Overview
Welcome to the Spring 2016 edition of the State Regulatory Update. This periodic publication by the AICPA State Regulation and Legislation Team provides news and information of interest to State Boards of Accountancy.

Check out the updated AICPA State Board Resources webpage for information and tools related to peer review, the AICPA Code of Conduct, CPE reciprocity, firm mobility, the CPA Exam, and more. Follow us on Twitter @AICPAState.

Pipeline
AICPA taking multi-pronged approach to lead candidates into the CPA pipeline
No single statistic can adequately tell the story of the accounting profession's current health and long-term forecast. But among the many trend lines the AICPA has been monitoring and responding to in recent years is the gap between the number of recent college graduates with accounting degrees and the volume of new candidates sitting for the CPA exam.

While the latest numbers for the CPA exam show that the volume of candidates who tested for the first time grew 3.36% to 42,653 from 2014 to 2015, the exam gap persists. The number of new candidates sitting for the exam is about half the number of accounting graduates.

Joanne Fiore, AICPA Vice President for Professional Media, Pathways & Inclusion, said the Institute’s focus “has always been, and continues to be, moving accounting students to the CPA exam and working to close the gap between the two.”

To better understand factors driving the gap, the AICPA commissioned qualitative and quantitative research by Applied Research & Consulting (ARC). The ARC researchers focused on accounting students and recent graduates and sought to uncover what influences students to: (1) decide to major in accounting; (2) sit for the exam; and (3) carry through with intentions to become a CPA.

The research revealed that the environment, including a pro-CPA culture, plays a critical role in determining whether a CPA candidate sits for the exam -- with those at Big Four firms having a very high sit rate and those graduates who go directly into business having a much lower one.
In response to this research, as well as information found in the 2015 Trends in the Supply of Accounting Graduates and Demand for Public Accounting Recruits report, the AICPA has developed a number of professionwide initiatives to complement existing programs and to ensure that qualified accounting graduates are earning their CPA license.

- The CPA Exam Candidate Success report, completed last fall, identifies and shares best practices that drive more students to licensure. The study and report spotlight best practices that can be used on college campuses. The researchers received input from faculty at more than 50 schools that included ideas for creating more positive “CPA cultures” on campuses. One of the study’s leading recommendations is to develop an academic champion program on campuses.
- The AICPA has hired its first-ever Academic in Residence, Yvonne Hinson, CPA, CGMA, PhD., formerly of Wake Forest University, to launch the academic champion program. The program will identify faculty at select universities to partner with the AICPA to help promote the CPA credential.
- To put more people on campuses to promote the CPA, the AICPA and state CPA societies have launched a pilot program on student recruitment in seven states (Connecticut, Kentucky, Louisiana, North Carolina, New Mexico, South Carolina, and Tennessee), using co-branded materials and ultimately creating a shared student experience. Students in those states join the AICPA and their state society at the same time, and have the support of both on their journey to licensure.
- The AICPA has also launched a program with Beta Alpha Psi (BAP) that provides soft skills training to BAP student chapters, using a local CPA and an AICPA training video. ARC research identified the presence of a BAP chapter on campus as a component of a “pro-CPA culture.”
- The AICPA’s 2015 Accounting Competition, completed in December, challenged teams of undergraduates to play the role of management accountants to take a fictional business to the next level and help it reduce costs and sell competitively. The competition drew teams from 117 schools.
- Ongoing research by the AICPA that will complement the Trends report is examining the hiring of accounting graduates in industry. This is of special interest because many accounting graduates who go straight into industry do not sit for the CPA exam.
- Last year, because of members’ donations to the AICPA Foundation, the dollar amount of scholarships awarded to students who plan to become CPAs increased by 46%.
- In October, the AICPA and NAF’s Academy of Finance agreed to pilot a recognition program in four states (Florida, Maryland, North Carolina, and New York) that will teach diverse high school students both soft skills and technical accounting and finance skills, and will encourage and prepare them to pursue an accounting degree at a postsecondary institution. In addition, students will learn about the career possibilities available to CPAs.
- To further strengthen the CPA brand’s online presence at the high school level, the AICPA relaunched StartHereGoPlaces.com with 60 new resources for faculty and a new financial literacy version of the popular Bank On It online game for high school students.
On the ThisWayToCPA.com site for college students, a new CPA Exam & Licensure Center tool informs students on the process and requirements of becoming a CPA. Because users increasingly visit those sites on mobile devices, both websites are now fully responsive, making them more accessible on smartphones and tablets.

- Recognizing the growing number of future CPAs that start out in community college, the AICPA is beefing up its community college programs by increasing scholarships and developing other resources to help bridge the gap for students transferring from two-year to four-year programs.

Click on the image below for its original size

Powering the CPA Pipeline

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CGMA

Responding to a Need for Higher Quality in Management Accounting and Strengthening a CPA-led Profession in the US

In October 2015, the AICPA’s governing Council voted to open the Chartered Global Management Accountant (CGMA) designation to qualified non-CPA candidates in the United States. After completing rigorous education, examination, and experience requirements, the first non-CPA CGMAs are expected to receive the designation in 2018.

In 2010, the AICPA made the decision to launch and promote a new management accounting credential in response to a need from the AICPA’s current business and industry professionals, as well as from a growing understanding that the profession is quickly evolving. Specifically, as the AICPA has worked to grow the CPA pipeline (see article above), four things have become clear:

1. Public accounting remains a strong career choice.
2. At the same time, many accounting graduates are going straight into business and industry.
3. Management accountants play an essential role in the overall health of the accounting ecosystem.
Business and industry are supportive of a global management accounting designation that could complement the CPA.

Today, about one-half of all accounting graduates sit for the CPA exam, while about one-third go on to obtain CPA licensure. While these numbers are impressive, it still leaves a significant number of professionals without a credential infrastructure that embraces learning, examination, and experience, as well as an ethical code of conduct. The AICPA believes that offering a professional qualification in this space is in the best interest of business, the accounting profession, and the public.

“We can no longer ignore the fact that many accounting graduates are choosing to go directly into business and industry – and the quality of the work they will do directly impacts the quality of financial reporting, and thus the audit,” said Arleen Thomas, AICPA Senior Vice President for Management Accounting and Global Markets. “Awarding the CGMA to qualified professionals brings these individuals into a professional affiliation grounded in lifelong learning and ethics.”

To ensure the credential is of the highest quality and professional standards, the AICPA has designed a robust pathway for other qualified professionals to follow in earning the CGMA designation. Candidates will be required to complete a comprehensive education program starting with a bachelor’s degree from an accredited university, pass a series of rigorous exams given in Pearson Vue high stakes testing facilities, and have three years of management accounting experience. (The pathway to obtain the CGMA designation outside the United States through The Chartered Institute of Management Accountants – CIMA – is similar, as candidates must meet education and experience requirements and complete a series of examinations.)

CPAs have an expedited route to obtaining the CGMA designation as a result of their education, experience, and passage of the CPA exam.

Once they hold the designation, CGMAs will be required to meet continuing professional development requirements, abide by the AICPA Code of Professional Conduct, and follow all applicable state laws and rules.

“The AICPA is dedicated to protecting the public interest, growing the CPA pipeline, and fully supporting a CPA-led accounting profession. We have extensive programs in place focused exclusively on attracting and growing the numbers of students and early professionals sitting for the CPA exam, and our goal is to have a vital and relevant profession, driving quality in both public and management accounting.” said Sue Coffey, AICPA Senior Vice President for Public Practice & Global Alliances.

Coffey added that it is important that state regulators and other stakeholders understand how expanding access to the CGMA designation helps the AICPA accomplish these goals.

“We are engaging our partners – state societies, firms, state boards of accountancy, and others – in a dialogue to better understand their thoughts and perspectives, and so that we are fully conveying the vigorous safeguards and public protection measures the AICPA has put in place,” she said.

For example, the CGMA designation, as it name states, is intended for use in the corporate environment. If used while working in a CPA firm, the CPA
firm and the actions of its partners and staff are subject to the oversight of their respective state boards of accountancy. Additionally, non-CPA CGMAs advertising their AICPA membership will be required to disclose the fact that they are “non-CPA associate members of the AICPA” in order to prevent public confusion.

Information prominently linked from the main page of the CGMA website (“CGMA in the US”) also explains that CGMAs will not be permitted to solicit, practice public accounting, or provide attestation services for the public, nor can CGMAs create so-called “CGMA firms”.

Moreover, the AICPA Professional Ethics Division will take disciplinary action against any non-CPA CGMA who uses the designation in a deceptive or misleading manner, including, if necessary, engaging state authorities.

“The success of CGMA in the U.S. will lead to an even stronger, more vibrant CPA profession in the future,” Coffey said.

Coffey will discuss the CGMA designation at the NASBA Annual Conference for Executive Directors and Board Staff on Wednesday, March 16. State boards and other interested stakeholders are also encouraged to speak with Coffey at the conference or to contact Mat Young, AICPA Vice-President for State Regulatory and Legislative Affairs, at myoung@aicpa.org or 202-434-9273 if they have specific questions or would like more information about the expansion of the credential.

**CGMA Protections**
- Must follow all applicable state laws and regulations
- Must identify as non-CPA member of AICPA
- Must follow AICPA Code of Professional Conduct
- “CGMA firms” are prohibited
- Intended for business and industry

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**Peer Review**

**Evolution of Peer Review Administration**

As part of the Enhancing Audit Quality (EAQ) initiative, the AICPA is currently discussing potential long-term changes to peer review administration. One of the proposed changes would likely decrease the number of administering entities (AEs) to approximately eight to ten, with each AE capable of effectively administering at least 1,000 peer reviews per year. The goal of the proposed changes is to increase the quality, consistency, efficiency, and effectiveness in the administration of peer reviews.

Consistent peer review administration is critical to best advance the quality of the accounting and auditing services performed by CPA firms. Currently, 42 AEs administer the Program. The AEs differ in operating structure, including the composition and involvement of employees, use of contractors, Report Acceptance Body criteria, and Peer Review Committee criteria.
Other than technological advances, the administration of peer reviews has remained largely unchanged since the inception of the AICPA Peer Review Program more than 25 years ago.

The AICPA Peer Review Team has begun to seek input from state CPA societies on these proposed changes. Additionally, Todd Shapiro, President and CEO of the Illinois CPA Society, Stephanie Peters, President and CEO of the Virginia Society of CPAs, and Beth Thoresen, AICP Director of Peer Review Operations, will discuss the proposed changes and other quality initiatives during the Peer Review Improvements in Practice Monitoring session at the NASBA Annual Conference for Executive Directors and Board Staff on Wednesday, March 16.

The proposed changes are a part of the AICPA’s efforts to increase audit quality and protect the public interest. For more information please contact your state CPA society CEO, or Beth Thoresen at 919-402-4068 or bthoresen@aicpa.org.

Ethics
Exposure Draft Seeks Comments on Guidance Related to Client Files, Commission & Referral Fees

On November 25, 2015, the Professional Ethics Division issued an Omnibus Exposure Draft that contains three proposals that may be of particular interest to state boards of accountancy and state CPA societies.

Client files. The first two proposals provide guidance related to a CPA's obligations concerning the confidentiality and return of client files when the CPA either transfers, sells, or discontinues their practice, or the CPA acquires a practice. These are important practice issues that are not currently addressed in the AICPA Code of Professional Conduct. The proposals require that when a CPA discontinues, sells, or transfers all or part of their practice and no longer retains ownership in or control of the practice, the CPA must take certain steps to notify clients and maintain the confidentiality of any client files in the CPA's possession. In cases where a CPA acquires a practice from another person or firm, the CPA must be satisfied that all clients of the predecessor firm subject to the acquisition have been notified of the acquisition and have consented to the CPA's continuation of professional services and retention of any client files. The proposal also extends the requirements of the “Confidential Client Information Rule” to any client files obtained as a result of acquiring a practice.

Commissions and referral fees. As part of its efforts to facilitate adoption of the AICPA Code by state boards of accountancy, the Professional Ethics Executive Committee (PEEC) has compared the AICPA Code to the rules and regulations of state boards of accountancy to identify significant differences that may exist. One such difference noted during this review relates to the disclosure of permitted commissions and referral fees. Specifically, a significant number of state boards require such disclosures be written, whereas the AICPA Code does not require the disclosure be in writing. The PEEC believes that the more stringent requirement by these state boards is appropriate and in the public interest. Accordingly, one of the proposals in this exposure draft would require the disclosure of permitted commissions and referral fees to be in writing.
The PEEC is very interested in obtaining feedback on these proposals from state boards of accountancy and state CPA societies. Please provide comments to Lisa Snyder, AICPA Director of Professional Ethics, at lsnnyder@aicpa.org by May 16, 2016.