

A quarterly update on state legislative issues affecting the CPA profession

Summer 2010

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Overview

Welcome to the Summer 2010 edition of State Legislative Update – a publication by the AICPA’s State Regulation and Legislation Team. This publication is designed to provide regular updates to state CPA societies and other interested parties on state legislative and regulatory activity impacting the CPA profession.

State Legislative and Regulatory Workshop Scheduled

The AICPA State Regulation and Legislation team is hosting an advocacy workshop prior to the start of this year’s Interchange conference.

Please join us for this session entitled “Assessing and Perfecting Your Advocacy Strategies: Building a 12-Month Plan for Strengthening Your Influence” designed to help bolster your organization’s advocacy efforts.

We are pleased have Sherry Whitworth leading this State Advocacy Workshop preceding Interchange on Tuesday, July 20 at the Langham Hotel in Pasadena, CA from 8:30 a.m. – 12:30pm.

During this workshop, she will guide attendees through a month-by-month review of what works to keep your advocacy efforts healthy, as well as benchmarks to show the effectiveness of an advocacy program. The session will provide planning tools and strategies you can implement immediately to enhance your advocacy efforts.

Sherry Whitworth is the Chief Product Officer of [720 Strategies](#) and has over 20 years of experience helping mastermind how trade associations, corporations, non-profits and constituents communicate with their elected officials.

The workshop is free to all state society staff and is scheduled to begin at 8:30 am with a group breakfast and will conclude by 12:30pm.

To reserve your spot, or if you have any questions, please contact Aaron Castelo at acastelo@aicpa.org or 202-434-9261.

State Budget Deficits Likely to Cause Problems for Years to Come

Despite a late spring report from the National Conference of State Legislatures (NCSL) that state tax revenues are very slightly improving, many reports continue to indicate that state budget deficits will linger for years to come.

The latest State Budget Update released by NCSL reports that while the steep

drop in state revenues appears to be subsiding, the fiscal situation for most states for FY 2011 and FY 2012 remains troubling. According to NCSL, while the U.S. economy began to recover in late 2009, state finances are not expected to recover for at least two years. History shows that state budgets continue to struggle long after a national recession ends as high unemployment rates erode earnings, affecting personal income tax collections. Job losses also undermine consumer willingness to spend money, which affects sales tax collections.

NCSL also indicates that the combination of anemic revenues and growing spending pressures is presenting difficult and often painful choices for lawmakers across the country. States have already closed a cumulative \$174.1 billion budget gap in their FY 2010 budgets. But that will not be the end of it. Thirty-eight states and Puerto Rico currently project a cumulative budget gap of \$89 billion in FY 2011; 31 states and Puerto Rico foresee at least a \$73.5 billion budget gap for FY 2012 and 21 already project a gap of at least \$64.7 billion gap as far out as FY 2013. By FY 2013, states will have addressed budget gaps in excess of \$531 billion since the recession began.

More information is available from NCSL at:

<http://www.ncsl.org/Default.aspx?TabID=756&tabs=951,61,161#951>

Mobility Enacted in Alaska, Passes New York Senate

There has been notable activity in the past month on CPA mobility as remaining states move to implement a uniform practice mobility system for CPAs and CPA firms. On June 10, Alaska Governor Sean Parnell signed mobility legislation into law, making Alaska the 47th state to enact mobility. Also in early June, the New York Senate passed [S6307-B](#) to allow cross-border practice mobility for CPAs.

In our continuing efforts to support states, we have updated many of our mobility and implementation resources available here:

<http://www.aicpa.org/Advocacy/State/Pages/CPAMobilityResources.aspx>

UAA Committee Looking at Several Issues

The AICPA Uniform Accountancy Act (UAA) Committee has been working jointly with the National Association of State Boards of Accountancy (NASBA) UAA Committee to consider issues relating to CPA firm names in recent months, and is likely to be presented with additional issues in the coming year.

Firm Names

The AICPA and NASBA UAA Committees have been working together for several months to consider possible changes to the UAA intended to provide guidance to states on misleading firm names.

The overall goal is to provide an equitable solution to all CPA firms and to provide commonsense guidance to users of CPA services and state boards of accountancy on what CPA firm names are and are not misleading. There are several issues related to this topic, for example some state board rules unfairly allow some firms to use initials or derivations of a previous firm name, but do not allow newer firms entering the profession to use a similar title.

The Committees held a joint meeting in November 2009 to begin discussion on

how to move forward with addressing the issues surrounding firm names. In general there was agreement to move forward with a task force on the issue made up of representatives from both the NASBA UAA Committee and AICPA's UAA Committee and AICPA's Professional Ethics Executive Committee (PEEC). The task force, which was formed in March, has been charged by AICPA and NASBA leadership to consider guidelines as to what constitutes a misleading CPA firm name for the purpose of developing/modifying language of UAA Section 14 and Model Rules Article 14 and any other portions of the Act or Rules that may need to be revised to support such modifications.

To date, the task force has held a series of conference calls and will continue to work this summer to consider possible draft language. During the recent NASBA regional meetings, NASBA UAA Committee members provided an update on these activities to meeting participants.

Definition of Attest

The Committee is also expected to consider a revision to the definition of "Attest" included in [Section 3 of the UAA](#) to accommodate a changing reference to standards.

Current auditing standards include standard that deals with the examination of financial statement controls at a service organization. These types of engagements are currently being performed under [Statement on Auditing Standard No. 70](#). In the future, however, these engagements will be performed under [Statements on Standard of Attestation Engagements \(SSAEs\)](#). The ASB has recently issued a new Standard ([SSAE 16](#)) that will supersede SAS 70 for these types of engagements effective at the end of 2010.

The current UAA definition includes only examination of prospective financial statements, and no other SSAE. In order for the UAA to recognize SSAE 16, which had previously been scoped into the definition as a SAS, a revision to the definition of "Attest" will be considered by the Committee. The AICPA State Regulation and Legislation team has completed some initial research, and concluded that there is likely an issue of concern for states that have adopted the UAA definition of "attest".

NASBA Proposed Rule on Below Cost Audits

NASBA is expected to bring forth a model rule to the Committee that recommends the UAA address the threats to independence, due care and compliance with standards when an auditor (intentionally) accepts an audit at a loss. It is anticipated that NASBA will recommend certain safeguards be implemented under such circumstances such as a second partner review of the engagement, adequate supervision and staffing, compliance with professional standards and documentation, and a quality control system. The NASBA paper addresses concerns that performing an audit or attest service below cost may indicate a significant threat to independence, integrity and objectivity, due care, and compliance with professional standards.

Additionally, it is likely that the Committee will consider language relating to NASBA's proposals on semi-independent state boards of accountancy (see article below). We will continue to provide you with updates on each of these issues and any UAA Committee consideration or action on them.

A complete re-cap of the NASBA regional meetings will be sent to the state CPA societies in the next few weeks.

State Board Consolidation Concerns Lead to NASBA Initiative

As states face budget difficulties, proposals to consolidate agencies are often presented including several that emerged during the recent legislative sessions. In Washington, the state society has opposed a legislative proposal over the past two years to move the state board of accountancy under the jurisdiction of the State Board of Licensing. Similar proposals have recently been suggested by the Governors in both Connecticut and New Hampshire, and have been discussed in some form in Ohio, North Carolina and Virginia.

Currently more than 20 state boards of accountancy operate under a consolidated structure. AICPA is concerned about consolidation of state boards of accountancy because of the threat to effective regulation of the profession, and typically works with state societies to oppose these proposals. Consolidation can affect a board's ability to administer and oversee such critical functions as certification, licensing, enforcement and investigation.

The National Association of State Boards of Accountancy (NASBA) released a position paper in May supporting semi-independent state boards of accountancy, and at NASBA's recent regional meetings held in June, the organization discussed plans to move forward with an initiative in the states as laid out in the paper. The NASBA paper is available here:

[http://www.nasba.org/nasbaweb/NASBAWeb.nsf/PS/A410BC85553A3382862577350066511C/\\$file/Rationale%20Self-Gov%20St%20Bd%20Pos%20Paper-05%2020%2010%5B1%5D.pdf](http://www.nasba.org/nasbaweb/NASBAWeb.nsf/PS/A410BC85553A3382862577350066511C/$file/Rationale%20Self-Gov%20St%20Bd%20Pos%20Paper-05%2020%2010%5B1%5D.pdf)

Debt Counselor Proposals Could Include CPAs

During their recent legislative session, the Maryland legislature enacted legislation [SB 701/HB 392](#) to study possible regulation of debt settlement services, including debt counselors. While the study does not directly impact CPAs, and the original legislative language included provisions to regulate "debt counselors" that exempted CPAs, the Maryland proposal points to a potential concern as other states look at this issue and consider how to regulate "debt counselors" (also referred to in many instances as "credit counselors").

AICPA's State Regulation and Legislation team has done some initial research on this issue in an effort to ascertain if this is a problematic issue for the profession. If proposals to regulate "debt counselors" or credit counselors" are introduced in your state, please contact Aaron Castelo at acastelo@aicpa.org, so that we may work to offer any needed assistance.

Hawaii Passes Peer Review

In May, the Hawaii legislature approved legislation requiring that public accounting firms in Hawaii undergo mandatory peer reviews on a regular basis for auditing and attestation work.

The law requires peer reviews as a condition of certified public accountancy permits to practice in the State of Hawaii. It provides a mechanism for firms engaged in the practice of public accounting to undergo peer reviews every three years and grants the state Board of Public Accountancy appropriate power to define and regulate the peer review process.

Under the law, the peer review process is intended to be for educational or remedial purposes and is not punitive. However, if the review discloses information that a firm has not met the appropriate professional standards, the board may require further investigation of the firm. The Hawaii Board of Accountancy is currently working to write the regulations to implement the new peer review requirement.

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