

AICPA National Conference on Current SEC and PCAOB Developments
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Relevance, Rigor, Reach: Building from the Core

Good morning. It is my pleasure to welcome you to the AICPA's Conference on Current SEC and PCAOB Developments.

This conference is one of the most important meetings that the AICPA hosts each year. This is especially true now, given how fast business is changing. Over the next three days we will hear from top policymakers, regulators and industry experts. We'll hear high-level overviews on current events, as well as deeper dives into practical applications.

I thank everyone who helped put this important program together. Special thanks are in order for this year's Conference Chair, Melanie Dolan from KPMG.

I also want to recognize a few of our guests, including leaders from key regulatory bodies: Dan Gallagher, an SEC commissioner; Jim Doty, PCAOB chairman; Russ Golden, FASB chairman; and Hans Hoogervorst, IASB chairman. Immediately following my remarks, you'll also hear from Cindy Fornelli of the Center for Audit Quality. The CAQ, affiliated with the AICPA, guides and supports public company auditors. Thank you all for joining us.

Standing here today, I recognize that I became the AICPA chair during a transformative time for the accounting profession. The convergence of rapid change and technological opportunity has increased complexity and posed great challenges. This environment requires businesses, and their CPAs, to respond rapidly, and with competence, transparency and integrity.

To successfully navigate the challenges of modern business, our profession must focus on three factors: Relevance, Rigor and Reach.

With a focus on these three factors, we can shape our future and further strengthen our core. One of my favorite sports, kiteboarding, taught me a lot about core strength. In kiteboarding, you strap a small board to your feet, and climb into a harness with a large kite. You can't control the wind, but if your core is strong enough to maintain balance with the wind and water, you can ride it. To me, this is a perfect analogy for what we continually face in our profession. External forces quickly change the landscape, and we must ride that constantly changing wind using the strength of our core.

Relevance - the first key - is all about anticipating from which direction the wind will come and positioning yourself appropriately so the wind stays in your kite. Our clients and workplaces are evolving, becoming increasingly global. Businesses are entering new markets, using emerging technologies and delivering new services. Through continuous analysis of trends and opportunities, our profession is well-positioned to ride the winds of change. The profession's adaptability is a direct result of the strength of our core, which gives us a powerful springboard for growth.

As we look forward, relevance means CPAs will continue to apply their competencies to new and exciting service areas. To capitalize on these opportunities, however, we have to modernize our learning and competency models. A future-focused model must reflect rapid business changes, incorporate just-in-time learning, and address the fact that everyone –from your organizations or clients to your children and grandchildren – everyone is learning differently. The AICPA's Future of Learning task force has identified solutions that will lead to a more contemporary, powerful and personal way of learning to drive the competencies needed to support businesses of the future. Our vision blends traditional and innovative learning models, and incorporates new ways for CPAs to demonstrate competencies. To maximize use of future learning approaches, we are working with the regulatory community to ensure it, too, makes changes necessary to maintain the highest possible standards and expectations.

The second factor for success is rigor. To have the core strength to stay on the kiteboard, you have to pay attention to details and understand the demands of your discipline. This should come naturally for CPAs. We've always had rigor in our game.

Throughout the current period of complexity and change, the profession's commitment to quality has remained a constant and guiding light. The AICPA regularly reviews its standards, rules and oversight function, while providing timely resources and tools to help practitioners with compliance.

This year we celebrate several anniversaries that highlight our commitment to high-quality audits. The AICPA's Peer Review program is celebrating 35 years as part of the profession, and 25 years since becoming a membership requirement. This year also marks the 10-year anniversaries of both the Governmental and Employee Benefit Plan Audit Quality Centers. These Centers, as well as the Center for Audit Quality, are critical to our commitment to quality.

Creating a strong future means building upon our foundation, with an eye for constant improvement. From our ethics and peer review programs, PCAOB inspection and government agency findings, we know there are quality issues and we're committed to addressing them. In May, the AICPA launched the Enhancing Audit Quality initiative, a comprehensive effort designed to help auditors of private entities maintain excellence in an increasingly complex business landscape. We are leaving no stone unturned. The program includes a hard look at professional standards and guidance, competency development and learning, peer review and ethics enforcement. A discussion paper released in August explains the changes being made and proposals being explored.

The comment period closed November 7, and now we are considering the input we received from all our key stakeholders. This entire process – from our proposals to your feedback – is critical. As a profession, we are responsible for ourselves, regularly examining our body of work so we can improve and better serve all users of audited financial statements.

The second phase of the audit quality initiative is focused on transforming the AICPA's peer review program for the future. Next week we will release, for input, a paper exploring what this concept could possibly look like. The paper is purposely provocative, presenting a vision that helps CPAs and other stakeholders imagine a practice monitoring process designed to offer insights before an audit is completed. We realize the model ultimately developed will likely look quite different from what is presented in the paper, but our goal is to challenge current thinking and stimulate input from relevant stakeholders. As an auditor who has performed peer reviews, I think the evolution of peer review is one of the most important items on the AICPA's agenda this year.

The road will not be easy. But the complexity of the world and the preservation of our reputation and integrity demand that we embark on this heightened approach to quality. For its part, the CAQ has engaged in a number of initiatives to improve audit quality, including development of an approach to audit quality indicators, extensive collaboration with key stakeholders, and new resources for audit committees. You'll hear more about them from Cindy Fornelli in just a few minutes.

We know that quality and accountability are part of a CPA's DNA. Our profession's commitment to rigor makes it clear that a CPA is expected to demonstrate quality and accountability each and every day. From the very beginning, our profession makes clear what we expect of new CPAs. That's why rigor is a key ingredient in the Uniform CPA Examination, the entry point into our profession. The AICPA is currently conducting a comprehensive research project to assess the skills and competencies newly licensed CPAs need to protect the public interest. An Invitation to Comment on proposed changes to the Exam closed just last week, and we have begun to review stakeholder feedback. The next version of the exam will be announced in 2016, and is expected to be released in 2017. Going forward, technological advances will allow the exam to test for more higher-order skills in new ways. We will also be able to provide a testing experience that more closely replicates the day-to-day practice of newly licensed CPAs.

Rigor is equally important in business and industry. In October, we unveiled the final foundational piece of the CGMA designation. Our Global Management Accounting Principles set forth the fundamental values and qualities of professional best practices. Driven by marketplace research, the principles help CFOs and senior finance executives benchmark their management accounting practices and identify areas for possible improvement.

And beginning next month, CGMA designation candidates will be required to pass a global, strategic case study exam. The administration of a single global exam will help facilitate consistency and competence. The exam, experience and lifelong learning

requirements were all built from the CGMA Competency Framework, which spells out the skills that finance professionals need to drive the success of their organizations.

Rigor is also, of course, a top priority for regulators, and we applaud many of their recent efforts. The PCAOB has proposed changes to the auditor's reporting model, and we look forward to more clarity on those proposals. The AICPA began exploring changes to the report back in 2006. At that time, the Auditing Standards Board, with the International Auditing and Assurance Standards Board, determined that we needed to explore the gap between auditor and user expectations of financial reports. The CAQ issued a comment letter that commends the PCAOB's efforts, and proposes some improvements. Auditors and audit firms need to understand that the audit report will be changing. It needs to be more responsive to stakeholders to help them gain better insight into the audit process and issues of the audited company. We want to be supportive of the auditor report's evolution, and also want to be sensible about how to proceed.

Another initiative under way focuses on the future of auditing. The AICPA Assurance Services Executive Committee is developing a conceptual framework to capitalize on emerging technologies that affect the business information supply chain. The committee has already released three whitepapers that provide a glimpse into the future of reporting and auditing systems and show how technology might be used to transform the audit.

To embrace rigor, organizations need to be more transparent. Integrated reporting, or IR, provides a more complete picture of a business and how it creates value. More and more, investors, customers, suppliers and others want to evaluate organizations based on both financial and non-financial measures. Throughout the world, momentum continues to build for reports that capture the full scope of an organization, including strategy, risks and opportunities, governance, human capital and other measures. South Africa has already mandated integrated reporting, and a new EU Accounting Directive will soon require broad non-financial disclosures. Here in the U.S., some recent comprehensive reports show interest in IR is growing.

The third and final factor for success is "Reach." Reach means helping practitioners and clients or employers in their local communities with the services and support they need.

As business continues to become more global, we are constantly monitoring what is happening around the world. U.S. CPAs are helping organizations navigate a landscape that currently includes both GAAP and IFRS. But we also recognize the importance and value of comparable standards. I look forward to hearing from Russ and Hans about their forward-looking efforts in this regard. I also applaud the FASB and the IASB for successfully producing converged standards, including the all-important revenue recognition standard released in May. This is an important milestone that affects nearly all U.S. businesses.

The new revenue recognition standard is principle-based. As a result, the AICPA established 16 industry-specific task forces to develop non-authoritative resources to help practitioners implement the standard. On Wednesday, the AICPA's Financial Reporting Executive Committee Chair, Jim Dolinar, will be talking more about the AICPA's efforts to help with industry-specific support.

Of course, the only way to build a vibrant and successful future is to ensure we have the right talent and a sufficient supply of it. To get there, the profession must continue to be an attractive long-term career path. To remain the best, we must be willing to adapt to changing demographic and marketplace demands. We need smart, engaging people prepared to look at issues and events with a fresh perspective and critical analysis. To attract the best and brightest from a new generation, we must be responsive to change.

We need to embrace new solutions, new processes and new models, and develop our future and current talent in a way that works for them. By embracing and developing the next generation, we help the long-term sustainability and success of our businesses and our profession. In my experience, the best way to develop future leaders is through old-fashioned mentoring.

The late Maya Angelou said, "If you get, give. If you learn, teach." I mentor several young professionals at my firm, and I consistently find they give me so much more than I give them. Mentoring builds the kind of welcoming and inclusive environment that young professionals want, while at the same time increasing value to organizations. Our profession can only meet the lofty expectations set for us, and by us, if we develop the very best talent.

We need to be a profession that is as broad as the clients and employers we serve. As we increase our reach, we must fight the urge to focus solely on what's in front of us. Today, we are in a position of strength. But if we fail to maintain our vision and commitment to our core strengths, we will find ourselves at the mercy of the elements.

When I'm out on that kiteboard, positioning to catch the wind, I watch the waves and ask "where do I want to end up?" I know that if I am not vigilant, I will travel a great distance in a direction I don't want to go. I want to control my direction. That's where our profession is today – charting a course to our destination and making sure we leverage the winds to position us for success.

With a focus on relevance, rigor and reach, we can further strengthen our core, shape our future, and thrive in what lies ahead.

Thank you, and enjoy the conference.