from New York City to Nashville in 1997. We didn’t miss a beat and a challenging transition was made relatively smooth because of Joe’s magical touch.

When it became clear that in order to answer some State Boards’ calls to assist them in administering their CPA Examination that NASBA must be able to administer other professional examinations, Joe Cote found a way. The result was the creation of NASBA’s for-profit subsidiary, Professional Credential Services (PCS) which is thriving today serving 55 other regulated professions.

Joe’s diligence, expertise, experience and constant critique served NASBA well as we transitioned into and managed the computer-based testing environment (CBT). He has meant so much, has contributed so much and he has influenced so much of the CBT initiative.

And when you stop to appreciate the financial health of NASBA, you must again glance in Joe Cote’s direction. He served admirably and expertly as NASBA’s Chief Operating Officer overseeing all the revenue producing activities of NASBA.

Joe’s leadership reminds me of the essential leadership practices reflected in Leadership Challenge authored by James Kouzes and Barry Posner. These leadership gurus concluded that a leader must:

• Model the way
• Inspire a shared vision
• Challenge the process
• Enable others to act
• Encourage the heart.

These guys were writing about my friend and colleague, Joe Cote. Joe is no illusion. He’s for real! And we will miss him as he heads off into his retirement, but I suspect that many of us will be calling to see what he thinks about what’s happening on major issues. You know what? I’ll bet you that Joe will be jumping into those discussions with several suggestions. Thanks Joe!

I now wish each of you a time of peace, happiness, joy and contentment as we experience the holiday season, which for me means reveling in the Christmas story and spirit. For others the celebration of Hanukkah accents this time of year. However you celebrate the end of this great year, I wish for you a positive experience, and an eager anticipation of a tremendous joy-filled year ahead.

Ad astra
Per aspera

— David A. Costello, CPA
President and CEO
The outline for a new standard setting body to work with the Financial Accounting Standards Board (FASB) was discussed at the Blue Ribbon Panel (BRP) on Standard Setting for Private Companies’ final public meeting on December 10, in Norwalk, CT. FASB Assistant Director Jeff Mechanick, took the lead in reviewing the draft of what the majority of the BRP members are recommending to the Financial Accounting Foundation (FAF) trustees, including the new board’s mission, composition and structure, standard-setting process, linkage with the FASB, governance and funding requirements and sources. Mr. Mechanick reported the majority of the BRP had expressed a lack of confidence in the FASB’s ability to meet private company reporting needs and have, consequently, supported the creation of a new board that would have final say over what standards would apply to private companies. Worldwide, there is no precedent for having a local standard setter being split into two entities, he stated.

FASB Acting Chair Leslie Seidman described recent steps taken by the FASB to be more responsive to the recommendations from private companies. She admitted the FASB erred in not having worked more closely with the Private Company Financial Reporting Committee and said that is being changed. Ms. Seidman warned, based on the FASB’s experience with converging standards with the International Accounting Standards Boards, “living in a two decision world,” it is “incredibly difficult” to bring the standard setting bodies together even with a common objective.

BRP Chair Rick Anderson noted that, “The proposal is that there be a sunset review of the new board in five years. It would not be bad if five years from now it is decided that sufficient changes have been made in the FASB so that the second board is not required.”

Teri Yohn, representing the American Accounting Association, disagreed with an earlier speaker: “The worst case is not to do nothing; it is worse to increase complexity.” She supported the FASB using its resources to make changes, rather than “increasing complexity” with a new board.

Bill Atkinson, NASBA’s representative on the BRP, stated: “Accounting standards should not be bifurcated between two bodies. We support a strong FASB with a strong work stream from the private company sector.”

FAF President and BRP member Terri Polley said: “One board is where I would come out. I would make process changes to the FASB, and some are already in place, and then visit them in two years, when we would be farther down the path on IFRS, and then make changes as needed.”

The BRP expects to have its final report completed around January 20, 2011, so that it can be presented to the FAF trustees in time for consideration at their February 15, 2011 meeting.

**Independence Standard (Continued from page 1)**

an attest service without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

“Independence in appearance – The avoidance of facts and circumstances that would cause an informed third party, having knowledge of all relevant information, to reasonably conclude that the integrity, objectivity, or professional skepticism of a firm or an attest engagement team member had been compromised.”

NASBA UAA Committee Chair Carlos Johnson reports the uniform definition of independence is on the committee’s agenda for discussion.