

IFAC ED on Auditor's Report

By July the International Federation of Accountants is going to release an exposure draft on what they believe the auditor's report should look like, Jim Sylph, IFAC Executive Director-Professional Standards and External Relations, told the NASBA 2012 International Forum. "User groups, investors, analysts, pension funds say that what they are hearing from auditors is not enough," Mr. Sylph stated. The auditor's report needs to be changed, because "The reality is that if we don't do it – it will be legislated away." The International Auditing and Assurance Standards Board has been weighing how they can get existing standards adopted around the world and "a report that will fit." Over 80 jurisdictions are using, or have signaled their intent to use, International Standards on Auditing (ISAs), Mr. Sylph reported.

He characterized the United States' "holdout attitude" as being a "challenge." However, Mr. Sylph noted that while the United States is still the largest global market, it is smaller than it was ten years ago. The Big Four accounting firms have said they would have the most trouble in writing letters of comment to be included in the reports. "I don't think the answer is the status quo," he remarked. ♦

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Doty Addresses CPT/Baruch Conference



James Doty

Audit costs have become a commodity, Public Company Accounting Oversight Board Chairman James R. Doty told the CUNY Baruch College "Ensuring Integrity: 7th Annual Audit Conference," held November 29 and co-sponsored by the NASBA Center for the Public Trust. Citing the stagnation of audit fees, while the large audit firms' revenues from consulting are growing at 15 percent a year, he sees this as weakening the strength of the audit practice in the firms overall.

The PCAOB's release on auditor independence and audit firm rotation highlights the risk to independence stemming from the client-pays model, he observed. While the PCAOB's firm inspectors have found all of the largest firms and many of the smaller ones to have strong technical auditing skills, they have also found serious deficiencies that could not be ascribed to technical weaknesses. He pointed to the firms' policies that direct partners to price audits lower in order to establish long-term relationships with clients.

Mr. Doty said he is opposed to rushing to decisions. Reports on auditor independence and professional skepticism have been issued in the Netherlands, France, Germany and Switzerland. He stated: "I want to influence the debate worldwide, by broadening its scope and getting beneath the surface of generalities, coming to grips with the practical."

Also speaking at the Baruch/CPT conference, Jennifer Rand, PCAOB Deputy Chief Accountant, reported the PCAOB will be moving forward with two exposure

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Whistleblowing Tackled by CPT/Baruch Panel

How serious is the issue of whether or not accountants can whistleblow? The topic was addressed at NASBA's Annual Meeting by Noel Allen, and then again by Mr. Allen and other attorneys at the Baruch College/Center for the Public Trust (CPT) conference on November 29 in New York City. Mr. Allen reminded the conference participants that, whatever may be decided by other organizations, CPAs must look to their states' laws for guidance.

Over 3,000 whistleblower claims have been filed and the largest category was "corporate disclosure and financial issues," Scott Univer, general counsel of WeiserMazars, stated. "You may not qualify for the bounty as the auditor, but what Dodd-Frank says is that, if you are an auditor and you believe that Sector 10(A) of the 1934 Act is not being observed properly or is being concealed, then you can whistleblow and get the bounty. Whistleblowing strikes at the root of client confidentiality." Mr. Univer advised that Dodd-Frank will pre-empt Professional Code of Conduct ET 301.

"We have been living with whistleblowers for more than a decade, but the new whistleblower legislation provides new motivation – money," Michael Young partner of Willkie Farr & Gallagher, remarked. "Before the consequences of whistleblowing were almost all negative – but now money is involved so plaintiffs' attorneys are

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Profession Under Scrutiny in Europe

The audit profession in Europe is in political focus and matters relating to the profession could be horse traded, warned Philip Johnson, president of the Fédération des Experts Comptables Européens (FEE), at the NASBA International Forum on October 31. This scrutiny is affecting all jurisdictions – including the United States. “The PCAOB is being influenced by what is happening in Europe. Their concept releases came in response to questions being raised in the EU,” Mr. Johnson stated.

He explained that the European Commission is the executive body of the European Union. The EC proposes legislation, but it cannot enact it. The Council of the EU is composed of representatives of all 27 member states, and it legislates and coordinates economic policy among the member states. The European Parliament represents the EU citizens as it also legislates and supervises EU institutions. Final legislation is co-decided by the Council of the European Union and the European Parliament. The Council will meet in December and the Parliament in January.

“There are more proposals to revise EU audit policy,” Mr. Johnson reported. “The debt crisis has led to major austerity programs. It is impacting people in the street, who are voters. This is now political. The auditing profession is low lying fruit... The audit profession has to be part of the solution,” he counseled.

The reaction to having an auditor’s commentary in the financial report has been more pronounced in the U.S. than in Europe, he noted, and attributed that to litigation issues in the U.S. He noted that it has been said, “The outcome of an audit is the best kept secret there is,” with only the final result of pass or fail being reported. “You have to change the reporting framework,” Mr. Johnson told the NASBA Forum. “The auditor is going to report more about a going concern.”

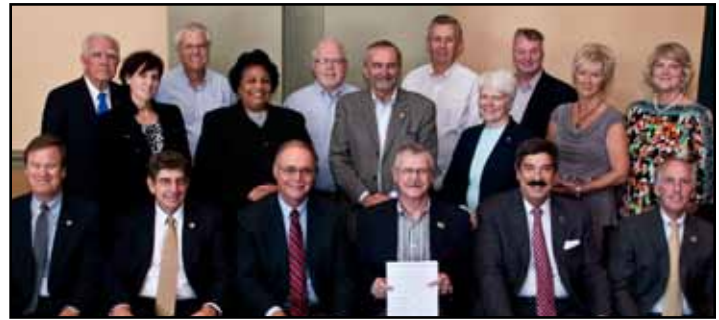
FEE is currently working on a paper relating to the “Future of Audit.” He pointed out FEE had released four briefing papers in July 2012. They covered: improved auditor reporting; the provision of non-audit services to public interest entities’ audit clients; adoption of ISAs in the EU; and public oversight of statutory auditors and audit firms. ♦

CPT/Baruch Panel (Continued from Page 1)

putting in whistleblower practices. There is a lot of opportunity for this to bring havoc,” he said.

Mr. Allen, NASBA legal counsel and a partner of Allen, Pinnix & Nichols told the conference that regulators are looking at not having a prohibition against whistleblowing. “It is unsettled law,” he stated and he reported that an exposure draft on this topic is expected to be released by NASBA and the AICPA.

At NASBA’s Annual Meeting in October (see www.nasba.org for video), Mr. Allen noted that some states make whistleblowing by an accountant a crime. Very few states currently permit or require it. Currently the Uniform Accountancy Act’s Section 18 permits it under applicable laws, but there are only 12 states that currently have the UAA’s language. ♦



NASBA and CICA representatives at signing of MRA extension.

Canada Unifying its Profession

The official launch date for CPA Canada, the national organization supporting the provincial bodies of the Canadian Institute of Chartered Accountants and of the Certified Management Accountants of Canada, has been set for January 1, 2013. The development of the Canadian CPA (chartered public accountant) certification program is scheduled to be completed in the fall of 2013, Kevin J. Dancey, president and chief executive officer of the Canadian Institute of Chartered Accountants told the NASBA meeting on October 31. As the new program is being developed, an extension of the mutual recognition agreement with the Canadian Institute of Chartered Accountants was signed by representatives of NASBA, AICPA and CICA at the October Annual Meeting (see photo above). The tri-party mutual recognition agreement extension, covering professionals in Canada, the U.S. and Mexico, has been sent to the Instituto Mexicano de Contadores Públicos for their signatures. ♦

Doty Addresses Conference (Continued from page 1)

drafts, rather than a combined one, that will cover (1) disclosing the name of the engagement partner in the financial report and the form filed with the PCAOB and (2) naming firms doing more than 3 percent of the work on an audit. Moderator Douglas Carmichael, Professor of Accounting at Baruch College, questioned if the PCAOB had noted a split in the comment letters between the viewpoints of auditors and those of investors on the providing of additional information. Ms. Rand said on transparency and on the audit report a split had been observed. “Investors believe transparency is helpful. It is sunshine – and they believe it will improve accountability.” For the auditors, “Liability is a concern. It is hotly debated.”

Ms. Rand told the conference a practice alert on professional skepticism was slated to be released by the end of 2012. In fact, “Staff Audit Practice Alert No. 10: Maintaining and Applying Professional Skepticism in Audits,” was released on December 4 (see www.pcaobus.org). The PCAOB had previously issued a concept release on this topic and received more than 700 letters in response.

“PCAOB inspectors continue to observe instances in which the circumstances suggest that auditors did not appropriately apply professional skepticism in their audits,” the Alert states. ♦

President's Memo

Reflection

Confucius observed: “There are three methods of gaining wisdom. The first is reflection, which is the highest. The second is imitation, which is the easiest. The third is experience, which is the bitterest.” As we come to the end of the year, it is a natural time for me to reflect on this, my first year as NASBA’s President and CEO, and to measure how we have grown in wisdom, relevance and success as an organization. Did we seek out best practices and methods? With an open mind, did we imitate those strategies that made others successful? Are we leveraging our over one hundred years of experiences, both good and bad, to continuously adapt and improve? Upon reflection, I say we have done all those things.

To begin with, we made some significant changes and enhancements this year, the cornerstone of which has been the “Mission Driven – Member Focused” mandate towards which we measure everything we do. This was clearly demonstrated when 2011-12 Chair Mark Harris called for a new strategic plan, which was developed primarily by current State Board members. We also saw that when 2012-2013 Chair Gaylen Hansen took on the challenge of enlisting sitting State Board members to fill the majority of seats on NASBA committees and task forces, to encourage fresh input and participation. The consideration of mission and focus by NASBA’s staff is now part of all our operational decisions.

This year we stepped outside of our comfort zone a bit to challenge ourselves as to our culture and the lack of diversity in our leadership positions. My “President’s Memo” entitled “Photos on the Wall” (*State Board Report*, Volume XLI, Number 9) in September resulted in an unprecedented response from you our stakeholders. My belief in the high quality of the people associated with NASBA was reinforced by the comments in the numerous calls, letters and emails I received, and through the individual conversations I had with many of you. Most gratifying to me were the private discussions that I have had with women and minorities who were appreciative of the exposure of this issue and, more importantly, by their decision to seek office in NASBA. Early next year a task force will meet in New York to seriously discuss the issue and to make recommendations to the Chair as to how to encourage and support diversity.

We made significant advancements in our efforts to ramp up NASBA’s relevance in national and international matters that impact the protection of investors and those reliant on accounting services. The time has passed when NASBA and the State Boards of Accountancy would accept being excluded from participation in processes impacting the quality and credibility of relied upon accounting services. NASBA’s volunteer and staff leadership are being given enhanced roles in discussion panels, roundtables and other deliberative processes. With volunteer committee support, we are issuing thoughtful and intuitive responses to exposure drafts and requests for comments. We continue to strive to make and improve our working relationships with state, national and international bodies that develop standards, rules or policies that set or impact public accounting practice. Our work is not done. We should not rest until Boards of Accountancy are recognized for their primary regulatory role and have their proper place at every relevant table.

Finally, as we approach the end of 2012, I can’t help but reflect on the amazing amount of support and friendship that you have shown me during my first year as your President. I will never forget it. I want to thank you for that and express my hope that you and your families have a joyous and safe holiday season and a happy and prosperous new year.

Semper ad meliora (Always toward better things).



Ken L. Bishop

A handwritten signature in black ink that reads "Ken L. Bishop". The signature is fluid and cursive.

— Ken L. Bishop
President and CEO

Chairs Meet at Annual



Gaylen Hansen

The participant evaluations from NASBA's 105th Annual Meeting (held October 29-31 in Orlando) have been tabulated and one of the sessions that received particularly high marks was the State Accountancy Board Chairs' and Presidents' Breakfast Meeting. This interactive, informal meeting, was moderated by 2012-13 Chair Gaylen Hansen and covered topics raised by the Board Chairs and Presidents. These included:

How do Boards locate licensees who are doing substandard work? Besides referrals from other governmental agencies and complaints received, some cases come from reviewing the phone directory and locating people who are offering CPA services although they are not CPAs. One state receives audit reports from all state government agencies and the Board discovers problems within them. The State Auditor's office regularly reports problems to the Accountancy Board in one state, and in another the state's insurance commissioner has been reporting problems. On the federal level, complaints from HUD and the Department of Education have been received.

Another issue raised at the breakfast meeting was what role the community colleges are playing in the preparation of CPA candidates. In one state, the two-year colleges are seen as providing the link to the profession for those who have non-accounting undergraduate degrees and decide they want to change careers. How the community colleges are accredited was questioned. Karen Turner, chair of NASBA's Education Committee and Mountain Regional Director, announced that a research project is now in progress that is focused on accreditation agencies. She anticipates

this will be ready for discussion at the June 2013 NASBA Regional Meetings. The sensitivity of this issue was noted by Chair Hansen, who pointed out community colleges are supported by the states and have traditionally been a source of education for minority groups.

A few states still restrict the number of continuing professional education courses that can be taken on line to fulfill the CPE requirement. One state is looking at the revised CPE Standards and changing its regulations to differentiate between live interactive courses and traditional self-study courses. Other State Board chairs reported they too are revisiting their CPE requirements. One participant noted that his Board gives its Board members CPE credit for attending the NASBA Annual Meeting.

The AICPA's new Financial Reporting Framework for Small and Medium-Sized Entities, which was about to be released as an exposure draft, raised questions. Some Chairs wondered how the new framework relates to Other Comprehensive Basis of Accounting (OCBOA). Ken Odom, NASBA Director-at-Large who had served on the AICPA task force that developed the new Framework, said that the Framework is OCBOA. He noted that this is easier for the practitioner to use than GAAP, but he cautioned that the unintended consequences of the Framework still need to be considered. AICPA is accepting comments on the exposure draft, which was released on November 1, until January 13, 2013.

How states will evaluate experience earned during military service in fulfillment of the CPA experience requirement was discussed. NASBA Executive Vice President Colleen Conrad told the Board Chairs that new legislation in this area is being monitored. The language originally proposed under the "Strengthening Our Military Families" initiative was not a problem, but in some cases it morphed into bad law, Mr. Odom observed. ♦

Visit www.nasba.org for details on NASBA's 2013 Meetings.

State Board Report

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