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GOVERNMENT ADMINISTRATION AND ELECTIONS COMMITTEE

March 16, 2015

TESTIMONY OF JOHN H. SCHUYLER, CHAIRMAN, CONNECTICUT STATE BOARD OF ACCOUNTANCY

IN SUPPORT OF HOUSE BILL NO. 6997, "AN ACT IMPLEMENTING THE STATE BOARD OF ACCOUNTANCY'S RECOMMENDATION TO REDEFINE 'ATTEST'

Chairman Cassano, Chairman Jutila, Ranking Members McLachlan and Smith, members of the Government Administration and Elections Committee, thank you for the opportunity to testify before you today. I am here as chairman of the State Board of Accountancy, which is the volunteer board supported by the staff of the Office of the Secretary of the State charged with protecting the public in relation to the practice of public accountancy in Connecticut. I am here to ask you to pass the proposed statutory revisions regarding the definition of attest.

I would also like to let you know that both the National Association of State Boards of Accountancy (NASBA) and the American Institute of CPAs (AICPA) have jointly called for states to pass revised attest language, as provided in the newest edition of the state model act they co-write, the Uniform Accountancy Act.

Attest services are defined in state statutes. While CPAs perform a broad range of services for the public that other individuals also can perform, attest services are considered to be of sufficient public interest to warrant regulation requiring specific qualifications. They are services that can only be performed by a CPA operating within a CPA firm.

The public relies on these protections. And, they need to know that when they engage a professional for attest services that the professional has the right degree of expertise, education, and regulatory oversight.

Over the years, as the financial reporting, oversight and regulation of financial reporting has developed, the definition of what constitutes attest has changed accordingly. For example, more internal controls over financial reporting are imbedded into computer systems. More entities rely on attest reporting of third parties that process payroll, employee benefit plans and more. Related to this, SAS 70, Reports on Service Organization Controls (aka SOC Reports), was reissued as SSAE 16 by the AICPA's Auditing Standards Board (ASB). It was determined that it more accurately fits within the Statement on Standards for Attestation Engagements, or SSAEs, rather than the Statement on Auditing Standards. This technical change had an unintended impact on our state law. Now that SOC engagements are

performed under the SSAEs, they have fallen out of our definition of attest. Therefore, unless the definition is changed, anyone can do this work and that was not what our lawmakers intended.

Statutes have not necessarily kept up with the new responsibilities and definitions. This act is designed to update the definitions in order to keep pace with the legislature's original intent. There are a few additional corrections that would need to be changes in statute. We are submitting the revised changes with this written testimony. We would be the 23rd state to make these changes.

Attest services, as defined now, encompass the following:

- Audits of financial statements and other engagements performed under the American Institute of CPAs, or AICPA's, Statement on Auditing Standards (SAS);
- Reviews of financial statements performed under the AICPA's Statement on Standards for Accounting and Review Standards (SSARS);
- Examinations of prospective financial information performed under the AICPA's Statement on Standards on Attestation Engagements (SSAEs);
- Any examination review, or agreed upon procedures engagement to be performed in accordance with the SSAE other than an engagement described above
- And, engagements performed pursuant to the Public Company Accounting Oversight Board (PCAOB), the federal regulator of auditors of publicly traded companies.

This act clarifies those functions that have traditionally been s performed by CPAs subject to state oversight. These are functions that require that the practitioner be a CPA.

The bar to become a CPA is very high, and it should be. CPAs must have a bachelor's degree with 150 hours of credit, they must have relevant professional experience under the supervision of a CPA and they must pass the rigorous CPA Examination. Upon completion of these three requirements, only then, can CPAs obtain a license to practice in our state.

CPAs are also subject to on-going continuing education requirements; they are subject to a peer review program where other CPAs examine their work on a regular basis; and, they must comply with a professional Code of Conduct, which is monitored through self-regulation, and inspections by numerous other entities such as the PCAOB and the Department of Labor.

Equally important, CPAs operating in our state are subject to oversight and potential sanction by our state Board of Accountancy. This key protection ensures that the profession is appropriately regulated by the state, and the public can further expect a guarantee of quality and assurance about the work performed by CPAs operating in the state. We take that responsibility seriously.

In addition to oversight by our state Board of Accountancy, the CPA firms themselves also participate in peer review programs, performed by other CPA firms. And, by the very nature of their structures, they have controls over quality, protections, and processes to ensure quality control and reliability. CPA firms registered in our state also must be majority owned by CPAs, ensuring that the licensed CPA partners are highly vested in the success and reputation of the firm's work. All of these benefits, together, provide extra protections to the public when attest services are performed within a CPA firm.

Because the public and other third parties are relying on the attested information in the above categories, it is particularly important that end users of the information know that the engagement was performed by a highly

competent, well educated, and *appropriately regulated* CPA, and the work is being done with all the benefits that come from having it performed in a CPA firm.

The scope of attest services has been changing over the past decade and will continue to change. This will require careful clarification from time to time of the definition of attest, because CPAs are being asked to provide assurance services on a whole host of new areas of subject matter. The marketplace has been changing rapidly and no original laws can fully contemplate this.

Increasingly, clients are asking for attest services to be performed on not just financial statements, but also on a whole host of new types of engagements related to security and privacy controls, sustainability, greenhouse gases, extensible Business Reporting Language (XBRL) and many other fields.

While CPAs are able and willing to perform these services, others in the marketplace without the same credentials, experience, and regulation are also offering these services and they are using the CPA profession's standards as written under the SSAEs. We do believe that not just anyone should be able to associate themselves with the rigorous qualifications and protections that the CPA profession provides and the standards that are set by the profession. Our statutes have been very clear about the need to protect the public when it comes to attest services, and a periodic reexamination of what should and what should not be covered under attest services will be required so that we maintain an appropriate regulatory framework while supporting competition in the marketplace.

With the exception of those engagements performed pursuant to the PCAOB, all of the other engagements protected under our state's attest definition are engagements performed under standards developed by the American Institute of CPAs, or AICPA. The AICPA is the profession's largest professional organization, with over 396,000 members globally. The AICPA's professional attest standards are developed by experts through rigorous review and discussion and they are meant to be performed only by those who have the appropriate technical expertise and experience to perform them. It is also important that the public know that, in those cases where an attest engagement may be performed poorly, our state Board of Accountancy can and will step in to protect the public who relied on that work. Because these standards are set by the AICPA, if they are referenced by a non-CPA, the public may be misled to believe that the that the service is performed under the same oversight by someone with the same qualifications.

Non-CPAs should be able to provide their lawful services to the public and we would not seek to stop them. However, they should not be allowed to use CPA professional standards when they perform engagements. The public rightly assumes that the SSAEs, written by and for CPAs, are gold star standards and not just anyone is qualified nor should be allowed to use them. They also assume that our state Board of Accountancy will monitor these engagements, but this is not the case if others in the market are using CPA profession standards.

If others in the marketplace want to provide similar non-restricted services, they need to develop their own standards or find generalized standards not unique to the CPA profession. Clients can then decide whom they trust to perform these services – and utilizing which standards.

Chairmen Cassano and Julila, Ranking Members McLachlan and Smith and committee members, I want to thank you for your time today. And, I want to thank you for your attention to these matters. I am happy to answer any questions you may have.