NASBA
State Board Report
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SEC Moves on DTTL Shanghai

The Securities and Exchange Commission on September 8 filed an enforcement action against Deloitte Touche Tohmatsu Ltd. for failing to produce documents related to Longtop Financial Technologies Limited. DTTL Shanghai has been Longtop's auditor since 2007 and resigned on May 22, 2011 after it discovered numerous improprieties during an audit for the year ended March 31, 2011, the SEC reports. In the firm's resignation letter, which was part of a Form 6-K furnished to the SEC by Longtop, D&T indicated that its prior year audit reports for the company could no longer be relied upon by investors. The SEC then issued and served a subpoena on the accounting firm for documents related to the incomplete audit of Longtop for the year ended March 31 as well as for prior year audits. Deloitte has claimed they cannot hand over the documents because, "Chinese law prohibits Deloitte China from providing the requested documents directly to a foreign regulator," the firm's spokesperson said. "Deloitte China is caught in the middle of conflicting demands by two government regulators and DTTL hopes this matter will be resolved in a timely and sensible manner."

The New York Stock Exchange delisted Longtop's securities in August 2011.

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FAF Releases Plans for PCSIC

A proposal for the creation of the Private Company Standards Improvement Council (PCSIC) was released by the Financial Accounting Foundation's (FAF) Board of Trustees on October 3, 2011. The PCSIC, under the oversight of the FAF, would identify accounting standards that require revisions for private companies, and then vote on specific exceptions or modifications, that would then be subject to ratification by the Financial Accounting Standards Board (FASB) and submitted to the public for comment. Comments on the proposed "Plan to Establish the Private Company Standards Improvement Council," which can be found on www.accountingfoundation.org, are due by January 14, 2012. Comments can be e-mailed to PrivateCompanyPlan@f-a-f.org.

One of the first tasks of the PCSIC will be the development of criteria for determining whether and when exceptions or modifications to U.S. GAAP are warranted for private companies. The proposal cites as a major reason for constituents' dissatisfaction with the Private Company Financial Reporting Committee (PCFRC), established back in 2006, was the failure of the FASB and PCFRC to develop and agree upon a framework for making such determinations. Under the new proposal, the PCFRC would be disbanded. The FAF Trustees determined they did not want to create a new separate standard-setting board because they concluded that would likely lead to the establishment of two separate sets of U.S. accounting standards.

The PCSIC would have as its chairman a FASB member, who would be selected by the FAF Trustees, and 11-15 members, who would also be selected by the Trustees and appointed for three-year terms and possible reappointment. They would meet 4-6 times per year and their meetings would be Webcast to the public, except for discussions of an administrative nature.

Periodically the PCSIC would present in–person reports to the Private Company Review Committee, a newly created special-purpose FAF committee. The PCSIC would also provide quarterly written reports to the full FAF Board of Trustees. At the end of three years the Trustees would conduct an overall assessment of the PCSIC and determine if it is fulfilling its mission and whether other changes to the standard-setting process would be warranted.

In order to avoid duplication of efforts and leverage the FASB's resources, the proposal calls for FASB staff to be assigned to support and work closely with the PCSIC on outreach and research projects.

The report states: "The FASB has made recent, substantive changes to how it engages with private company constituents, and has demonstrated a greater operational and structural commitment to further address these issues. The Trustees believe it is appropriate to allow a period of time for those efforts to mature and are monitoring those efforts closely."

Billy Atkinson, NASBA Past Chair who served on the AICPA/FAF/NASBA Blue Ribbon Panel on Standard Setting for Private Companies, observed: "This FAF proposal should now signal a change in the FASB's standard setting approach to that of more relevance to stakeholders and a principled approach to dealing with complex structured arrangements. For too long, the FASB has removed itself from the real world in its standard setting with rules as difficult as the underlying transactions. This indeed could be an opportunity for FASB to come back down to Earth." ♦

PCAOB Holds Roundtable on Auditor's Report

A roundtable discussion on how the Public Company Accounting Oversight Board can improve the relevance and usefulness of auditors' reporting on the results of their audits of public company financial statements was held on September 15 including 32 investors, auditors, corporate board members, financial statement preparers and academics. The discussion covered many of the areas raised in the PCAOB's concept release on the topic, to which NASBA sent a response on September 28 (see www.nasba.org).

PCAOB Chairman James R. Doty, who will be the keynote speaker at NASBA's Annual Meeting, explained: "The PCAOB's consideration of the audit reporting model is intended to confront questions that recur in times of economic crisis. In the concept release we attempt to identify meaningful opportunities to enhance the relevance of auditors' communications with investors." He said the September PCAOB roundtable would not be the last discussion of this topic.

"Investors clearly do not believe the current three paragraph, largely boilerplate, binary audit report, is either sufficiently informative or serves their needs," PCAOB Member Steven B. Harris stated at the roundtable's start.

He continued, "There was a time – going back to the days of Arthur Andersen and Leonard Spacek – that the profession embraced their obligation to safeguard investors' interests. I think we need to return to that mindset and provide investors with more of the information they are asking for."

Of the 32 participants in the roundtable, there were 16 who represented investors and of those 10 supported an "Auditor's Discussion and Analysis" being added to the auditor's report, while three said they would favor requiring emphasis paragraphs, and the other three not voicing support for any of the proposals under discussion. Allen L. Beller, an attorney and director on the board of a public company, said he was in favor of "changing the pass/fail model" of the auditor's report, but he did not favor an AD&A. He predicted such a report would "become boilerplate." He said he wanted auditors "to tell investors about the things they know about." While he favored more disclosures, he said, "Do you want auditors to second-guess what the competition is doing? I don't." Steven Buller, managing director of BlackRock, Inc., suggested there be parameters around the AD&A. He thought such a report could provide insight on uncertainties and general observations on the auditor's independence, on the overall relationship, the tenure of the audit relationship, audit procedures and identification of areas that required management or auditor judgment.

In the comment letter on the concept paper sent to the PCAOB by NASBA Chair Michael Daggett and President David Costello on September 28, they stated: "Requiring the auditor to have 'more relevant insight,' which is different from having an understanding of the client, its business and the business environment, could require development of an auditing standard that would by its very nature be vague and, therefore, unenforceable. As regulators, the enforceability of auditing standards is essential to the State Boards."

The investors' call for additional information comes down to their saying, "We don't trust audit committees," Sam Ranzilla, national managing partner of KPMG observed. He told the PCAOB, "I don't think this board can on its own overcome this distrust." Investors are asking for improved disclosure and greater disclosure around critical accounting estimates, he said.

"How would the auditor's AD&A differ from the MD&A?" asked Peter Nachtwey, CFO of Legg Mason, Inc. If they were not different, why bother having them and, if they were, there would be a tremendous amount of time spent in reconciling the differences. "The costs would be borne by the investors," he said.

Lynn Turner, of LitiNomics and former SEC chief accountant, said he favors the AD&A: "Rather than 'do no harm,' the PCAOB should look at doing something that is right." He warned, "If all we do is incremental change, then we will be having this same discussion again 30 years from now."

The Webcast of the roundtable has been archived and can be found on www.pcaobus.org. ♦

CPACENTRAL.NASBA.ORG Launched

NASBA has inaugurated its Uniform CPA Examination Online Application System that allows candidates to apply online to take the Examination, access application information including status and payment history, import application data and view Examination scores. The initial time that users (including those who have applied for the Examination before) come to the site they will create an online account with a unique password, which gives them easier access to Examination information. ♦

SEC Moves to Enforce DTTL (Continued from page 1)

The Public Company Accounting Oversight Board has not been allowed to conduct firm inspections in China, but its representatives met with their Chinese counterparts, the China Securities Regulatory Commission, in Beijing in July 2011. Their second round of talks, scheduled to be held in October in Washington, D.C., has been postponed. On October 3, the PCAOB issued "Staff Audit Practice Alert No. 8: Audit Risks in Certain Emerging Markets," which states: "In just two months in 2011, more than 24 companies with their principal place of business in the People's Republic of China filed Forms 8-K with the SEC reporting auditor resignations, accounting irregularities, or both." The PCAOB has ceased registering firms from countries where it is unable to do inspections.

Forbes reporter Francine McKenna commented on September 9: "The PCAOB must consider how much longer they will allow foreign-based audit firms to produce audit opinions if the PCAOB cannot inspect them and if home countries refuse to cooperate with U.S. regulators." ♦

'Big Deal' Revisited

Michael T. Daggett, CPA

It has been an incredible year, not only for NASBA and the State Boards, but for me as well. It has been an unparalleled opportunity and honor representing the NASBA member Boards and our priorities at numerous activities and functions. I only hope that I have properly represented the Boards and the organization with the professionalism and respect that every volunteer and staff member so richly deserves. That would make me feel like a "Big Deal."

In my inaugural speech, I reminded, if not challenged, State Board members that their responsibilities to their Board, their public and their profession extend beyond the Boards' boardroom doors. Our constituents rely on us to be familiar with the current issues affecting the profession and impacting the public. To fulfill our responsibilities, we must study and deliberate these issues. Additionally, I mentioned that current issues have also become global. We are no longer adequately representing our constituents by enforcing only our own state statutes and rules. The Uniform Accountancy Act and mobility have extended our boundaries. And the global standard-setting and regulatory community has demanded that we expand our vision even further.

The NASBA Board and Committee members and staff demonstrated a work ethic, enthusiasm and passion that enabled us to have a very productive year. Little can be done without the energy of the volunteers and their supporting staff. We started with a number of new Board members and Committee Chairs, as well as veterans, who took off running and never had time to look back. I will attempt to highlight as many of their achievements as possible in my Chair's Report at the Annual Meeting. I sincerely want to thank each one of you for being "Big Deals" and, as I often say, for making me look good!

I have been so fortunate to have experienced the level of activity and accomplishment that we had this year. In one single transaction, the sale of the Professional Credential Services, Inc., subsidiary, we had the biggest financial impact on our mission of "Enhancing the effectiveness of State Boards of Accountancy." We have reached nearly 100 percent mobility! Almost 40 states have joined or are in the process of joining the Accountancy Licensee Database. We have initiated an Education Research Grant Program. We have assisted numerous State Boards with their efforts to remain or maintain their independent or semi-independent state agency status. We are signing our first Mutual Recognition Agreement with an Asian professional association, the Hong Kong Institute of CPAs. Oh, to name just a few….

And let's not forget that we looked far and long for someone who could replace the NASBA Legend, President/CEO David A. Costello. And we got him. I have had the privilege to personally observe both gentlemen and their commitment to coordinate a relatively seamless transition. It has been a tremendous opportunity to watch two of the most professional individuals, that I know, do their best.

Speaking of David, and a "Big Deal," I can't miss the opportunity to remind everyone of the difference one man has made on our organization. From my days in the '80s serving on the AICPA Council, hearing "Who's NASBA," to now where we have seats at the tables of most of the prestigious professional and regulatory bodies affecting our profession, I am impressed and privileged to have witnessed the change. And because of David's leadership, our members, the State Boards, have a voice and a strong, self-sufficient organization to represent their views. That makes us so much more effective and accomplished. I would say more, but trust me, we will be hearing more during the Annual Meeting, as we should.

As I reflect on my career as a CPA, I am reminded that I have been blessed with great opportunities. I take real pride in my service on the many standard-setting committees and boards for both NASBA and the AICPA. I particularly enjoyed serving as the Chair of NASBA's Ethics Committee, while also serving on the AICPA's Professional Ethics Executive Committee. Both committees accomplished a lot for the benefit of the profession and, in turn, the public. The special benefit of working on all the committees was the opportunity to relate and work with some very bright professionals.

For over 30 years as a partner and mentor, I had the privilege to advise a number of young CPAs and CPA candidates regarding professional conduct. My best advice was that we all must remember that we worked hard to obtain the CPA credential, but we can lose it easily, if we aren't always cognizant of our professional responsibilities. Similarly, as a profession, we have to work hard to gain the trust of our clients and the public, or we may lose it. As a regulator, we need to be diligent, fair and consistent in regulating our peers. Keeping those thoughts in mind should secure a highly regarded profession and career.

Thank you, for the opportunity to serve as your Chair.

— *Michael T. Daggett, CPA*
Chair 2010-2011

2011 Statistics Book Ready

The 2011 edition of *Candidate Performance on the Uniform CPA Examination*, covering testing information collected for the calendar year 2010, is now available for purchase at $90 for a printed copy and $70 for e-book. This edition includes a more granular view of event and performance data than earlier years' reports.

For 2010, the schools with the top overall pass rates for first-time candidates without an advanced degree were: (1) Wake Forest University, (2) University of Virginia, (3) University of Wisconsin – Madison, (4) Cornell University, (5) Trinity University, (6) University of Missouri – Columbia, (7) Kansas State University, (8) Western Washington University, (9) Texas Christian University and (10) University of Notre Dame. The schools with the top overall pass rates for first-time candidates with an advanced degree were: (1) James Madison University, (2) Brigham Young University, (3) University of Georgia, (4) University of Kentucky, (5) New York University, (6) Baylor University, (7) University of Michigan – Ann Arbor, (8) University of North Carolina – Chapel Hill, (9) University of Wisconsin – Madison and (10) State University of New York – Buffalo.

The 2011 edition details examination candidate performance for each school. Candidates for the examination included graduates from nearly 2,000 colleges and universities. Information about ordering the study can be obtained by emailing cpb@nasba.org. ♦

Analysis of Global Qualifications Coming

An analysis of the qualification, education and training of accountants in selected countries around the world is being prepared by a team led by Gert H. Karreman of the Center for Business Studies at Leiden University in the Netherlands. At NASBA's Fourth International Regulators Forum, held in July, Professor Karreman described the information that will be included in "Global Accountancy Education 2012" (GAE 2012). He explained, "The results of the study are intended to contribute to international cooperation and to support recognition of professional qualifications."

The current project is based on the researchers' previous studies about accountancy education released in 2002, 2005, 2007 and 2009. A competency framework that covers all of the key elements of accounting education, as described in the International Accounting Education Standards Board's International Education Standards, is being used to record adoption and implementation.

Dr. Karreman stated: "Although there are many important differences between countries, in general, accountancy education is surprisingly well developed compared with the other sectors of the accounting infrastructure." However, he added, there are some specific subjects where differences among countries exist. ♦

Norway Opens Path to Firm Inspections

Norway's Financial Supervisory Authority and the Public Company Accounting Oversight Board entered into a cooperative agreement on September 14, 2011, that will enable the two regulators to have oversight of the audit work performed by each other's public accounting firms in their respective jurisdictions. Since 2008 the PCAOB's firm inspections had been blocked in Norway.

This agreement will allow the PCAOB to resume joint inspections of PCAOB-registered accounting firms that are located in Norway and that audit, or participate in audits of, companies whose securities trade in U. S. markets. ♦

6th Edition of UAA on Web

The latest edition of the Uniform Accountancy Act and the Model Rules can now be found on www.NASBA.org (see http://www.nasba.org/files/2011/09/UAAsixthedition0811.pdf). The changes shown in the Sixth Edition of the UAA and the supporting Rules primarily cover what are and what are not misleading CPA firm names. The Uniform Accountancy Act Committee's goal is to promote uniformity among the states' laws. ♦

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