NASBA
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June 29, 2008

Members of the Committee
Advisory Committee on the Auditing Profession
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20202

Dear Committee Members:

The National Association of State Boards of Accountancy ("NASBA") appreciates the opportunity to offer comments to the Advisory Committee on the Auditing Profession ("Advisory Committee") on the preliminary recommendations of its subcommittees. NASBA's mission is to increase the effectiveness of State Boards of Accountancy. In furtherance of that goal, NASBA offers the following comments on the preliminary recommendations.

<u>Preliminary Recommendations of the Subcommittee on Human Capital</u>

The Subcommittee on Human Capital cites in Recommendation 1 the need for continuous updating of the Uniform CPA Examination ("the Examination") in order to meet changes in business transactions, accounting standards and auditing principles. State Boards of Public Accountancy ("State Boards") have the sole responsibility for licensing certified public accountants in their respective jurisdictions. The State Boards establish the educational and examination requirements for licensure and have retained the American Institute of Certified Public Accountants to provide an examination that meets requirements for entry into the profession.

NASBA, representing the State Boards, is a party to the contract for the preparation and administration of the Examination. NASBA agrees with the Subcommittee's comments on the need to keep the Examination current – including a component on ethical standards.

Recommendation 1 focuses in part on the need to reflect International Financial Reporting Standards (IFRS) in the Examination. NASBA believes that additional testing of IFRS in the Examination must be coordinated with the inclusion of such standards in textbooks and in the material taught in accounting courses. Accordingly, NASBA believes that all principal parties having an interest in the Examination should start to collaborate in determining how and when IFRS will be taught and tested.

Testing of IFRS on the Examination is a minor issue when compared to the overall impact of the adoption of IFRS on business, the accounting profession and users of audited financial information. The Advisory Committee has not commented on IFRS other than in relationship to the Examination. More specifically, the Advisory Committee has not commented on the costs of implementation of IFRS. We believe a cost/benefit analysis should be a condition precedent to adoption of IFRS. The costs of revamping our education system, retraining thousands of U.S. auditors and corporate accountants, and establishing corporate systems to gather the necessary information for conversion will be substantial. There will also be significant costs required to train users of financial information.

Nor has the Advisory Committee commented on the need to engage other stakeholders in the IFRS discussion, including State Boards, investor-user groups, the academic community, non-public financial statement issuers, corporate management and accounting firms. Further, the Advisory Committee has not commented on the need to maintain one set of financial accounting standards for enterprises in the United States. Focusing only on publicly-held entities subject to SEC regulation without addressing the needs of others could conceivably result in adoption of IFRS for SEC reporting entities and non-adoption by other enterprises.

NASBA strongly urges the Advisory Committee to fully address all of the implications of the adoption of IFRS, including who needs to be involved in the process, in its final report.

The Human Capital Subcommittee cites in Recommendation 2 the need to insure a "robust supply" of faculty to meet current and future demands of the accounting profession. NASBA notes that the focus of the recommendation(s) is apparently on the funding for accounting doctoral candidates. The recommendations do not focus on the financial needs of educational institutions that are "expected" to train doctoral candidates. Giving doctoral candidates stipends to attend educational institutions does not mean that the institutions have the funds to support doctoral programs primarily engaged in research. Consideration of the institutions' financial needs would assist in the acceptance of these recommendations.

NASBA suggests that the Advisory Committee address, or acknowledge, in the final recommendations the financial needs of universities to initiate or maintain doctoral programs. Also suggestions as to how to meet those needs would be a desirable addition to the final recommendations.

<u>Preliminary Recommendations of the Subcommittee on Firm Structure and Finances</u>

The Subcommittee on Firm Structure and Finances cites in its Recommendation 1 the need for creation of a "Center" to develop best practices regarding fraud detection and prevention. NASBA agrees with the need for such a forum. Conclusions from, or approaches discussed during, Center deliberations could have an immediate effect on the way accounting practitioners approach the performance of audits and would likely form the basis for consideration of changes in auditing standards.

In Recommendation 1 the Subcommittee urges that the PCAOB and the SEC clarify in the auditor's report the auditor's role in detecting fraud. NASBA suggests that the Auditing

Standards Board of the AICPA be included in the Advisory Committee's commentary on the need for clarification. Clarification of the auditor's role in fraud detection is as applicable to non-public entities as it is to public entities.

The Subcommittee states that a "long-standing 'expectations gap' exists between the public's expectations regarding auditor responsibility for fraud detection and the auditor's required and capable performance of fraud detection." The Subcommittee further states that "the public may believe that auditors will detect all fraud, or detect more fraud than can be reasonably expected." However, the Subcommittee later recommends that in light of this "expectations gap" the PCAOB review the auditing standards governing fraud detection and fraud reporting.

NASBA questions the linking of the "expectations gap" to the review of standards in the Recommendation. The PCAOB should review auditing standards regardless of the existence or non-existence of the "expectations gap." The "gap" may likely continue even after new standards are adopted and implemented. NASBA suggests that advising the PCAOB to continually review auditing standards, as a matter of course, be placed in another part of the Recommendation.

While NASBA believes states are moving to adopt the mobility provisions of the Uniform Accountancy Act, Fifth Edition, with unprecedented speed, as supported in Recommendation 2(a), some states may have difficulty in meeting the December 31, 2010 deadline because of their legislative calendars. NASBA recommends that a later date be set by the Subcommittee.

In Recommendation 2(b), the Subcommittee proposes that "regular and formal roundtable meetings" of the regulators cited in the Recommendation be required. NASBA strongly supports this recommendation. We understand that no single act of legislation can require the attendance of all of the named parties, but the language of the Recommendation is desirable in order to focus attention on the issue of efficient and effective regulation. NASBA would enthusiastically participate on behalf of State Boards as suggested in this Recommendation.

In Recommendation 2(c), the Subcommittee urges states to create greater financial and operational independence of their State Boards of Accountancy. NASBA notes that in some states the issue is not simply raising enough funds through fees to regulate, but keeping the funds from being used by other state agencies. NASBA intends to directly address the concerns expressed by the Subcommittee. There is a need to ensure all State Boards of Accountancy have adequate funding to maintain a healthy regulatory environment, which includes the ability to fund the costs of investigations and disciplinary enforcement.

The Addendum dated June 3, 2008 of the Subcommittee ("the Addendum") to its preliminary report mentions that it is considering whether to recommend that, "Congress provide federal courts with exclusive jurisdiction over some categories of claims, which presently may be brought in state courts against auditors…." NASBA notes that giving the federal courts exclusive jurisdiction over private causes of action arising out of some state law claims is without precedent and might be unconstitutional. Under the current statutory framework, the federal courts have concurrent jurisdiction with state courts over state law claims only in cases where there is diversity of citizenship between the parties and the amount in controversy exceeds $75,000. If an auditor is sued in state court for professional negligence and there is diversity of citizenship, the auditor can remove the case to federal court assuming the amount in controversy is in excess of $75,000. As there is already a backlog of private litigation in the federal court system, such an additional mandate of federal court jurisdiction would inevitably lengthen the litigation process. Plus, federal district and circuit courts of appeals frequently disagree with each other. NASBA maintains that state courts are in the best position to interpret state law claims. NASBA recommends that this proposal in the Addendum be omitted from the final report.

Preliminary Recommendations of the Subcommittee on Concentration and Competition

Recommendation 6 proposes: "Enhance regulatory collaboration and coordination between the PCAOB and its foreign counterparts…." NASBA suggests the State Boards of Accountancy also be included in this collaboration. The Subcommittee's report states: "The Committee believes that these types of global regulatory coordination and cooperation are important elements in making sure public company auditing firms of all sizes are contributing effectively to audit quality." Since State Boards are charged with regulatory and licensing responsibility over all public accounting firms in the United States, the State Boards are naturally also in a key position to shape audit quality.

We appreciate the opportunity to respond to the Advisory Committee's preliminary recommendations.

Very truly yours,

Samuel K. Cotterell, CPA	David A. Costello, CPA
NASBA Chair	NASBA President and CEO