



November 30, 2015

Dr. Frederick Niswander, CPA, PhD
Chairman
AICPA Board of Examiners
Submitted to: ExposureDraft@aicpa.org

Dear Chairman Niswander:

Thank you for the opportunity to respond to the "Maintaining the Relevance of the Uniform CPA Examination" Exposure Draft. In order to gather a broad view of the exposure draft, we asked the following committees to provide input: Accounting & Attestation; Minority Action; Student Outreach, Advancement & Recruitment (SOAR); and Young CPA Cabinet.

The CPA exam provides reasonable assurance to boards of accountancy that individuals who pass the exam possess minimum levels of technical knowledge and skills necessary for initial licensure. However, the theme of the exposure draft is to make meaningful changes to test higher-order skills and align more closely with the types of tasks regularly performed by newly licensed CPAs. 'Newly licensed CPAs' implies at least two years of experience. Having a strong grasp of higher-order cognitive skills requires technical knowledge and experience. This is an important distinction which needs to be considered when testing and grading the analysis and evaluation skill sets. This certainly explains the higher emphasis on remembering and understanding skill sets tested (and continuing to be tested under the proposed revised exam).

If this assumption is accurate, then the grading of higher-order critical thinking skills tested will need to be further defined as follows:

Higher-order critical thinking skills test results:

Student = **acceptable methodology and thought process** and acceptable results

Experienced Professional = correct methodology and correct results

Acceptable methodology and thought process are the most important skill sets to test—the "results" will come with more experience. When training new and green employees, we look primarily for those folks who exhibit critical thinking skills by following a process, such as obtaining information (e.g. standards), asking pertinent questions, comparing with similar clients, formulating a conclusion, etc. The conclusion itself may not be correct; however, that will come with more experience, oversight, and proper mentoring.

Our Young CPA Cabinet added a related comment on the exposure draft's definition of "newly licensed CPA" as the target for exam candidates. The definition of a newly licensed CPA provided under the "Background and Introduction" section on page 6 is one who "has the knowledge and skills typically possessed by a person with two years of experience." We would urge caution in the



application of this definition to exam content. It is not uncommon for candidates to sit for the exam prior to completing the experience requirements for licensure. Depending on the jurisdiction, some candidates sit even before meeting all the educational requirements for licensure. This has allowed some candidates to pass the exam prior to full-time work, and focus solely on developing their knowledge and higher-order skills during the early years of their careers, rather than the difficult task of balancing exam preparation and work responsibilities.

Using “two years of experience” as the basis of an exam candidate’s knowledge and skills could discourage candidates from taking the exam early and prevent them from having this advantage early in their accounting careers. At the same time, we certainly do not want the image and credibility of the CPA designation to be tarnished. Therefore, in restructuring the exam, we would recommend the BOE strive for an outcome that does not discourage candidates from taking the exam as early as possible, but maintains the reputation and professional qualification that the public expects from CPAs.

Communication and Listening Skills:

It is interesting to note there hasn’t been any change to the written communication requirement in the exam. It continues to be only tested in BEC. Many students have poor active listening and communication skills. Both of these skills sets are critical to our profession and increasingly difficult to attain in colleges/universities as we transition to an increasingly digital society.

Fraud:

The CPA exam is relatively silent in this area. An auditor is required by professional standards to plan and perform the audit to obtain reasonable assurance about whether the financial statements are materially misstated, whether due to error or fraud. As a profession, we should consider increasing the amount of education provided to accounting students on the subject of fraud, and the potential need to test this area on the CPA exam.

General Feedback Received:

We recommend the following changes:

Auditing and Attestation (AUD) Section:

- The “Accounting and Review Service Engagements” should not be integrated within other areas of the AUD section—the required skill sets are different. Auditing requires a certain mind-set and appreciation of the technical and legal responsibilities involved. The concepts, standards, and rules governing the performance of an audit are very specific to an audit. They differ significantly from the standards that apply to Accounting and Review Service Engagements.
- **Area I(B) Ethics and Independence:** This should be changed to “Professional Conduct and Independence” to more accurately align the exam to the attributes being tested. Ethics is far too broad of a concept and varies significantly from individual to individual and from



generation to generation, which is repeatedly taught in our annual mandatory ethics class. It is the Code of Professional Conduct we are really discussing here, so let's title accordingly.

- **Area I(B)(3) Requirements of the Government Accountability Office and the Department of Labor:** We question whether the amount of instruction given to students in this area would adequately prepare them to:
 - Recognize threats to compliance with the ethical requirements of the GAO.
 - Recognize situations that present threats to compliance with the ethical requirements of the DOL.
 - Apply ethical requirements and independence rules of the GAO and DOL to situations that could present threats to compliance during an audit of a government entity or an employee benefit plan.

- **Area I(C)(2) Terms of Engagement and Engagement Letter:**
 - We recommend eliminating the need to memorize the terms of an audit included in a written engagement letter. We feel it's better to have the student understand the elements of the engagement letter and why they are included. Further, this type of learning requirement (i.e. memorizing areas/topics that are standardized and found through reference materials) is not appreciated by Millennials who would simply question their need to learn something that is readily available.

- **Area I(D) Requirements for Engagement Documentation:** This is such an important area. Proper work paper documentation is becoming a lost art. We encourage more preparation and testing in this area.

- **Area I(E)(2) Preparing written materials:** We feel the focus of this area should be to fully understand what items should be communicated to management and those charged with governance (and "why"), and understand where in the working papers they will be documented.

- **Area II(C)(2):** Evaluating whether internal controls are effectively designed and placed in operation is difficult without experience.
 - The exam should look for the process here and not necessarily the result as it pertains to students.

- **Area II(C)(5) Identifying and documenting the risk associated with management override of internal controls and the risk of material misstatement would be better placed in (C)(1) Control Environment and Entity Level Controls.** People often document poor entity level controls and yet still say the risk of management override is low. There is a significant disconnect—these two issues go hand in hand.

- **Area II(H)(1)** We do not see the need to understand and perform tests of compliance with laws and regulations that do not have a direct effect on the entity's financial statements. This subsection has four blocks of which only the first one, "Understanding and documenting the laws and regulations which have a direct effect on the determination of material amounts or disclosures," seem to be most pertinent to typical audit engagements.



- **Area III(C)(3)** Inquiry of management and others: The profession needs to do a better job of training newer professionals and students on how to make effective inquiries.
- **Area IV(A)(2)** Eliminate the need to prepare a draft auditor's report because it is unnecessary, as the report wording is available through reference materials. Further, rote memory testing is contrary to testing higher-thinking skills. This requirement only tests someone's short-term memory. We suggest the candidates understand the elements of the report and why it's organized in a certain way.
- **Area IV(B)(1, 2, 3, and 4)** See above regarding preparing reports as part of testing.
- **Area IV(E)(6)** Is a special purpose and other country's framework a necessary skill for a newly licensed CPA? International work is complex and typically handled or supervised by professionals well-versed in specific international accounting issues.

Business Environment and Concepts (BEC) Section:

- **Area I(A)(1 and 2)** The practical application of this is already being tested in the AUD section. Most experienced CPAs couldn't identify the elements of the COSO framework. This is a very conceptual in nature and difficult to fully grasp without the benefit of experience. The last section of Item 2 has already been tested in the Control Environment Section of AUD.

Financial Accounting and Reporting (FAR) Section:

- The Not-For-Profit Accounting and Reporting Section should remain. This continues to be an underserved area and in many respects is significantly different from the accounting and reporting requirements of for-profit entities.

Regulation (REG) Section:

- **Area II(D)(2)** Government regulation of business: This seems out of place with the rest of the content of the REG section. Many experienced practitioners have great difficulty understanding employment tax regulations, certainly the ACA and worker classification regulations. We question if enough time is devoted to teaching students about these very complex topics and if they can be adequately tested without the benefit of significant experience.

Our responses to specific questions contained in the Exposure Draft are provided below:

1. **Increased focus on testing of higher-order skills is the most significant change proposed for the next Exam. Should the proposed next Exam reflect an increased focus on testing of higher order skills? If not, please explain.** Yes. In today's accounting world, GAAP and the tax code are much more readily accessible and searchable than in past years. Exam candidates should have a firm grasp on the more



foundational standards, but the ability to apply, analyze, and evaluate information—higher-order skills—is more critical.

A successful accountant needs more than just technical skills. Elliott and Jacobson (2002) suggest that accountants need education in complementary bodies of knowledge such as organizational behavior, strategic management, and statistical analysis. Integrating professional skills across disciplines is therefore recommended.

However, one area of concern is whether university accounting programs will adjust curriculums to adequately prepare students to perform competently on the next exam. Noble concepts, but poor implementation, may lead to disappointing results (i.e. poor implementation of the Common Core Standards at the primary education level). Academia needs to more fully emphasize the skills throughout the education cycle before we impose such criteria on CPA exam candidates.

References: Elliott R.K, and P.D. Jacobson. 2002. The Evolution of the knowledge professional. *Accounting Horizons*, 16(1), 69-80.

2. **Are the analyses and related conclusions in the next version of the Exam section (on pages 8 to 14) appropriate and supportive of the assessment of competent, newly licensed performance? If not, please explain.** Yes, with the following comments:

- a) The increase in content integration would be a positive and meaningful change. However, we would urge caution in this step so as not to discourage candidates from taking the exam early, as discussed in our opening comments. Regarding changes to Test Administration, NCACPA's Young CPA Cabinet believes reduced blackout periods in order to lengthen testing windows could be a positive step. We feel the other two proposed changes, 1) retesting failed sections in the same testing window and 2) increases to overall timeframe to pass all sections, are going farther than necessary. In particular, increasing the overall timeframe to pass all sections would, in our opinion, diminish the status and distinction of the CPA designation.
- b) "Respondents to the invitation to comment did not perceive the need to add audio and video stimuli to the Exam because they did not currently see a benefit beyond existing text-based TBSs. The BOE and Exam staff will continue to explore the possibility of adding audio and video stimuli in future versions of the Exam."

Students must also develop communication skills, both oral and written [Siegel & Sorenson (1999) Gabric and McFadden, 2000]. Would it therefore be possible to consider testing oral communication skills of the candidate? Similar to TOEFL's iBT test, the AICPA can consider implementing a test to evaluate how well candidates use the four skills of communication, namely listening, reading, speaking, and writing to perform the audit and attestation functions.



References: Siegel G., and J.E. Sorensen. 1999. Counting more, counting less. Transformations in the Management Accounting Profession. The 1999 practice analysis of management accounting, IMA.

- c) "Although the BOE noted that this change will necessitate a cost increase, they acknowledge the value of the profession's input and the benefit to Exam takers because of the prevalence of Excel use among newly licensed CPAs. The BOE and AICPA will continue to explore the benefits and feasibility of further integration of Excel, or perhaps other spreadsheet technologies, into the Exam beyond 2018." To remain relevant, the exam must integrate basic software applications used as tools of the CPA profession. A more integrated approach to using Excel for more than a sophisticated calculator should be emphasized.

3. Are there significant areas of content missing from the detailed blueprints that should be included? If yes, please explain.

FAR: Future developments in the Private Company Council and expanded use of the GAAP alternatives may warrant some testing.

AUD: None

REG:

- Payroll taxes do not appear to be included in the testing content; we believe there should at least be a minimal amount allocated to payroll taxes.
- The DSUE (deceased spouse's unused exemption) should be tested, given the increased frequency at which CPAs deal with this.
- There should be a topic related to self-employment and the related tax implications.
- Regarding Ethics, there should be some content on the distinction between practicing accounting and practicing law.

BEC:

- Testing of Cybersecurity seems warranted, given the increasing relevance of the subject in today's world.
- Area III, Part B – Working Capital – the blueprint should include the common cash planning ratios, such as cash burn rate, fixed charge coverage ratios, and leverage ratios.
- Area III, Part B – the task regarding detecting significant fluctuations in the working capital cycle – considering the shift to higher-order skills, this should include analysis of the ratios and choosing fact patterns that could be the underlying reason for the fluctuations.

4. Are there significant areas of content in the detailed blueprints that should be excluded? If yes, please explain.



FAR: Area II, Part K – Compensation and Benefits – calculating funded costs and funded status is typically facilitated by an actuary, and seems to be beyond the responsibilities of a newly licensed CPA. Candidates should be familiar with the concepts, but this should be more of a “remembering and understanding” skill than application or analysis.

AUD: Given the standard of newly licensed CPA, Area III, Part D – Specific Matters That Require Special Consideration – some tasks seems too deep and complicated. Certain tasks, specifically, under number 4 – analyze management estimate of the liability associated with litigation – seem to be outside the scope of a newly licensed CPA’s responsibilities.

REG: in Area II – Business Law – We would like to see more of a focus on understanding shareholder and partnership agreements, bylaws, and articles of incorporation or organization. These principles are referred to and applied much more often than areas such as agency and contracts, which are more often referred to an attorney.

BEC: Area III, Part C – Financial Valuation Methods, the task of “calculate the value of an asset using commonly accepted financial valuation methods” – is not routinely performed by CPAs, and certainly not commonly required of newly licensed CPAs, and is typically performed by actuarial or valuation professionals. We propose replacing this with something along the lines of sensitivity analysis, such as “Identifying assumptions which are highly subjective and calculating the impact of changes in given assumptions on the resulting valuation.”

5. Do the content ranges in each section of the Exam in the summary blueprint align with the content knowledge required of newly licensed CPAs? If not, please explain.

FAR: In general, the content ranges seem appropriate.

AUD: Yes, content ranges seem appropriate.

REG: Yes, content ranges seem appropriate.

BEC: In general, the content ranges seem appropriate.

6. Are the skill level ranges identified for each section of the Exam in the summary blueprint representative of the skill levels required by newly licensed CPAs? If not, please explain.

FAR: Yes, the skill ranges seem appropriate.

AUD: Remembering and Understanding is currently proposed to be weighted 30%–40%. Given the shift to higher-order skills, it seems appropriate to lower this range and increase application and/or analysis.



REG: Yes, the skill ranges seem appropriate.

BEC: Yes, the skill ranges seem appropriate.

7. Does the detailed blueprint, including content and representative task statements, provide sufficient information for CPA candidates to understand the knowledge and skills expected of a newly licensed CPA on which they will be tested? If not, please explain.

Yes, the detailed blueprints for all sections are clear and seem to provide sufficient information for candidates.

This concludes our response to the Exposure Draft. We hope our comments are helpful and sincerely appreciate the work of the Board of Examiners in this very important effort. Please reach out to us if you require clarification of our comments. Thank you.

Sincerely,

Dan Purvine, CPA
Chair, NCACPA Board of Directors

cc: Amin Ainolhayat, CPA, Chair of the Young CPA Cabinet
Melisa Galasso, CPA, Chair of the Accounting & Attestation Committee
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