

August 30, 2019

## **American Accounting Association Education Committee Response to CPA Evolution: NASBA's and the AICPA's Guiding Principles**

### **Overall Comments and discussion:**

The AAA Education Committee commends NASBA and the AICPA for jointly working on the CPA Evolution project. We agree that the environment in which CPAs operate is changing and that technological changes are a big part of the changing environment. Consequently, there is a need to consider how best to move forward. However, we also believe it is critical to keep in mind the meaning of the CPA credential within society. The following quote is from the AICPA's website: "The CPA credential is a symbol of trust and professionalism in the world of business. It's a highly challenging professional track, but the reward is that CPA's are considered the most trusted advisors in business." When the environment in which CPAs operate is changing, we don't believe the meaning of the CPA credential within society should change. Before discussing our thoughts on the guiding principles, we begin by discussing the CPA licensure model followed by a discussion of the proposed process and what we see as a need to develop structures and processes to address potential future changes in the environment CPAs operate on a continuous on-going basis.

### **The CPA licensure model:**

A CPA license is awarded by individual states. While there are slight variations across states regarding the requirements, across all the states there are three broad requirements to become a licensed CPA. First, there is an education-based requirement. With the exception of the U. S. Virgin Islands, an individual must have completed 150 semester hours of education to become a licensed CPA. The education requirement has changed over time to reflect changes in the operating environment of CPAs. For example, while the current requirement is to complete 150 hours of education, previously the requirement was to complete 120 hours of education. In explaining the shift to 150 semester hours, the AICPA website notes:

- Significant increases in official accounting and auditing pronouncements and the proliferation of new tax laws have expanded the knowledge base that professional practice in accounting requires.
- Business methods have become increasingly complex. The proliferation of regulations from federal, state, and local governments requires well-educated individuals to ensure compliance. Also, improvements in technology have had a major effect on information systems design, internal control procedures, and auditing methods.

Second, there is a competency based requirement. Specifically, individuals must pass the Uniform CPA Examination. Currently, the Uniform CPA Examination is comprised of four sections, as follows: Auditing and Attestation (AUD), Business Environment and Concepts (BEC), Financial Accounting and Reporting (FAR) and Regulation (REG). The most recent Uniform CPA Examination Blueprints (2019, p. 2) state, “The AICPA has adopted a skill framework for the Exam based on the revised Bloom’s Taxonomy of Educational Objectives.” Using this framework, the blueprint provides the approximate percentages of each exam section related to remembering and understanding, application, analysis, and evaluation. For analysis and evaluation, the percentages range from a low of 20-30% for BEC to as high as 40% for AUD. To pass the Uniform CPA Examination, an individual must receive a minimum score of 75 on each section within 18 months. Again, it is important to note that the contents and nature of the four sections has changed over time. For example, while FAR is currently a four-hour exam, previously it had been a nine-hour exam. As another example, today candidates may use a calculator during the examination, while years ago they were not permitted to use a calculator during the examination. Finally, today the examination includes simulations, although years ago this format was not included in the examination.

Third, there is an experience requirement. In general, most U.S. states require at least two years of public accounting experience, although some U.S. jurisdictions accept non-public accounting experience (e.g., industry, government, etc.).

Overall, the CPA licensure model consists of three broad requirements related to education, competency, and experience. The specific nature and content of these requirements has evolved over time as the environment in which CPAs operate has changed. We believe the CPA licensure model has served the profession well, in part, because it identifies broad requirements. For each requirement, the specifics have evolved as needed to best serve the profession. Lastly, it is worth emphasizing that the AICPA is responsible for designing and administering the Uniform CPA exam, but that the education and experience requirements are determined by individual states.

### **The Proposed Process:**

As outlined in the request for input, the CPA Evolution project was jointly started by NASBA and the AICPA in 2017. As stated, the vision of CPA Evolution “is to transform the CPA profession and its licensure model in recognition of the need for rapidly changing CPA skills and competencies necessitated by constantly escalating technological disruption.” Subsequently, in 2018, a diverse working group of stakeholders was formed “to consider possible changes to licensure” and “recommended that education and exam requirements need to evolve.” The current step in the process, occurring throughout the summer of 2019, is a request for input on the five guiding principles. Following this step, “in October, we plan to share what

we've heard, along with recommended next steps, at the NASBA Annual Meeting and AICPA Fall Council.”

Based on this proposed process, our Committee has inferred that the CPA Evolution project is intended to primarily address a current problem with the licensure process. While we understand that this current problem is real and that the process to address the current problem seems reasonable, our concern is with the longer term. The environment in which CPAs operate will likely continue to change at a rapid pace and in unexpected ways. Consequently, no matter how the current problem is addressed, further work will be needed in the longer term. We believe that the CPA Evolution project should be expanded to consider developing structures and processes for continuous monitoring of the environment that CPAs operate to be able to make appropriate changes to the licensure process in the future as needed. Fundamentally, because the environment in which CPAs operate is dynamic, there is a need for ongoing and continuous monitoring of the environment that can inform further updating of the licensure process in the future.

### Comments on the five guiding principles

- The CPA profession must adapt quickly due to the technological disruptions in areas such as data analytics, robotics, artificial intelligence and more. As such, the competencies, services and attitudes of CPAs need to continually evolve in order to protect the public interest.

- *Is this principle directionally correct?* The Committee generally agrees that this broad principle is directionally correct. In particular, we agree that there is a “need to continually evolve”, and that structures and processes should be created for ongoing monitoring and making further changes as needed. However, the Committee cautions against putting too much emphasis on adapting “quickly”. Given the scope of the project and the number of stakeholders likely to be impacted by upcoming changes, it is important to have a fair and transparent process. Further, with respect to data analytics, robotics, artificial intelligence, etc., we believe it is important to assess the specific competencies that CPAs need to perform assurance and other core services. Our belief is that CPAs do not need to be data analytic experts, nor act in the role of data analytic experts, but possess sufficient knowledge about data analytics and other technologies to perform core services. For example, we believe that when using data analytics and other technologies during the conduct of core service, CPAs need to be able to understand and interpret the underlying data analytics and other technologies and to be able to communicate to others about their use and findings.

- *Would this principle help put the profession in a continued position of strength and relevance while protecting the public interest?* The Committee generally agrees this broad principle will help put the profession in a continued position of strength and

relevance while protecting the public interest. However, we also believe it is important to assess and operationalize what it means for CPAs performing core services to “adapt” to technological disruptions. It is worth noting, that this is not a new challenge for the CPA profession, as technological advances and disruptions have been occurring for decades. Perhaps, what is different is the pace and speed of these technological disruptions. Relatedly, assuming a consensus forms with respect to the core knowledge related to data analytics, robotics, artificial intelligence that CPAs need to know, we believe that it is important to recognize that accounting programs will need some time to update their curriculums to accommodate these changes.

- The CPA profession and state boards of accountancy recognize that technological and analytical expertise are essential to performing assurance work, as well as the other services that are currently, or will be in the future, core to professional accounting.
  - *Is this principle directionally correct?* The Committee believes this broad principle is somewhat misfocused, and consequently, we do not believe it is directionally correct. As discussed above, the Committee believes that when performing their core services, CPAs do not need to be experts with respect to data analytic and other technologies. Specifically, our belief is that CPAs need to possess sufficient knowledge and competencies about data analytics and other technologies to perform core services, and that this level of knowledge and competencies is less than the level of an expert. In our view, relative to what we believe CPAs need to know about data analytics to perform core services, the knowledge and competencies of data analytics experts will be more comprehensive and generally deeper. Our view is not to suggest that data analytics and other technologies are tangential to the core services of CPAs, but that the key is to focus on the knowledge and competencies CPAs need to serve the public interest. In considering our view, we recognize that when performing core services, CPAs likely interact and work with data analytic experts. Overall, our view is that CPAs do not need to be experts with respect to data analytics and other technologies.
  - *Would this principle help put the profession in a continued position of strength and relevance while protecting the public interest?* The Committee does not believe this broad principle will help put the profession in a continued position of strength and relevance while protecting the public interest. Specifically, our concern is that because this principle requires CPAs to be experts with respect to data analytics and other technologies, the expectations of the public may not be met, nor should we meet these expectations. In our view, this broad principle should focus on CPAs possessing the specific knowledge and competencies related to data analytics and other technologies that are needed to perform core services, rather than requiring CPAs to be experts with respect to data analytics and other technologies.
- The CPA profession and state boards of accountancy acknowledge that sustaining the profession and continued public protection require rethinking initial licensure requirements.

- *Is this principle directionally correct?* As we understand this broad principle, the Committee is not convinced that it is directionally correct. Recall, we began our response by discussing the CPA licensure model. As discussed, we describe the CPA licensure model as including three broad requirements, as follows: educationally based, competency based (e.g., uniform CPA examination), and experience based. Further, as discussed, over the years, this structure has accommodated many changes. As we understand the principle, it is suggesting rethinking and possibly moving away from a licensure model including the three broad requirements. We understand and support the idea that over time changes should and need to be made to the contents of these requirements (e.g., how the requirement will be satisfied). At this point, however, we are unconvinced that there is a need to move away from or rethink a licensure model based on these three broad requirements. In particular, it is not clear to the Committee why a licensure model including the three broad requirements cannot accommodate potential updates that may be triggered by the CPA Evolution project. At present, our impression is that the current licensure model including the three essential components (e.g., education, competency, and experience) can be updated and modified to reflect the needs of a changing environment.

On a separate and different issue, our committee understands that CPA Evolution is a joint project with NASBA, who serves as a forum for the State Boards of Accountancy. It was not clear to the Committee whether all State Boards of Accountancy had input on this broad principle and agree with it. We believe it would be useful to clarify whether this broad principle referring to State Boards of Accountancy is based solely on input from NASBA or if all State Boards of Accountancy have agreed to this broad principle.

- *Would this principle help put the profession in a continued position of strength and relevance while protecting the public interest?* The Committee is not convinced that this broad principle will help put the profession in a continued position of strength and relevance while protecting the public interest. As discussed, the Committee sees many strengths to the current licensure model including three broad requirements. More importantly, the costs and benefits of switching to a new licensure model have not been adequately discussed. Perhaps, with additional discussion and analysis, the potential advantages of rethinking the licensure model will be more apparent to our Committee.
- The profession, and therefore entry into the profession, must be redesigned to attract individuals with technological and analytical expertise. This includes non-CPA professionals whose technology and analytics skills are critical to the performance of assurance and other core services, as well as non-accounting major students. All must demonstrate minimum required competencies necessary to perform professional accounting services as a CPA.
- *Is this principle directionally correct?* The Committee does not believe this principle is directionally correct. We understand and agree that the environment in which CPAs operate is changing. However, we do not agree that “the profession, and therefore entry into the profession, *must be redesigned to attract individuals with technological*

*and analytical expertise*” (emphasis added). Fundamentally, we believe the profession should be designed or redesigned based on the core services performed by CPAs today and tomorrow. For example, it might be worthwhile to work backwards by redesigning the profession and entry into the profession based on an understanding of the key competencies and knowledge needed by CPAs to perform the core services of today and tomorrow. A focus on the core services of today and tomorrow will allow our profession to continue to protect the public interest. How we “attract” certain individuals to the profession strikes our Committee as a tactic rather than a guiding principle. Regardless of how we “attract” individuals to the profession, they should all have the appropriate knowledge and competencies to be able to perform the core services of today and tomorrow.

- *Would this principle help put the profession in a continued position of strength and relevance while protecting the public interest?* The Committee does not believe this broad principle will help put the profession in a continued position of strength and relevance while protecting the public interest. Our concern is that this guiding principle will be a distraction away from what should be a laser focus on what it means to be a CPA and what the CPA credential represents – “a symbol of trust and professionalism in the world of business.” We believe this is a bad guiding principle. Again, we believe who to attract represents a tactic and should not be a guiding principle.
- The changes must be rapid, transformational and substantive without negatively impacting candidates currently in the pipeline.
  - *Is this principle directionally correct?* The Committee is sympathetic to this broad principle and generally agrees that it is directionally correct. Given the changes in the environment that CPAs operate it is likely the changes advocated by the CPA Evolution project will be substantive and potentially transformational. Because these changes from this project are not expected to be trivial, and likely to have far reaching implications to the profession and all of its stakeholders, we do not believe that these changes should be made rapidly. Given the likely consequences, our Committee believes it is most important to make well thought out decisions and that the process is fair and transparent. To get this process right, the Committee believe there should be less of an emphasis on making “rapid” changes.
  - *Would this principle put the profession in a continued position of strength and relevance while protecting the public interest?* The Committee does not believe this broad principle will help put the profession in a continued position of strength and relevance while protecting the public interest. Our concern is that this broad principle is more about the outcomes (e.g., “transformational and substantive”) than the process used to get to the outcomes. While our Committee is not opposed to “transformational and substantive” changes, we do not believe these changes should be the focus of the guiding principle. Instead, our Committee would prefer a process-based principle, that indicates that during its deliberations, the CPA Evolution project will be open to any and



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all changes that make sense and address the problems facing the profession. Again, because the potential changes will impact many stakeholders, it is critical that a fair and transparent process will be used and that the use of a fair and transparent process is fully communicated to all parties.

### **On behalf of the American Accounting Association Education Committee**

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